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The Trust Issue

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The Trust Issue

Money requires trust. Central bankers must protect the value of their currencies. Banks, exchanges, investment funds strive for a sense of dependability. But 2022 shook investors' faith. So *Bloomberg Markets* is taking a closer look at the individuals and entities trying to maintain, or regain, trust.

Cryptocurrencies were supposed to create a financial system that didn't rely on policymakers or banks, but this year has revealed dramatic shortcomings in this new infrastructure. In "An Architecture of Trust" (page 11), Edward Harrison considers the technology's potential value within the regulated banking system that it once sought to disrupt. And speaking of regulators, Lydia Beyoud sat down with the US Securities and Exchange Commission chair to discuss crypto, competition and mountain climbing in "Gary Gensler: 'Trust Is at the Base of Financial Systems'" (page 56). Meanwhile, in "The Whistleblower Blues" (page 66), John Holland describes the frustrations that amateur financial fraud sleuths have with the SEC.

Central bankers, once economic heroes, are struggling to tame inflation. Michelle Jamrisko and Ruth Carson show how they can regain their lost credibility in "The Humbling of the Central Bankers" (page 62). And another once-mighty institution, Zurich-based Credit Suisse, is fighting to repair its finances and reputation. In "Swiss Mess" (page 50), Marion Halftermeyer, Myriam Balezou, Hugo Miller and Donal Griffin describe four chapters that illustrate the deep roots of the problem. Finally, Fidelity has built the US's largest charity with its donor-advised funds. Noah Buhayar, Annie Massa and Sophie Alexander investigate where the money goes in "In Fidelity We Trust" (page 70).

We hope you find this issue informative. As always, we welcome your feedback.

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India and the Indexes

By VRISHTI BENIWAL
and RONOJOY MAZUMDAR

INDIA, WITH THE WORLD'S second-biggest population and one of the fastest-growing economies, has an obvious appeal to investors. But its $1 trillion bond market isn't included in the global emerging-market indexes that many fixed-income funds use as a benchmark. Hopes were high that that might change in 2022, in part because indexes wanted to replace Russia's debt, which was excluded because of the country's invasion of Ukraine. Instead, a standoff over how foreign investors will be taxed has so far delayed any inclusion by indexes compiled by JPMorgan Chase & Co. and FTSE Russell. (Bloomberg LP is the parent company of Bloomberg Index Services Ltd., which administers indexes that compete with those from other service providers.)

What's the backstory?

Although India began liberalizing its economy in the 1990s, it's continued to restrict foreigners' access to its bond markets, fearing the vagaries of "hot money." New Delhi limits its borrowing to rupee-denominated bonds to avoid reliance on dollars and overseas investors. In 2019, as China's government bonds were being added to global indexes, New Delhi started working on getting its own debt included as well. The next year, with the pandemic ravaging the economy and spending needs soaring, the government opened more of the sovereign debt market to overseas investors. By that point, however, global funds were selling emerging-market assets to hoard dollars. As of Nov. 2, foreign investors held about $10 billion, or 1%, of India's sovereign debt, below the 6% ceiling. (In Indonesia, by contrast, foreigners owned about 14%.) In the three years since China joined the indexes, foreign ownership of that country's government bonds rose to almost 11%, from 7.6%, before falling back to 9.48% as of Sept. 30, according to data Bloomberg compiled.

How's India's effort going?

In 2021, India's finance ministry said 99% of the preparatory work had been done, and both FTSE Russell and JPMorgan said they were considering adding India to their emerging-market debt indexes. In October of that year, Morgan Stanley predicted that India would be included in the major global bond indexes by early 2022. Instead, talks stalled after New Delhi balked at easing taxes on overseas investors, including a capital gains tax of as much as 30% for bonds sold within a year and a withholding tax on foreign funds' interest income. The taxes have been an obstacle to enabling India's debt to be traded on international platforms such as Euroclear, which would make trade settlement simpler and eliminate the need for foreign funds to open accounts with local custodian banks. In late September, FTSE Russell said it would reassess India in March, and JPMorgan said in early October it would also keep India under review.

What was behind the optimism?

Chinese and Indonesian government bonds are both included in the JPMorgan index, even though they aren't on Euroclear. And Russia's exclusion from key benchmarks created an incentive for index compilers to consider filling the gap with Indian debt. Most investors in the JPMorgan index either support or don't object to the inclusion, according to Morgan Stanley. "The exclusion of Russia has made the index more concentrated and unbalanced," its strategists wrote in early September. "Hence, JPMorgan has more incentive to include India even without Euroclear."

What are the potential benefits?

Including Indian debt would boost the average yield of the overall index, analysts at Goldman Sachs Group Inc. wrote in August. For India, joining the benchmarks would allow New Delhi to tap a larger pool of debt buyers, potentially lowering its borrowing costs. (In the fiscal year that ends on March 31, the nation is set to borrow a record 14.2 trillion rupees, or about $172 billion.) Inclusion could attract inflows of $30 billion to $40 billion in the next fiscal year and drive down the yield curve by 40 to 60 basis points, according to Société Générale SA. That's money India needs to finance its current account and fiscal deficits that have widened in the aftermath of the pandemic. The inclusion could also provide relief for the nation's battered rupee, which has slipped to the weakest on record, by easing balance-of-payments pressure.

What about the concerns?

India has removed limits on foreign ownership on some bonds and changed margin requirements and trade reporting. But, facing domestic political opposition to giving foreign funds lower tax rates than Indians, it's ruled out tax changes, people familiar with the matter have said. Policymakers remain concerned that foreign inflows will increase volatility. Investors, for their part, are uncomfortable with India's "lengthy investor registration process and the operational readiness required for trading, settlement and custody of assets onshore," according to the team led by JPMorgan's global head of index research, Gloria Kim.

Beniwal reports on India's economy from New Delhi, and Mazumdar covers Asia FX/rates from Mumbai.

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By LISA ABRAMOWICZ

What asset class will be the best store of value for the next decade?

A ROCKY 2022 has left investors with plenty to worry about, so we asked some experts where they'd safeguard money over the next 10 years. Their responses have been edited for clarity and length.

Greg Kuhl

Portfolio manager of global property equities at Janus Henderson Investors

High-quality, well-located real estate has already acted as a store of value for just about all of modern history, and it is well-placed to continue to do so. Commercial real estate offers predictable and growing contractual lease income, protection against inflation as a real asset, lower correlations with other asset classes and durability against social, economic or technological change. While the specific geographies and property types offering the best risk-adjusted returns can and do evolve, the core purpose of real estate—to facilitate shelter, collaboration, entertainment or commerce—will always be relevant. One of the best ways to access real estate is via **the public REIT [real estate investment trust] market**, which at the moment happens to be quite dislocated relative to private real estate funds, who often own lower-quality assets and operate with much riskier capital structures. This makes now an opportune time, in our view, to establish an allocation to real estate via listed REITs for the next decade and beyond.

Geoffrey Yu

Senior Europe, Middle East and Africa strategist at BNY Mellon

On asset classes over the next decade, our anchoring assumption is that inflation will remain at more elevated levels due to structural shifts including de-globalization, falling productivity and supply constraints (labor, etc.). As such, real returns will be imperative, as they are the best stores of wealth. In asset allocation terms, the following spring to mind.

Equities of companies in sectors with sufficient pricing power, be it utilities or pharma. They will be best insulated from inflation, but there will be regulatory risk. I am all for growth/tech as well, but cost of capital will be higher, so we need to manage expectations. I don't think we will see them dominate as much as they have over the past decade. Note: There are **tech firms that behave like utilities** as well, such as cloud providers, and they will do better than "pure growth" types.

FX: Countries willing to maintain positive real rates. Latin America is showing the way, and there may be some good prospects in Southeast Asia, such as Indonesia.

Credit: This is probably the toughest asset class over the next decade, as markets shun debt and positive real rates will also prove problematic. However, we can already see the uplift in bank earnings, which means the risk premium on financials established during the global financial crisis will be eroded. As a result, a lot of the subordinated debt and CoCos [contingent convertible bonds] like AT1s [additional Tier 1 bonds] will be re-rated. Hopefully tighter regulation will also prevent a repeat of 2008, and that is a part of the re-rating process.

Priya Misra

Global head of rates strategy at TD Securities

I think **10-year Treasuries** will be the best store of value over the next decade. I emphasize "store of value" (Treasuries have no credit risk, and I believe that the US government will pay its bills) and "next decade" (the Fed is moving real rates high, but at 1.75%, I think 10-year real rates are very restrictive and that will slow the economy over time). A 10-year risk-free real rate of 1.7% is attractive in my mind. It is a great offset to any risk asset in one's portfolio. The 10-year Treasury should incorporate the views on fed funds over the next 10 years. While the Fed will be slow to start easing due to sticky and high inflation, we think that once they start to ease [monetary policy], they will cut very aggressively. I think the next downturn will be long, even though it may not be very deep. So, it will ensure low fed funds rates. Also, QT [quantitative tightening] has been a big part of the move higher in rates, and we expect that to end in Q4 2023 once the Fed starts to ease rates. I think every investor also needs some Treasuries as a store of liquidity, as high volatility and unprecedented hikes will pressure different asset classes and business models. Having Treasuries which are relatively easy to sell would be a benefit in case of any deleveraging pressures.

Cliff Noreen

Head of global investment strategy at MassMutual

We have had a significant move higher [in 2022] in both interest rates and corporate debt spreads. **High-yield corporate bonds and loans** will generate high single-digit annual returns over the next decade, which will turn out to be very competitive and possibly even exceed private equity returns. Corporate bonds and loans provide a higher certainty of return than equities with contractual interest income and a final maturity. I acknowledge that defaults are rising and that some companies may be challenged with higher interest payments and less free cash flow.

As a cash substitute today, short-term US Treasury bills offer far superior returns to bank savings accounts and bank CDs [certificates of deposit] along with great liquidity. Not sure how long this opportunity will last.

Ron Temple

Co-head of multiasset and head of US equity at Lazard Asset Management

From an asset allocation perspective, 3% to 3.5% inflation means lower multiples on equities. It means we're going to have sustained higher bond yields. It probably means higher spreads on credit. And it's also a tougher environment for private equity, which relies on a lot of leverage. I don't think private equity will be a bad investment, I just think the manager selection will be a lot more important. And, last but not least, it'll be an environment with a lot of dispersion, which should be good for more **hedge-fund-oriented investments**. Also, in a higher-inflation environment, you'd expect infrastructure assets and other real types of assets to do quite well.

Michael Buchanan

Deputy chief investment officer at Western Asset Management

From my perspective, the "best store of value" question isn't the same as the "best opportunity/highest-returning asset" question. I interpret "store of value" to be consistent with stability and preservation of capital. I think **TIPS** [Treasury Inflation-Protected Securities] at current levels have to be considered one of the more compelling stores of value. Here's why: A holder of TIPS receives the real yield, plus the change in the consumer price index (CPI). Obviously, one of the most significant unknowns right now is inflation. Clearly the inflation we witnessed from the Covid economic disruption wasn't simply transitory. But just how persistent will it be going forward? While housing data suggests we might be at or approaching an inflection point, the labor market and certain segments of the service economy are telling us a different story. With TIPS, an investor can take the inflation debate out of the equation and take comfort in earning a current real return of nearly 2%.

We haven't seen real yields this high for over 10 years. The value proposition of TIPS is further enhanced by the fact that many of these securities are trading at a discount to par. Investors receive the CPI component of their return based on par, not based on the actual dollar price they pay. In other words, an investor who purchases a TIPS bond at 80¢ on the dollar is receiving a CPI payment based on 100¢ on the dollar.

Nouriel Roubini

Chair and chief executive officer of Roubini Macro Associates LLC

There are three solutions to the problems of inflation, debasement of currency, political and geopolitical risk and environmental risk.

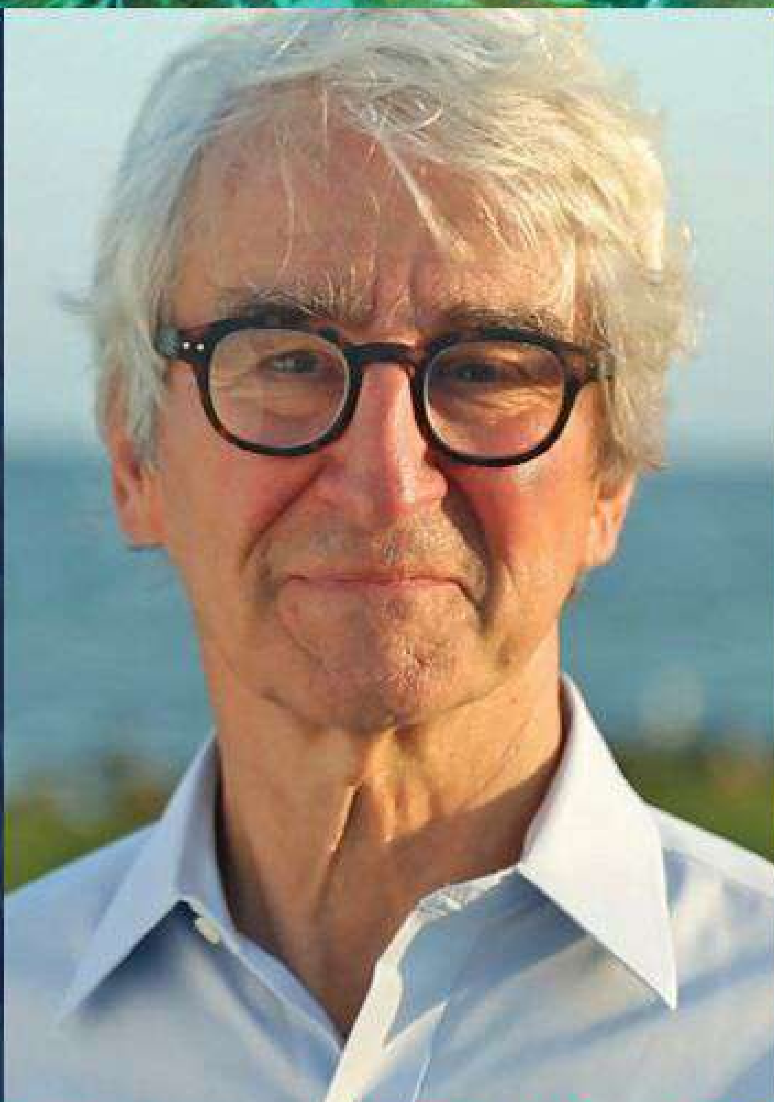
Solution No. 1 is to have very, very short-term Treasuries that adjust in rates and don't have the price action of long bonds.

Secondly, you want to be in TIPS, even if TIPS have not yet done well because inflation expectations are not yet de-anchored. And I think you want to go into gold and precious metal. Again, gold has not done well because you have tight monetary policy and a strong dollar. But if central banks are going to blink and wimp out, gold is going to rise in value. **Gold** is going to rise in value also because the enemies of the US are subject to sanctions. China right now is worried they have a trillion dollars of reserves in dollars that they have to move to other things. If it's euro, yen, it can be seized. The only thing that cannot be seized is gold. Of course, not in the vault in New York or London, but in Beijing or Moscow and so on.

And finally, appropriate types of real estate that are environmentally resilient, because real estate compared to equities in a recession does well—you have more pricing power for rents and so on. So, a combination of these assets provides you in an optimized way a hedge against some of these tail risks.

Abramowicz is co-host of Bloomberg Surveillance *on TV and radio in New York.*

33 billion pounds of plastic enter the ocean every year



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An Architecture of Trust

By EDWARD HARRISON

ILLUSTRATION BY ADAM MAIDA

AFTER HITTING ALL-TIME highs in 2021, cryptocurrency prices haven't found a definitive floor. And the appeal of crypto's promise to reinvent money has also reached its limit in a very niche audience. To attract a bigger, more mainstream user base, the new technology's advocates will have to completely overhaul how they promote it.

Imagine your cousin, your dentist or someone else you know who is the least likely to experiment with money or technology. I think about my mother. She's never going to use a Bitcoin wallet at Coinbase or open a savings account in USDC, a digital stablecoin pegged to the dollar. She'll never want a nonfungible token for a digital collectible on Tom Brady's Autograph network. But she might be willing to verify her identity at her mortgage lender's website if it allowed her to speed up the process for ►

buying a house. And if that digital identification process was powered by the blockchain technology that underlies crypto, she wouldn't even have to know.

Most people are like her: They have no interest in any new technology unless it can help them do things more quickly, more cheaply and more safely. That's why iTunes was a winner. That's why Amazon.com is a juggernaut. That's why Netflix gained so many adherents. And that's why payment apps such as Zelle and Venmo have mass appeal.

The trouble with crypto so far—in addition to its volatility, the scams and the failures of untested intermediaries—is that a lot of the problems it claims to solve have already been solved. We can already send digital payments or set up online savings accounts. And we can do it with the same currency we use to pay our taxes and make cash transactions. So why do we really need cryptocurrency?

Creating Trust

Let's go back to where it all started: our need to trust money. It's why the financial industry is rife with such terms as trust, security, custodian, guaranty. Nonetheless, every so often there's a calamitous break of trust in which bankruptcies proliferate, investors are wiped out and millions lose their jobs and homes.

One example was the Great Depression, when people discovered the banks to which they'd entrusted their money weren't as secure as they'd hoped. In the aftermath, the power of the government and a new regulatory structure were placed behind the banks to help restore trust. In the US that meant the creation of the Federal Deposit Insurance Corp., the Securities and Exchange Commission and a new housing authority to help support an increase in home loans.

Then the 2008 financial crisis showed how inadequate those safeguards were. Big financial institutions and their regulators seemed unprepared for the collapse of home prices and the effect that had on financial markets and the broader economy. Suddenly people didn't trust banks or the government.

Enter crypto. Bitcoin was born in a white paper published on Oct. 31, 2008, just weeks after Lehman Brothers went bankrupt and the government and Federal Reserve started rescuing banks. The paper declared that digital commerce was overly dependent on trust in financial institutions. The idea was to create "an electronic payment system based on cryptographic proof instead of trust." Effectively, trustlessness. Instead of relying on the bankers who repossessed your home while paying themselves massive bonuses, people could opt into a secure, decentralized network called the blockchain. Crypto, the enthusiasts said, would rival the existing centralized financial system in due course.

Almost 15 years later, this new money has lost much of its utopian appeal. It turns out that, for most people, this new financial system does require placing your trust in an institution—maybe a wallet provider or a token exchange or a decentralized finance (DeFi) lender. And too many of them have turned out to be frauds or vulnerable to hacks. Today even some of the most passionate crypto advocates are saying the market needs government regulation to regain trust and bring in the established financial institutions that were once the enemies of crypto.

If crypto doesn't provide a more trustworthy alternative to traditional finance, then what's it for? So far, its primary users seem to be people fearful of using their own government's currency because of political or economic risk or because they want to evade law enforcement. Otherwise, its main use has been speculation—gambling on the value of the currencies themselves or digital assets, such as NFTs, purchased with the currencies.

How to Rebuild Crypto

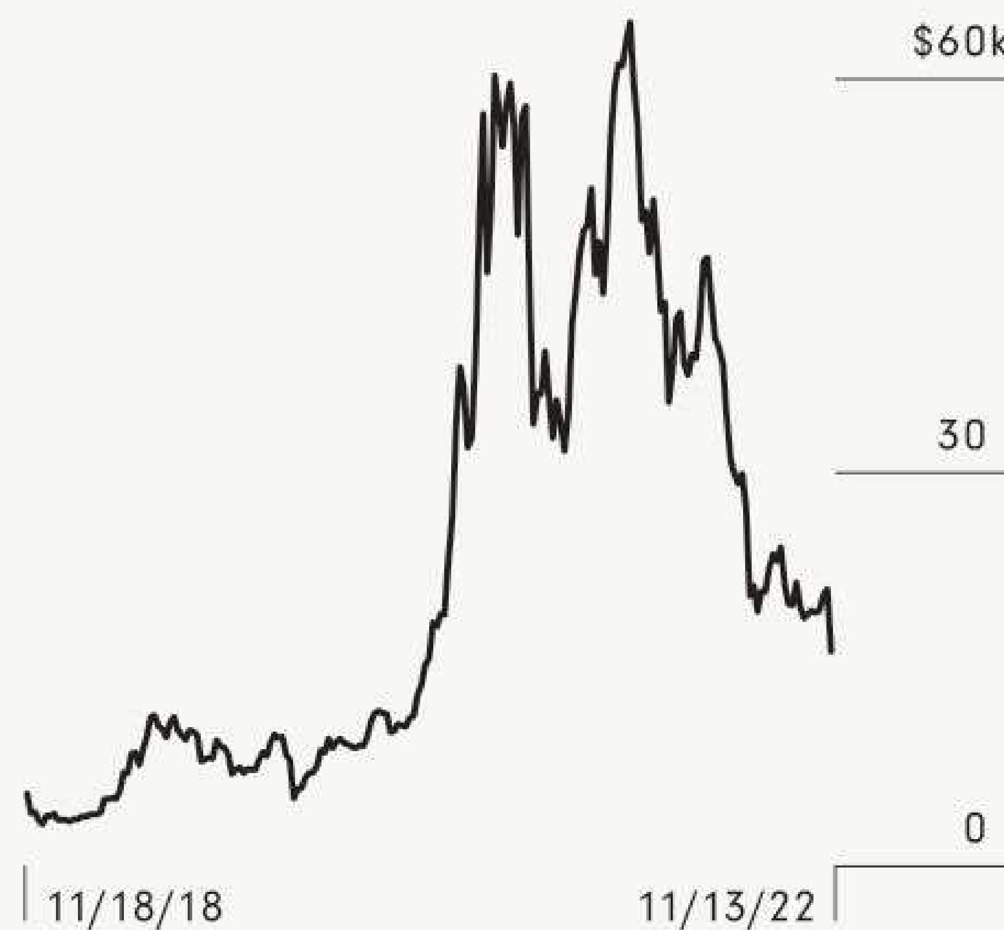
I have an idea, though. When we talk about financial transactions, we're really talking about two different things.

There's money, a medium of exchange that allows us to buy or sell goods and services more efficiently than bartering. But to make such a medium trustworthy, it needs to be a reliable store of value over time. Otherwise you risk

Cryptocurrencies' Rapid Rise and Fall

Weekly price

Bitcoin



Ether

Sources: {XBTUSD <Curncy> GP <GO>}, {XETUSD <Curncy> GP <GO>}

exchanging your valuable good or service for a token that quickly sinks in purchasing power. Indeed, it's the inter-temporal nature of some transactions that requires the most trust.

So when we talk about money, the second thing we're also talking about is debt—that is, transactions that are inter-temporal from the start. At the end of the first quarter of 2022, total credit to the private nonfinancial sector was more than $37 trillion in the US.

And few types of debt are more mainstream than mortgages. Back in 1920s America, buying a house might require paying half the value up front and borrowing the other half for five years. Before the US government stepped in, lenders didn't trust buyers enough to make a 30-year loan with only 10% or 20% upfront, as is common today. Now there are more than $10 trillion worth of residential mortgages in the US.

But real estate transactions and mortgage lending are notorious for the amount and complexity of the paperwork required. Keeping track of the necessary information and processing it efficiently can be challenging. Facilitating those types of transactions—by putting essential information about properties, owners and loans on an immutable digital ledger—could make crypto indispensable.

For the loan originators, after an upfront investment in the technology, a digital record could lead to considerable savings in time and labor. Some of those savings could be passed on to the borrowers. For the mortgage applicant, automated verification of identity, income, bank account statements and the like would speed up a stressful but unavoidable process.

If established and regulated financial-services companies moved their home lending documentation on to such an ecosystem, eventually they might move myriad other services, too.

We've already seen some well-known companies investing in blockchain technology. Hedera Hashgraph has buy-in from some of the biggest names in technology and banking, including Boeing, Deutsche Telekom, Google, LG and Nomura. And even though JPMorgan Chief Executive Officer Jamie Dimon has called cryptocurrencies "decentralized Ponzi schemes," he's investing the bank's money in a digital ledger called Onyx coin systems, which JPMorgan's website describes as seeking "to help address the complex challenges of cross border payments, simplify clients' liquidity funding needs and offer next generation corporate treasury services." Could this augur a new future for crypto's underlying technology? A highly regulated system made up of established companies transacting through a more secure digital database?

Not only do these initiatives lack the Wild West appeal of crypto's early years, but they're also the opposite of the totally anonymous and decentralized networks that crypto enthusiasts hoped to create. Ethereum's website describes DeFi as "an alternative to a system that's opaque, tightly controlled and held together by decades-old infrastructure and processes." But Ethereum's examples for DeFi's current use cases—helping people take out loans without using any personal identification and enabling crypto-savvy Argentines to escape inflation—seem unlikely to scale up to the mainstream.

When I started thinking about crypto and trust, I was optimistic about the chances for a reboot of the crypto space. But as I thought more about how existing crypto platforms are organized, it seemed almost impossible to transform the culture of DeFi and NFTs into something that can truly replace existing banks and money. But the idea of moving some of our financial system to a distributed ledger might still work.

We could end up with a hybrid of three different systems of trust: trust in established brands and institutions, trust in regulatory protections and the trust created by a supposedly immutable and unhackable digital ledger. All of these have been shown to be imperfect by the Great Depression, the 2008 great financial crisis and the crypto meltdown. Maybe the combination will be less imperfect. There's some value in that. But it's not the future of money. ●

Harrison, who writes about bonds and currencies for Bloomberg's Markets Live blog, is based in Washington. This column doesn't necessarily reflect the opinions of Bloomberg LP and its owners.

Slow Burn

THIS WINTER, many Europeans are bracing for higher electricity prices and even power cuts or blackouts. That's boosted demand for alternative heating sources, including the oldest: wood. Sweden's Gabriel Kakelugnar AB provides a solution that's existed for generations. As of November there was already a six-month waiting list for the company's traditional tiled stoves, which can keep a room warm for 24 hours. They come at a steep price—the standard version costs about 86,000 Swedish kronor ($8,200). At left, a craftsman in the company's workshop in Timmernabben, on the coast of Smaland, shapes the clay tiles into exactly the right size and shape before they're fired in an oven. To see the latest news in the European power market, run **{NI EPWRMARKET <GO>}**. —*Lars Paulsson*

PHOTOGRAPHS BY NORA LOREK

Blocks of clay are moved into the tile extrusion machine in one of the first stages of the production process. The clay is produced from powder that's partly made from recycled ceramics.

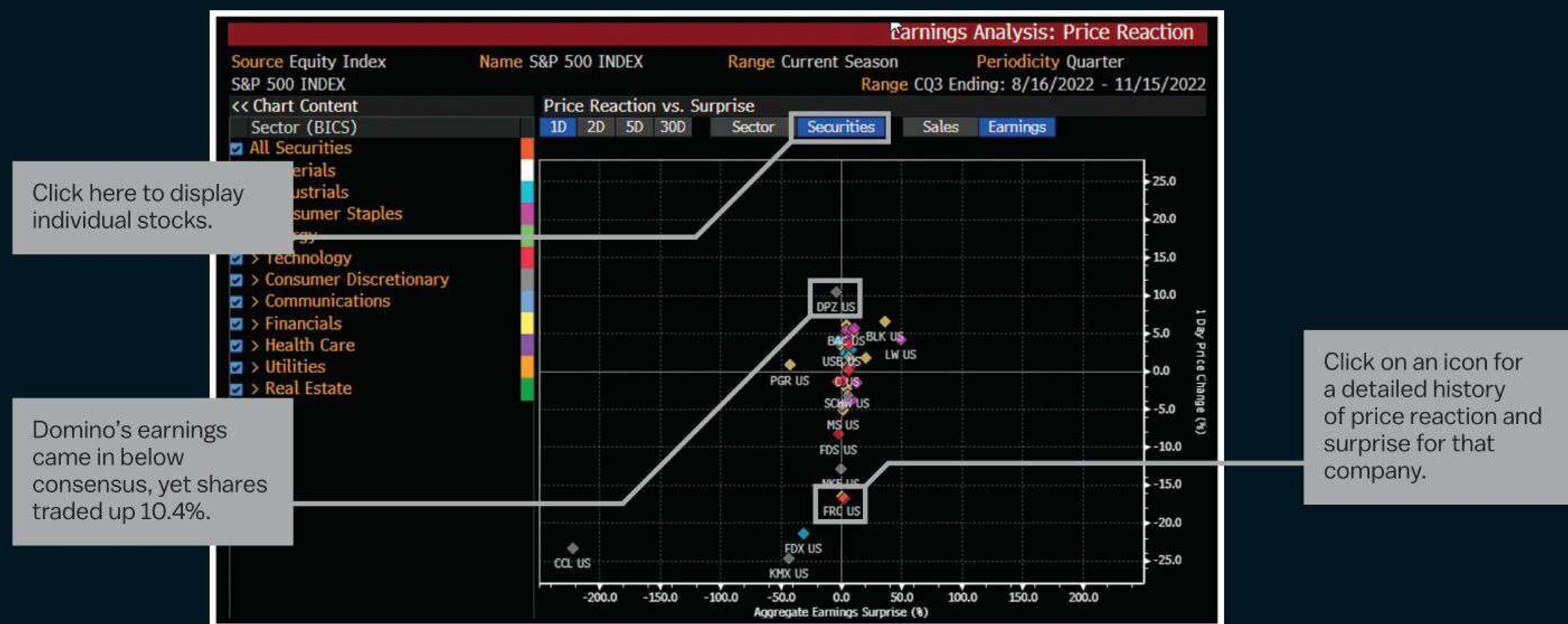
Two workers polish the surface of tiles that are normally used to decorate the outside of the stoves. A standard version of a stove contains more than 80 individual pieces, all crafted by specialists.

The finished stoves come in different shapes, sizes and colors. This one is at the house of one of the company founder's grandchildren, just across the street from the factory in Timmernabben.

How to Find Earnings Data and News You Can Trust

By KAI BLATNICKY, SASHA THALER and ALEX WISCH

Fig. 1 To visualize how your stocks have reacted to earnings in the current season, run **{EA <GO>}** and click on the Price Reaction header in the lower right.



WHEN DOMINO'S PIZZA INC. reported third-quarter results on Oct. 13, the 4.5% miss on earnings wasn't the real story.

Shares of the Ann Arbor, Michigan-based pizza chain surged 10.4% that day. Why? Same-store sales growth of 2% was significantly above the 1.1% the market had been expecting.

Revenue and earnings-per-share forecasts are only part of the equation, and they're definitely not the only metrics that drive stocks. Consider First Republic Bank, which in the US's third-quarter season received one of the worst reactions to earnings up to that point. On Oct. 14 the San Francisco-based bank reported earnings in line with estimates, yet shares plunged 16.4%. The reason: First Republic's net interest margin missed estimates. Although the market had penciled in 2.78%, the bank's actual figure came in at 2.71%. Again: not EPS, not revenue.

TO FOCUS ON the earnings data and news that are likely to move your stocks, you can build a robust workflow on the Bloomberg terminal. Here's how.

Start with a review of the current season. Type "earnings analysis" in the command line of a Bloomberg screen and click on the EA match. The shortcut is **{EA <GO>}**.

EA lets you easily visualize earnings beats and misses versus price reaction for lists of stocks you care about. Click into the amber field and hit Browse..., and then you can select from your worksheets, portfolios or an equity screen you may have built recently. To load the stocks in the S&P 500, for example, click Indices, enter "SPX" in the Ticker field, press <GO> and click on the SPX match. (You can also perform the same analysis by loading SPY US Equity, an exchange-traded fund that tracks the benchmark.)

Click on Price Reaction in the lower right to expand that section of the screen. To show individual stocks rather than sectors, click on Securities (**FIG. 1**). As of late October the outliers included Domino's and First Republic Bank. To display a detailed earnings history of a particular company with price reaction and surprise, click on its diamond-shaped icon in the chart. ►

Fig. 2 To see key metrics for Domino's, go to **{DPZ US <Equity> MODL <GO>}** and click on the Single Period tab if it's not already selected.

Fig. 3 Launch the new Earnings News Monitor from any worksheet of yours.

Fig. 4 To subscribe to earnings updates from First Word, run **{NSUB EARNINGS <GO>}**.

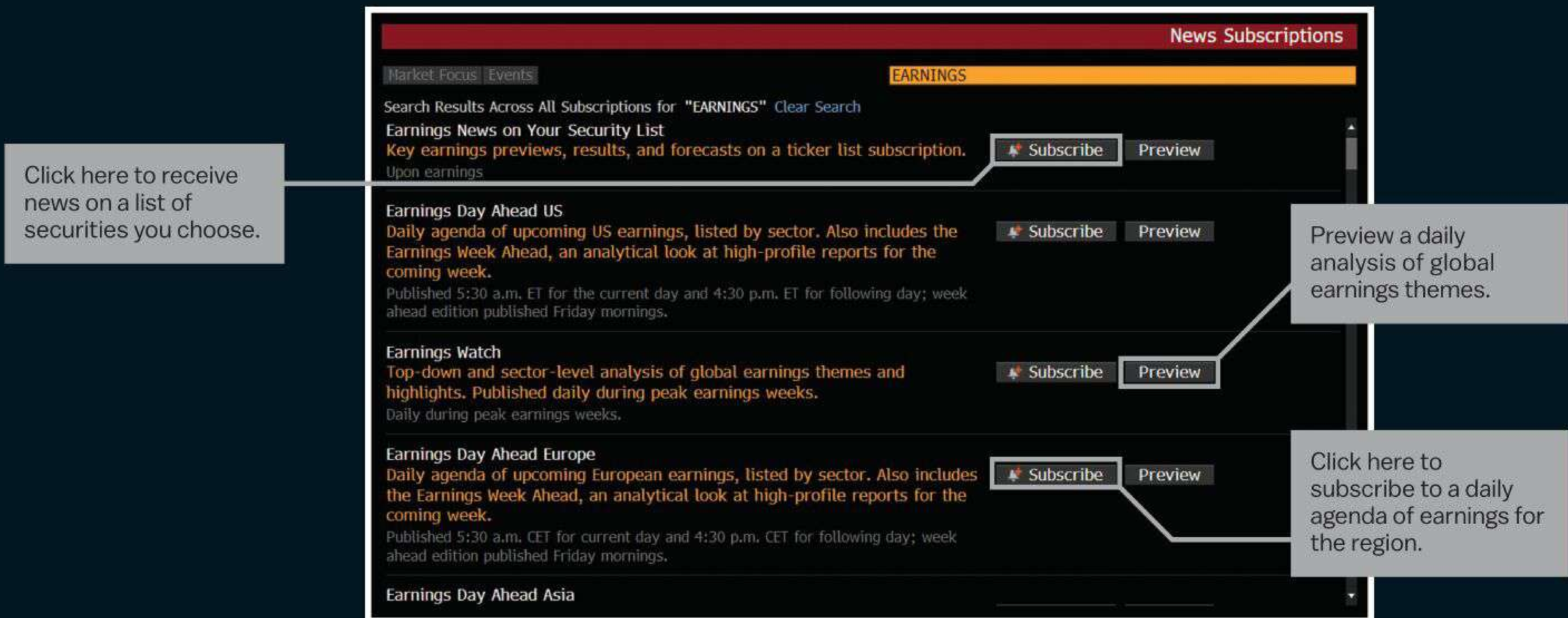


Fig. 5 To open the Earnings & Estimates portal for a selected stock, run **{EE <GO>}**.

FOR YEARS ANALYSTS HAVE focused on the data that matter for their sectors and companies—think Netflix's subscribers, Tesla's car deliveries and ExxonMobil's production volumes. You can view these by using the Company Financials (MODL) function, which also powers the instant reporting from Bloomberg's newsroom.

To see key metrics for Domino's, for example, type "Domino's" on the command line and click on the DPZ US Equity match. In the menu of functions that appears, click on MODL. The shortcut is **{DPZ US <Equity> MODL <GO>}**. Click on Single Period if it isn't already selected. For Period, use the drop-down to select Quarter 3. Select Actuals vs. Estimates (Surprise) if it isn't already selected (**FIG. 2**). For the third quarter you can see that Domino's adjusted diluted EPS and revenue were slightly different from consensus estimates. Domestic same-store sales, however, came in 80% higher than the consensus. To use data from MODL in your own models, you can click on a data point and drag it into Excel, where it will load the BQL formula for that item.

TO SEE WHAT REALLY moves a stock, in real time, set up a dedicated news feed with the most important earnings previews and reviews from Bloomberg. This one-click solution can be launched directly from any worksheet. Run **{W <GO>}** and open the worksheet with the securities you want to follow. Click on the Analytics tab and then on the News button. Click on Earnings News Monitor.

The new Earnings News Monitor option opens a dedicated Launchpad component with a news feed of First Word earnings previews and results for the securities in your worksheet (**FIG. 3**). Earnings reports from First Word leverage the robust data from MODL. The feed also incorporates analysis from Bloomberg Intelligence.

The Earnings News Monitor component also enables you to set alerts that will notify you, often within seconds, of the appearance of earnings reports. As more news is digested, you can expect updates on the original story. Top Live blogs on the earnings of the largest global companies will appear here as well. To display the blogs with breaking news, commentary and insight on critical news events, written in real time by Bloomberg News editors, go to **{TLIV <GO>}**.

IF YOU'D PREFER emailed notifications, the News Subscriptions function lets you sign up for First Word earnings updates on your security list. Type "news subscriptions" and click on the NSUB match. Enter "earnings" in the Search All Subscriptions field and press <GO>. The shortcut is **{NSUB EARNINGS <GO>}** (**FIG. 4**). Hit the Subscribe button for Earnings News on Your Security List. Browse and select your list or multiple lists in the window that appears. Hit the Select Lists button. Then choose how you want to be alerted—for instance, by ticking the box for Send me a message—and press Close. You can also send a copy to your corporate email.

NSUB also offers daily earnings newsletters that can be very handy during busy earnings periods. *Earnings Watch* provides top-down and sector analysis of global earnings themes, while *Earnings Day Ahead* offers a daily agenda of earnings for your region.

Finally, to open the Earnings & Estimates portal for a selected security, run **{EE <GO>}** (**FIG. 5**). EE provides all the most important data—including headline estimates, surprises and the implied move on the day of earnings, leveraging options markets data—as well as links to other earnings functions. It also allows you to visualize how earnings forecasts have been trending in the weeks prior to the release. ●

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Explore High-Grade Corporates as An Alternative to US Treasuries

By REANNA NOTARANTONIO, ALESSIA DIGENNARO and STEVEN GEE

Fig. 1 Use SRCH's natural-language-processing capabilities to load a search for US dollar-denominated, investment-grade corporate bonds maturing in two to three years with an amount outstanding of more than $500 million.

Expand this section for more analytic options.

Click here to load the bonds that match your criteria into FIW.

AS OF EARLY NOVEMBER, bond investors were facing an inverted yield curve and the prospect of continued Federal Reserve rate hikes. Given the dismal outlook for US government bonds, you might want to look for alternatives. One idea: Explore credits that are trustworthy—with rock-solid balance sheets—and offer attractive returns.

Here's how to use Bloomberg functions to investigate such an investment strategy.

First, for market context, run **{GC I25 <GO>}** to graph the US Treasury Actives Curve. In early November, the two- and three-year tenors offered higher yields relative to the rest of the curve. To view curve spreads, go to **{FIT <GO>}** and click into the Curves tab. The spread between two-year and 10-year Treasuries was more than -50 basis points. FIT links all available Bloomberg electronic trading products in one portal so you can monitor and negotiate trades with your enabled counterparties.

So, here's an idea: Shorten duration by buying corporates of cash-rich technology sector issuers. To identify bonds that may offer attractive relative spreads and strong fundamental credit metrics, you can use Bloomberg's Fixed Income Worksheet (FIW) function. FIW can help you find issuers with the highest credit ratings and allow you to validate the judgment of the raters with your own analysis. Apple Inc., Microsoft Corp. and other high-quality tech credits with large cash hoards may enable investors to squeeze out some extra basis points, compared with Treasuries, and juice returns in this challenging environment. (This article is the 14th in a continuing series on FIW. For links to the others, go to **{NSN R29PHEDWX2PV <GO>}**.)

TO BEGIN, let's create a universe of bonds using the natural-language-processing feature within **{SRCH <GO>}**. We're looking for US ►

Fig. 2 In FIW, click on the Bond Chart tab to visualize your bonds across a number of dimensions.

Fig. 3 Click on the Bond List tab and then on the Relative Value subtab to perform a relative-value analysis on your list of bonds.

dollar, investment-grade corporate bonds that mature in two to three years with an amount outstanding of more than $500 million. Simply type "SRCH USD IG CORPS MATURING 2 TO 3 YEARS AMOUNT"—that is, the SRCH mnemonic followed by keywords—and a list of matching searches will appear. Click on the one that ends with Outstanding > 500MM. The SRCH screen that appears will display the criteria (**FIG. 1**). As of early November, there were 1,692 bonds that matched these criteria. At the bottom of the screen, click into Additional Analysis Options for a menu of functions that you can use to analyze the list of bonds. Click on Evaluate Pricing | FIW.

In FIW, click on the Bond Chart tab. Click into the Group By amber field and select Issuer. If Maturity isn't already shown in the amber field to the right of Then, click into the box and select it. In the Facets panel on the left, you can select filters to further narrow the list of bonds to those that meet your investment criteria. Tick the box for United States under Country/Region of Risk. Scroll down to Bloomberg Index Composite Rating and select AAA and AA+ to AA- to focus on issuers with the highest ratings.

Let's chart how yields of these bonds have changed in the past three months. Click into the amber box to the right of Axes: Y and select Browse.... In the window that appears, tick the box for Select Custom Spread. Use the Total Return drop-down to select Yield Conventional. Use the #SD drop-down to select Change. Set the Over field to the past three months and hit Close. Click into the amber box next to X and select Maturity.

Next, let's make the colors of the icons in the chart reflect how each issuer's G-spread—the spread to the interpolated point on the government curve—has changed over the past three months.

Fig. 4 To validate your analysis, run **{WATC <GO>}** for the Watchlist Analytics function.

Click into the amber box next to Color and select Browse…. Tick the box for Select Custom Spread. Change Total Return to G-Spread, #SD to Change and Over to the past three months and hit Close.

Then, let's make the size of the circles represent interest coverage. Click into the amber box next to Size and select Browse…. From the list, select Ebitda to Inter–est. To set a lower bound of interest coverage, move the Int Cvrg sliding scale to roughly 35. That will chart only companies that have earnings before interest tax depreciation and amortization of at least 35 times their interest expense (**FIG. 2**). Here, you can see that Alphabet Inc. has the highest interest coverage. (According to the Bloomberg Intelligence Credit dashboard's BI Credit Medians, AAA/AA interest coverage is approximately 40x.)

NOW, TO EVALUATE relative value, click on the Bond List tab and Relative Value subtab.

Click into the Group By amber box in the upper left and select None. To drill down to the tech sector, tick the box for Technology under Bloomberg FI Classifications in the Facets panel on the left. Scroll to the right to display the range bars. To sort in descending order, double-click on the #SDs column. The default view compares the average G-spread over the past six months to its current G-spread (**FIG. 3**). You can, of course, adjust the metric and period. Now you have a shorter list to analyze for an investable universe.

To check fundamentals and validate that companies generate earnings more than sufficient to cover debt payments, you can use the Watchlist Analytics (WATC) function. Run **{WATC <GO>}**. Type "United States" in the amber box in the upper left and click on the match under Regional Sample List. In the Refine By field, type "mega cap" and click on the match.

Hit the Credit tab and the Credit Ratios subtab. Click on the EBITDA/Int column header to sort the values from highest to lowest (**FIG. 4**). Alphabet's Ebitda/interest ratio at 253x tops the list.

Click on the Default Risk subtab to view credit-related metrics from the Bloomberg Default Risk (DRSK) function. DRSK provides standardized estimates, based on fundamental and market data, of an issuer's default risk, probability of default and credit default swap spreads. The Google parent has a one-year default probability of 0.0002% and a market CDS spread that was among the lowest in the group.

Turning back to the bond chart, locate the GOOGL 0.45 2025. This bond—which offered a yield of 4.78% as of early November, a pickup of 14 basis points above Treasuries of a similar maturity—comes from an issuer with an AAA rating, a high cash reserve and low risk of default. ●

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Build a Search for Companies That Are Gaining Market Share

By CONSTANTIN COSEREANU

Fig. 1 Run **{EQS <GO>}** and click on the Formula button on the red toolbar to create a formula to use in your equity screening.

Click here to select an operator such as Sum or Lag for your formula.

Type a term such as "revenue" here, and click on the match.

Click here to examine your expression, and then press <GO> to add it to your formula.

Microsoft accounted for 8% of the revenue in the Information Technology sector.

FOR EQUITY INVESTORS, finding companies that are increasing market share is important, particularly if you can spot trends below the surface of an industry.

How can you systematically identify such companies? Use the new formula builder feature in Bloomberg's Equity Screening function. Here's how.

TYPE "EQUITY SCREENING" on the command line of a Bloomberg screen and click on the EQS match. The shortcut is **{EQS <GO>}**. EQS lets you winnow a universe of stocks to those that match your sector, fundamental or other criteria using point-in-time data with no survivorship bias.

Before we go further, please note that a ready-made version of this screen is available at **{EQS /SAMPLE 18093574 <GO>}**. You can save a copy and follow along, or you can build the search from scratch by following these instructions.

Let's start with a broad index. The Bloomberg US Aggregate Equity Price Return Index **{AGGE <Index> DES <GO>}** is a float market-cap-weighted benchmark that represents about 99% of the US market by value. In the Add Criteria field, type "Bloomberg US Aggregate Equity Price Return Index" and click on the match. That drilled down to 4,205 stocks as of early October. (To find more equity indexes, including the new Bloomberg US 400, US 600 and US 1500 benchmarks, run **{IN <GO>}** on another Bloomberg panel and click the Equity tab.)

Since a handful of these stocks have multiple share classes—Alphabet Inc., for example—which will each reflect the entire company's fundamental data, we want to strip out these duplicates. Type "show primary security" and click the Show Primary Security of Company Only match. That cut the universe a little, to 4,174 names.

Let's also strip out microcap stocks by limiting the universe to names with a market value of $250 million or more. Type "market cap" in the field and click on the match. Click >= Greater than or equal to in the menu that appears. Then type "250" and press <GO>. That trimmed the universe to 2,851 stocks.

NOW WE COME to the crux of this screen. We're going to build a formula that shows the current market share breakdown by first aggregating the revenue of all of the companies in a sector and then representing each one's revenue as a percentage of the sector total.

Fig. 2 Once you've created the Current Market Share formula, you can click on Show Results | WATC to display the results.

Fig. 3 Here's the full search with the five formulas to identify companies gaining market share.

Click the Formula button on the red toolbar. (A quick bit of background: A formula is a combination of data fields and operators, modified by parameters that can be made up of multiple expressions. You can use formulas in EQS and other Bloomberg functions. To create, edit and manage them, go to **{FORM <GO>}**.)

Type "revenue" in the amber field to the right of Function (Optional) and click on the match. We want sales over the past year, so click on Trailing 12 Month in the menu to the right. Click on the + Append to EXP1 button, and it will appear in the amber field to the right of EXP1= so you can examine it and make sure it's what you want. Hit <GO> and the expression will become the first expression in your formula. To the right are three sample securities that show the data your expression returns.

Next, we're going to create an expression that sums revenue for all of the companies in a sector. First, click Function (Optional) to display the drop-down menu. Click Group Cross-Sectional Operators to expand the selection. Then click Sum. Type "revenue" in the field, click the match and select Trailing 12 Month again. Use the drop-down to the right of Group By to select Sector under GICS. (You can also make your analysis more granular by selecting Industry Group, Industry or Sub-Industry.) Last, to look at sectors across the entire underlying index, type "AGGE" in the Universe field and click on the AGGE Index match. Press <GO> twice to make this EXP2.

Last, we're going to calculate each company's revenue as a percentage of the sector. Type "EXP1/EXP2*100" in the EXP3= field. Press <GO> and this expression will appear as EXP3 (**FIG. 1**). As shown by the sample securities here, Microsoft Corp. accounted for 8% of the revenue in its sector, which is Information Technology. ►

Fig. 4 Use the EQS Report feature in WATC to export results as a PDF you can share with your team.

Bloomberg — Market Share Gain

Ticker	Short Name	Market Cap	Current Market Share	Market Share 1Y Ago	Market Share 2Y Ago	Market Cap	Price:D-1
Communication Services (27 securities)							
GOOGL US	ALPHABET INC-A	1.29T	15.79	14.78	12.51	1.29T	98.68
TWTR US	TWITTER INC	37.63B	0.30	0.30	0.25	37.63B	49.18
TTD US	TRADE DESK INC-A	27.73B	0.08	0.07	0.05	27.73B	56.79
RBLX US	ROBLOX CORP - A	20.78B	0.13	0.10	0.06	20.78B	34.82
ZI US	ZOOMINFO TECH	17.91B	0.05	0.04	0.03	17.91B	44.40
SNAP US	SNAP INC - A	17.58B	0.26	0.23	0.16	17.58B	10.66
SPOT US	SPOTIFY TECHNOLO	16.98B	0.61	0.57	0.55	16.98B	88.01
PINS US	PINTEREST INC -A	16.92B	0.15	0.15	0.10	16.92B	25.12
FWONA US	LIBERTY MEDIA-A	14.46B	0.15	0.11	0.09	14.46B	56.60
MTCH US	MATCH GROUP INC	13.67B	0.18	0.17	0.17	13.67B	48.29
WMG US	WARNER MUSIC-A	11.73B	0.33	0.33	0.33	11.73B	22.78
LBRDA US	LIBERTY BR-A	11.70B	0.06	0.05	0.00	11.70B	77.25
ROKU US	ROKU INC	7.60B	0.17	0.16	0.11	7.60B	55.08
BMBL US	BUMBLE INC-A	4.44B	0.05	0.04	0.04	4.44B	23.58
STGW US	STAGWELL INC	2.12B	0.14	0.09	0.09	2.12B	7.16
TTGT US	TECHTARGET	1.94B	0.02	0.01	0.01	1.94B	65.61
CARG US	CARGURUS INC	1.66B	0.09	0.05	0.04	1.66B	13.99
BATRA US	LIBERTY MEDIA- A	1.50B	0.04	0.03	0.01	1.50B	28.80
MGNI US	MAGNITE INC	929.23M	0.03	0.02	0.01	929.23M	6.99
ADV US	ADVANTAGE SOLUTI	738.93M	0.22	0.21	0.17	738.93M	2.32
FUBO US	FUBOTV INC	702.27M	0.05	0.03	0.01	702.27M	3.79
ATNI US	ATN INTERNATIONA	557.08M	0.04	0.03	0.03	557.08M	35.34
SKLZ US	SKILLZ INC	444.32M	0.02	0.02	0.01	444.32M	1.06
EVC US	ENTRAVISION CO-A	347.43M	0.05	0.04	0.02	347.43M	4.09
BAND US	BANDWIDTH INC-A	300.10M	0.03	0.03	0.02	300.10M	11.86
CDLX US	CARDLYTICS INC	290.45M	0.02	0.02	0.01	290.45M	8.83
GAMB US	GAMBLING.COM GRO	264.75M	0.00	0.00	0.00	264.75M	7.26
Consumer Discretionary (89 securities)							
TSLA US	TESLA INC	698.98B	2.19	1.69	1.23	698.98B	223.07
TJX US	TJX COS INC	74.99B	1.62	1.56	1.47	74.99B	64.59
ABNB US	AIRBNB INC-A	70.41B	0.24	0.19	0.16	70.41B	108.54
CMG US	CHIPOTLE MEXICAN	41.06B	0.27	0.26	0.25	41.06B	1478.75

Click the Save & Use in EQS button on the red toolbar. Give the formula a name, such as Current Market Share, and click Save & Use. In EQS, press <GO> to add the formula to your screening criteria.

Click the See Results | WATC button. Use the Group By drop-down to select Sector under GICS. Then click the Current Market Share column heading to sort from largest share to smallest. Looking at the Communications Services sector at the top of the results, you can see that Alphabet accounts for almost 16% of sales in the sector, followed by AT&T Inc., with 8.4%. Click the triangle next to Communication Services to collapse the sector. Do the same with Consumer Discretionary and you can see how Walmart Inc. accounts for 25% of Consumer Staples revenue (**FIG. 2**). That makes it the single most dominant company in any GICS sector. Exxon Mobil Corp. is second, with almost 20% of the Energy sector.

OK, NOW LET'S GO BACK to add formulas that will identify companies that have gained market share through time. Press <Menu> and click the Formula button again.

Click on Function (Optional) and select Lag. Type "Current Market Share" in the amber field and select your saved formula. Use the Lag By drop-down to select Last 1 Year. Press <GO> twice. Click the Save & Use in EQS button. Give this formula a name, such as Market Share 1Y Ago. Click Save & Use. Press <GO> to add to your criteria.

Next, repeat this step to create another formula that will calculate market share two years ago, which you can call Market Share 2Y Ago.

The final bit is to create two more formulas that will identify companies that gained market share from one year ago to now and from two years ago to one year ago.

To do that, click the Formula button again. Type "Current Market Share," click the match, and press <GO> twice to make it EXP1. Type "Market Share 1Y Ago," click the match, and press <GO> twice. Finally, in the EXP3= field, type "EXP1 > EXP2" and press <GO>.

Click Save & Use in EQS. Give the formula a name, such as Current Market Share Greater Than 1Y Ago. Click Save & Use and Press <GO> to add it to your screening criteria. As of early October, that winnowed the universe to 1,356 companies.

Repeat these steps to create another formula that identifies companies that gained share from two years ago to last year. That further trimmed the universe to 697 companies (**FIG. 3**).

Click the See Results | WATC button to view the companies that have gained market share in the past two years. As of mid-October, Alphabet met these criteria, but Walmart and Exxon were screened out. You can, of course, modify the time frames or the granularity of the classification you use in your analysis.

To generate a PDF report on these stocks, click the Actions button, select EQS Report, and tick the box for Report Layout if it isn't already ticked. You can then click on the Export button, on PDF Report, and on Configure to set up how you want your report to appear. Once you're done, click Export and PDF Report again and select Generate to create a PDF with your data (**FIG. 4**).

EQS also lets you backtest a strategy based on screens you create. Set up and save your search and click on the Backtest button. Backtesting is integrated with the Portfolio & Risk Analysis (PORT) function, so you can dig into the drivers of a strategy's performance. ●

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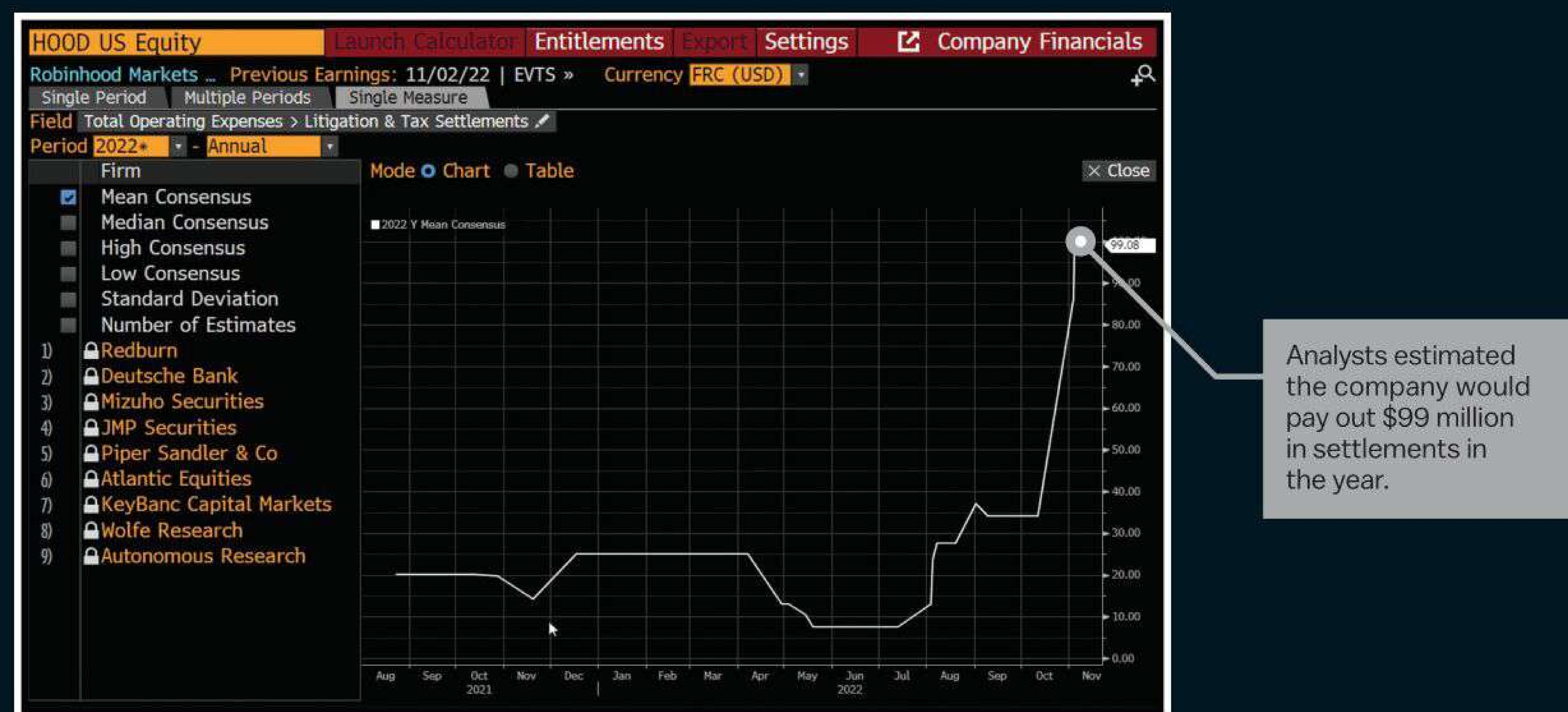
Gain Insight Into the Trust Issues Affecting Tech Companies

By KEITH GERSTEIN, JESS MCCONAGHIE and MING LEE

Fig. 1 To track consensus estimates for Robinhood Markets' litigation and tax settlements for the 2022 fiscal year, go to **{HOOD US <Equity> MODL <GO>}**.



INFLATION AND RISING interest rates have battered many industries—including technology. But the sector is also facing idiosyncratic issues relating to trust: questions about privacy, cybersecurity and evolving technology. The environment has been brutal for tech stocks. Shares of Robinhood Markets Inc. were down 53% this year through Nov. 9. Yet the trading platform was ahead of Meta Platforms Inc., which had dropped 70%, and Coinbase Global Inc., which had plummeted 82%.

Robinhood

Holed up at home in the pandemic in 2020, many new retail investors turned to apps on their phones to trade stocks, exchange-traded funds and cryptocurrencies. A key beneficiary was Robinhood. The Menlo Park, California-based trading platform listed its stock in July 2021—around the time its monthly active users reached a high of 18.9 million.

But Robinhood has also been hit by data breaches and criticized for its lack of transparency about the payment for order flow that finances commission-free trades. Back in March 2020 service outages on the platform blocked users from executing trades, causing some to miss buy-in points and keeping others locked into positions they wanted to exit. The company has faced class actions and other lawsuits. Robinhood declined to comment for this story.

To get a sense of the potential costs to the company, you can use the Company Financials (MODL) function. Type "Robinhood" on the command line of a Bloomberg screen and click on the HOOD US Equity match. In the menu of functions that appears, click the MODL link. The shortcut is **{HOOD US <Equity> MODL <GO>}**. Click the Single Period tab if it's not already selected, and set the Period to 2022* Annual. Scroll down to the Income Statement section and click on the chart icon to the left of Litigation & Tax Settlements (**FIG. 1**). As of early November the mean consensus among analysts projected Robinhood would pay out $99 million in settlements in 2022. ►

Fig. 2 To see how Coinbase Global's management has fielded questions on hot topics, run **{COIN US <Equity> DSCO <GO>}**.

Fig. 3 To track litigation involving Meta Platforms, go to **{META US <Equity> CL <GO>}**.

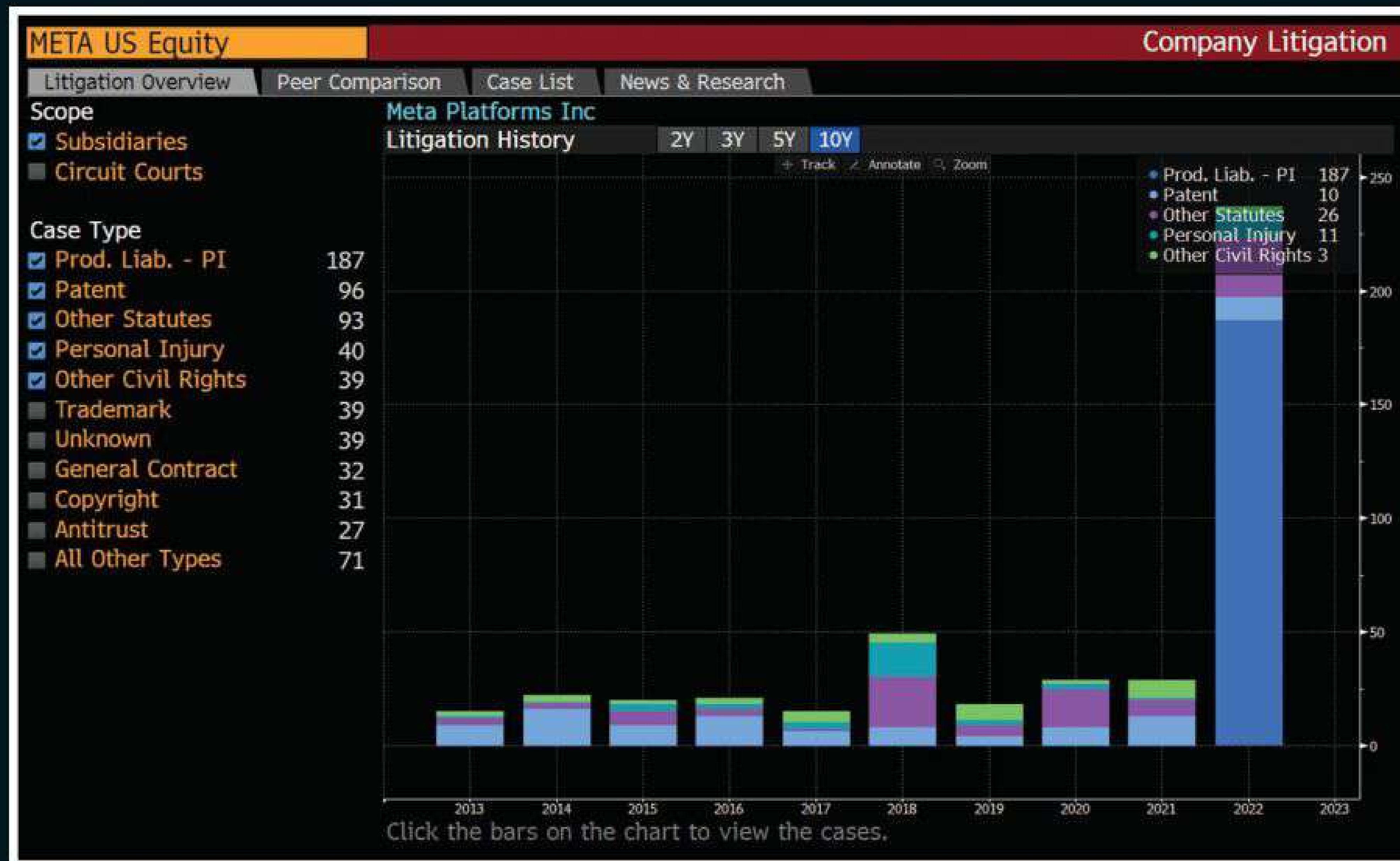


Fig. 4 To compare Meta's performance with its historical valuation metrics, go to **{META US <Equity> PEBD <GO>}**.

	Company Name	Industry	Domicile	Fac in CN	Total Fac	% Fac in CN	Total Relationship Size (M)
1)	Apple Inc	Technology Hard...	UNITED STATES	--	--	--	--
2)	Hon Hai Precision Indu...	Technology Hard...	TAIWAN	201	314	64.01%	116,971.39
3)	Pegatron Corp	Technology Hard...	TAIWAN	35	54	64.81%	25,566.40
4)	Quanta Computer Inc	Technology Hard...	TAIWAN	19	32	59.38%	21,370.30
5)	Taiwan Semiconductor ...	Semiconductors	TAIWAN	2	23	8.70%	18,744.56
6)	005930 KS Equity	Technology Hard...	SOUTH KOREA	15	70	21.43%	16,911.83
7)	002475 CH Equity	Technology Hard...	CHINA	55	61	90.16%	11,599.16
8)	QUALCOMM Inc	Semiconductors	UNITED STATES	2	13	15.38%	9,748.92
9)	LG Innotek Co Ltd	Technology Hard...	SOUTH KOREA	2	18	11.11%	9,145.94
10)	ASE Technology Holding...	Semiconductors	TAIWAN	13	58	22.41%	[illegible]
11)	Jabil Inc	Technology Hard...	UNITED STATES	18	134	13.43%	[illegible]
12)	034220 KS Equity	Technology Hard...	SOUTH KOREA	6	12	50.00%	[illegible]
13)	002241 CH Equity	Technology Hard...	CHINA	23	30	76.67%	[illegible]
14)	Lens Technology Co Ltd	Technology Hard...	CHINA	13	13	100.00%	[illegible]
15)	000660 KS Equity	Semiconductors	SOUTH KOREA	4	13	30.77%	[illegible]
16)	Zhen Ding Technology ...	Technology Hard...	TAIWAN	14	16	87.50%	4,032.82
17)	Sharp Corp/Japan	Technology Hard...	JAPAN	14	51	27.45%	3,810.26
18)	Compal Electronics Inc	Technology Hard...	TAIWAN	18	37	48.65%	2,998.10
19)	STMicroelectronics NV	Semiconductors	SWITZERLAND	5	65	7.69%	2,616.01

Fig. 5 To dig into Apple's supply chain, go to **{AAPL US <Equity> SPLC <GO>}** and click on the yellow Update Now button.

Coinbase

Like Robinhood, crypto-trading platform Coinbase went public in 2021. Coinbase's verified users have continued to climb, reaching 108 million in the third quarter of 2022.

To see how the company's management is fielding questions on hot topics during earnings and other calls, you can use the Document Search & Analytics (DSCO) function. Run **{COIN US <Equity> DSCO <GO>}**. Click the button under Source, select Transcripts and hit Apply. Then use the Remark Type drop-down to select Mgmt Answers (**FIG. 2**). The topics that had been mentioned most frequently in the two years through early November were Cryptocurrency, Regulation and Revenue. The topic that had recently increased the most was Headwinds. Click the More Trends button for additional detail. To see specific mentions of a topic, click on it.

Meta

Tech companies are no strangers to legal disputes. In September, Florida asked the US Supreme Court to rule on the constitutionality of state laws governing social media such as Meta's Facebook. To track litigation involving Menlo Park-based Meta, run **{META US <Equity> CL <GO>}** (**FIG. 3**).

Adding to worries for many tech companies are new laws. California, for instance, is preparing new privacy regulations for underage audiences. Yet looming legal and regulatory risks aren't having an immediate effect on Meta's bottom line.

What did hit Meta's financials was Apple Inc.'s introduction of new privacy settings for its device users in 2021. Meta's revenue growth decelerated significantly after Apple required companies to ask users for permission to gather data. In the second quarter of 2022 the company reported its first quarterly sales drop. As of early November analysts had estimated the company would experience another first: a yearly decline in ad revenue, projected to fall 1.29%.

You can track Meta's performance by comparing it with historical valuation metrics. Type "price bands" and click on the PEBD match. The shortcut is **{PEBD <GO>}** (**FIG. 4**). PEBD lets you chart multiples such as price-earnings ratios against averages and standard deviation bands over a specified period. As of early November, for example, Meta was trading more than two standard deviations below its two-year average price-to-book value.

Apple

Trust in supply chains has been hammered in the pandemic era. In November, Apple said it expected to ship fewer of its newest iPhones after Covid-19 restrictions reduced capacity at a facility in China.

To see how much Apple relies on China as a supplier, run **{AAPL US <Equity> SPLC <GO>}** on the terminal. Click the yellow Update Now button to opt in to the enhanced version of the Supply Chain Analysis function. Click on the table button and then on the Geo-Exposure tab at the top of the page. About 19% of Apple's suppliers' facilities are located in China. That dwarfs the company's exposure to India, which accounts for 2.5%, and to Vietnam, which makes up 1.3%. To see the suppliers with facilities in China, click on the country. Click the Total Relationship Size (M) column heading to see Apple's biggest suppliers in the country (**FIG. 5**).

China's importance as a supplier for Apple is compounded by its size as a market for the company's products. As of early November analysts projected Greater China would account for almost one-fifth of Apple's revenue in its 2023 fiscal year. ●

—*With Sam Radowitz, Kelly Lai and Leon Huang*

Gerstein, McConaghie and Lee are on the global data team at Bloomberg. Gerstein and McConaghie are in Princeton, New Jersey, and Lee is in Hong Kong.

Looking for an Original Hedge Fund Name? Avoid These Categories

By MICHAEL BOYLE and NICHOLAS HOLTZMAN

SO YOU WANT TO start a hedge fund.

When it comes to marketing, asset growth and recognition within the broader financial ecosystem, one thing is crucial ... coming up with a good fund name. (Sure, developing a strategy, backtesting and implementing it, having a pedigree, raising capital and all those other things are also important.)

What makes for a good name, then?

Bloomberg's hedge fund data team examined the types of terms that predominate in the names of alternative investment vehicles. (We also looked to see whether there was any correlation between words in hedge fund names and performance, but the sample sizes weren't significant enough to draw conclusions.) Using Bloomberg's Python-based BQNT tool to perform the analysis, we began with a simple count of words that appear in names across our entire universe of 22,417 hedge funds, excluding liquidated funds. (The total was 10,773 words.) After excluding generic and descriptive words such as "fund" and "equity," we then looked for common traits of the remaining words to create category groupings. Some were straightforward: "Oak" and "pine" fit a *trees* category, for instance. Others were a bit more subjective. Last, we checked the matches within each category to avoid any misclassification (for example, assigning a fund with "credit" in its name to the colors category as a result of "red" appearing within the word "credit").

Some of the results may be obvious. Colors are a predominant theme for investment vehicle names. Similarly, references to bodies of water or topographic features comprise a large piece of the hedge-fund-name pie. For new managers looking to make a splash, these areas might be where to drop a line or plant a hiking boot.

OR, MAYBE, IF YOU'RE looking to differentiate yourself from the competition with a unique and catchy moniker, you should avoid these areas.

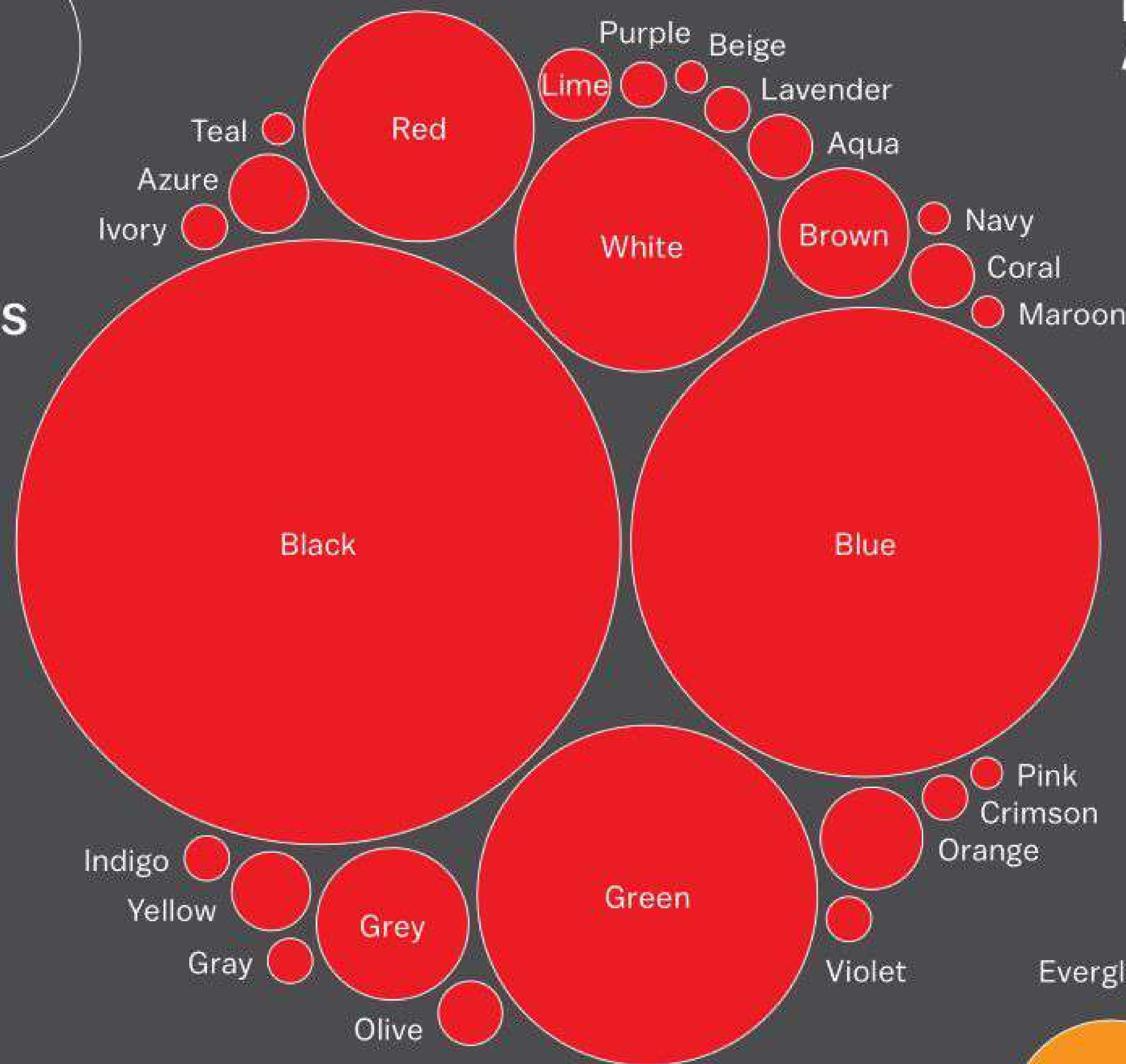
Zachary Kastenhuber introduced his Los Angeles-based quant-driven Armada IVS Fund in August. The first-time manager describes the primary factors that went into his choice of fund name this way: "Something short, not too common, and a name that utilized an 'A' to be at the top of the search list." Kastenhuber's advice to would-be entrants in the hedge fund arena is to "find something that's dynamic and multipurpose but doesn't limit what you can be." Ultimately, the fund name should be a genuine and authentic representation of the founder, he says.

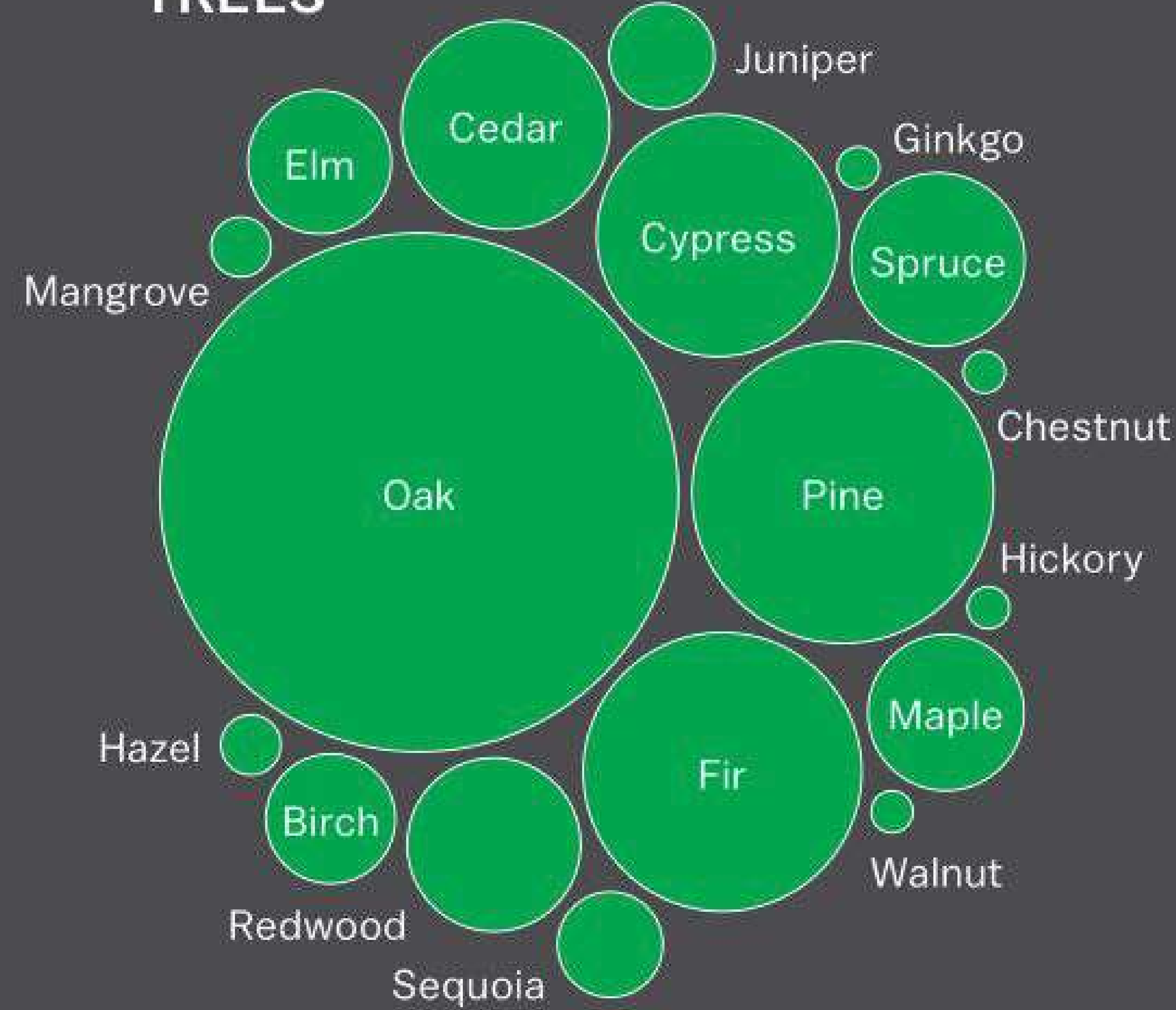
Got your new name worked out? Then reach out to the Bloomberg hedge fund team at hfnd@bloomberg.net to create a ticker and learn about the benefits of listing information for new and emerging managers. To find hedge funds and liquid alts based on key characteristics such as investment strategy, style and assets, go to **{HFS <GO>}**. ●

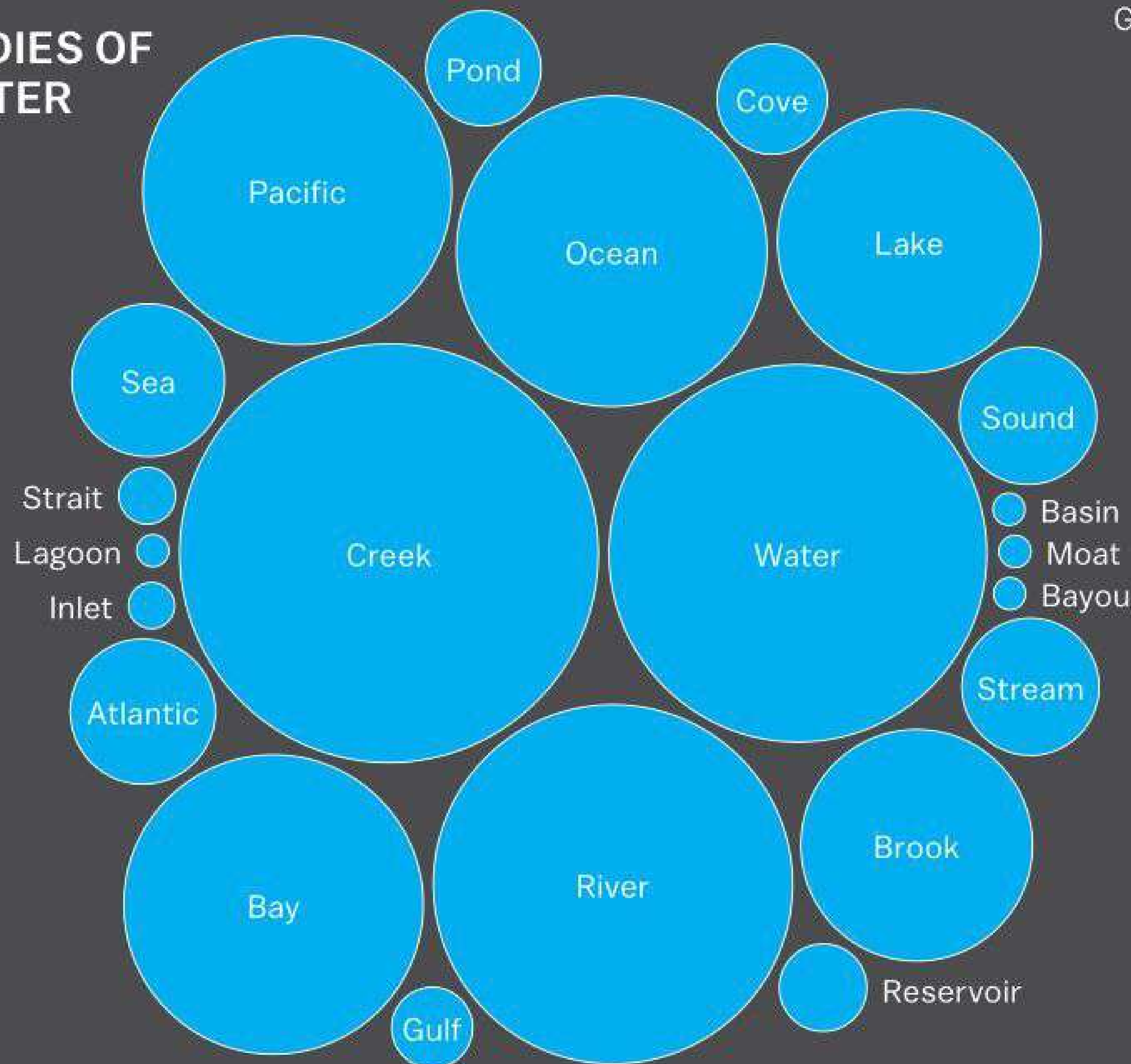
Boyle and Holtzman are on the hedge fund data team at Bloomberg in New York.

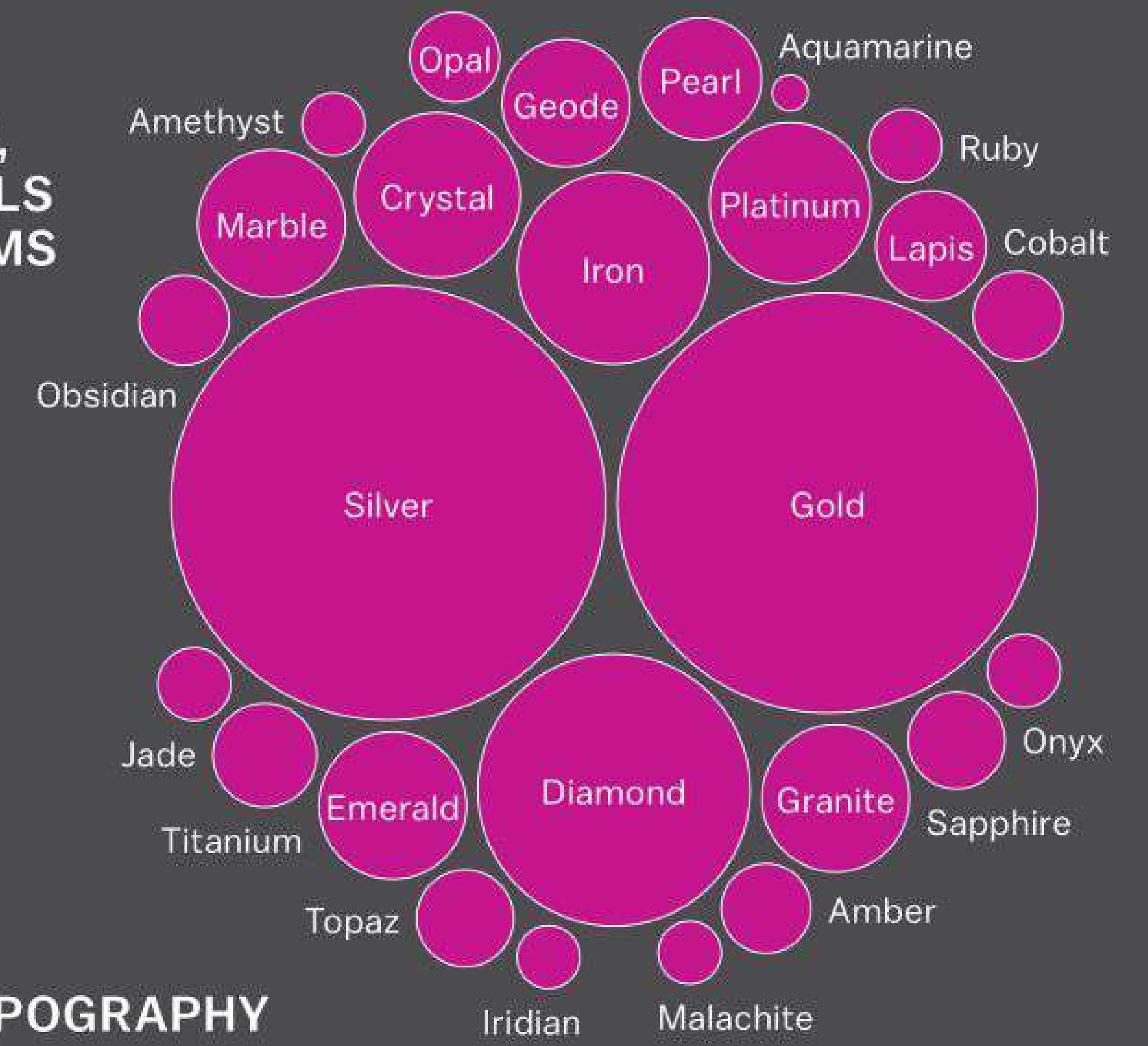
Common Language

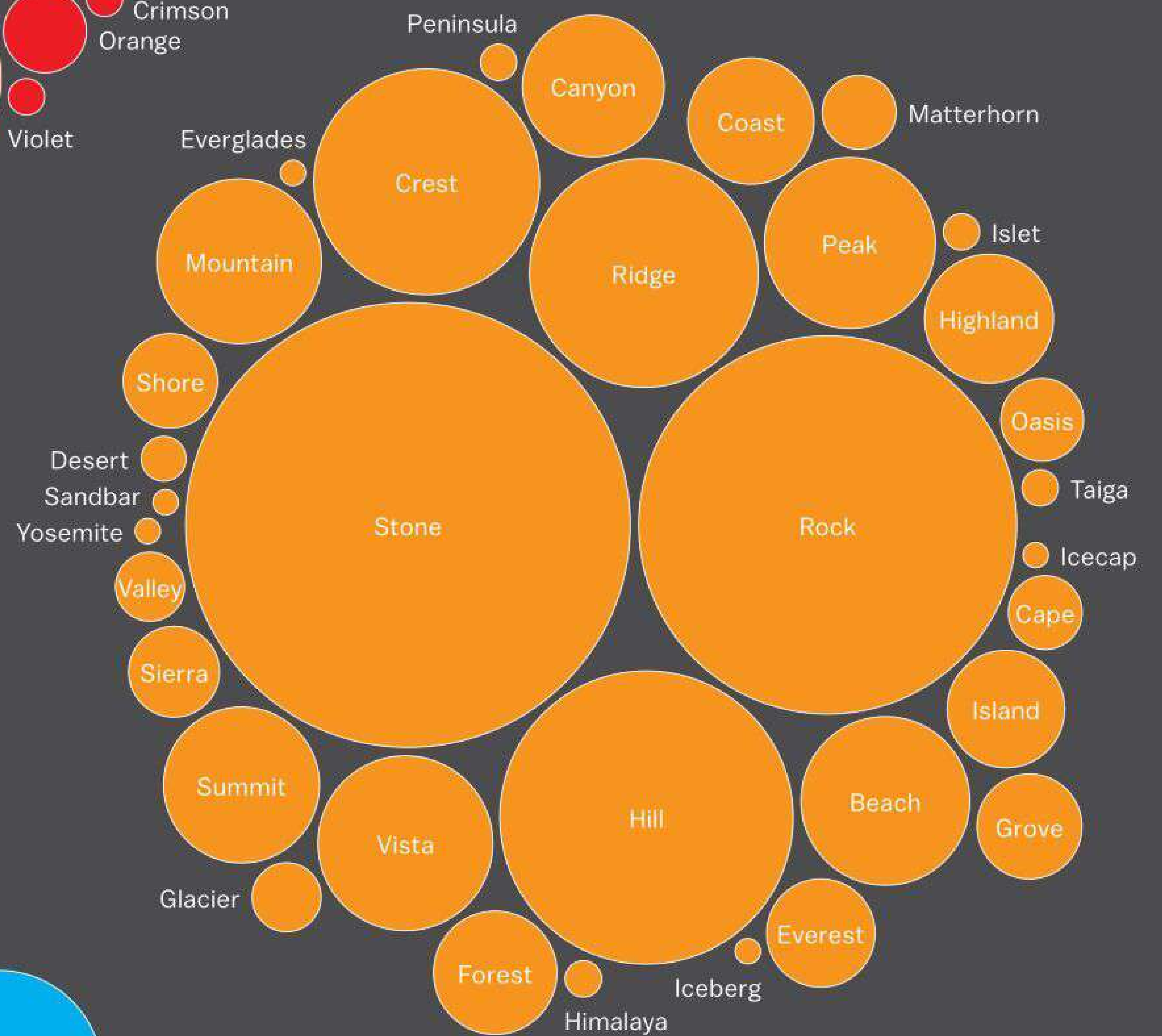
Instances of words within hedge fund names among selected categories

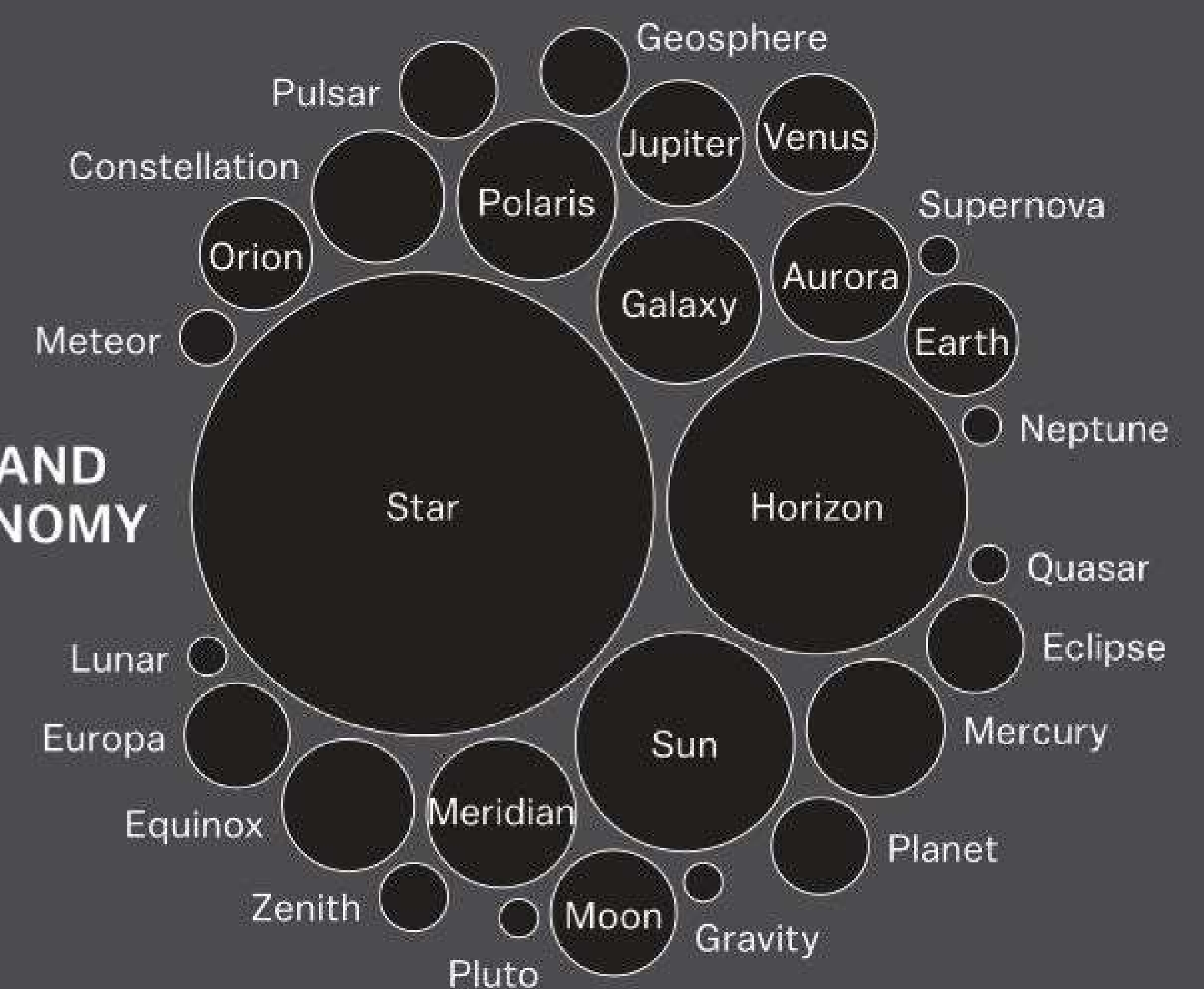












Words that could be classified under multiple categories, such as "gold," are shown in only one.

Source: Bloomberg hedge fund data retrieved on Oct. 24, 2022

Holdings

See Who Was Making Bets On Elon Musk's Twitter Takeover

By DENISE COCHRAN

Fig. 1 Running **{TWTR US <Equity> OWN <GO>}** in late October gave a snapshot of ownership of Twitter shares before Musk's takeover.

TWTR US Equity | 25) Export | Settings | Security Ownership

TWITTER INC CUSIP 90184L10

1) Current | 2) Historical | 3) Matrix | 4) Ownership Summary | 5) Insider Transactions | 6) Options | 7) Issuer Debt

Compare Current Stats Against 06/26/22

Top Ownership Type (%)

Ownership Type	06/26/22	Curr	Change
11) Investment Advisor	55.69	50.19	-5.50
12) Individual	18.06	21.31	+3.25
13) Hedge Fund Manager	6.88	9.43	+2.55
14) Bank	5.98	6.31	+0.33
15) Brokerage	3.64	3.62	-0.02
16) Pension Fund	2.84	2.95	+0.11
17) Insurance Company	1.6	1.69	+0.09
18) Trust	1.5	1.53	+0.03
19) Government	0.74	0.84	+0.10

Institutional - Based on Current Filings

Institutional	06/26/22	Curr	Change
21) % of Shares Held	75.08	63.24	-11.84
22) % of Float Held	89.86	76.26	-13.60
23) # of Institutions	1,353	1,327	-1.92%
24) # of Buyers	406	332	-18.23%
25) # of Sellers	443	461	+4.06%
26) # of New Buyers	139	238	[illegible]
27) # of Selloffs	255	268	[illegible]
28) % Chg in Inst Positions	+0.79	+3.94	[illegible]

Insider - Based on Last 6 Months

Insider	06/26/22	Curr	Change
31) % of Shares Held	3.05	12.31	+9.26
32) % Chg Insider Positions	+4.67	-0.13	-4.80
33) # of Insiders	21	20	-4.76%
34) # of Buyers Opn Mkt	0	0	
35) # of Sellers Opn Mkt	5	5	0.00%
36) # of Shrs Bought Opn Mkt	0	0	
37) # of Shrs Sold Opn Mkt	103,722	129,374	+24.73%
38) Avg Opn Mkt Buy Price	0	0	0.00
39) Avg Opn Mkt Sell Price	44.32	44.58	+0.26

Top Geographic Ownership (%)

Geographic	06/26/22	Curr	Change
41) United States	67.1	61.33	[illegible]
42) Unknown	18.06	21.31	[illegible]
43) United Kingdom	3.81	4.79	[illegible]
44) Japan	2.19	2.51	[illegible]
45) Canada	1.89	1.59	[illegible]
46) Switzerland	1.08	1.33	+0.25
47) Hong Kong	0.03	1.31	+1.28
48) Norway	1.08	1.23	+0.15
49) Luxembourg	1.17	0.81	-0.36

Here we're comparing late October with late June.

Hedge funds increased their ownership of Twitter shares by about 2.5 percentage points of the total publicly reported holdings.

ELON MUSK CLOSED HIS ACQUISITION of Twitter Inc. on Oct. 27, tweeting "let that sink in" with a video that showed him carrying a sink into the company's San Francisco headquarters.

It wasn't always a sure thing that the deal would be completed. In July, after Musk said he was terminating his agreement to buy the social media platform, Twitter's stock closed at a low of $32.65. Yet in the end the deal did go through at Musk's offer price of $54.20.

For investors, it had provided a binary event: Either the deal would close or it wouldn't. Their shares would be worth $54.20, or they'd be worth a lot less than that.

So who took this bet? Plenty of hedge funds, according to regulatory holdings filings.

Bloomberg's holdings functionality lets you delve into who was making those bets as the story of the Twitter deal unfurled through 2022.

In the US, 13F filings provide a snapshot of holdings at the end of each quarter. Managers with more than $100 million in assets are required to file 13Fs quarterly with the US Securities and Exchange Commission. The data typically appear with a lag: Managers have up to 45 days from the end of the quarter to file.

YOU CAN SEE the increase in hedge fund ownership in the Security Ownership function. First, to load Twitter, type "Twitter" in the command line of a Bloomberg screen and click on the TWTR US Equity match. In the menu of functions that appears, click on OWN. The shortcut is **{TWTR US <Equity> OWN <GO>}**.

To compare current filings with ownership in late June, use the Compare Current Stats Against drop-down to select June 26 (**FIG. 1**). As of late October, you could see that hedge fund managers had increased their collective positions by about 2.5 percentage points of the total, holding 9.35% of the publicly reported holdings, up from 6.88%.

To see holdings by firm, click the Current tab. (You can also

Fig. 2 To drill down to owners of reported positions in Twitter, click the Current tab or go to **{TWTR US <Equity> HDS <GO>}**.

TWTR US Equity | 25) Export | Settings | Security Ownership

TWITTER INC CUSIP 90184L10

1) Current | 2) Historical | 3) Matrix | 4) Ownership Summary | 5) Insider Transactions | 6) Options | 7) Issuer Debt

Search Name: Default - No Search Selected | 21) Save Search | 22) Delete Search | 23) Refine Search

Text Search | Holder Group: All Holders | Investment Manager View

24) Color Legend Shrs Out 765.2M % Out 78.90 Float/Shrs Out 82.57 SI % Out 4.90 | Edit Columns

	Holder Name	Portfolio Name	Source	Opt	Position	% Out	Latest Chg	File Dt
			All	All				
1.	Pentwater Capital Management LP	PENTWATER CAPITAL MANAGEMENT	13F	Y	18,083,000	2.36	18,083,000	06/30/22
2.	Segantii Capital Management Ltd	SEGANTII CAPITAL MANGEMENT LTD	13F	Y	7,300,000	0.95	7,300,000	06/30/22
3.	Kingdom Holding Co		Form 3		4,848,897	0.63	4,848,897	05/04/22
4.	Nomura Holdings Inc		ULT-AGG		5,167,598	0.68	4,825,763	06/30/22
5.	FMR LLC		ULT-AGG		22,364,131	2.92	4,734,404	06/30/22
6.	Wells Fargo & Co		ULT-AGG		5,868,337	0.77	3,543,410	06/30/22
7.	Citadel Advisors LLC	CITADEL ADVISORS LLC	13F	Y	3,999,633	0.52	3,303,113	06/30/22
8.	HRT Financial LP	HRT FINANCIAL LLC	13F		3,018,283	0.39	3,018,283	06/30/22
9.	Millennium Management LLC/NY	MILLENNIUM MANAGEMENT LLC	13F	Y	3,359,481	0.44	2,798,837	06/30/22
10.	FIL Ltd		ULT-AGG		2,669,367	0.35	2,669,367	06/30/22
11.	UBS AG		ULT-AGG		6,462,981	0.84	2,421,294	08/26/22
12.	Adage Capital Management LP		ULT-AGG		3,221,482	0.42	2,386,482	06/30/22
13.	MARSHALL WACE		ULT-AGG		2,387,773	0.31	2,141,149	06/30/22
14.	Sculptor Capital Management Inc		ULT-AGG		2,093,703	0.27	2,093,703	06/30/22
15.	Beryl Capital Management LLC	BERYL CAPITAL MANAGEMENT LLC	13F		1,615,286	0.21	1,615,286	06/30/22
16.	Melqart Asset Management UK Ltd	MELQART ASSET MANAGEMENT (UK)...	13F		1,555,711	0.20	1,555,711	06/30/22
17.	Jane Street Group LLC	JANE STREET GROUP LLC	13F	Y	4,110,411	0.54	1,483,127	06/30/22
18.	BANCO SANTANDER SA		ULT-AGG		1,404,189	0.18	1,404,189	07/30/22
19.	Deutsche Bank AG		ULT-AGG		2,836,679	0.37	1,378,784	06/30/22
20.	Quinn Opportunity Partners LLC	QUINN OPPORTUNITY PARTNERS L...	13F		1,584,860	0.21	1,324,480	06/30/22
21.	Bank of Nova Scotia/The		ULT-AGG		1,499,054	0.20	1,201,241	06/30/22
22.	Westchester Capital Management LLC	WESTCHESTER CAPITAL MANAGEMEN...	13F		1,026,574	0.13	1,026,574	06/30/22
23.	Alpine Associates Management Inc	ALPINE ASSOCIATES MANAGEMENT I...	13F		807,000	0.11	807,000	06/30/22

Click here to sort, and you can see hedge fund firms among those reporting the biggest increases in positions.

Fig. 3 To delve into holders of Twitter's debt, click the Issuer Debt tab or run **{TWTR US <Equity> AGGD <GO>}**.

TWTR US Equity | 25) Export | Settings | Security Ownership

TWITTER INC CUSIP 90184L10

1) Current | 2) Historical | 3) Matrix | 4) Ownership Summary | 5) Insider Transactions | 6) Options | 7) Issuer Debt

Issuer Name: Twitter Inc

Debt Inclusion: Parent Company and all subsidiaries

Asset Classes: Corps(7) Govts(0) Pfds(0) Loans(0) Munis(0) Issue Currency

Coupon: All Maturity: All Maturity Type: All

Assets Held 7 Total Debt 5.99BLN % Out 47.74 Holders 309 Currency USD Investment Mgr View

Edit Columns

	Holder Name	Count	Source	Held Amount	Position	% Out	Latest Chg	% Chg
1.	Bank of America Corp	2	13F	105,098,000	105,098	1.76	92,511	734.9
2.	Soros Fund Management LLC	1	13F	90,000,000	90,000	1.50	90,000	100.0
3.	All Debt (1)							
5.	TWTR 0 03/15/26		13F	90,000,000	90,000	6.26	90,000	100.0
5.	HBK Investments LP	1	13F	75,812,000	75,812	1.27	75,812	100.0
6.	BNP Paribas SA	2	ULT-AGG	107,423,000	107,423	1.79	66,702	163.8
7.	Highbridge Capital Management LLC	1	13F	57,750,000	57,750	0.96	57,750	100.0
8.	DE Shaw & Co Inc	2	13F	71,110,000	71,110	1.19	49,000	221.6
9.	Aequim Alternative Investments LP	2	13F	123,000,000	123,000	2.05	47,175	62.2
10.	III Capital Management	2	13F	45,568,000	45,568	0.76	45,568	100.0
11.	Opti Capital Management LP	1	13F	48,000,000	48,000	0.80	45,500	1820.0
12.	FMR LLC	4	ULT-AGG	72,888,984	72,889	1.22	36,286	99.1
13.	Banque Lombard Odier & Cie SA	2	ULT-AGG	65,000,000	65,000	1.09	36,093	124.8
14.	Aegon NV	2	ULT-AGG	41,445,000	41,445	0.69	35,554	603.5
15.	Polar Capital Partners Ltd	1	ULT-AGG	34,500,000	34,500	0.58	34,466	101370
16.	Hudson Bay Capital Management LP	2	13F	47,893,000	47,893	0.80	33,236	226.7

Click here to add a column showing the latest change in holdings.

Here, Soros Fund Management reported a holding of the company's 2026 convertible notes.

go directly to the page by running **{TWTR US <Equity> HDS <GO>}**.) To see which investors had bulked up on Twitter shares, click on the Latest Chg column heading to sort from high to low (**FIG. 2**). Doing that as of the end of October showed a number of hedge funds at or near the top of the list. Naples, Florida-based Pentwater Capital Management LP reported adding 18 million shares in its second-quarter filing, while Hong Kong-based Segantii Capital Management Ltd. bought 7.3 million shares in the period.

How about debt? Click on the Issuer Debt tab to see who's been picking up Twitter bonds. (You can also see this page by running **{TWTR US <Equity> AGGD <GO>}**.) To add columns showing the percentage change in position and the latest change in position, click on the Edit Columns button and tick the boxes for % Chg Pos and Latest Chg Position. Hit Add and then Save Settings. Click on the Latest Chg column to sort from high to low (**FIG. 3**). Here, you can see that Soros Fund Management LLC reported taking a position in Twitter's 2026 convertible notes. ●

Cochran is on the ownership data team at Bloomberg in Princeton, New Jersey.

Use These Collaboration Tools To Help Optimize Team Workflows

By MARC KATCHAY, ALESSIA DIGENNARO and REANNA NOTARANTONIO

COLLABORATION IS ONE OF the cornerstones of financial markets. Yet effectively sharing key information with teammates can be a challenge for a busy market professional. The same goes for staying up to date with insights provided by colleagues.

To help, Bloomberg provides compliance-friendly collaboration tools. Use the {NOTE <GO>} function to create custom notes, upload files or Excel templates and share them with teammates. The platform enables you to tag securities to a note so key information can be found on other analytics throughout the terminal when your teammates load relevant securities. What's more, {NOTE <GO>} stores your work in an automatically saved platform. (For information about Bloomberg Vault, an integrated compliance and surveillance solution designed to help global financial services firms meet regulatory obligations and business standards, go to {BVLT <GO>}.)

Here's an example of how it works.

Let's say you've created an Excel template that uses BQL formulas to capture key data for a specified issuer—in this case, Ford Motor Co. You can upload the spreadsheet into the {NOTE <GO>} function, tag it to Ford and share it with your team. That way, they'll have access to it when they look at, say, a Ford bond in a terminal function such as Yield & Spread Analysis (YAS).

To begin, open the Excel sheet. Click on the Bloomberg tab. On the Bloomberg ribbon, click on Create New Note (**FIG. 1**). A Publish Note panel will open on the right-hand side of the sheet. Use the Share With drop-down to specify one or more communities you want to share the note with.

(Quick background about communities: To create or manage groups of users you want to share with, go to {CMTY <GO>}. You can create a community by entering names of members individually or from a SPDL list or, if you are the administrator of a persistent chat in Instant Bloomberg (IB), from the chat's membership.)

Give the note a title. Under Optional, you can tag the note to one or more tickers. To tag this note to Ford, type "F US" in the Primary Ticker cell and click on the match. In the Additional Tickers cell you can add other securities. You can also add custom tags, people, authors, a summary for the note and any additional attachments. Click Upload and then hit Upload in the preview that appears. A Publishing Progress window will appear. When uploading is done, you can hit Close. Simple.

NOW THAT YOU'VE uploaded your Excel template, how can you see it on the terminal? First off, simply go to {NOTE <GO>}.

Alternatively, you could load Ford's ticker by typing "Ford" in the command line and clicking on the F US Equity match. To display all notes related to the loaded ticker, run {NOTM <GO>}.

To open the note you created, click on its title. At the top of the note, you'll see the tickers the note is tagged to. In the upper right, the community it's shared with is displayed. The number of tags and attachments is shown below that. The note here displays a PDF of the spreadsheet you uploaded. You can open a copy of the spreadsheet itself by clicking on the attachment paper clip and selecting the file with the Excel file extension.

How is the note distributed across the terminal? Run {BQ195997 <Corp> DES <GO>}, for example, for a description of a Ford Motor Credit bond that pays a 3.625% coupon and matures in 2031. In the upper center of the screen, a Notes icon will appear white if you have notes associated with the security. A yellow icon indicates that notes have been shared with you that you haven't yet looked at. Click on Notes and a pop-out window will appear showing your notes (**FIG. 2**).

In your worksheets, you can add a column that displays the note icon. Run {W <GO>} and open a worksheet. Right-click on a

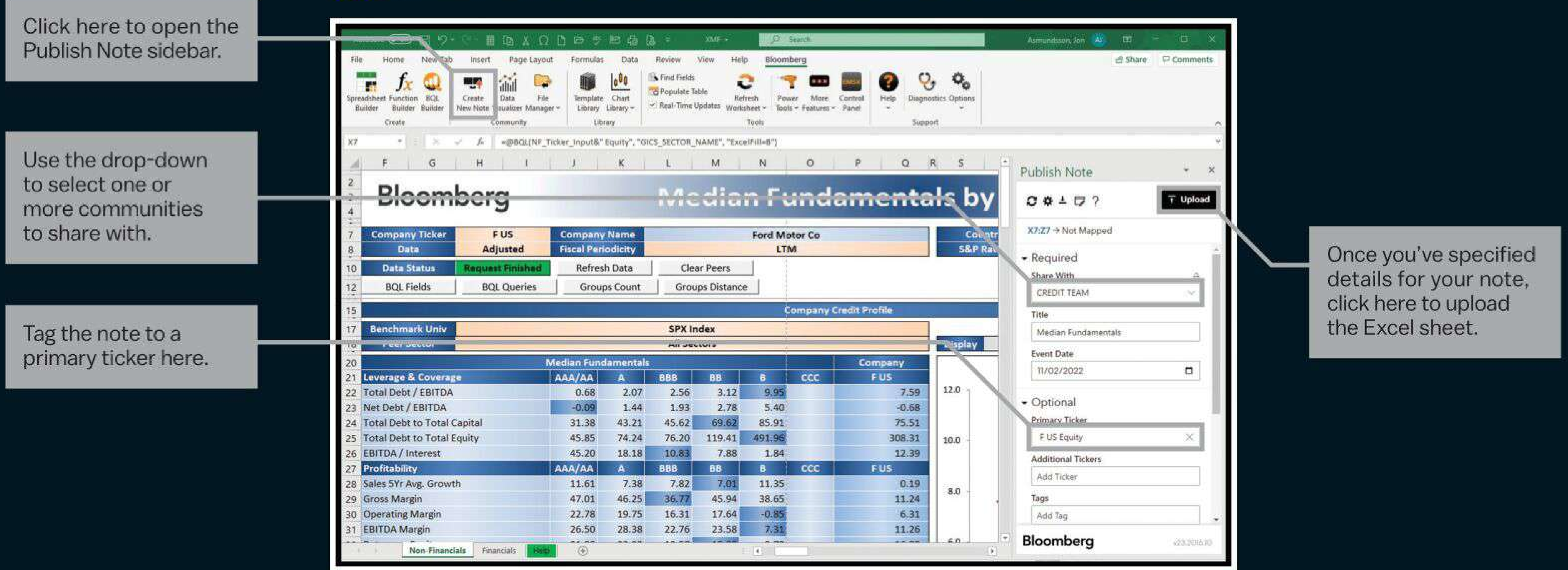


Fig. 1 To upload your Excel template, click the Bloomberg tab to display the Bloomberg ribbon.

Fig. 2 Your team can then find your analysis in the context of their workflow—for instance, looking at the description page for a Ford Motor Credit bond.

column heading and select Insert Column. In the amber Search for Fields box, type “Note” and click on Note under Indicator Matches. Now, if you have the Ford bond loaded in the worksheet, the indicator will appear showing you have notes related to the instrument. Click the icon and a window with the note will appear.

HOW CAN YOU SHARE financial information from the terminal with notes? Consider this workflow: Run **{F US <Equity> NIA <GO>}** to perform interactive issuer curve analysis for Ford. Click the Export icon, select Snip Any Area and Attach to New Note. Then snip a picture of your chart. Keep your note open and run **{DDIS <GO>}** to understand how Ford is managing liabilities. Use the screen clipping tool in the note to grab a picture of DDIS. Do the same when you run **{ANR <GO>}** to see current analyst recommendations to validate your investment thesis, and load **{SPX <Index> WATC <GO>}** to see how the company compares to peers.

Once all your snapshots are imported, this note will also be tagged to the security and you can share it with your team.

Bloomberg's Notes function enables you to distribute important market-moving information across your team. And notes remain stored within the terminal, so you can retain access to them until you decide to delete them. If you didn't know where to store your files or created templates, now you do. Just run **{NOTE <GO>}**. ●
——*With Steven Gee*

Katchay is a global product manager in collaboration products, and DiGennaro and Notarantonio are fixed income advanced specialists at Bloomberg in New York.

Examine Companies' Exposure to Vendors With New Analytics And Data

By PETER MALONEY

ASSESSING SUPPLY CHAIN risks has been a challenge in recent years. Some investors have appeared caught off guard by corporate chief financial officers pointing to supply chains to explain disappointing revenues, plant curtailment costs and increased material expenses.

Indeed, many global corporations have for decades sourced critical components from whatever supplier had the most attractive prices and lowest shipping costs. Compounding production concerns is a risk that intellectual property will be stolen, potentially undermining companies' future performance. Such trends have even raised national security issues.

And consider how supply chain problems can play out for consumers. In 2021, for example, some car buyers were shocked to discover that they could take delivery of their new BMWs, but only if they didn't mind having their dashboard display screens installed later because of shortages of components from overseas.

In the US, some people prefer buying brands—or investing in companies—that are domiciled at home or in "friendly" nations. The harsh reality is that even those products and companies often depend on factories overseas, exposing them to geopolitical risks.

NOW YOU CAN FIND and manage such exposures to supply chain risks by using newly enhanced analytics and data on the Supply Chain Analysis function. Type "supply chain" in the command line of a Bloomberg screen and click on the SPLC match. The shortcut is **{SPLC <GO>}**. Click on the yellow Upgrade Now button if you haven't done so already. SPLC has added new data sets that let you explore manufacturing facilities by actual geotagged location.

Type "BMW" in the ticker field and select the BMW GY Equity match to load BMW AG, for example. Click on the Table view and then on the Geo-Exposure tab. Here you can see potential risks to BMW's output. More than 16% of BMW's suppliers' facilities are located in China. If components made by those suppliers are what BMW needs to make a complete product, investors may want to consider that.

Drilling down further, you can now find suppliers by industry classification. Click on China (**FIG. 1**). Among BMW's technology hardware suppliers is Jiangxi Firstar Panel Technology Co.

SPLC now lets you dig into a company's environmental, social and governance risks as well. Consider Honeywell International Inc., a Charlotte, North Carolina-based maker of aerospace products and building controls. Type "Honeywell" in the ticker field and click on the HON US Equity match. Click on the ESG tab (**FIG. 2**). The tab displays ESG scores and greenhouse gas emissions data, letting you dig into whether the company's suppliers comply with your ESG profile.

Then there's geopolitical risk. You can now use that lens to look at potential risks of sanctions, military action or political strife.

Take a look at Pittsburgh-based Howmet Aerospace Inc., which makes jet engine components at facilities around the world. Type "Howmet" in the ticker field and click on the HWM US Equity match. Hit the Geo-Exposure tab. Howmet's largest vendor exposure after US suppliers is to those with facilities in Russia (**FIG. 3**).

To see Howmet's Russia vendors, click on Russian Federation. The two companies that appear here, United Co. Rusal International PJSC and VSMPO-AVISMA Corp. PJSC, are both subject to sanctions. Bloomberg now clearly flags any entities and financial instruments that it understands to be impacted by sanctions. Go to **{486 HK <Equity> DES <GO>}** for a description page of Moscow-based and Hong Kong-traded aluminum giant Rusal, for example. For a consolidated list of entities impacted by sanctions, go to **{SANC <GO>}**.

Who might care about a company's dependence on Russian facilities run by sanctioned companies? In Howmet's case, the answer is many—including the US government. Howmet is a contractor on $23.5 million of defense and other federal programs. Run **{HWM US <Equity> BGS <GO>}** to surface these exposures. BGS enables you to drill down to the actual contracts for specific details.

In the US, there has been plenty of discussion of supply chain exposure to foreign facilities. In August, President Joe Biden signed the CHIPS and Science Act to help bring semiconductor production back to the US. Yet, with onshoring efforts that will likely take years, dependence on foreign facilities will remain a risk that demands attention.

SPLC's enhancements can help you assess a company's geopolitical and ESG exposures. What's more, your organization can also arrange to integrate these and other data feeds from Bloomberg into your own enterprise solutions. ●

Maloney is a federal markets specialist at Bloomberg in New York.

Fig. 1 To analyze BMW's supply chain, run **{BMW GY <Equity> SPLC <GO>}**.

	Company Name	Industry	Domicile	Fac in CN	Total Fac	% Fac in CN	Total Relationship Size (M)
1)	Bayerische Motoren Wer...	Automotive	GERMANY	4	39	10.26%	--
2)	Miracle Automation Engi...	Machinery	CHINA	18	18	100.00%	--
3)	China Shipbuilding Indu...	Machinery	CHINA	39	39	100.00%	[illegible]
4)	Ningbo Huaxiang Electro...	Automotive	CHINA	26	26	100.00%	--
5)	Jiangxi Firstar Panel Te...	Technology Hardw...	CHINA	6	6	100.00%	0.28
6)	Beijing Shougang Co Ltd	Steel	CHINA	5	5	100.00%	--
7)	Shuangliang Eco-Energy...	Electrical Equipme...	CHINA	4	4	100.00%	--
8)	Lingyun Industrial Corp ...	Automotive	CHINA	29	29	100.00%	--
9)	Fuxin Dare Automotive ...	Automotive	CHINA	7	7	100.00%	--
10)	Changchun Faway Auto...	Automotive	CHINA	14	14	100.00%	--
11)	Xiamen Xindeco Ltd	Wholesale - Discre...	CHINA	12	12	100.00%	--
12)	000708 CH Equity	Steel	CHINA	16	16	100.00%	--
13)	000709 CH Equity	Steel	CHINA	13	13	100.00%	--
14)	Bengang Steel Plates Co...	Steel	CHINA	4	4	100.00%	--
15)	Shenzhen Maxonic Auto...	Machinery	CHINA	22	22	100.00%	--
16)	Tianjin Pengling Group ...	Automotive	CHINA	5	5	100.00%	--
17)	Jilin Liyuan Precision M...	Industrial Interme...	CHINA	2	2	100.00%	--
18)	Guilin Fuda Co Ltd	Automotive	CHINA	3	3	100.00%	--
19)	Jiangsu Pacific Precisio...	Machinery	CHINA	4	4	100.00%	--

Fig. 2 To dig into Honeywell's ESG risks, for example, go to **{HON US <Equity> SPLC <GO>}**.

	Company Name	Industry	Domicile	BBG Envtl Score	Sustainalytics ESG Risk	MSCI ESG Rtg	GHG 1+2 Intensity	Relationship Size (M)
1)	Honeywell Intern...	Diversified...	UNITED ST...	75.00	29.13	AA	73.06	--
2)	Amphenol Corp	Electrical E...	UNITED ST...	74.20	21.35	BBB	43.57	[illegible]
3)	Kawasaki Heavy ...	Diversified...	JAPAN	40.00	39.48	AA	41.45	[illegible]
4)	Parker-Hannifin ...	Diversified...	UNITED ST...	37.50	29.20	BBB	57.76	[illegible]
5)	Honeywell Autom...	Electrical E...	INDIA	28.90	37.89		49.64	[illegible]
6)	TTM Technologie...	Technology...	UNITED ST...	--	8.03	BBB	194.73	[illegible]
7)	Celestica Inc	Technology...	CANADA	70.00	9.36	BBB	14.10	[illegible]
8)	STX US Equity	Technology...	UNITED ST...	73.10	13.54	A	34.20	[illegible]
9)	Woodward Inc	Aerospace ...	UNITED ST...	64.50	31.11	BBB	51.14	[illegible]
10)	AGC Inc	Constructio...	JAPAN	55.00	22.18	BBB	891.03	[illegible]
11)	Triumph Group I...	Aerospace ...	UNITED ST...	40.00	45.23	A	38.22	[illegible]
12)	Microchip Techno...	Semicondu...	UNITED ST...	75.20	30.98	BBB	106.21	36.67
13)	229640 KS Equity	Electrical E...	SOUTH KO...	--	--	--	54.33	35.19
14)	Aerospace Indus...	Aerospace ...	TAIWAN	--	--	--	113.07	32.41
15)	MTU Aero Engine...	Aerospace ...	GERMANY	95.00	27.80	AA	12.25	32.19
16)	Oracle Corp	Software	UNITED ST...	86.60	13.97	BBB	15.49	28.89
17)	Vishay Intertech...	Semicondu...	UNITED ST...	0.00	21.13	BB	200.06	24.53
18)	VAT Group AG	Industrial I...	SWITZERL...	18.80	31.43	AA	67.09	19.70
19)	CTS Corp	Technology...	UNITED ST...	--	11.20	A	78.28	18.31
20)	Shennan Circuits...	Technology...	CHINA	--	21.59	CCC	144.11	17.25
21)	Sinbon Electronic...	Technology...	TAIWAN	--	23.08	A	30.48	14.26
22)	HRX CN Equity	Aerospace ...	CANADA	--	--	--	109.38	13.26
23)	Benchmark Elect...	Technology...	UNITED ST...	--	10.31	A	37.61	13.24

Fig. 3 Run **{HWM US <Equity> SPLC <GO>}** to analyze suppliers of jet engine component maker Howmet Aerospace and hit the Geo-Exposure tab again.

Country/Region	Company Facilities	% Facilities	Supplier Facilities	% Supplier Facilities
Total	89	100.00%	641	100.00%
United States of America »	44	49.44%	446	69.58%
Russian Federation »	0	0.00%	32	4.99%
Canada »	3	3.37%	26	4.06%
United Kingdom »	9	10.11%	19	2.96%
China »	3	3.37%	14	2.18%
Germany »	5	5.62%	14	2.18%
Brazil »	0	0.00%	10	1.56%
Australia »	3	3.37%	9	1.40%
Spain »	0	0.00%	7	1.09%
Mexico »	3	3.37%	6	0.94%
France »	9	10.11%	5	0.78%
Belgium »	0	0.00%	4	0.62%
Switzerland »	0	0.00%	4	0.62%
Ukraine »	0	0.00%	4	0.62%
Guinea »	0	0.00%	3	0.47%
India »	0	0.00%	3	0.47%
Italy »	0	0.00%	3	0.47%
Singapore »	1	1.12%	3	0.47%

The Last of the Meme-Stock Holdouts

By BAILEY LIPSCHULTZ

IT'S BEEN A ROUGH YEAR: Global markets have lost trillions of dollars in value, and consumers are being pinched by inflation. In the face of it all, some meme-stock die-hards remain undeterred.

Individuals who bought GameStop Corp. early in the frenzy are still sitting on massive paper returns that outshine those of other speculative investments. Since the end of 2020, the video game retailer's stock was up 501% as of Oct. 31, compared with the 3% rise for the benchmark S&P 500 and the 26% drop in a basket of 37 meme stocks tracked by Bloomberg.

These retail traders have embraced the motto "HODL," or "hold on for dear life," in a bet that the stock will see another surge even as Wall Street professionals remain skeptical, forecasting pain on the horizon. Three of the four analysts who track GameStop recommend clients sell shares—an unusually high percentage given that sell ratings generally make up less than 6% of all ratings. One particularly vocal critic is Michael Pachter at Wedbush Securities Inc., who notes that the company posted its first fiscal fourth-quarter loss in 2021. "Fundamentally, GameStop remains a mess," he says.

Still, shareholders whom Pachter calls "Reddit Raiders" continue to crowd chatrooms and other social media platforms to discuss the potential windfall coming from their investment. Hundreds of thousands of accounts participate in Reddit threads dedicated to celebrating GameStop, while investment theories are featured in various Discord chats rife with spam, lewd memes and emoji.

Skepticism is either ignored or derided as "FUD," an acronym for "fear, uncertainty and doubt," or with a clown emoji. Attempts to interview dozens of online investors were met with distrust of the media that even spurred a Reddit thread of its own.

Many of the online accounts supporting GameStop say they're in the stock because of Ryan Cohen, the founder of pet retailer Chewy Inc. who's GameStop's chairman and largest shareholder. The entrepreneur became an idol to amateur investors after he gained a seat on the board in January 2021. His iconic appeal was cemented by his tweets hitting back at critics, including a poop emoji with an image of a Blockbuster store (in response to comparisons of GameStop to the largely defunct movie rental franchise) and an apparent screenshot from a Pets.com television ad (a nod to those who compared Chewy to the failed pet goods retailer).

"I support Ryan Cohen, and I support what he's done with GameStop," says one man who would identify himself only as Daniel W., adding that he's a 41-year-old New Yorker and that the largest position in his personal portfolio is GameStop. "Once I learned who he was and his past successes, it made me believe that he has the potential to be successful again."

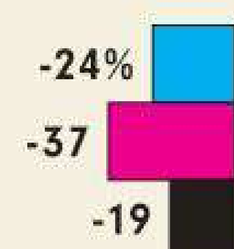
GameStop Stock Performance Versus Benchmarks

Change in share price or index value

GameStop | Meme-stock index | S&P 500

Dec. 31, 2020, through Oct. 29, 2021

Dec. 31, 2021, through Oct. 31, 2022



Sources: {GME US <Equity> HP <GO>}, {.MEME3 F <Index> HP <GO>}, {SPX <Index> HP <GO>}

The retailer was in deep trouble before Cohen and the band of individual investors came to the rescue. Video gamers had been downloading new titles instead of visiting stores, and GameStop's investors weren't sure how it could support its more than $1 billion in debt and lease liabilities. Hedge funds were borrowing the stock heavily to sell it short, hoping to profit from its swoon.

Cohen set about hiring employees from Amazon.com Inc. to help with a new focus on digital sales. Frenzied stock purchases by retail traders helped fuel a short squeeze, forcing hedge funds to capitulate and buy the stock themselves at a loss. The rise in the stock price helped GameStop raise $1.67 billion from share sales, which it used to nearly wipe out its debt and invest in a marketplace for nonfungible tokens (NFTs) for gamers. That digital strategy has come at a cost: The company has lost more than $600 million since early 2021, and analysts expect the losses to continue in the coming quarters. Pachter, whose $6 price target is one of the lowest on Wall Street, says Cohen is spending too much on NFTs.

"The guy is the pied piper of retail—he's not the Warren Buffett of retail," he says. "I cannot explain the phenomenon of the cult of Ryan Cohen, because he's not doing anything with GameStop."

Cohen, who declined to comment for this story, has burned investors before. He disclosed a stake in Bed Bath & Beyond Inc. in March, triggering a buying frenzy, only to set off a stock plunge when he dumped it entirely in August and pocketed a $68.1 million profit.

"There's an Oz-like quality to him," says Peter Atwater, an adjunct professor of economics at William & Mary, a university in Williamsburg, Virginia. "Those mystics have an aura and an appeal all to themselves, because you can create whatever fantasy story you want to support that appeal."

Since the start of 2021, individual investors have purchased over $768 million worth of GameStop, more than eight times the amount they bought in the three years prior, according to data compiled by Vanda Research. The bulk of the initial gains has been wiped out, erasing more than $16 billion in market value from a January 2021 peak.

"I don't want to sell," says Daniel. "There's no fear on my end to hold through the storm that we're in or that's coming. I'm going to hold as long as I can financially hold."

That sums up the mentality of the remaining investors who clutch the stock with their diamond hands and us-versus-them ethos: You can only lose money on an investment if you sell it. ●

Lipschultz covers equity markets for Bloomberg News in New York.

Morgan Stanley's Mike Wilson Swings At the Fat Pitch

By SONALI BASAK

PHOTOGRAPHS BY ADRIENNE GRUNWALD

YOU COULD SAY THAT 2022 was Mike Wilson's year. The 33-year Morgan Stanley veteran predicted the biggest drop in the S&P 500 among his peers, even before the war broke out in Ukraine and when almost every rival US equity strategist was expecting the opposite. But Wilson, who's also the New York-based company's chief investment officer, hasn't been right every year since he became chief US equity strategist in 2017. He spoke with *Bloomberg Markets* in late October about his career, the cost of being wrong and the importance of taking personal risk. Days later he was early among strategists to forecast a policy pivot by the US Federal Reserve. "If you're always part of consensus, then it's really hard to stand out, and it's also hard to make a lot of money," says Wilson, 55. "So for whatever reason, we end up in that kind of lonely place, you know, table for one."

SONALI BASAK: I figured we'd start at the beginning. How did you end up on Wall Street?

MIKE WILSON: My mom was a financial adviser, single-parent family. I learned a lot from her when I was younger. She said, "Pick a stock, you'll get into it." I was 13 years old. What do you think I picked in 1980? Nike. Which turned out to be an insane investment. And I can say to this day, I haven't had an investment that was that good, percentagewise. So, you know, I was hooked, right? Went to college and then got into the business and never looked back.

SB: Did you start as a stock picker?

MW: Nope. I got into the business as an investment banker, which was not that exciting. There's no market action. For me it was always about the markets. I spent four years in investment banking, and then went back to business school and came back in sales and trading—and spent pretty much 10 to 15 years doing sales and trading. A lot of different roles. I traded, I did sales, content creation, and then that morphed into being the CIO for wealth, which is a big jump. And then I had to learn fixed income, learn all the asset allocation, and then the last five years I've been US equity strategist. So, yeah, it's been a very diverse career. Which is why I've stayed in one place, because I've been able to do basically 10 different jobs over 30 years.

SB: You got the CIO role in 2012. You said it was a big jump. How did you even make the jump?

MW: You figure it out, you know? I was always self-sufficient, because my mom was always like, "Figure it out." And I would say Morgan Stanley is kind of a place where they give you a lot of rope, and you figure it out.

SB: You picked your first stock at 13 years old. Did you keep trading? Did that add anything to how you view the markets now?

MW: Well, I'm probably less of a trader because of that. I do believe in kind of setting the course and then letting it play out. But that experience has nothing to do with how I think about markets today. Because today I'm thinking about fixed income, currencies, international markets. That's what the CIO role forced me to do—think more macro.

SB: You've said that wearing this dual hat, CIO and strategy, as well as having oversight of so much that goes into the wealth management distribution, makes you think differently than a lot of your rivals. How?

MW: I'm basically on the buy side and the sell side. I think most of my competitors on the sell side don't actually run money. We are running money, we're allocating to different asset classes, so I think it forces me to be more disciplined around risk-reward [decisions]. As a fiduciary you have to consider not just is there upside or downside, but what's the probability? I think that gives us more credibility with some clients, because they respect that we're in the game with them.

SB: It was really in 2017 when you made that big pivot in terms of seeing the bull market potentially eroding. Some years that was correct, some years that fell short. How did you stick with that longer-term macro view even though it took years to play out?

MW: We've flip-flopped a bunch in the last five years. One of the things that we take a lot of pride in is we don't get one way for too long. We get nabbed sometimes as being permabears, even though in '17 we were viewed as the most bullish on Wall Street. For whatever reason we end up being on one end of the spectrum or at ►

"Your clients want you to make them think, even if you're wrong"

the other, the most bullish or the most bearish. We tend to go to the place where people aren't, because that's where the fat pitch is, right? Doesn't always work—sometimes we're wrong—but we tend to go to the place where people aren't.

SB: What's the cost of being wrong?

MW: Well, in the case of my buy-side job, you lose money. And in the sell-side role, you lose clients' money, which is also not great. There's always a cost of being wrong, but I think there's a cost to always playing it safe, right? As a strategist to buy-side clients, it's hard to add value if you're just saying what everybody else is saying. Your clients want you to make them think, even if you're wrong. They want you to force them to think about what they're missing, potentially. I don't think the cost of being wrong in the sell side is as great as it is on the buy side.

SB: How would you rate yourself in terms of how often you've been right or wrong?

MW: I would say, like anybody, we get plenty of stuff wrong. So that's a B, B-plus, because we're never going to get everything right. No one's an A-plus. I would say, though, in our process, in our drive to get to the right answer, we're pretty tenacious, pretty exhaustive. I think that's why we do well with a lot of clients. They appreciate the process and the thoroughness. There, I give us an A. And then I think where I maybe get a C or C-plus is sometimes we're so ingrained in our work, and doing all this stuff, that we're not responding to the specific requests coming out. But it's a battle every day.

SB: You tend to be a contrarian. What makes you like that?

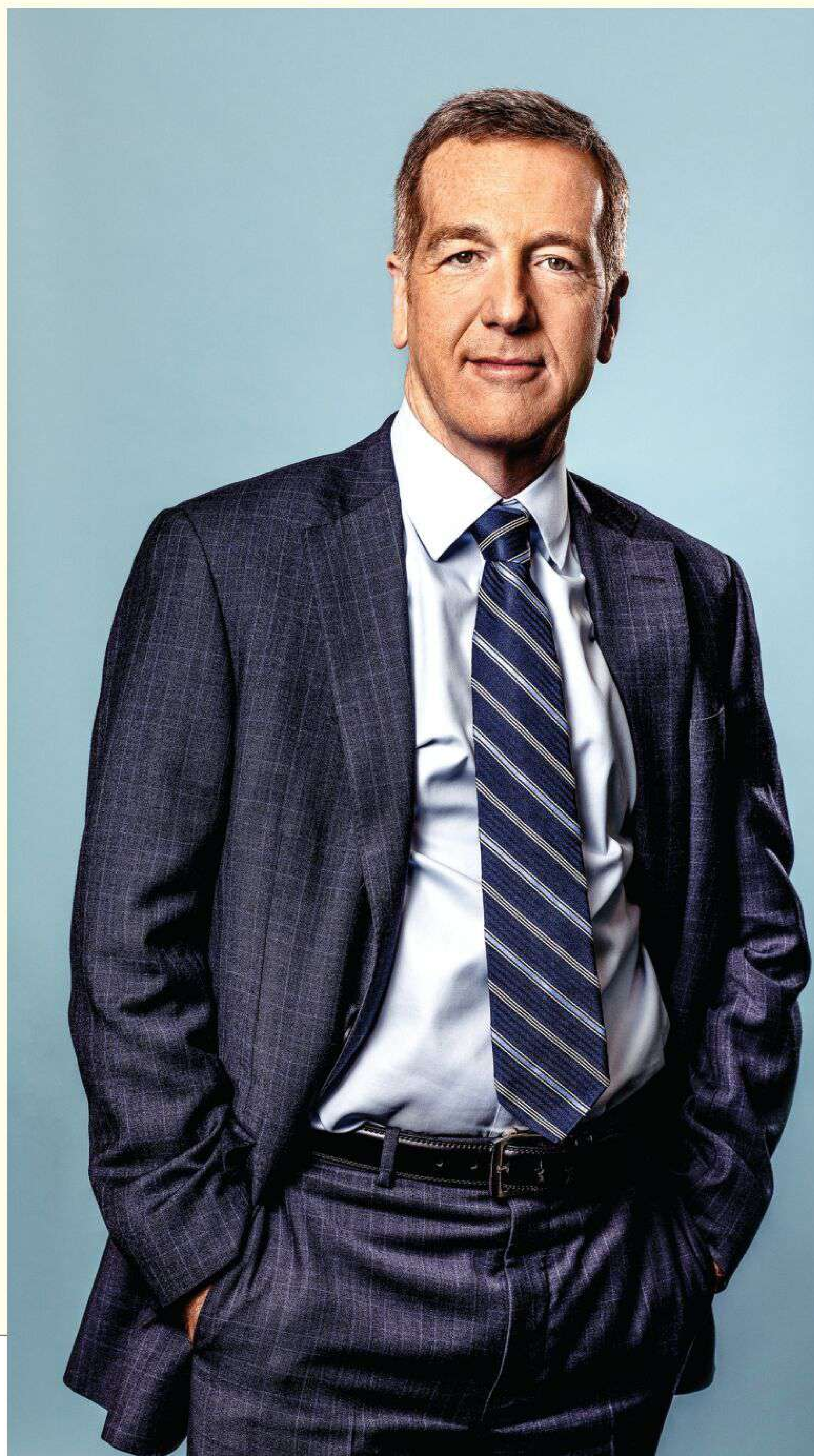
MW: It's a very uncomfortable position to be in, you know. It's not natural, as a human being, to say I want to sit over there in the corner, by myself, and maybe I can become popular again. I think it's just the way I grew up, being self-sufficient. I kind of kid around. I say, "Table for one," because when you have a table for one, you have to think for yourself.

SB: When you talk to colleagues and people you might be training, how do you teach them?

MW: I take a lot of time trying to mentor people, my own team and other younger people. And the way I express it to them is, "Don't be afraid to take personal risk." I say the same thing to my sons: "If you're not taking personal risk, you're not going to have any personal growth." I think social media, and this constant contact with everybody all the time, restricts people a little bit from being willing to put themselves out because everything's so public. You can't really operate without everybody kind of knowing what you're doing.

SB: How often do your clients challenge you?

MW: Oh, it's 24/7. But I love that, too. That's part of the fun of the job. You put yourself out there, and then you get a response. Sunday night is when I put my note out. Sundays are writing days, because you can't write during the week, and you clear your head. Sometimes it's two hours, sometimes it's six hours, whatever it is to get that note out. And then you wait to see what the reaction is. It's kind of an exhilarating time, particularly when you're changing a view. If



it's the same view, and you're just adding evidence to your ongoing view, it's a little different than when you actually pivot.

SB: What was the most alarming response?

MW: Most people are pretty pleasant. I mean, on Twitter the responses aren't so great, but I don't spend a lot of time there. But clients are totally respectful because we're working together. And so those responses are usually, "Do you have any more data around that?" What's startling to me is when somebody says, "That particular chart is totally wrong." Like, oh my God, we screwed it up. That's what bothers me, because then we did something wrong, which doesn't happen very often. But that's when I get most nervous, because then our process is broken down.

SB: What's been the most interesting debate?

MW: Our worst year in the last five was 2019. We had been correctly bearish in '18—the market really crapped out. And then the Fed pivoted in January of '19. And the whole first half of '19 we remained somewhat bearish, and the market went straight in our face. Those conversations were a bit more difficult, because there was somewhat of a tactical rally based on Fed pivoting. I probably got a little too dogmatic, and hopefully we've learned from that to some degree. But those kinds of debates are hard, where they're more technical in nature. I've learned from the past that these technical things can happen and you shouldn't just dig in on the fundamentals.

SB: What are you seeing that you think others are not? What do you look at?

MW: We deeply believe in patterns, both fundamental and technical. A lot of our calls in the last five years have been predicated on a view that this period is like other periods. Right now we think it's similar to the '40s, that this is sort of a demand-pull inflation and a cost-push inflation. And that really stems from our belief that cycle patterns repeat themselves. So we're market historians. When I see something in the market, I can say it looks like 1998, it looks like 1976 or looks like the 1940s.

SB: Are there certain data or indicators you look at that are more unique to you?

MW: When we're successful it's because we're able to contextualize the same data that other people were looking at, slice it differently. We look at the rate of change, second derivative of everything. People will say, "The jobs number's good." I'm like, "Yeah, but it's decelerating." You need to understand markets are always about the rate of change, the second derivative.

SB: How big is the team now? And how do you split up the work?

MW: We have a great team, five of us. We all have different skills. We have one woman who's a pure quant. We have another person who unfortunately had to work with me for 10 years straight, so we're similar, but he challenges me a lot of times. And we have another woman who's terrific, always talking to analysts within the department, looking for relationships in other parts of the department that maybe we're not seeing. And then we have another junior person who just came on board who's a data hound. I would say our personalities are all different, too, so it's a very diverse group in terms of our mindsets. It's a total democracy. Anybody can challenge me, and I obviously can challenge them. We're going to get challenged when we publish it anyway. You might as well have that debate before you publish.

SB: If your team were here and could describe you in one personality trait, what would that be?

MW: I think they would say that I'm very interactive. You know, I'm always engaging with the debate—with them, with myself, with the data, with clients. And it's very collegial. I think they would say that I'm kind of relentlessly in pursuit of the answer.

As soon as the market starts to deviate from what we think it should be doing, we immediately say, "OK, what are we missing?"

The equity risk premium this year, that's one thing we've gotten really wrong. We have the multiple totally right. But the mix on that has been wrong. I've been racking my brain for the last two months: Why is the equity risk premium so low? The market is never wrong, you're wrong. We've got to figure out why we're wrong.

SB: You came into 2022, before the war started, with the lowest estimate for the S&P 500 index. Why, and what was the reaction?

MW: We had actually taken that position even before yearend. Our year-ahead outlook, November of last year, was basically around this whole "fire and ice" narrative. Which is that inflation was not going away—that's the fire—and the Fed and central banks are going to have to tighten policy in an economy that was already slowing. So that's very unusual. Usually the Fed and central banks don't tighten in an economy that's already slowing. This combination is pretty toxic.

SB: Was that the biggest call you've had?

MW: It was the most visible. As a sell-sider you want to have a tag. "Fire and ice" was beautiful because people understand it. I'd say this has been probably our biggest, most successful call.

SB: Do you feel as if you've won?

MW: For today. I mean, you know, there's tomorrow. ●

—*With Lu Wang and Jessica Menton*

Basak covers finance for Bloomberg News, TV and Radio in New York.

By JEANETTE RODRIGUES and SUBHADIP SIRCAR

PHOTOGRAPHS BY ZISHAAN AKBAR LATIF

India's Free-

Cattle graze near a new development

Market Oasis

An overview of GIFT City's new buildings

A new metro will connect GIFT City to Gandhinagar and Ahmedabad

INDIA'S NEWEST FINANCIAL HUB is rising from scrubland near the banks of the Sabarmati River once dominated by marsh birds and grazing buffalo.

In the state of Gujarat, just a few glass-fronted towers greet the 20,000 employees of companies such as JPMorgan Chase & Co. and HSBC Holdings Plc who commute in each weekday. Its full name is Gujarat International Finance Tec-City, but it's more commonly known as GIFT City. It occupies 886 acres between Gujarat's capital, Gandhinagar, and Ahmedabad, its biggest city. As of October, bankers managed a combined $33 billion here.

What's drawing these companies? An exemption from the many rules and taxes that hamper business and trading in the rest of India. GIFT City is an experiment in free markets nestled inside a $3 trillion economy—one of the world's fastest-growing—that's long been reluctant to let its national currency, the rupee, become a plaything of international investors. The goal is to create a welcoming place where India-centric trading that's moved to Dubai, Mauritius or Singapore can return home.

At first, Gujarat seems an unlikely location. On India's west coast, it's the ninth-most populous state—and, as a mark of respect for Mahatma Gandhi, who was born in Gujarat, it bans the sale of alcohol, that lubricant for many a financial deal. Narendra Modi started planning GIFT City in 2008, when he was still the state's chief minister, and his ascension to prime minister in 2014 allowed him to give the project more policy help and a higher profile. In a July speech to bankers, regulators and executives from India and overseas, he proclaimed that "the vision of India's future is associated with GIFT City."

Modi's government has offered an array of incentives, including a 100% tax holiday for a decade to businesses that set up within the hub's International Financial Services Center, or IFSC. Rules are being tweaked to encourage Indian companies to lease ships and aircraft through GIFT City rather than on foreign shores. Foreign universities will eventually ►

be allowed to bypass regulations to open local campuses, and companies can use an international arbitration center to avoid India's notoriously poor contract enforcement mechanisms.

A key concern that the financial center seeks to address is India's lack of full convertibility of its currency. Converting money into foreign currencies requires cumbersome documentation, and that's pushed trading in rupees and rupee-denominated financial assets to offshore centers that Indian regulators can't monitor. But within GIFT City most of these rules don't apply, enabling onshore trading in key currency derivatives contracts, which can counteract some of the effects that offshore trades have on the rupee exchange rate.

Another product has migrated to the financial center: a popular derivative based on a benchmark gauge of Indian stocks that was traded on the Singapore Stock Exchange. In 2022 the National Stock Exchange of India opened a cross-border trading link with Singapore—similar to the Hong Kong-Shanghai connect—to allow global investors to trade stock derivatives listed on the Indian market without needing to set up shop in India.

A Garba celebration at the Karnavati Club during the nine-day festival of Navratri in Ahmedabad

Trading volumes have increased since a single regulator, the IFSC Authority, was created by the Indian government in 2020 to streamline approvals and oversight in the special economic zone. In October, average daily turnover on the two stock exchanges in the financial center climbed to $14.6 billion, from $3.4 billion two years before, cumulative derivative transactions by banks jumped to $466 billion, from $22 billion, and cumulative banking transactions rose to $303 billion, from $45 billion.

"Beyond the shores of India, in some of those centers where India-centric business developed, they are able to notice that something is happening, and things may not be the same in the future," says Injeti Srinivas, the IFSC Authority's chairman. "Business is gravitating toward IFSC."

A new international bullion exchange will let qualified jewelers directly import gold to India through GIFT City, a change from current rules permitting only some banks and nominated agencies approved by the central bank to do so. That loosening of restrictions is set to widen the importer base in India, the world's second-biggest consumer. An aircraft leasing and financing business is operating in GIFT City to tap into the demand of one of the world's hottest aviation markets for new-plane orders. Ship leasing will start soon.

In July, JPMorgan and Deutsche Bank AG started operations in GIFT City. JPMorgan will initially offer clients foreign exchange derivatives and wants to leverage its position as one of the largest suppliers of physical bullion in the country. Deutsche Bank aims to tap the rising number of companies in India that need cross-border banking services, ranging from hedging to financing. (In 2018, Bloomberg LP, the owner of *Bloomberg Markets*, entered into an agreement to provide capital markets expertise to GIFT City.)

"We think the GIFT City policy is a calibrated approach toward internationalization of the rupee," says Srinivasan Varadarajan, a managing director in global emerging markets at Deutsche Bank in Mumbai. "It is similar in some characteristics to what has been seen in Asia over the last decade."

Jaxay Shah, founder and managing director of property developer Savvy Infrastructure Pvt., is among the people betting on this growth. His company, which built the tower that houses Bank of America Corp. offices and the IFSCA's temporary headquarters, has purchased two nearby plots to double its holdings in GIFT City. "When else in my career would I get this kind of smart city, where there is an economic vision and no red tape?" Shah says.

GIFT City is the first in India to offer district cooling, an energy-efficient air conditioning system, as well as central waste, water and electricity management. Although it offers beautiful streets and boulevards and pristine sports centers, plus recent additions including a school and a hospital, workers tend to disappear in the evenings, taking electric buses to homes in nearby cities that have amenities such as cinemas and fast-food restaurants.

Some younger executives in Mumbai, Delhi and Gujarat, who asked not to be identified because they weren't authorized to comment, say they're often questioned on calls about whether alcohol will be permitted. Multiple policymakers and lawmakers told *Bloomberg Markets* that they expect authorities will provide yet another rule exemption—to allow licenses to buy and consume alcohol. The state government realizes it needs to amend its teetotaler requirements to attract residents and ensure the project's success, they say.

And that, in a nutshell, is the story of GIFT City: an oasis in which companies can escape India's rules and bureaucracy. An attempt to lure billions of dollars back to onshore markets. A "sandbox" in which fintechs can play with new products with seamless links to global systems. Perhaps even a vision for India's future. ●

Rodrigues is Bloomberg News' managing editor for South Asia, and Sircar covers FX/rates. Both are based in Mumbai.

Srinivas, chair of the International Financial Services Centre Authority (ISPCA)

Shah (left) with Sajal Kumar, his general manager, at their second Savvy Infrastructure tower

SWISS MESS

As Credit Suisse's new leaders race to repair its balance sheet and reputation, four episodes shed light on the deep roots of the damage

By MARION HALFTERMEYER, MYRIAM BALEZOU, HUGO MILLER and DONAL GRIFFIN

PHOTO ILLUSTRATION BY JILLIAN ADEL

For more than 160 years, Credit Suisse Group AG's stone-clad headquarters on Zurich's moneyed Paradeplatz has exuded power, stability and quiet wealth. Those days are over.

While the building's colonnaded facade is still a sight to behold, the operations inside are suffering deeply, and the bank's ability to bounce back hangs in the balance. Rocked by a steady drumbeat of scandals and management upheaval in recent years, the company that helped position Switzerland as a linchpin of international finance is losing billions of dollars. Key employees are leaving, and some clients have pulled out money. With the stock at record lows—down more than 90% since its peak—investors are angry.

A new leadership duo of Chairman Axel Lehmann and Chief Executive Officer Ulrich Körner is now pitching a return to Credit Suisse's Swiss roots as the best way forward. They are raising $4 billion, with some of it coming from Saudi Arabia, and culling 9,000 jobs. Most important, the company is carving out its investment banking operations to end a three-decade effort to compete on Wall Street.

Beyond capital and costs, a real recovery hinges on the bank's ability to overcome its past. While other companies have also had their share of scandals, what sets Credit Suisse apart is how often it dismissed the episodes as one-offs and quickly pivoted back to business as usual. It's one of the few banks that's in a weaker position today than when it emerged from the 2008 global financial crisis—notably without a state bailout.

Bloomberg Markets delved into four key episodes from Credit Suisse's history to show the underlying issues plaguing the bank. At each turn, the company had an opportunity to fix deficiencies but fell short, revealing a deep-seated hubris.

In buying First Boston, Credit Suisse took on a culture of risk-taking fueled by ambitious profit targets and the pursuit of big bonuses. That ethos spread within the private bank, helping pave the way for a costly fraud perpetrated by an inexperienced employee. Internal tensions erupted into boardroom spying, and a disregard for compliance and controls left the bank exposed to the collapse of a major trading client.

In response to queries from *Bloomberg Markets*, Credit Suisse said it has taken "significant measures" to "address the deficiencies identified over past years," and "will continue to evolve strong remedial actions, closely working with key regulators, while actively addressing legacy issues."

Together these episodes paint a picture of the complex challenges facing Körner and Lehmann as they try to restore the confidence of clients, investors and employees. It may be the bank's last chance to get it right.

I. TAKING ON WALL STREET

On a sweltering summer day in 1990, Archibald "Archie" Cox Jr. arrived at a hotel in Boston's Back Bay neighborhood ready to sketch out the collapse of an American financial powerhouse. The veteran Morgan Stanley banker had been recruited by Credit Suisse some months earlier to assess a Wall Street bank so intertwined with the city's history that it still carried its name: First Boston Corp.

In a meeting room in what was then the Ritz-Carlton hotel, Cox sat across the table from Rainer Gut, the chairman of Credit Suisse, which had held a large minority stake in First Boston since 1978. As problems mounted at its US partner, the Swiss bank was faced with rescuing it or letting it collapse.

The investment bank had embraced high-yield debt markets during the 1980s and lent billions of dollars to fund risky buyout transactions. The once-lucrative industry had imploded, and First Boston was stuck with bad loans.

As Cox scribbled down the most problematic deals on a legal pad, one loomed larger than others: a $457 million

PREVIOUS SPREAD, PHOTOS: BLOOMBERG (3); SHUTTERSTOCK (1)

loan for the leveraged buyout of Ohio Mattress Co.—an amount equivalent to about 40% of First Boston's equity capital at the time. The failed financing for about half of a $1 billion buyout would go down in Wall Street infamy as "the burning bed."

Cox and Gut saw an opening for Credit Suisse to take control of First Boston for a modest capital injection of $300 million and backstopping bad loans. The deal allowed the Zurich-based lender to leapfrog European rivals such as Deutsche Bank AG to become a global financial powerhouse with deep ties to Wall Street.

"I believe Credit Suisse did view it as an opportunity but one that came at a considerable cost," says Cox, who was installed as First Boston's CEO after the takeover.

Gut looked past the Ohio Mattress debacle and decided to bail out First Boston. Buoyed by fresh capital from its Swiss partner, the US bank took over the Cleveland-based bedding company and later sold it off.

"Burning bed became the poster child for a whole sorry episode in the annals of corporate finance, partly because of the headline-grabbing nickname," says Martin Fridson, chief investment officer at Lehmann Livian Fridson Advisors LLC, who worked in high-yield debt at Merrill Lynch & Co. at the time. "But it was by no means a unique phenomenon."

In the wake of the takeover, Credit Suisse embraced the same kinds of risky businesses—such as leveraged finance and mortgage-bond trading—that led to the burning bed deal. Subsequent leaders of the Swiss lender pushed through numerous overhauls, eventually dropping the once-proud First Boston name in 2006 in an attempt to create a singular identity at Credit Suisse, and integrated Wall Street staff with its more subdued army of private bankers.

The investment bank made a lot of money, contributing more than half of the company's revenue for years. But it also cost the bank billions of dollars in losses during the global financial crisis.

First Boston's issues "could have been sorted out, but they just didn't have the right people in place and the right discipline in place, and I suspect they still don't," says Cox, now 82, who stepped down in 1993.

Still, Credit Suisse survived the financial crisis by raising money from shareholders instead of taking a government rescue like peers including Swiss rival UBS Group AG. That fed Credit Suisse managers' confidence in their ability to control risk-taking in investment banking. And so, when post-crisis rules threatened the bank's profit goals by substantially raising the cost of some lucrative lending and trading businesses, Credit Suisse took an ax to expenses, which fell hardest on risk and compliance staff who were seen as less critical than fee-earning bankers.

The company's share price is now far lower than on that fateful day in 1990 when the First Boston takeover began to take shape. After two decades of trying to create a bank that could serve the world's billionaires and corporate giants, Credit Suisse is finally admitting defeat. And ironically, its way forward includes reviving the First Boston name, which is being bestowed on a smaller, separate investment bank that will likely be disposed of in a few years.

II. PRIVATE BANKING FRAUD

In December 2004, Patrice Lescaudron, a slight, soft-spoken Frenchman, walked into Credit Suisse's Geneva offices overlooking the Rhône river for his first day as a private banker. His starting salary was 160,000 Swiss francs ($140,000), modest by the standards of Geneva's bankers but not bad for a 41-year-old rookie. He'd been recruited mainly for his Russian-language skills, which he acquired in Moscow while working for cosmetics company Yves Rocher Group.

At the time, then-CEO Oswald Grübel was restructuring Credit Suisse to link more closely investment banking and wealth management. Commissions from taking care of rich people's money provided a more stable stream of revenue to balance out the roller coaster from dealmaking fees. Grübel was also expanding the private bank just as a burgeoning class of oligarchs emerged from the former Soviet sphere.

With no clients and no banking experience before joining Credit Suisse, Lescaudron initially spent as many as 10 months a year in Russia hustling for business. After a top manager on the Russia desk left, he found himself in the right place at the right time and inherited two clients who kept $1.6 billion of their assets with Credit Suisse. One was Bidzina Ivanishvili, a billionaire and former prime minister of Georgia. Overnight, the novice banker gained power and stature but also enormous pressure to perform.

Then the market turmoil of 2008 led to a huge plunge in investment portfolios. To dig his clients—and himself—out of the hole, Lescaudron started dipping into Ivanishvili's account without his knowledge, using the Georgian's money to try to win back losses for other clients.

The deceptions were shockingly simple. He cut out Ivanishvili's signature from a document, pasted it on trade orders and photocopied them, according to Lescaudron's own admission. Buoyed by his initial success at filling a $60 million hole, his scheme continued and grew.

There were red flags along the way. Lescaudron was given verbal warnings and written cautions by supervisors in 2008, 2011 and twice in 2013 for breaching the bank's compliance policies. Specifically, these infractions included making unapproved payments, disregarding know-your-customer guidelines and engaging in front-running ahead of client orders. And yet Credit Suisse failed to stop him.

He was finally caught in 2015 after a massive investment on a volatile pharmaceutical stock went sour. With tens of millions of dollars in margin calls suddenly due to cover the bad bet, Credit Suisse's lawyers demanded he explain his actions.

"It's one of the mysteries of life," Lescaudron said, and then told them he could have covered the money with more illicit activity but "had had enough." He was convicted of fraud in 2018 and took his own life in 2020.

The scandal is still playing out in courts from Bermuda to Singapore. The bank has so far been ordered to pay Ivanishvili more than $600 million in damages for Lescaudron's actions, ►

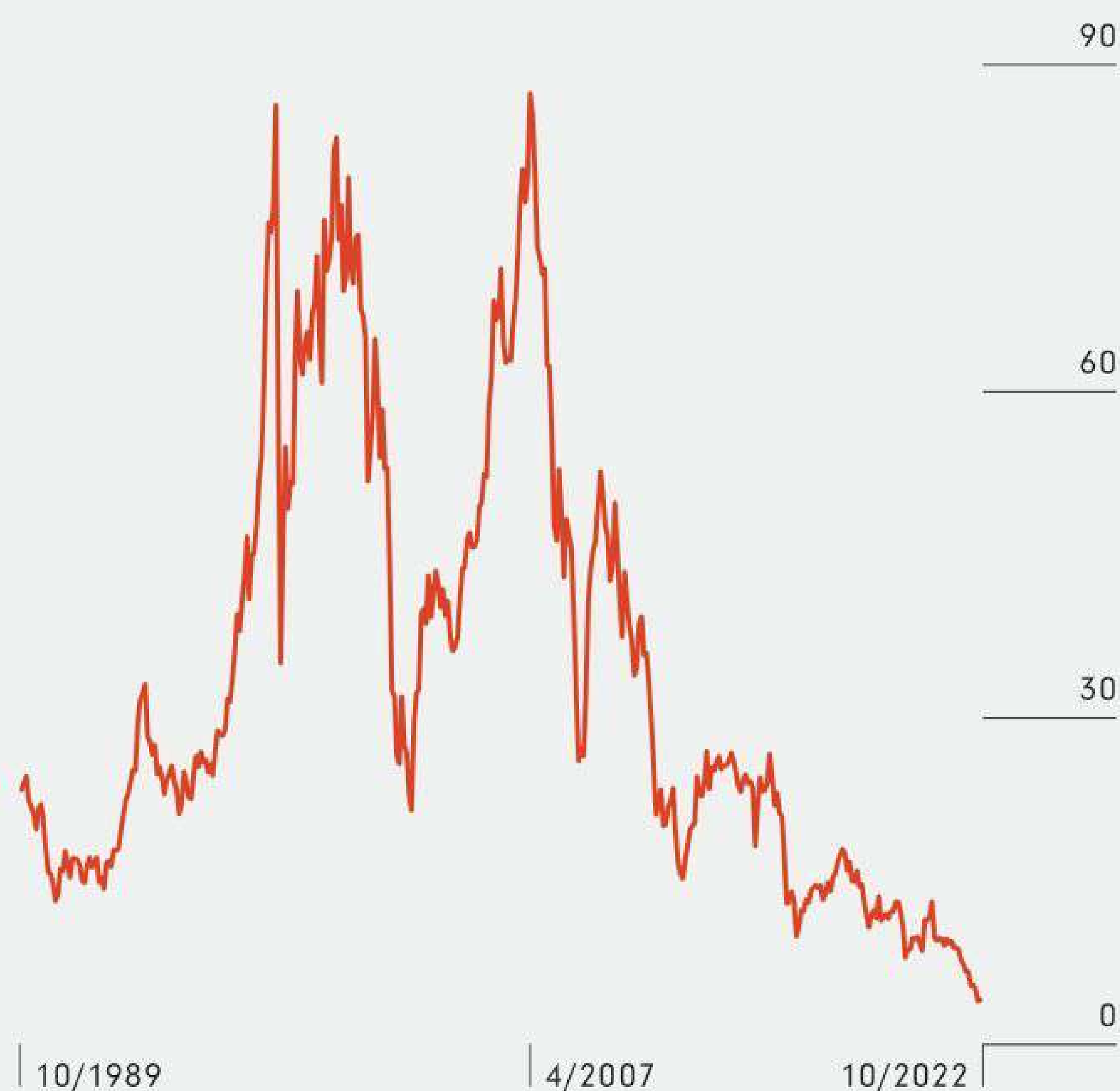
and the bill could rise to more than $1 billion, making him arguably the costliest hire in the bank's history.

Credit Suisse doesn't believe it's at fault and is appealing a verdict in Bermuda that awarded damages to Ivanishvili. The bank says Lescaudron was a lone wolf who hid his crimes. Half a dozen people close to the supervision of Lescaudron didn't respond to requests for comment.

But throughout the years, the bank had failed to adequately supervise other inexperienced staff, or to catch employees who were later dismissed as rogue actors. In 2020, a private banker for African clients forged documentation on an investment contract and was caught after a loss of about 10 million francs. In 2022, a Swiss court convicted Credit Suisse and a private banker of failing to prevent money laundering by an ex-wrestler-turned-cocaine-smuggler. The banker in that case—a former professional tennis player who was born in Bulgaria—was recruited in 2004 even though she had minimal credentials, much like Lescaudron. She and the bank are appealing the decision, which was the first criminal conviction for a major Swiss lender in the country's history.

As long as money was flowing, the bank indulged Lescaudron's bad behavior, according to an independent investigation into the fraud commissioned by Finma, the Swiss banking regulator. Relations with key clients and large sums of money contributed to a "lack of assertiveness on the part of superiors and inconsistent prosecution of misconduct," Finma's report said, though it stopped short of concluding that the bank knew of the fraud.

A Bermuda court similarly determined that the bank's local insurance unit turned a "blind eye" to Lescaudron's wrongdoing. Credit Suisse declined to comment on steps taken to avoid a repeat of such fraud.



III. EXECUTIVE SPYING

In January 2019, Iqbal Khan went to a dinner hosted by then-CEO Tidjane Thiam, who was both his boss and his neighbor in a wealthy suburb on Lake Zurich. Khan, who ran wealth management and had his sights set on one day leading Credit Suisse, made a disparaging remark about Thiam's garden. It was enough for a long-festering feud between the two men to break out into the open.

A few weeks later, Khan was passed over for promotion, and in July he quit the bank. When he later accepted a job at UBS, the move caused alarm in Credit Suisse's top ranks that he might poach key personnel.

Driving through Zurich with his wife in September, Khan noticed he was being followed. He stopped the car and took pictures of his pursuers with his mobile phone. That led to a physical altercation with one of the men trying to grab the device away. Police were called in, and the men were detained.

The lurid affair, which eventually included one of the suspects taking his own life, dragged Credit Suisse into the tabloids. The scandal shattered the company's reputation for discretion—the bedrock of Swiss banking—and exposed a culture in which personal vanities outweighed ethical and legal boundaries.

The blame for the surveillance was ultimately pinned on Chief Operating Officer Pierre-Olivier Bouée, who was allowed to resign at first and later "fired for cause." An investigation by the bank found that the longtime associate of Thiam's had used an encrypted messaging app to collude with Credit Suisse's head of security to hire private investigators to follow Khan. Thiam said he didn't know about the spying.

"The surveillance of Iqbal Khan was strictly an isolated event, and full accountability has been taken by the individuals concerned," Thiam said in an internal memo in October 2019. "Difficult questions about culture and ethical standards have been raised. The board moved swiftly to address these."

Although the bank rushed to dismiss the embarrassing incident, it was soon revealed that it wasn't unique. In February 2019, Credit Suisse had also hired a firm to track Peter Goerke, human resources chief and a member of the executive board at the time, for several days.

During this period, Thiam was struggling to implement a restructuring plan after the bank had lost billions of dollars on risky trades, which the French-Ivorian executive said he wasn't aware of. Meanwhile, investigators were uncovering the extent of Lescaudron's fraud, adding to the toxic mix. While Bouée also took the blame for the second spying episode, the distractions were too much for Thiam to shake off.

"We saw a deterioration in terms of trust, reputation and credibility among all our stakeholders," said Chairman Urs Rohner—himself blamed by some investors for the infighting—when announcing Thiam's exit in February 2020.

But it would get worse. As part of an investigation prompted by the Khan episode, the Swiss banking regulator uncovered five additional cases of surveillance from 2016 to 2019, all outside Switzerland and involving a mix of former employees and third parties.

"In most cases, decisions to carry out observations were taken informally and without comprehensible reasons being given," Finma said. Worse still, Credit Suisse's statements to the public and the regulator "subsequently proved to be partially incomplete or even inaccurate," the watchdog said in October 2021, reprimanding two individuals and opening enforcement proceedings against three others.

The bank said it had taken "decisive steps" to prohibit surveillance of employees unless there are compelling reasons such as threats to physical safety. It declined to comment on why it initially dismissed the spying on Khan as an isolated incident.

IV. A TRADING CLIENT BLOWS UP

On March 24, 2021, Credit Suisse's top trader, Paul Galietto, received some terrible news: The trading desk's biggest client wouldn't be able to pay the more than $2 billion it owed the next day.

Archegos Capital Management, the New York-based investment firm that managed billionaire Bill Hwang's personal fortune, had spent the previous two days settling up with other lenders after outsize bets went bad, and there wasn't enough left for Credit Suisse.

What ensued was like a slow-motion car crash, according to people who were there and asked not to be identified because they aren't authorized to speak publicly. Executives in New York, London and Zurich turned on one another as senior management sought to avoid blame for the vast losses.

Shell-shocked traders tasked with selling Archegos's collateral discovered it was a losing battle against rivals that were quicker off the block. On March 29, Goldman Sachs Group Inc. declared it had avoided a hit from the collapse. Credit Suisse, by contrast, was still in the process of surveying its damage.

Over the following Easter weekend, then-Chief Financial Officer David Mathers spent every waking minute calculating the cost, while then-CEO Thomas Gottstein determined which executives would take the fall.

It wasn't until April 6—nearly two weeks after learning of the pending default—that Credit Suisse was able to come up with an initial tally: $4.7 billion. The loss had more than doubled from the margin call as the value of Archegos's assets collapsed, and it would eventually grow to $5.5 billion, obliterating more than a year's worth of profit. It was the blow that tipped the bank into the existential tailspin it's grappling with today.

Executives were already under fire for failing to protect the bank and wealthy clients from the collapse of a $10 billion suite of funds it ran with now-disgraced financier Lex Greensill. The twin episodes shocked the finance world, but in hindsight they were decades in the making.

In the failure of Archegos, a lone risk manager had tried to warn his bosses for six months that Credit Suisse didn't have enough collateral to insulate itself from potential losses if the investor's strategy backfired. But the alarm was ignored, part of a trend of eroding controls.

Starting in 2012, the bank embarked on a drive to cut $4 billion in costs. Within a few years, risk managers were relocated to cheaper locations. A New York team moved to Raleigh, North Carolina; staffing transferred to Poland from more expensive European cities; and a global credit risk group was shifted to an outpost near Singapore's Changi Airport.

After Thiam became CEO in 2015, he embarked on a plan to split businesses regionally, limiting the risk team's ability to get a global view of the bank's exposure, according to people familiar with the operations who weren't authorized to comment.

In 2016 the bank conducted an internal review, dubbed Project Apple, into the reasons for a several hundred-million-dollar loss on a loan made to American Energy Partners LP only a few months before it went bankrupt. The evaluation concluded that risk managers lacked the resources and authority to perform their role of protecting the bank from deals that turned sour.

Meanwhile, regulators in the UK, Switzerland and the US had repeatedly warned Credit Suisse that its procedures weren't strong enough to handle a crisis, people with knowledge of the reports said.

Even as investigations highlighted deficiencies, the bank's leadership team—led by Rohner from 2011 until 2021—reduced spending on risk management to help meet profit goals, people with knowledge of the decisions said. From 2019—Thiam's last year as CEO—through to Archegos's default, about 40% of managing directors on the risk team left, most of them involuntarily.

The bank's complexity, culture and controls were to blame for the massive Archegos loss, according to an independent report into the collapse by law firm Paul, Weiss, Rifkind, Wharton & Garrison. Credit Suisse had a "lackadaisical attitude towards risk" and "failed at multiple junctures to take decisive and urgent action," the report concluded.

The bank responded to the report with a series of measures to fix the shortcomings and vowed to use the incident as a "turning point for its overall approach to risk management."

In March 2021, Gottstein declared that "serious lessons will be learned" from the Archegos debacle.

Credit Suisse's future now depends on reassuring investors, clients, regulators and employees that this time the bank won't just go back to business as usual. ●

Halftermeyer and Balezou report on Swiss banking from Zurich, Miller is a Geneva-based reporter and editor on the legal news team, and Griffin covers European finance from London.

Gary Gensler: 'Trust Is at the Base Of Financial Systems'

The Securities and Exchange Commission chair describes his philosophy of markets and regulation—and why he loves climbing mountains

By LYDIA BEYOUD

PHOTOGRAPHS BY GREG KAHN

G

Gary Gensler has positioned himself as one of the most consequential policymakers in American finance. He didn't start off as a regulator. The Baltimore native and self-described "markets person" spent 18 years at Goldman Sachs Group Inc., where he became a partner at 30 and led divisions including fixed income and currency trading in Asia. Gensler left to serve in senior roles in the US Department of the Treasury under President Bill Clinton, where he helped to pass a law that kept over-the-counter derivatives unregulated.

But in 2001, in the wake of corporate frauds such as those at WorldCom and Enron, Gensler went to work for Maryland Senator Paul Sarbanes on drafting the Sarbanes-Oxley Act to improve public-company accounting and disclosure. And after the 2008 financial crisis, he was nominated by President Barack Obama to reform the $400 trillion swaps market as chair of the Commodity Futures Trading Commission—regulating the very market he'd once helped keep free of regulation. Industry executives who negotiated with him at the time have described him as a formidable opponent and a deft Washington operative.

Now, in his less than two years as chair of the US Securities and Exchange Commission, Gensler has already set about making rules that would affect broker-dealers, retail traders, digital assets, private funds, corporate boards and the very plumbing of the Treasury and equities markets.

Gensler, 65, met with *Bloomberg Markets* in late October in a room atop the SEC's Washington headquarters with a view of the Capitol to talk about how he plans to summit the mountain of regulatory action he's built for himself. This interview was edited for clarity and length.

LYDIA BEYOUD: Competition seems to be at the center of your agenda. Is that how you would describe it?

GARY GENSLER: I've thought of finance as sitting at the middle of an hourglass. The two sides of the hourglass widen out, and there's a lot of sand—the sand is money and risk—and all finance at that center is the pricing and allocation of money and risk. It's about the middle of the markets. It's said that we have a three-part mission: investors on one side, issuers on another and that which is in the middle—the markets. A lot of what I focus on every day is how we can drive for greater efficiency and competition in the middle. That lowers the cost for investors; therefore investors also get better returns. And I think it lowers the cost for issuers on the other side, the people that are raising money to have their great ideas have a chance for success.

LB: What are the regulatory gaps you're addressing?

GG: Technology is so rapidly advancing. We've had, of course, the full digitalization of financial assets—and I'm not talking about cryptocurrencies. I'm talking about Treasury bonds, regular equity securities—it's all digital, and it's trading very quickly. Communications costs in the last several decades have come dramatically down, and we're interconnected across the globe.

We're in a significant transformational time around predictive data analytics and the use of data, artificial intelligence and machine learning. And we haven't updated many of our core rules around market structure, whether it's the US Treasury market, which is a $24 trillion to $25 trillion market. Or even a very quickly growing area, private funds, which in total—hedge funds, private equity—add up to about $21 trillion as of the end of last year. That's about to surpass the size of our entire commercial banking sector, which is just $23 trillion. So, recognizing the rapid change of technology, [we're] updating our basic rules of the road within the authorities Congress has given us and how the courts interpret them for the betterment of the American public.

LB: Are you saying the changes in technology are creating regulatory gaps you need to address, or do you want to somehow bolster securities regulation for the future?

GG: The nature of finance since antiquity tends toward centralization and concentration, because of the economic benefits of scale, of networks. And yes, the economic benefits of data tend toward centralization. And that was true of the Medicis in the 15th century. It was true of the person J.P. Morgan. It is even true now in crypto—you see centralization. So No. 1 is just how to do what Congress told us to do in our statutes: They made us a competition-focused agency in 1975, and in 1996 they amended our laws to say we had to focus on competition and efficiency.

So [we're] looking at how to use the tools of transparency and access and fair dealing and the like to effectuate that, to lower the cost in the middle. Two, I do think technology leads to gaps. One area, for instance, [is] robo-advising—an algorithm making decisions and recommendations, steering a customer one way or the other based upon data sourced from many inputs, including possibly our Fitbits, the telematics on our automobile and how we drive, our social media footprints. You have natural gaps and potentially inherent conflicts. What does it mean when an investment adviser has a fiduciary duty to put their customer's interest in front of their own, but the algorithms and the data that they're sourcing might steer them [to prioritize]

the robo-adviser's revenue rather than your well-being? So competition gaps as well. And I'd say thirdly, business models change. Nothing stands still.

LB: You mentioned that part of your goal is to make markets fair for the public. But we have a whole generation of Americans who are losing trust in the financial markets. There are millions of Americans who are struggling to buy food or medicine, much less save for retirement or participate in financial markets in a meaningful way. What concrete steps can the SEC take to both restore trust and support participation in the market?

GG: This is a really consequential and remarkable agency, but our remit is just overseeing the $100 trillion capital markets. I know that sounds big, but it's about protecting those investors and facilitating issuers raising money in the middle of the markets. We're not a merit regulator.

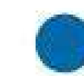
But in terms of trust—I do think that trust is at the base of financial systems, and those that work better for societies throughout history tend to have certain tenets to instill greater trust. And those that break down tend to have less. Transparency is really important. Disclosure and transparency versus darkness or opacity. If you want to raise money from the public, you have to have full, fair and truthful disclosure of all the material information and the financials and the like. We're doing that in our agenda right now—to try to address it through leveling the playing field in our stock market between what's called the dark markets and the lit markets. On any given day between a third and a half of equity trading in the US is going to the dark markets. So disclosure and transparency are really important, but it's also about market integrity—guarding against fraud, manipulation—and fair dealing.

I think it's also about access. Not just access to the markets but access to information. Whether you're buying 10 shares of stock or 10,000, whether you're just starting out saving for your next holiday or you're a CEO of a big company, [it's important] that the same rules apply to you and that there's kind of a fair deal across the markets and a level playing field and market integrity. Those are the things that we can focus on here. And then, of course, being a cop on the beat.

LB: A lot of your proposals would increase the amount of information market participants have to provide. I think the climate disclosures proposal for stock issuers is the most prominent of those. An SEC Office of the Inspector General report highlighted some concerns by senior managers that the pace of your agenda is perhaps exceeding the resources you have to accomplish it. The report said that raises some litigation risk. What do you think of the issues raised in that report, and how are you going to try and bolster these different rule makings for the coming legal challenges they're going to face?

GG: The agency had shrunk during the previous administration by about 5%, in a time that we should have grown at least that much. We are about 4,500 people, half of whom are in examinations and enforcement. The staff covers probably somewhere on the order of 50,000 to 100,000 critical filings and decisions around those filings a year, whether those are companies going public, or new mutual funds or exchanges ►

"On any given day between a third and a half of equity trading in the US is going to the dark markets. So disclosure and transparency are really important, but it's also about market integrity"



doing rule filings. We as a commission actually vote on a thousand items a year. I share this with you to say there's a lot this remarkable staff and agency works on.

In terms of your second point about how are we going to move forward, we put out to the public a list of our agenda [items] similar in many ways—in length—to predecessors. We have about 50 or 55 items on that. My immediate predecessor finalized 64 rules while he was in for his four years.

LB: That's true, but the report noted that you proposed about 26 rules, a little over half of your agenda, in the first eight months of 2022. Are you trying to get as many proposals as possible out before January?

GG: The privilege of [government] service is not one to be taken lightly, and it's finite. So to work with the staff and get thoughts down on paper, to get to a term sheet, to get from a term sheet to discuss it with five commissioners and to get to a proposal and put it out to the public, I think is really an important thing to do. I'm one of five children, and I'm an identical twin, and I was a partner of a firm on Wall Street that actually believed in a partnership form—that we all rose or sunk together. I really do believe in this team orientation. So if we were successful getting proposals out a little earlier than my predecessors, that might be just bringing some of this team orientation and trying to problem solve early and get the proposals out.

LB: I'd be remiss if I didn't ask you one crypto question.

GG: What took you so long? Can I say something, Lydia?

LB: Go ahead.

GG: We have a market: bonds, stocks, other securities—$100 trillion. The worldwide crypto market: about $1 trillion. If you look at the stock market alone in the US and you see how many companies have a market value greater than the leading cryptocurrency Bitcoin, it's about 30. I'm just trying to put it in [the perspective of] size and scale, that most of what this agency focuses on is not in this new technology. But, to your question.

LB: There are researchers looking into quantum computing, and they've said it could break blockchain technology within the next 10 years or so. Is quantum computing an existential threat to digital assets, and what does that mean for regulators like yourself?

GG: Oh, so you want to take me back to my MIT days? Satoshi Nakamoto's innovation—whoever she, he or they were, I'll say she—Satoshi's white paper was published 14 years ago, and that was the Bitcoin white paper. It has an accounting ledger, and it's storing that information on what you call a blockchain: 10,000 or so computers around the globe. Nakamoto addressed this question—if the underlying ledger could be cracked through quantum computing, which is almost bound to happen. Cryptography is about math at some level. And even with one-way math formulas you can use some brute force and reverse them and crack them. I don't know if her observations will prove out, but it was interesting that it was envisioned even at that point in time as to part of the reason why it's in the technology, why she had double-hash functions and things like that.

Having said that, to the regulatory side, what we're focused on, whether it's about quantum computing or not,

whether a blockchain technology will persist or not, is investor protection. There are about 10,000 tokens at the time of this interview. And the investing public is investing in these tokens. That's where the SEC has a role. It's about full, fair and truthful disclosures. It's ensuring that the intermediaries aren't defrauding or manipulating or misleading the public. It's for those asset managers to have the fiduciary duties that I talked about earlier. It's all the same public policy. It just happens to be a new technology about how to store an accounting ledger called blockchain.

LB: The Fifth Circuit ruled [on Oct. 19] that the Consumer Financial Protection Bureau's funding structure is unconstitutional. There seems to be growing skepticism about the administrative state in our court system generally. A lot of industry groups are practically lining up to litigate whichever aspects of your rules they dislike once they're finalized. You are building a legacy here through some very significant regulatory changes. What happens if someone challenges a rule but the outcome from court ends up knocking down some of this agency's powers? How do you think about all that?

GG: I'm going to share a little story from my early days at the Commodity Futures Trading Commission. It was 2010, late spring, and the House and Senate were conferencing what became Dodd-Frank. We had, in anticipation of the president signing a bill, started to put together a process of how to move forward on what would've been 60-plus required rule makings. And Congress actually, in the draft at that time, had a one-year deadline we had to do all of it in. We got in a room downstairs at the CFTC, the hearing room, and the 30 to 40 team leads, we spent two hours together talking about how we might move forward. And one of the pieces was on the question you're just raising, the Administrative Procedure Act, and how to ensure that that which we did had resilience. And I shared a story with the group of 40 or 50 people: I have an identical twin brother, Rob. He's never served in government. He was a research analyst at T. Rowe Price and then later a portfolio manager. He covered the telecom field in the 1990s. He said, "Gary, just don't let happen to you what happened to the Federal Communications Commission from the 1990s, when they put some rules in place and they all got overturned."

The point of this story is I had this echoing in my mind and I shared it with the people in the room. And I just said, "That [outcome] doesn't help the American public. We had a crisis of major proportion, and part of it was the swaps market. Congress is about to give this agency a large grant of additional authority to lower the risk and add transparency to that market. Let's do it so that it's within the law, within the economics, and it's sustainable."

It's a different agency, different times. But at that point we did 67 Dodd-Frank actions, and we did another 15 or 16 not related—so 80-plus. We got challenged in court. That's part of democracy, that's part of our constitutional system. We only lost one. And we got challenged on way more than one.

LB: Sounds like you're feeling good about your odds.

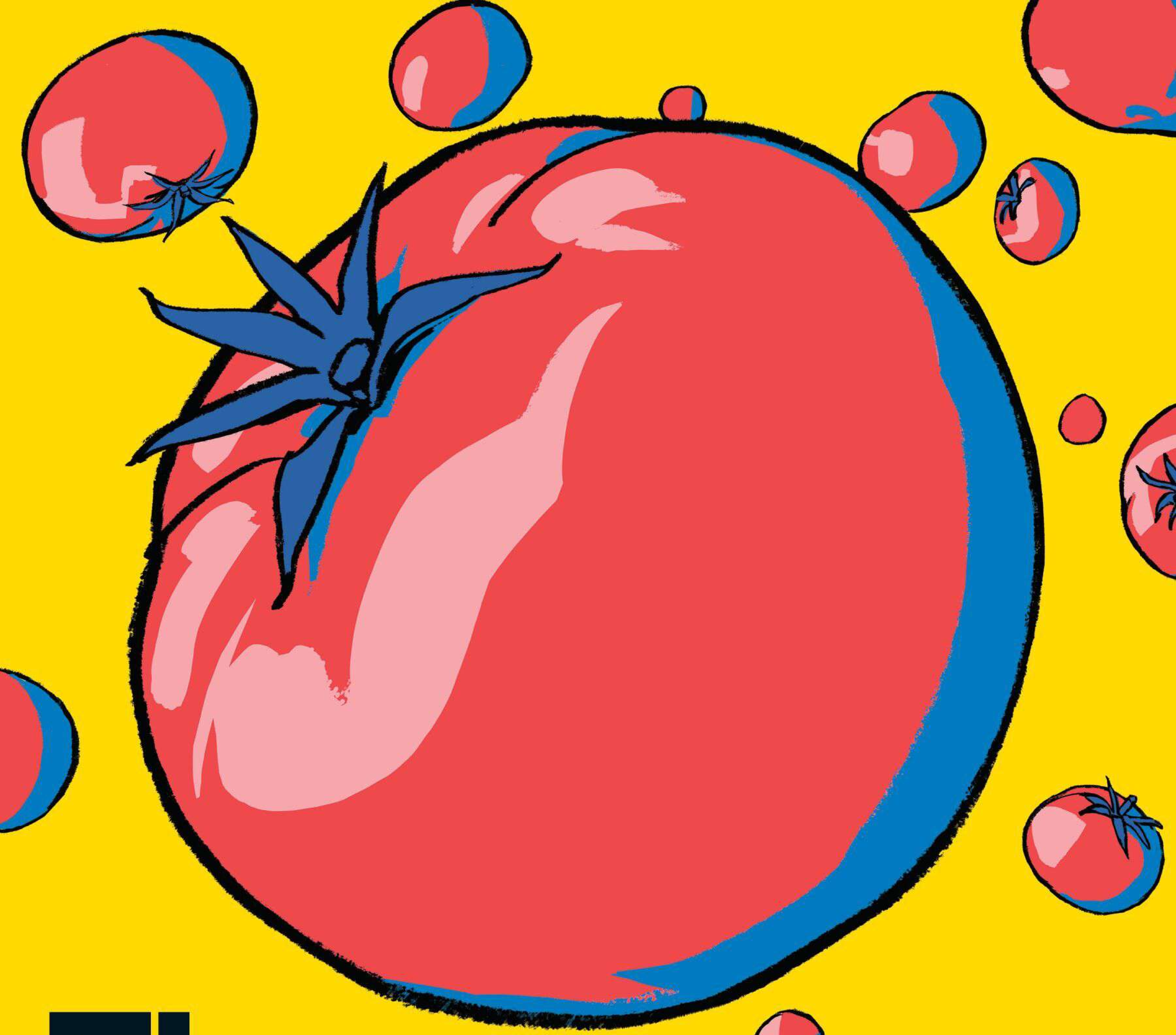
GG: Congress set up this agency nine decades ago. They've multiple times changed and amended the laws. There are always uncertainties. But those authorities about protecting the public—whether it's in what we do in equity market or Treasury market structure—I really do believe that it's important for us to follow the authorities Congress has granted us and stay within those. And I think that any time the Supreme Court speaks it's significant, and we look at it and we do our best to stay within those parameters.

LB: I read that you enjoy mountain climbing. What do you enjoy about it?

GG: I love the mixture of the beauty, the serenity, the physical challenge. I feel so infused with life waking up in the frigid cold on Mount Rainier next to my daughter on summit day. Waking up at 12:30 a.m., getting those boots on and getting all the gear on and even getting out of the tent. Mount Rainier isn't that high—fourteen, fifteen thousand feet—but it's a nice little summit. It's just joyful.

I learned about athleticism from Ted Nash, an Olympic athlete. He was coach of the University of Pennsylvania crew, and I showed up looking to become part of a sailing team in the spring of 1975. And he said, "Sailing? We've got crew." I learned about team sports because [in] crew if any one person gets that blade in or out of the water just a little off or if their seat slide is off, you're going to lose that race. I took up running and biking then, and I've loved it ever since. I'm slow and steady. I don't want anybody to think that I'm a marathoner or a century bike rider or a mountain climber, but slow and steady. I learned that prep matters. Clearly, know what your goals are: summit, you know, or a 100-mile bike ride or the end of the marathon. But have a strategy on how to get there and do a bunch of prep. ●

Beyoud covers financial regulation for Bloomberg News in Washington.



The Humbling Of the Central

ONCE SEEN AS the world's go-to economic crisis fighters, central bankers are now desperately trying to contain a problem they allowed to happen: inflation. That's eroded their credibility in the eyes of investors and society at large.

Officials have offered mea culpas. US Federal Reserve Chair Jerome Powell acknowledged in June that "with the benefit of hindsight, clearly we did" underestimate inflation. Christine Lagarde, his counterpart at the European Central Bank, has made similar concessions, and Reserve Bank of Australia Governor Philip Lowe said in May that his team's forecasts had been "embarrassing." In October, South African Reserve Bank Governor Lesetja Kganyago warned at a monetary policy forum that it takes a long time for central bankers to build credibility—but that it can be lost abruptly.

Central banks' independence is harder to justify after such a failure of "analysis, forecasts, action and communication," Allianz SE's chief economic adviser, Mohamed El-Erian, tweeted in October. The tragic result, he says, is "the most front-loaded interest-rate cycle that we have seen in a very long time, and it didn't need to be."

The first step for the newly humbled monetary policymakers is getting prices back under control without creating economic havoc. Next they must transform the way central banks operate. For some experts, that means three things: paring down their mission, simplifying their messaging and preserving flexibility.

"Do more by trying to do less" is how former Reserve Bank of India Governor Raghuram Rajan describes his advice to central bankers. ▸

Bankers

By MICHELLE JAMRISKO and RUTH CARSON

ILLUSTRATION BY PATRICK LEGER

Back to Basics

The Fed's big miss on inflation has led Powell to start invoking the lessons of Paul Volcker, who famously tamed it in the 1980s.

Since Volcker stepped down in 1987, the Fed's remit has expanded. Alan Greenspan, chair until 2006, rode a boom in productivity to even lower inflation, but also stepped in to support markets whenever there were threats to the economy. When reckless lending eventually blew up the housing and credit markets in 2008, then-chair Ben Bernanke deployed the Fed's balance sheet in ways that hadn't been seen since the Great Depression.

Coming out of the Covid-induced recession, it looked as if central bankers had pulled it off again, led by Powell. Their coordinated response in March 2020 put a floor under asset prices and kept bond yields low, helping governments fund the massive spending needed to support millions of unemployed people. With inflation still tame, central bankers assumed responsibility for tackling problems such as climate change and inequality—including setting a new goal of "broad-based and inclusive" employment. Meanwhile, stocks, bonds and cryptocurrencies were racing higher. Then consumer prices did, too, and central bankers didn't see it coming.

The Fed's new policy framework prevented a more aggressive approach to inflation, says Carl Walsh, a University of California at Santa Cruz economist who previously worked at the Federal Reserve Bank of San Francisco. He quotes the Federal Open Market Committee's own words, which admitted that goals such as inclusive employment can shift over time and be tough to quantify.

"Making policy decisions 'informed' by employment shortfalls from a goal 'that is not directly measurable' has the potential to impart an asymmetric, inflationary bias in policy," Walsh says.

Rajan says central bankers simply lost sight of their primary role, which is maintaining price stability. "If you told them, 'That is your job, focus on that and leave all this other stuff aside,' they would do a better job," he says.

Keep It Simple

It follows that the simpler the mission is, the simpler the messaging should be.

Monetary policy works through central bankers' manipulation of points along the yield curve—essentially the price of money over different periods of time. Central bankers provide signals about whether to expect interest rates to rise, fall or trend sideways, and traders in the financial markets buy and sell vast quantities of bonds accordingly. Those moves percolate through the broader society, influencing pension account balances, business and consumer confidence and views on future price movements. That's what determines whether the central bank policies work or not.

"Monetary policy is 90% communication and 10% action," says Bank of Thailand Governor Sethaput Suthiwartnarueput.

In early 2022, as the Fed, ECB and the Bank of England changed their outlooks for the economy and inflation, there was a "pretty massive failure" to communicate how policy would address those changes, says Athanasios Orphanides, who served on the ECB's governing council from 2008 to mid-2012. "Tightening of monetary policy is not difficult. This is a no-brainer in central banking."

The crossed wires could be seen in wild swings in global bond and currency markets throughout the year. In August the MOVE index of implied bond volatility—known as the US Treasuries fear gauge—jumped to a level exceeded only three times since 1988. Investors began demanding a premium to hold Australia's AAA-rated bonds after the central bank reversed its pledge to keep interest rates on hold until 2024 and instead began its fastest tightening cycle in a generation.

Some central banks flashed early warning signs. In October 2021 the Reserve Bank of New Zealand started raising interest rates and the Bank of Canada adopted a more hawkish stance toward inflation, halting its bond-purchase program. More recently, the Bank of Canada announced it would start publishing a minutes-like summary of deliberations by officials after each policy decision to enhance transparency.

By contrast, the Bank of England, already taking flak for letting inflation get out of control, has also been criticized for how it handled a run on Britain's currency and government bonds after Prime Minister Liz Truss's government proposed a deficit-busting tax overhaul. First the central bank was accused of dragging its feet before helping to manage the fallout when the pound dropped to an all-time low against the dollar, and then investors were shocked when the BOE pledged an abrupt end to emergency gilt purchases. In the end, it was Truss who took the blame, resigning after just 44 days.

Stephen Miller, a former head of fixed income at BlackRock Inc. in Australia who's now at GSFM Pty, says he's been poring over spreadsheets of economic indicators such as the Federal Reserve Bank of Cleveland's consumer price index measures in a way he hasn't done for more than three decades. The reason: He doesn't trust the forecasts and guidance coming from central banks.

"For me, the alarm bells started ringing on inflation long before central bank language changed," Miller says. "One of the advantages of being 61 is that your formative years were a period where inflation was the norm, oil shocks were the norm. For the last year, I felt like I was harking back to that period."

Miller's report card is harsh: "The Bank of Canada, the Fed and the RBNZ I'd be giving a C+, the RBA a C- and the rest, including the BOE, an F."

For Jérôme Haegeli, the "less is more" mantra should extend to so-called Fedspeak. The former Swiss National Bank economist says too many officials making public statements causes confusion. He recommends that the Fed take a

lesson from the "very lean" Swiss communications.

After the annual summer gathering of central bankers in the mountain retreat of Jackson Hole, Wyoming, Fed officials fanned out onto the public circuit. In one 24-hour period, three top Fed officials spoke about the economic outlook at three different events and with three different tones. Esther George emphasized steadiness over speed, Christopher Waller signaled support for a 75-basis-point hike at the next meeting, and Charles Evans said he was open to 50 or 75. It's a similar story at the ECB, where at least 19 of its primary officials were out giving speeches in the last week of September alone.

While central banks in most modern economies enjoy day-to-day independence, their mandates are set by democratically elected governments. In Australia and New Zealand, for instance, authorities are reviewing the parameters of their directives to monetary policymakers.

To get their message across to the public, the ECB has introduced cartoons and animated videos, some of which accompany rate decisions and strategy review documents. And Bank Indonesia, which already has massive followings on Facebook and Instagram, now also has its own TikTok account.

Trying to communicate to both audiences—the markets and the general public—can sometimes lead to confusion.

Maintain Flexibility

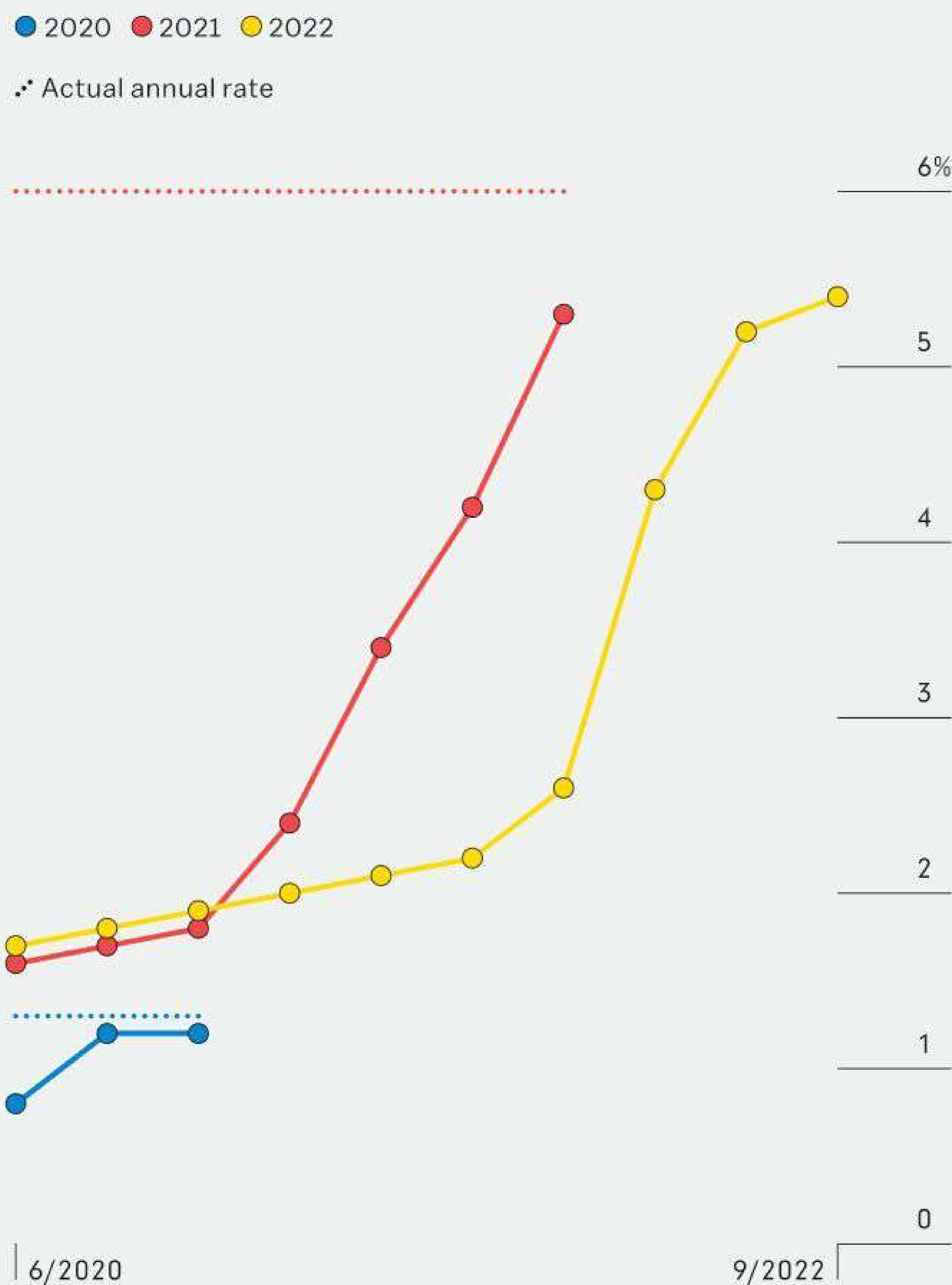
A third common prescription for central banks: Ditch forward guidance. That practice, first adopted in the early 2000s, aims to tell the public the likely direction of monetary policy. The problem: It's too hard to predict the future. And it can lock policymakers into a particular mindset.

In an Oct. 12 speech, Fed Governor Michelle Bowman blamed the FOMC's forward guidance for its failure to tackle inflation sooner: "The committee's explicit forward guidance for both the federal funds rate and asset purchases contributed to a situation where the stance of monetary policy remained too accommodative for too long—even as inflation was rising and showing signs of becoming more broad-based," she said.

And broken promises can do real harm to investors' confidence. GSFM's Miller cites RBA Governor Lowe's failed guidance as an example.

"Phil Lowe saying no rate increases to 2024? Those kinds of messages are dead," says Miller. "Markets can no longer take central bankers at their word," given that they've pretended to be "all-seeing."

James Athey, investment director of rate management at Edinburgh-based Abrdn Plc, warns that forward guidance won't end until central bankers stop speaking so often. "The sheer number of speeches by central bank policymakers in a given week, and the seeming desire of these speakers to expound on their own subjective expectations for the economy and monetary policy, means that even when the official communication is shying away from specific guidance, there is still plenty for markets to latch on to," Athey says.



Communicating policy objectives gets more difficult as inflation climbs, Reserve Bank of India Governor Shaktikanta Das said in a speech in Mumbai in September. "It can be quite difficult to provide coherent and consistent guidance in a tightening cycle," he said. "Central bank communication in the current context has thus become even more challenging than the actual policy actions."

Of course, central banks will continue to play a crucial role in their economies, even if they dial back the rhetoric and scrap more difficult-to-measure goals such as the promotion of inclusive growth. They'll continue to serve as guardians of financial stability, providing cash when markets seize. And they'll find ways to stimulate economic growth when it's needed again.

But if they heed the lessons of 2022, markets and the public can expect rarer, clearer and less ambitious policy communication—a new era of central bank humility stemming from their failure to prevent the inflation shock. ●
—With Theophilis Argitis, Enda Curran, Kathleen Hays, Prinesha Naidoo, Jana Randow, Garfield Reynolds, Anup Roy, Craig Torres and Suttinee Yujevwattana

Jamrisko and Carson are senior reporters in Singapore covering economics and FX/rates, respectively.

The Whistleblower Blues

By JOHN HOLLAND

PHOTOGRAPH BY RACHEL WISNIEWSKI

Why tipsters are getting frustrated with the SEC's landmark anti-fraud program

Janice Shell

Janice Shell likes to sniff out fraud.

An art historian by training, she once spent her days digging through Renaissance archives in Italy. Now 74, retired and living in suburban Philadelphia, she pores over financial filings instead. She hunts for sketchy penny stocks, then flags them in tart commentaries on message boards such as Investorshub.com. Shell has been remarkably prescient. In several cases, the US Securities and Exchange Commission later sanctioned companies she'd called out—and for the same reasons.

In 2011, on TheStreetSweeper.com, Shell questioned how Miller Energy Resources Inc., an oil and natural gas driller in Tennessee, valued its properties. "This Hot 'Alaska' Stock May Be About to Melt," the headline read. Four years later the company paid more than $5 million to settle SEC allegations that it overstated the value of its Alaska oil and gas reserves. Miller Energy, which neither admitted nor denied the claims, ultimately filed for bankruptcy.

The SEC runs a whistleblower program that would seem perfect for Shell. If investigators bring a successful case based on information sent their way, the informant can keep 10% to 30% of any money recovered as a reward. Over the years, Shell figures she's sent in a dozen tips. But she stopped about seven years ago, because she never heard back. "It's such a nuisance when you know they aren't going to get to it this year—and maybe not ever," she says.

Her gripe is typical of those who alert the SEC. They include corporate insiders, amateur stock sleuths and professional investors, including short sellers who profit from the declines in share prices. (Shell says she didn't short Miller Energy but has bet against other shares, though not recently.) Her lament reflects a reality of the 11-year-old whistleblower program: Out of 60,000 tips sent its way, fewer than 300 have resulted in awards.

The SEC, which won't say how many of these leads have merit, insists it reviews each one. But even when the information pans out, investigations and court proceedings can drag on for years. Whistleblowers remain in the dark about whether they're in line for awards, and why or why not. The program operates in almost complete secrecy. Tipsters have waited as long as a decade to collect money. About 12,000 tips flooded the whistleblower program last year, triple the number six years before. "I wish we had more resources," SEC Chair Gary Gensler says. "It's been an important piece of sourcing data and information" that can help the agency become, "within our limited resources, a better cop on the beat."

SENATORS ELIZABETH WARREN, a Massachusetts Democrat, and Chuck Grassley, an Iowa Republican, championed the whistleblower system, which Congress created in 2010 as part of the Dodd-Frank financial reform law. The Tips, Complaints and Referrals Program addressed a sad chapter for the SEC: For almost a decade, the agency ignored frequent warnings from an outside analyst, Harry Markopolos, about Bernie Madoff's $64.8 billion Ponzi scheme. Since then, the program has recouped $5.6 billion for financial fraud victims and awarded $1.4 billion, or 25%, to whistleblowers.

New York attorney Bill Singer, who won a $1.6 million award for a client in 2016, says the program needs revamping. He suggests letting informants file lawsuits in federal court on behalf of taxpayers, also with the prospect of keeping a share of any recoveries. That's how the US Department of Justice whistleblower system works under the False Claims Act, which was enacted during the Civil War to fight defense contractor fraud. Federal prosecutors later have the option to intervene, though private citizens can and do pursue alleged fraud on their own.

Letting whistleblowers file complaints in court would add credibility to the program and broaden participation, Singer and other attorneys who've worked with the SEC and Justice Department say. At the SEC, more than $420 million—almost one-third of all awards—has gone to clients of only three law firms who employ former senior SEC attorneys, including one who created the whistleblower program and another who led it for five years, Bloomberg Law reported in July. The agency said it doesn't give preferred treatment to its former staff.

"There is such a quick fix out there, and that's to use whistleblowers as an adjunct staff of thousands of men and women out there finding this fraud every day," says Singer, a former official with the National Association of Securities Dealers, now known as the Financial Industry Regulatory Authority. "It's been a very successful program, but it's more than 10 years old now, and it's grown to the point where it needs legislation to deal with the reality that most tips are never getting any response."

Michael Goode, who runs a penny stock site called GoodTrades.com, says he'd filed many tips with the agency and heard nothing. "I don't like scams, which is funny, because that's how I make a lot of my money," says Goode, who often shorts Chinese shares. "I hate the thought that a whole group of people is being taken advantage of and losing their money, so the least I can do is try to let the SEC and investors know."

OTHERS GATHERING INTELLIGENCE for the government have a more personal connection; they consider themselves victims of fraud. In Dallas, John Barr says he and his family bought $1 million in life settlements, or viaticals, through Life Partners Holdings Inc., a company in Waco, Texas. The unusual securities let investors buy life insurance policies

from holders, pick up premium payments and then collect when the insured person dies. They're a bet that the cost of buying and maintaining the contracts will be lower than the ultimate payout; they can bring a windfall if the insured dies relatively soon or cause a loss if the person lives unexpectedly long.

Barr later suspected that the investments weren't all they'd initially seemed; a cancer victim whose policy he'd bought was actually much healthier than he expected and was even seen enjoying an excursion in Africa. Barr alerted the SEC. In 2012 the agency filed a civil complaint alleging that Life Partners and three of its senior executives misled investors about the life expectancies of those insured under the policies. The company fought the allegations in court. In 2014 a federal judge imposed $46.8 million in fines, affirming a jury verdict that found the company had misled investors. Life Partners filed for bankruptcy protection, and the case dragged on for years.

The situation demonstrates the long road for whistleblowers, even when the SEC finds merit in their information. Barr says he's spent more than five years working with SEC staff and offering testimony in court, while facing personal attacks from the company. Although the SEC called him as a key witness—and he's filed formally for an award—Barr has yet to get one, and it's unclear if he ever will. "It was difficult going through that," he says. "And it's been very hard now just waiting all these years to get this resolved."

A fortunate few have made out quite well. Yolanda Holtzee, a 66-year-old retired US Army lieutenant who lives near Seattle, says she's won four whistleblower awards totaling about $1.5 million. In the largest, she told the SEC about the activities of Canadian stock promoter John Babikian, known as the Wolf of Montreal. "It just bothers me to see people prey on those who just aren't as fortunate," Holtzee says. In 2014, Babikian, without admitting or denying responsibility, agreed to pay $3.7 million in fines and disgorgement to settle SEC allegations that he used sites such as AwesomePennyStocks.com to recommend shares of a thinly traded mining company that he was secretly dumping through a Swiss bank. For her help in the case, Holtzee collected $1.1 million.

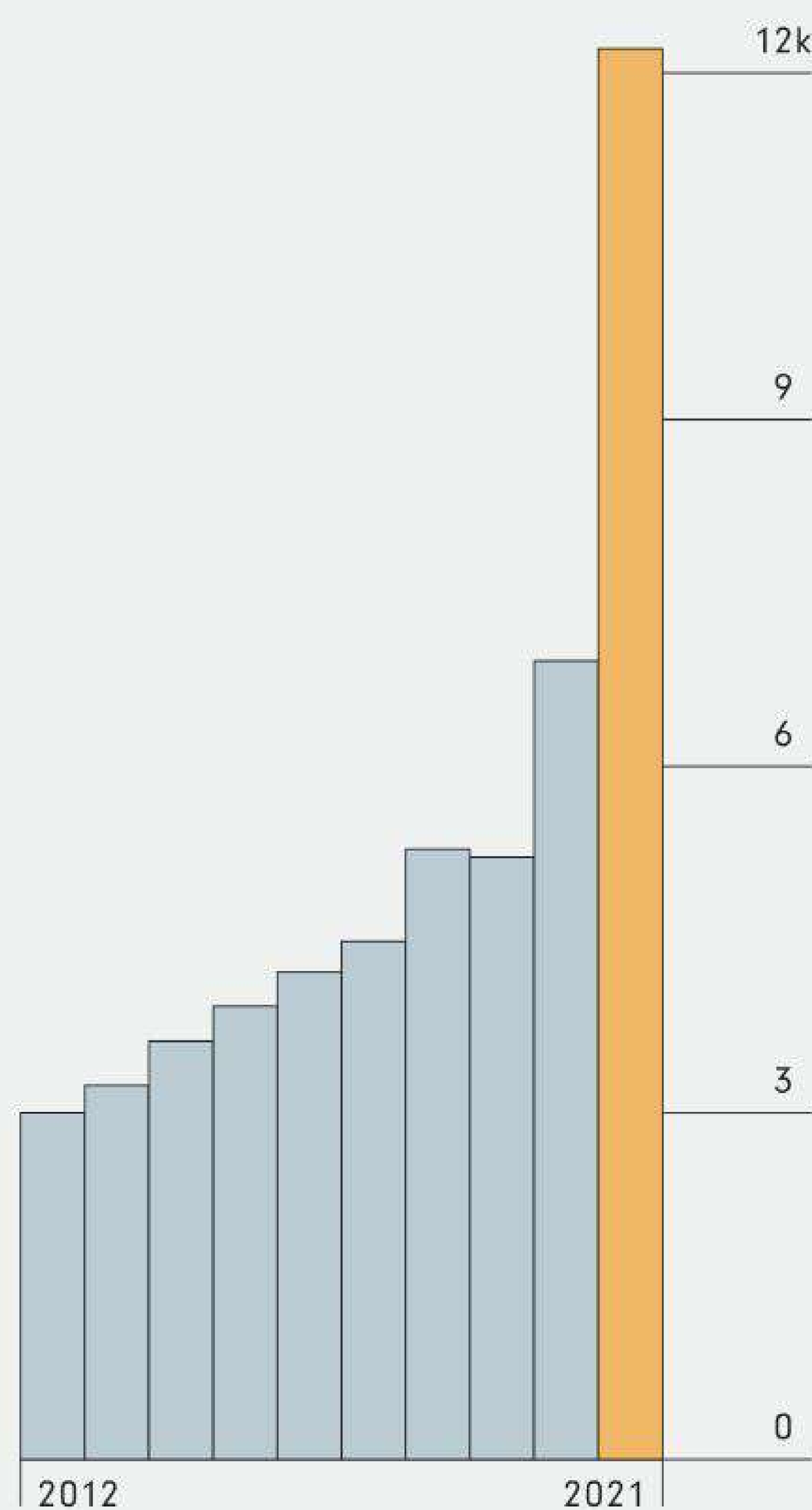
In another case, she researched the volatile trading of two penny stocks, Cascadia Investments Inc. and Green Oasis Inc. She traced their gyrations to a stock promoter in Connecticut, Jerry Williams, who ran seminars where he recommended the shares. In 2014 the SEC ordered Williams to pay $9.6 million in disgorgement and penalties. The SEC alleged he secretly sold shares he touted, which Williams neither admitted nor denied. Holtzee was in line for a windfall, a third of the money. Unfortunately, the SEC didn't recover any. In an outcome dreaded by whistleblowers, she ended up getting 30%... of nothing. ● —*With Lydia Beyoud*

Holland is a senior investigative reporter for Bloomberg Industry Group in Washington.

Dropping a Dime

Whistleblower tips to the SEC

By fiscal year



In FY 2021, by allegation type

Manipulation **3,090**

Uncategorized **2,185**

Corporate disclosures and financials **1,913**

Trading and pricing **778**

Initial coin offerings and cryptocurrencies **762**

Offering fraud **1,910**

Insider trading **417**

Municipal securities and public pension **338**

Market event **304**

Foreign Corrupt Practices Act **258**

Unregistered offerings **255**

Source: SEC 2021 annual report to Congress on the whistleblower program

In Fidelity

How the money manager built a philanthropic colossus—
and where its billions are actually going

We Trust

By NOAH BUHAYAR, ANNIE MASSA and SOPHIE ALEXANDER

ILLUSTRATION BY JACK HUGHES

The tax return of America's biggest charity runs more than 5,000 pages.

It details $10 billion in donations to tens of thousands of nonprofits, including youth centers, theater companies and soup kitchens. At least 1,300 Baptist churches are listed, as are Planned Parenthood, the Environmental Defense Fund and Teach for America. Page 738 of Schedule I shows $100,000 flowing to Puppies & Golf Inc.

The return reveals something else, too: hundreds of millions of dollars of transfers to entities linked to financial services firms such as Morgan Stanley, Schwab and Vanguard.

A Carnegie, a Ford or a Gates didn't establish this philanthropic colossus. Its creator was Fidelity Investments, one of the world's largest money managers. Three decades ago, the company persuaded the US government to let it build a charity that would offer—sponsor, in industry parlance—a then obscure kind of account called a donor-advised fund, or DAF. People who give to one get an upfront tax deduction for the irrevocable donation. The money can then sit there until donors tell the sponsor to distribute it to their charities of choice. Fidelity marketed this perk to Americans eager to cut their tax bills but unsure where to give. It eventually dropped minimum account balances for individuals to zero, making them accessible to the masses and leading to a sea change in philanthropy.

Rivals including Charles Schwab Corp. and Vanguard Group Inc. followed suit, making DAFs one of the fastest-growing areas of philanthropy. Organizations that sponsor the funds now rank, by the value of grants made, among the largest charities in the US, with Fidelity leading the pack. Individuals, corporations and others rely on DAFs because they're flexible and convenient. In 2021 the accounts held about $234 billion, more than double four years earlier, according to the National Philanthropic Trust, which compiles reports on the DAF industry and offers accounts of its own.

This boom is stoking concern that donors are stockpiling money instead of handing it out to working charities. Some private foundations have even turned to DAFs to delay and conceal where they're giving, *Bloomberg Markets* reported in October. There's no time limit for emptying the accounts. But members of Congress have proposed requiring donors to distribute the money within 15 years if they want all the upfront tax breaks. The industry opposes the change.

Fidelity Charitable, the nonprofit that the money manager created to sponsor its accounts, has made the case for DAFs by showcasing good works. Its annual Giving Report emphasizes the flood of grants its donors make every year and the accounts' widespread use, especially by those with smaller sums to distribute. The median account holds $24,086, the company says in its latest report.

But a Bloomberg review of Fidelity Charitable's tax returns, which provides the most detailed look yet of its donors' giving, shows that the portrait the company paints in its marketing is incomplete. Between July 2016 and June 2021, the organization sent at least $1.4 billion to other major DAF sponsors and received $1.5 billion from those same entities. In other words, donors were shuffling money around. The transfers let sponsors take credit for donations moved to another middleman rather than a working charity.

These sorts of payments are on the rise, according to a 2021 study by researchers at Indiana University's Lilly Family School of Philanthropy for Giving USA. In October, California regulators released an audit that suggests such transfers account for $1 out of every $10 that DAFs distribute. "If money is going from DAF to DAF, it's not really a payout," says Brian Mittendorf, an accounting professor at Ohio State University who studies nonprofits. "It's just a transfer from one pocket to another."

In its 2022 Giving Report, Fidelity touts the number of its accounts supporting popular charities, including Doctors Without Borders USA (more than 11,000) and the American National Red Cross (more than 8,500). But a list of the biggest-dollar recipients in the tax filings looks quite different. Wealthy institutions such as the Church of Jesus Christ of Latter-day Saints, whose adherents are often referred to as Mormons, and elite universities including Harvard and Stanford got far more, even though fewer DAF accounts sent them money.

Other charities topping the list can reflect the priorities of a single billionaire, such as MacKenzie Scott or Jack Dorsey, suggesting that DAFs are as much a tool for the ultrawealthy as they are for the masses. The Giving USA research found that DAF donors, like high-net-worth individuals, tend to concentrate on education, culture, art and the humanities.

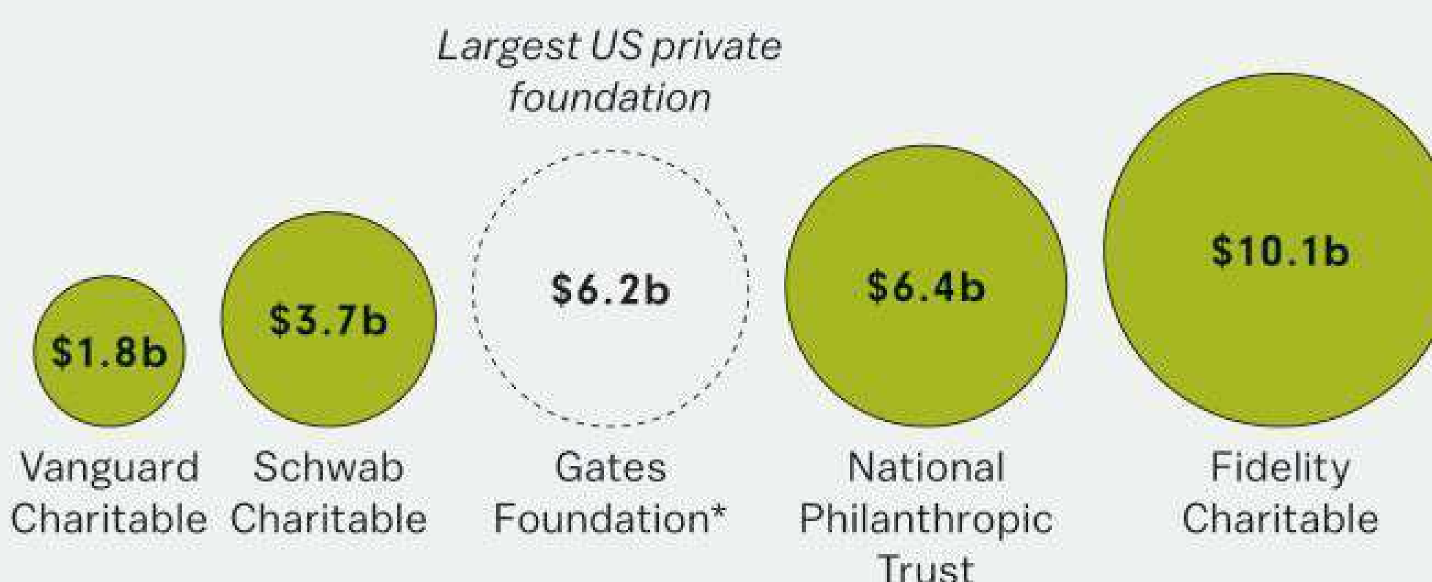
Fidelity Charitable says that there are several reasons for transfers among DAFs, such as when a donor changes financial advisers, and that, even excluding the inter-DAF flows, its accounts give generously. Highlighting where a few donors send lots of money "ignores the generosity of hundreds of thousands of our donors," the company said in a written response to questions.

The nonprofit sector raises more in the fourth quarter than at any other time of year, with about one-fifth of donations made in December alone. As Americans plan their yearend giving, Fidelity's sales machinery cranks up to help them capture a share of the $50 billion in federal tax breaks handed out annually for contributing to charity. That process is reinforcing a model some critics say distorts philanthropy and should be subject to greater regulation. "Our conception of what it means to give is changing," says Roger Colinvaux, a law professor at Catholic University of America and a former counsel to the Joint Committee on Taxation of the US Congress. "It's about the donor and not the charity."

DONOR-ADVISED FUNDS date to the 1930s, when foundations such as the New York Community Trust pioneered them. But they didn't really take off until Edward "Ned" Johnson III, the son of Fidelity's founder, dreamed up a way to offer them to clients. The idea was to create a public charity that sponsors the accounts and relies on the investment firm to manage the money donors contributed. Those donors, not the money manager, decide which charities get the gifts. Fidelity, based in Boston, applied to the IRS's Brooklyn, New York, office to establish a new tax-exempt entity, according to a 1998 *Wall Street Journal* article. Washington officials realized what had happened only after the request had been approved in 1991, says Paul Streckfus, editor of the *EO Tax Journal*, who covered early debates over DAFs. The application "should have received a lot of scrutiny," he adds. "Someone stamped it approved, and Fidelity was off to the races."

A marketing blitz in the 1990s extolled the benefits to donors, and money started pouring in. Fidelity maintained its lead over the growing ranks of sponsors by leaning on its network of in-house financial advisers to sell the accounts. The company was also ahead of its rivals in accepting assets, such as stakes in hedge funds or crypto, that can be harder to liquidate, allowing people with more complex wealth to free it up for charity.

Money now routinely sloshes back and forth among the major DAF sponsors, tax returns show. Since 2017, donors to the Goldman Sachs Philanthropy Fund have directed more than $800 million to Fidelity Charitable. Meanwhile, Schwab and the National Philanthropic Trust—which partners with banks such as JPMorgan Chase & Co. and Wells Fargo & Co. to offer DAFs to their clients—have been among the 10 biggest recipients of Fidelity's grants in recent years. Payments from those two outfits and only six others totaled $1.4 billion between July 2016 and June 2021, or more than 4% of all giving from Fidelity Charitable.



Sponsors, which compete on price and service, say the transfers are no different from someone moving a checking account from one financial institution to another. Some donors may be inclined to switch if they get a better deal. Others have multiple DAFs and may be shifting assets among them. Donors also use the accounts as a way to collaborate and pool funds with others on shared initiatives.

But the transfers can make it seem as if more money is flowing to working charities than actually is. The National Philanthropic Trust includes DAF-to-DAF payments in a widely circulated report, which says the industry distributed 27% of assets to charity in 2021. (The trust says there's no reliable way to quantify transfers to other DAFs.) Fidelity says its own payout rate, which includes DAF-to-DAF transfers, has ranged between 22% and 27% in the past five years. The industry has cited these statistics to bolster the argument that donors are moving money to charity and accounts should, unlike private foundations, be free from mandatory distributions. The average payouts also obscure how many donors empty their accounts each year and how many hardly touch them.

Having the money sit in the accounts can be a boon to the sponsoring organizations. As of June 2021, about half of the almost $50 billion at Fidelity Charitable was parked in Fidelity investment pools, the most recent financial statements show. These pools are predominantly low-cost, but they probably generated more than $90 million a year in fees, based on current expense ratios. The most recent tax return also shows that Fidelity collected $94 million from its DAF operation for administrative and other services.

Fidelity Charitable says that nonprofits always rely on for-profit businesses to provide services such as investment management and accounting. Its link to Fidelity Investments keeps costs low for donors because services are offered "at or below market value," allowing more money to go to nonprofits, according to the organization. (The biggest donors to Fidelity's DAFs can have their own investment advisers manage the money in their accounts.)

In its annual Giving Report, Fidelity highlights the most popular charities, which it defines as those getting the largest number of gifts. In 2021, Doctors Without Borders led ►

that list, followed by St. Jude Children's Research Hospital and the American National Red Cross. Yet none of them cracked the top 25 grant recipients measured by total dollars in Fidelity's most recent tax return. Over the five years Bloomberg reviewed—which cover July-to-June reporting periods, rather than calendar years—Doctors Without Borders received $107 million. Harvard University and the Mormon church each got almost five times as much ($503 million and $506 million, respectively), and Stanford University almost twice as much ($205 million).

Some of Fidelity Charitable's other top recipients are more idiosyncratic and likely explained by the preferences of a few billionaires. A handful of historically Black colleges, including Prairie View A&M University and Virginia State University, vaulted up the list in the most recent tax return, after Scott, former wife of Amazon.com Inc. founder Jeff Bezos, made tens of millions of dollars in grants to each.

The filings also show that actor Sean Penn's nonprofit Community Organized Relief Effort made the list of top 25 recipients the year that Twitter Inc. co-founder Jack Dorsey pledged a total of $30 million. Chicago's Museum of Science & Industry rose on the list in the years after a $125 million gift from Ken Griffin, chief executive officer of the hedge fund Citadel.

And the biggest recipient of money from Fidelity Charitable over the five years analyzed, getting about $813 million, was Johns Hopkins University. It saw a surge in donations the year Michael Bloomberg pledged $1.8 billion for financial aid to low- and moderate-income students. (Bloomberg is the founder and majority owner of Bloomberg News parent Bloomberg LP.) Representatives of Bloomberg, Dorsey, Griffin and Scott either didn't respond or declined to comment about their gifts.

Even though Fidelity Charitable, like many tax-exempt organizations, is required to file annual public tax forms with information about where its money goes, the IRS doesn't compel DAF sponsors to say who's behind a gift or even how many donors supported a particular nonprofit. Fidelity Charitable says its donors often tell the charities they're supporting where the gift came from. But they don't have to make a giver's identity public.

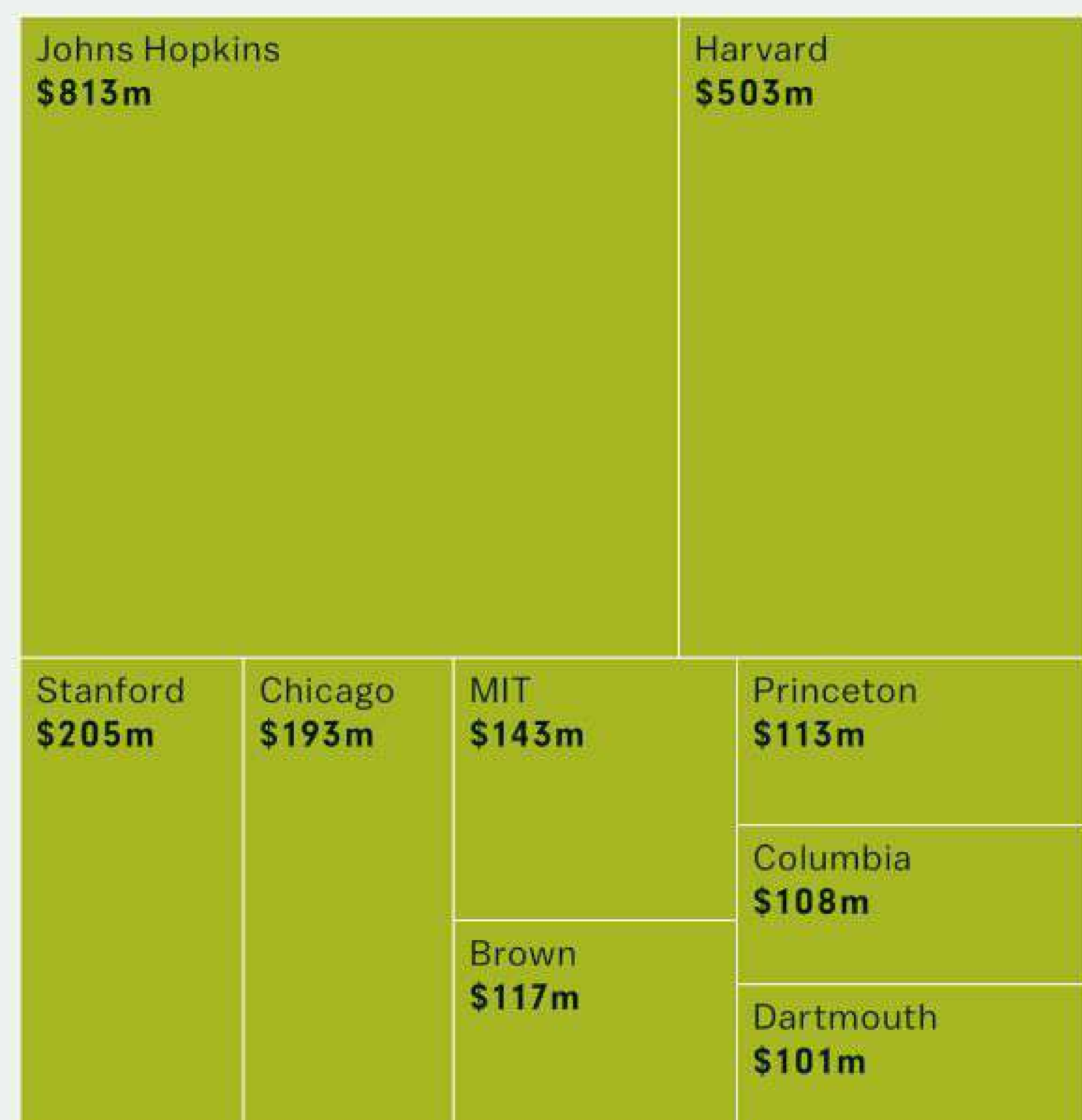
This lack of transparency has been a draw for some who want to keep their affairs private. It's allowed more than $12 million over the five years analyzed to move anonymously from Fidelity Charitable to organizations identified by the Southern Poverty Law Center as hate groups. They include the David Horowitz Freedom Center, which SPLC says has given "anti-Muslim voices and radical ideologies a platform to project hate and misinformation," and the Alliance Defending Freedom, which the law center says has supported efforts to criminalize sex between consenting LGBTQ adults. The alliance says the SPLC's blacklist has been discredited but that Fidelity Charitable has deterred gifts by preventing some donors from making contributions unless they give up their anonymity. The Horowitz Center didn't respond to messages seeking comment. Fidelity Charitable says it's "cause neutral" and doesn't impose values on donors, relying on the IRS to "determine a charity's legitimacy."

The secrecy of donations from DAFs, and their surging popularity, has made it harder for nonprofits to target donors for solicitation. Smaller organizations lack Harvard's fundraising office and alumni lists, says Jon Pratt, senior research

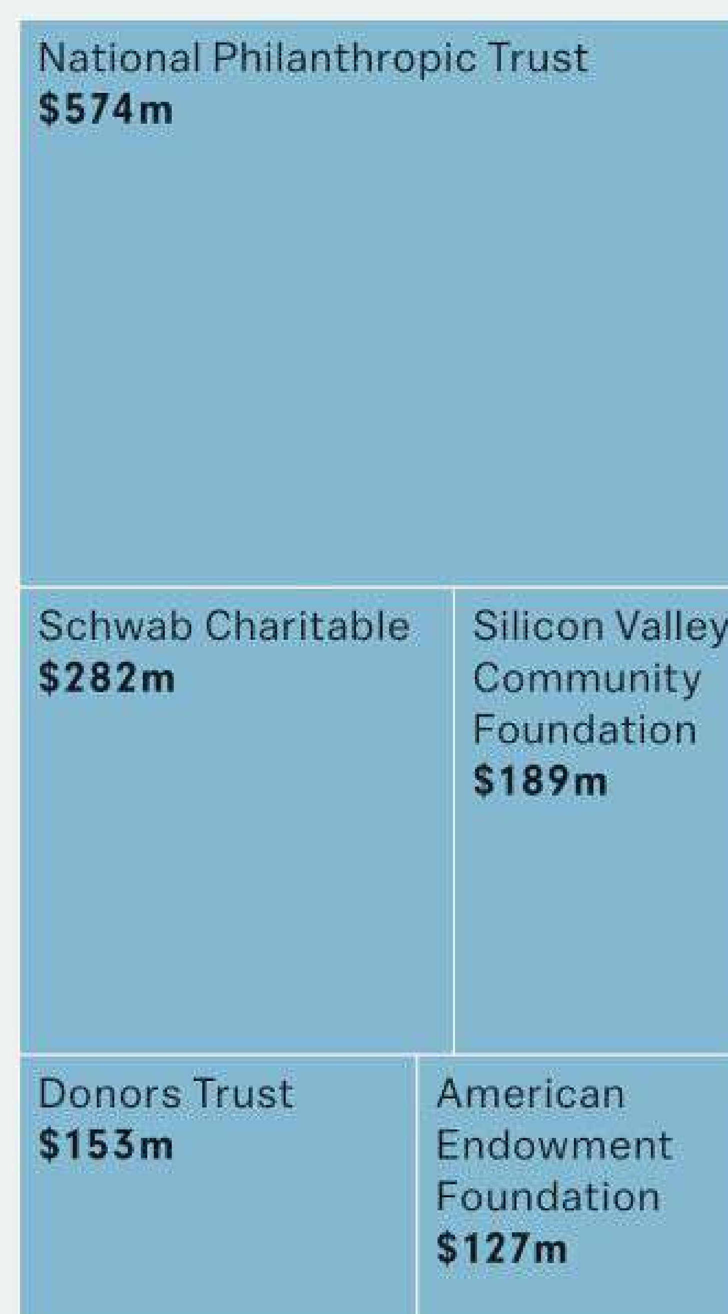
Follow the Money

Organizations that received more than $100m from Fidelity Charitable from July 2016 to June 2021

Universities



Other major DAF sponsors



Other

*Includes two related entities.

Figures represent 16% of the total given by Fidelity during the period and have been grouped by Employer Identification Number, which can exclude a charity's affiliate organizations.

Source: Form 990 filings to the IRS

fellow at the Minnesota Council of Nonprofits. "Here's a whole new class of institutional philanthropy that's a black box," he says. "We don't know who the donors are, when they gave or what the purpose is."

AS THE DEBATE intensifies over whether DAFs are hoarding donations, Fidelity Charitable has honed a pitch that keeps pulling in money. During a webinar in October, one of its consultants shared tips with wealth advisers on how to maximize donor benefits from contributing to its DAFs, including selecting the right assets to give and "bunching" donations into a single year to squeeze tax bills to a minimum. Another presenter explained that marketing the accounts deepens relationships with clients and gets closer to their children. The online chat pinged with additional information. Notably absent from the discussion were mentions of any charities or how to help clients find a cause that matters to them.

Fidelity Charitable says that more than 80 people there work with nonprofits. Its dialogue with other charities has led it to encourage more DAF clients to make unrestricted gifts and use electronic funds transfers to speed giving. It also provides research on its website to help donors select charities.

But interviews with several of its DAF donors suggest no one's prodding them much to figure out what to do with the money in their accounts. Emails go out periodically to encourage distributions, especially after natural disasters or major crises such as the Russian invasion of Ukraine. Even these notices are optional and include links to unsubscribe.

"You can receive as little information from them as you want," says Mac Liman, a co-trustee on a Fidelity DAF. Her father, Les, set up the fund with more than $1 million in 2017 after making a fortune in the waste-disposal business in Colorado. The money initially sat. As Liman started pestering her dad to give it away, she realized they needed a plan. Liman found that Fidelity had a team of philanthropic consultants who would help them—for a fee—but the Limans decided to pay an outside adviser instead. The experience left her feeling that the DAF was designed to warehouse wealth rather than give it away. "It's like a storage unit," she says.

Fidelity requires that donors keep their accounts active or risk having 5% of the assets distributed on their behalf. The minimum to stay current is just a single $50 donation every two years; Fidelity says 99% comply.

Boston College law professor Ray Madoff and John Arnold, a former Enron trader who became a billionaire running an energy-focused hedge fund, proposed a plan to speed up giving from DAFs by putting a time limit on distributions. Congress took up the idea last year, but it hasn't advanced. "The incentive for DAF sponsors is to grow AUM," Arnold says, referring to assets under management. "I do not see it solved without regulation."

Even some of Fidelity Charitable's donors are supportive. Richard LeBaron, a 71-year-old retired diplomat, has contributed to one of its DAFs for about a half-decade and disburses most of the money he puts there each year. He says the industry should accept regulation mandating minimum annual payout rates of 20%, four times the level required of private foundations. "Fidelity should know that some of their owners of donor-advised funds are for reform, not against it," he says.

"Here's a whole new class of institutional philanthropy that's a black box. We don't know who the donors are, when they gave or what the purpose is"

Others aren't waiting for legislation. Jennifer Risher and her husband, David, earned millions from working at Microsoft Corp. in the 1990s before he went on to a job at Amazon and co-founded a nonprofit to promote reading. For years, they made donations through a Fidelity DAF. But they grew concerned that others were piling up money in the accounts, especially after the pandemic began and the needs of so many soared. In 2020 they started a campaign called #HalfMyDAF that offers matching grants to encourage people to give away 50% of their balances.

Their effort has spurred more than $33 million in giving. The reaction from Fidelity and other sponsors was "Love it, love it, love it," Jennifer Risher says. But she's struggled to get any of them to promote the effort, something she chalks up to their economic interest in seeing the money accumulate. (Fidelity Charitable says its more than 250,000 donors have their own timing priorities and rushing them is a disservice.) After researching alternatives, the Rishers opened a new DAF at a sponsor called Possibility Labs, which requires donors to distribute at least 10% of their balances annually and waives fees for those who move more than 40% a year, she says.

The Rishers continue to use Fidelity for an account they set up to handle matching grants for people who halve their DAFs. The campaign gives out hundreds of donations in a day sometimes, a task best suited for the market leader, Jennifer Risher says. "Sometimes the best way to change a system is by working within it." ●

Buhayar is a Bloomberg data journalist in Seattle. Massa and Alexander cover finance in New York.

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Kim Fournais

The chief executive officer of Denmark's Saxo Bank A/S initially founded the company as a brokerage in 1992. Here he divulges some off-duty habits and preferences to Bloomberg TV's Francine Lacqua, co-anchor of *Bloomberg Surveillance* and host of *Leaders With Lacqua*.

ILLUSTRATION BY AISTĖ STANCIKAITĖ FOR BLOOMBERG MARKETS

What's your typical workout?
Krav Maga or weightlifting.

What's something that you've tried for the first time recently?
It's more of a realization, but how interconnected the world really is and how we are all part of one big ecosystem, where we as people have much more in common than what we might think.

Who's your favorite new emerging musical artist?
He's certainly not emerging, but my favorite is Grover Washington Jr. I guess that answer gives away why it's difficult for me to point to a newer, more emerging artist.

What's your favorite mode of transportation?
My bike or seeing our beautiful country [Denmark] from above in my Pilatus PC-12.

What's the best book you've read recently?
Why Nations Fail by Daron Acemoglu and James A. Robinson.

What's your favorite vacation spot?
Mallorca.

What living or historical person do you truly admire?
Jamie Dimon. The world needs much more honest and transparent leadership.

What's the best advice you've gotten?
How important meaningful work and relations are in everything we do.

What's the best advice you've given?
Spend the time doing what you love and what you're truly passionate about.

If you were 20, what business would you get into?
I'd probably see if I could get something close to what I do today. I founded the business when I was 26, and it's been quite the adventure. If that wasn't possible, then I'd do something where I got to travel and experience the world.

What's your favorite city?
Rome.

What's your favorite museum or artist?
Glyptoteket in Copenhagen, which has a large collection that spans artworks, sculptures and historical objects.

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All Securities
Middle East & Africa (d)
0.45%
Asia Pacific (Emerging) (*)
0.49%
Global by region (*)
0.34%
Western Europe (*)
1.27%
Group by Region Sector

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NEW ENHANCEMENTS TO TRY RIGHT NOW

ETF The Exchange Traded Funds function has been redesigned to let you filter quickly for top-ranked funds that match your criteria. Go to {ETF <GO>}, and the Top Funds subtab under Summary will display an overview showing the top funds by size, fees, performance and more.

DES The Security Description function for green, social and sustainable bonds has been updated with an Impact page that can help you evaluate whether the instrument meets your environmental, social and governance (ESG) investing criteria. For example, run {FRTR 0.1 07/25/38 <Govt> DES <GO>} for a description of a 15-year green, inflation-linked bond issued by the French government. Click on Impact under Pages.

SPLC The Supply Chain function has been enhanced with a new table view that includes geographic exposure and ESG tabs. Run {TSLA US <Equity> SPLC <GO>}, for example, to analyze Tesla Inc.'s supply chain. Click the yellow Update Now button to launch the newly enhanced version. Click on the Table view and then on the Geo-Exposure tab.

IMO The Vessel Description function has been revamped to provide a vessel movement dashboard that includes the latest movement point, cargo details, port calls, fixtures and a map view. Go to {IMO <GO>}. To track the crude oil tanker *Chafa*, for example, type "Chafa" in the amber field and click on the match.

DRSK The Bloomberg Default Risk function has been enhanced to let you see longer-term risk projections. Go to {META US <Equity> DRSK <GO>} to view risk estimates for Meta Platforms Inc. To toggle to a two-year risk horizon from a one-year, click the 2Yr radio button. The 2Yr Default Risk Distribution chart in the lower right lets you benchmark against the sector over the longer horizon.

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Questions of Trust

By PANCRAS BEEKENKAMP, SANDY HENDRY and VLAD KOBZAR

MARKETS HAD A ROUGH YEAR IN 2022. The turbulence focused investors' attention on the trustworthiness of banks, borrowers and companies. Which local currencies have punished bondholders the most this year? When did Credit Suisse Group AG garner its most negative news coverage? Which large oil companies are forecast to rein in greenhouse gas intensity in a way that best aligns with their environmental claims? ¶ Test your knowledge with Bloomberg's Functions for the Market quiz. Then follow the steps to see if you had the correct answer (and learn a bit about how to track the latest market trends in the process).

1. Bonds suffered some of 2022's worst losses. The Bloomberg Global Aggregate, a flagship index of investment-grade debt from 28 local-currency markets, fell 21% in the year through Oct. 10. Aside from Russia's 100% wipeout, debt in which two currencies lost more than 40% in that period?

- ■ Polish zloty, Korean won
- ■ Indonesian rupiah, Mexican peso
- ■ Hungarian forint, UK pound

Type "Bloomberg index browser" in the command line of a terminal screen and click on the IN match. The shortcut is {IN <GO>}.

Click the Fixed Income tab and the Global subtab.

Set the As of date to 10/10/22.

Click the YTD Rtn column heading to sort from low to high. Scroll down to the Currency section.

2. Shares of Zurich-based Credit Suisse lost about half their value this year through Oct. 10. In which month during the past 10 years did the bank attract the most negative coverage?

- ■ March 2021, when Archegos Capital Management LP and Greensill Capital collapsed
- ■ September 2022, when credit default swaps on the bank surged
- ■ July 2016, on restructuring worries

Type "Credit Suisse" in the command line and select CSGN SW Equity. Then type "news chart" and pick GN. The shortcut is {CSGN SW <Equity> GN <GO>}.

Click the periodicity drop-down to the right of the word "Max" and select Monthly and 10Y.

Hover over the red bars for those three months to see which had the highest negative sentiment count. To display headlines from that month, click on the bar associated with it.

3. Five oil supermajors included green claims in 60% of public messages but directed only 12% of capital spending to low-carbon investments, an InfluenceMap report found. Which of them does Bloomberg Intelligence see cutting greenhouse gas intensity to below 0.25 million metric tons per $1 billion of revenue by 2030?

- ■ ExxonMobil and Chevron
- ■ TotalEnergies and Shell
- ■ None of them

Type "BI carbon" in the command line and select the BI CARBON match. The shortcut is {BI CARBON <GO>}.

Use the View drop-down to select GHG Intensity by Revenue. Set Any Industry to Oil & Gas.

Click the 2030 column heading to rank by 2030 emissions forecasts from BI Carbon, which analyzes a universe of companies crucial to the energy transition.

4. Shares of British online fast-fashion retailer Boohoo Group Plc slumped about 70% this year through Oct. 10 as it cut sales guidance on weak demand. Boohoo pledged to improve governance after a 2020 independent review found labor abuses at suppliers. How much of its stock is held in short positions?

- ■ About 5%
- ■ About 10%
- ■ About 15%

Type "short position" in the command line and select SPOS. The shortcut is {SPOS <GO>}.

Set the Country/Region box to United Kingdom and the Currency to GBP. Set Aggregation to Security-level.

Click the % Out column heading to rank short position data by the percentage of outstanding shares. You can also display data for Boohoo directly by running {BOO LN <Equity> SPOS SEC <GO>}.

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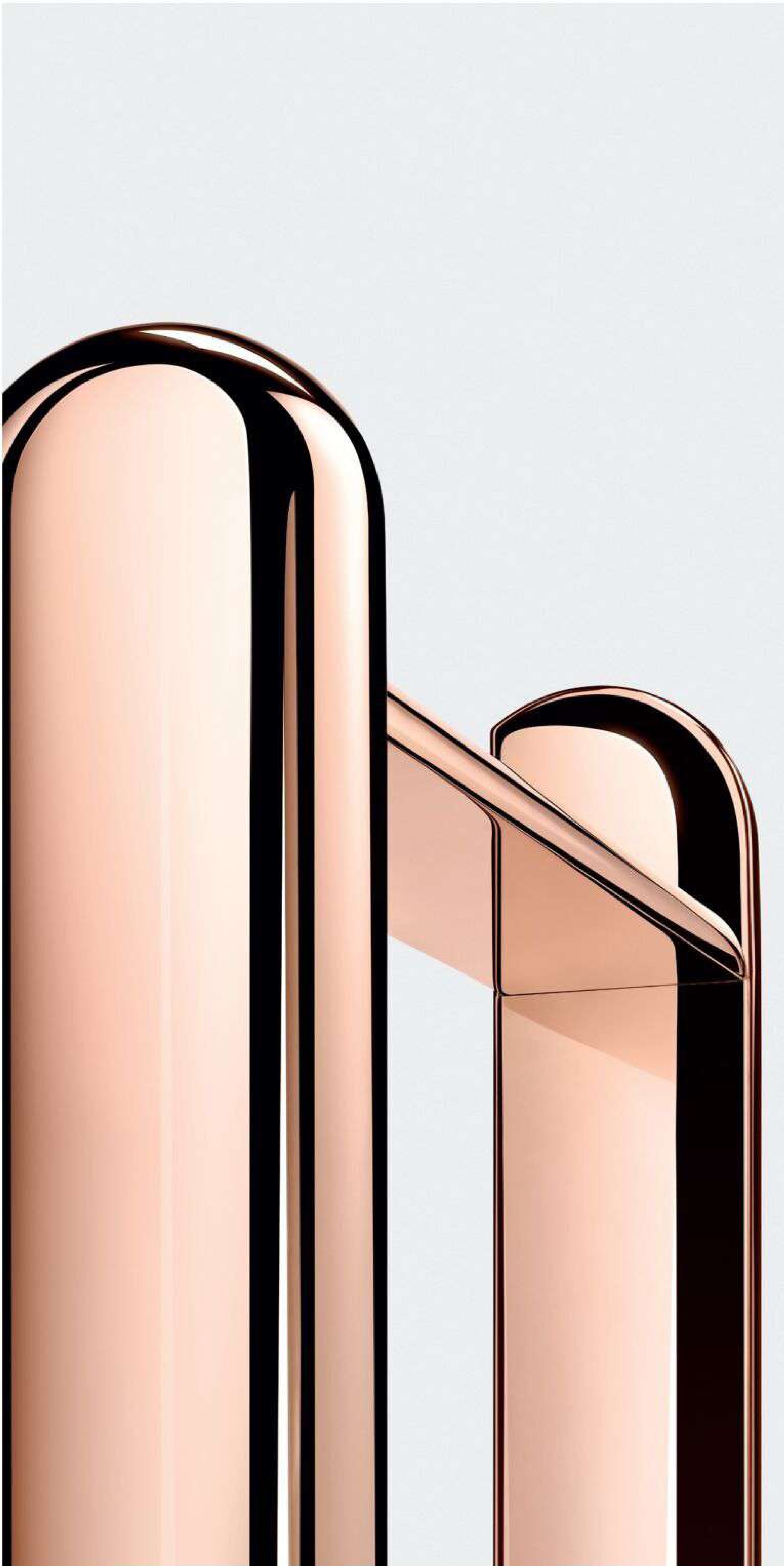

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