

Rana Foroohar 'Even mainstream Republicans are beginning to question the trickle-down economic orthodoxy' **OPINION**

Companies & Markets

American Airlines to delay return of 737 flights

- Boeing faces increase in payouts
- Lead investor raises concerns

PATTI WALDMER — CHICAGO

American Airlines says it is cancelling more flights involving the Boeing 737 Max aircraft, highlighting costly delays in gaining regulatory approval to return the grounded aircraft to global skies after two crashes killed 346 people.

American, the second-largest US carrier operating the Max, is to remove the aircraft from its schedule until September 3, extending cancellations previously due to end on August 19. About 115 flights a day will be affected.

"American Airlines remains confident that impending software updates to the Boeing 737 Max, along with the

'As shareholders, we expect companies to effectively oversee the material risks of their business'

new training elements Boeing is developing in co-ordination with our union partners, will lead to recertification of the aircraft soon," the airline said.

United Continental, the third-largest US carrier operating the Max, this month pulled more Max flights out of its schedule too, extending cancellations by a month to August 5. Air Canada, one of the largest US operators of the Max, initially took the aircraft out of its schedules until July 1 then extended the cancellation to the end of July.

Further delays will increase the cost to Boeing of paying compensation for the groundings.

The delays come as Vanguard raised concerns with Boeing's management over its handling of the grounded 737 Max, saying its fund managers had

become "very concerned" by reports of oversight failures in the wake of the aircraft crashes. The issues raised by Vanguard, which is Boeing's largest shareholder with a 7.1 per cent stake, were included in a letter from the investment group's top company engagement official and seen by the Financial Times.

In the letter sent last week, W Robert Main III, who is head of portfolio company engagement, analysis and voting, wrote that Vanguard had "engaged with Boeing leadership and directors to convey our concerns", adding that it planned to continue the discussions.

"In our role as shareholders, we expect companies to effectively oversee the material risks of their business," Mr Main wrote. "In Boeing's case, our expectation is that Boeing leadership, including its board of directors, are closely monitoring and maintaining the safety of its aircraft."

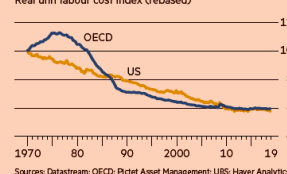
Boeing said it had completed work on a software fix for the manoeuvring characteristics augmentation system. But the lead regulator, the US Federal Aviation Administration, has come under criticism for being too lax in certifying the safety of the aircraft in the first place, so it is taking its time to make sure the new software will fix the problem.

American Airlines said it would need about 45 days, even after the plane was formally recertified by the FAA as safe to fly, to get the Max back into the air. Most of that time will be taken up with pilot training, even if the FAA sticks to its current plan not to require simulator training for pilots before the Max returns to the air. Requiring simulator training would lead to further delays because there is only one 737 Max simulator in airline hands in the US. See **UTC deal with Raytheon**

Staff benefits Rising labour costs poised to hit equities as unemployment falls



Wage growth has finally caught up with productivity growth
Real unit labour cost index (rebased)



STEVE JOHNSON

Downtrodden workers are starting to earn a fairer share of the spoils, and that could spell trouble for corporate profit margins and the share prices dependent on them.

Real unit labour costs, both in the US and the wider OECD club of mostly developed nations, have been falling since at least 1980, because of wage growth lagging behind growth in productivity.

As a result, labour's share of US national income has fallen from a peak of 63.8 per cent in 1970 to just 56.4 per cent as of last year, according to the OECD, with the province of capital increasing its share of the economic pie, a trend blamed by

many on globalisation and technological progress.

Unit labour costs have now stopped falling, however, both in the US and further afield, according to calculations by Pictet Asset Management.

This comes as global unemployment has dropped to its lowest level since 1980, according to UBS, and is in line to tumble to levels unseen since the 1970s this year in the developed world, the IMF has predicted.

"Productivity growth has been higher than wage growth for years — now this gap has gone," said Luca Paolini, chief strategist at Pictet. "There are labour shortages everywhere [and] wage growth has picked up. The share of [gross domestic product] going to corporations is going to

shrink and the share going to employees will go up," added Mr Paolini, who attributed labour's new-found strength to its scarcity value, driven in part by demographics.

Allied to beliefs that geopolitical risk is rising, corporate tax rates are unlikely to fall further, the US is heading for recession in 2020 and that valuations are high, "we expect a significant correction in markets," Mr Paolini added.

Pictet forecast that a passive 50/50 equity/bond portfolio would produce a return of zero after inflation in the next five years, while "this is probably the best time ever for US investors to diversify away from the US [equity market]". See **Market Questions**

Stocks' rocky month sees humans beat the machines

ROBIN WIGGLESWORTH — NEW YORK

Traditional stockpicking fund managers have enjoyed an unusually good stretch in recent weeks even as machine-driven "quant" funds have fizzled, nurturing hopes that rockier markets may help human investors launch a comeback.

More than half of all US mutual funds that invest in big American companies managed to beat the broader stock market in May for the second month in a row, according to Bank of America. This indicates that many managed to navigate the trade war-related turbulence.

So far this year 47 per cent are outperforming the broad Russell 1000 index. Although this still means that more than half of US "large-cap" equity mutual funds are lagging behind the market, if sustained this would be one of the best beats in the post-crisis era. Moreover, 54 per cent are beating the blue-chip S&P 500 index.

Traditional, active asset managers have long argued that they would prove their worth in less buoyant markets. Although the long-term evidence that stockpickers outperform in downturns is patchy, their recent run will be encouraging to investment groups that have battled torrential outflows year after year since the crisis.

Active equity funds have shed another \$169bn already this year, taking the cumulative outflows over the past decade to \$1.31tn, according to EPFR, a mutual fund data provider. In contrast, passive equity funds have attracted more than \$24bn this year, and \$1.9tn over the past decade.

"If active management is ever going to come back, it has to show it can do better in a downturn than the machines can," said Michael Hartnett, a senior Bank of America strategist.

Algorithmic, "quantitative" funds continued to underperform in May, with just 34 per cent beating their benchmarks due to heavy exposure to underperforming factors such as "value" stocks, according to Bank of America.

However, there are mostly "long-only", relatively simple quant funds that typically mine only one or several well-known signals, such as the long-term tendency for cheap stocks or those with strong balance sheets to perform well. Many quant hedge funds have bounced back this year, especially systematic trend-surfers.

Conflicts in asset management market exposed by Woodford

INSIDE BUSINESS ON MONDAY

Jonathan Ford



In the days since Neil Woodford shuttered his Equity Income Fund to redemptions, many have questioned why the celebrated asset manager ever structured this one-time £10bn monster as an open-ended investment scheme.

The main perceived benefit of such funds is the ATM-like promise of instant liquidity. Which means the manager must always be prepared to liquidate to satisfy redeeming investors. Yet Mr Woodford's prized forte was long-term investing. Not only had he put the fund into some illiquid unquoted investments, thinking they would do better in the long term, Mr Woodford had even gone so far as to stop paying his staff short-term incentives. He preferred to put them on straight salaries to keep them focused on the long goal.

Mixing long-term strategies with ATM promises created a vulnerability that might have been avoided had he established a closed-end fund that was not at risk of opportunistic liquidation. Indeed, the open-ended structure contributed to the pickle that Mr Woodford and his investors are now in.

So why do it? Those seeking an answer could do worse than follow the investor's dollar. Independent financial advisers such as Hargreaves Lansdown and St James's Place are the key gatekeepers for retail investors. For the IFAs, there's a financial advantage to

peddling open-ended structures. While these may not be as lucrative, fee-wise, as more specialist asset classes such as private equity, they are marketable to the widest retail audience.

And that's not their only merit. Open-ended funds are also easily scalable. In this they differ from closed-end schemes, such as investment trusts, which take a fixed chunk of money. IFAs can put such products on their platform's so-called "best buy" lists for steady sale, negotiating a discount with the manager and inserting their own fees into the compensation equation.

Marketing Mr Woodford's fund was lucrative for Hargreaves Lansdown. When the manager obligingly cut his fees they were able to shoehorn in their own charge of 0.45 per cent per annum on top. The firm carried on flogging the fund long after its decline.

As to Mr Woodford himself, well the answer perhaps lies in the symbiotic relationship between the manager and these marketing machines. As a star manager setting up on his own, he had a strong incentive to play by the rules set by the biggest retail gatekeepers.

Whatever the fund management industry claims, the overwhelming desire remains to gather assets, assets and more assets. That's because success at the top for a manager may be fleeting. While you are still in vogue, there is a visceral wish to cash up when you can.

Surveying this patchwork of poor incentives, it is hard to escape the irony. By piling on too many funds too quickly, Mr Woodford actually set himself up to fail. He hid up his chosen pool of stocks with the wall of cash he had assembled. That made their subsequent underper-

formance more certain. As for the unlisted stocks he bought, they seem to have been a way of diversifying away from overpriced holdings — albeit one that badly misfired.

And that's not their only merit. Of course, is the end investor. Consider, for instance, where the costs of Mr Woodford's venture ended up falling. As at end March, so before the final swoon, the Equity Income Fund's overall returns — based on a notional 1 per cent take and using a money-weighted calculation — split 92 per cent to the managers and only 8 per cent to the investors, from FT calculations and using Morningstar data. Things have deteriorated since then. And even at its peak at the end of 2016, the manager's cumulative take was almost 10 per cent of returns.

These numbers are simply not sustainable, and point to a yawning gap between the interests of intermediaries and end investors — one made easily exploitable by the information asymmetry between Joe Public and a sophisticated fund management machine.

They are also reflected in the high aggregate costs of fund management services. In several studies it has been shown that these are the same today as they were 70 years ago. Incredibly, the finance industry which funded the economy in the 1950s was as efficient as its counterpart today.

Perhaps investors in Mr Woodford's fund should have listened to Paul Volcker, who once found himself sitting next to "one of the inventors of financial engineering" and asked what it did for the economy. It did nothing, the US central banker was told, but it "moved around the rents in the financial system and besides that was a lot of intellectual fun". This is not a game for which savers should be paying.

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COURT OF GENOA
Bankruptcy — Fall, R.F. 25/2014
Legal receiver: Dr. Massimiliano Tumiati
Deputy judge: Dr. Roberto Borino

NOTICE OF SALE OF REAL ESTATE COMPLEX FOR OUTLET USE

Real Estate Discount announces that on the 09/07/2019 opens the sale of the following asset:
Single lot: full property of an estate complex for outlet/shopping centre use, located in Mellù (SR), Contrada Spalla Targia, consisting of about 70,000 indoor square meters arranged on three levels, besides the outdoor areas (in total 134 stores/warehouses and about 2,000 parking spaces, 1,000 of which indoor).
Auction starting price: € 5,997,876.19
For more information, please refer to the notice of sale published on www.realestatediscount.com (Auction ref: 4235) or contact Dott. Massimiliano Tumiati at: Phone: +39 010 588182.

Contracts & Tenders

INCA
INSTITUTO NACIONAL DE CÁNCER JOSÉ ALENCAR GOMES DA SILVA
INTERNATIONAL COMPETITIVE BIDDING Nº 001/2019

Bidding Type: Lowest Price per item
Object: Acquisition of Medicines.
Opening: 07/23/2019 at 09:00 a.m.
Process no. 25410.403452/2017
Address: Rua Marquês de Pombal, 125, 2º andar, Centro, Rio de Janeiro - Brazil - CEP: 20230-240

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