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IMF SPECIAL REPORT

THE HACKER'S GUIDE TO DESTROYING THE GLOBAL ECONOMY

A MASSIVE CYBERATTACK ON OUR FINANCIAL SYSTEM IS COMING.

THIS IS HOW IT HAPPENS.

FEATURES

Photograph by Christopher Leaman

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On the Cover: Owen Freeman illustrates the chaos that would come after a major cyberattack on the financial system.

SPARING NO EFFORT

CHINA CONSTRUCTION BANK POSTS STRONG 1H 2017 RESULTS

Interest-bearing asset gains and an innovation-driven boom in customer accounts contributed to a 3.81 percent increase in 1H 2017 net profit for China Construction Bank Corp. (CCB), a pillar of the Chinese economy and one of the world's biggest banks.

In a Hong Kong Stock Exchange filing August 30, CCB said its net profit rose to more than 139 billion yuan (US$ 21.07 billion), up nearly 6 billion yuan from 1H 2016.

Contributing factors included a 3.25 percent jump in net interest income to almost 217.8 billion yuan, and a 3.85 percent increase in personal customer deposits to 7.19 trillion yuan. Other major revenue sources — including corporate, treasury, and overseas businesses — also posted healthy gains.

CCB reported strong performance despite a challenging business environment and slowing growth in China, where risks such as local government debt are weighing on Beijing's "supply-side" balancing effort and financial system reforms. Moreover, Chinese banks are contending with stricter regulations and competition from internet-based finance companies.

CCB is meeting challenges by focusing on the nation's expanding consumer sector through payment and settlement services, private banking, and consumer finance. Personal and mortgage lending as well as debit and credit card issuances have significantly increased.

The bank's assets under custody and syndicated loan business grew rapidly in the first half, sparking a 5.8 percent increase in commissions on trust and fiduciary activities to 6.6 billion yuan. On the other hand, consultancy and advisory fees fell nearly 10 percent to 6.5 billion yuan to meet new government standards aimed at supporting the Main Street economy.

CCB has responded to internet financing rivals by rolling out online-based consumer and business services that apply big data and internet technologies. Small businesses are now supported by an online financing service called Rapid Loan for Small and Micro Businesses, while the new Yunongtong platform provides micro-credit services to small businesses throughout rural China.

Income from electronic banking services jumped 41 percent to 6.4 billion yuan in the six-month period, CCB said, as the bank "spared no effort in building an internet-based financial ecosystem, fueling a rapid increase in the number of customers and the volume of transactions."

Another consumer growth area is wealth management products. CCB said WMP-related fees in the first half increased 9.3 percent to 12.3 billion yuan after the bank launched differentiated products to meet the needs of various customers.

Total customer deposits rose 5.6 percent in the Jan. 1–June 30 period, to 16.27 trillion yuan, including a 6.6 percent increase in corporate deposits. Deposits from overseas operations and subsidiaries led all other groups, soaring 16 percent to 74.8 billion yuan.

Underscoring a commitment to overseas growth, CCB recently expanded operations in Indonesia, Malaysia, Australia, and Europe. CCB Indonesia was inaugurated in February. Another new unit is CCB Malaysia. And new branches recently opened in Warsaw, Poland, and Perth, Australia. At the end of June, the bank had 251 overseas institutions in 29 countries and regions.

To counter corporate debt risk, CCB said it has optimized credit policies, improved customer criteria and enhanced its credit structure. As a result, infrastructure sector loan quality has stabilized despite a higher loan balance. CCB's non-performing loan ratio for manufacturers was stable in the first half, while NPLs decreased in the wholesale, retail, and real estate industries.

In the second half of the year, CCB plans to boost profitability after closely analyzing the market and customer needs. The goal is to identify and take advantage of new business development opportunities. The bank has also pledged to strengthen product innovation, enhance comprehensive service capabilities, and work toward stable fee and commission growth. ●

中国建设银行
China Construction Bank

IN MID-MAY MY WIFE AND I TOOK A drive from Austin, Texas, to the Lyndon B. Johnson ranch. Since picking up Robert Caro's momentous biography of the man, I've been absolutely obsessed with the 36th president, whose excesses and accomplishments strike me as quintessentially American. Visiting his homestead in the Texas hill country was the culmination of that obsession, and to celebrate I played a short audiobook by Caro about how he came to profile President Johnson and, before that, New York power broker Robert Moses. (My wife graciously endures my obsession.)

As we listened, one section about Moses struck a chord with me. Robert Moses was the man behind most major public building projects in New York City and state in the 20th century — a man with nearly unlimited power despite being an unelected bureaucrat. How he acquired the power to decide which neighborhoods lived and died, which parks were built or destroyed, stumped Caro:

> *Everything you've been doing is bullshit. Here was this man, Robert Moses, who was never elected to anything. And he had more power than anyone who had been elected, more power than the mayor, more power than the governor, more power than any mayor and governor put together. And he's had this power for 40 years. And you, Bob, who's supposed to be writing about political power and explain it, you have no idea where he got this power from — and neither does anybody else.*

I'm no Caro, but I did wonder: Who is the Robert Moses of asset management?

Who is the unelected power behind the industry, behind where assets flow and which firms thrive? Caro wrote of Moses: Bridges didn't get built over New York's East River because some scientific study found the location to be optimal, they got built because Robert Moses wanted them built there. Who has such power here?

The possibilities are vast — and are wanting.

Stephen Schwarzman? The Blackstone titan is arguably the most well-connected man in private markets (perhaps with the exception of Carlyle Group's indefatigable David Rubenstein). Henry Kravis may have essentially founded the private equity business when he and two partners abandoned Bear Stearns in the 1970s, but Schwarzman's firm is now the largest. He chaired the president's Strategic and Policy Forum, until it was disbanded following the Charlottesville violence. Schwarzman, the deal maker's deal maker, had the ear of the president and the ability to place billions with a signature. Is he Robert Moses?

Ray Dalio? Ray got rich and powerful the way most go broke: slowly, and then all at once. The Bridgewater founder amassed assets and an unbelievable return record before 2008, but his performance during and after the financial crisis made his firm the largest hedge fund in the world, and Dalio the primus inter pares of hedge fund titans. But Dalio, as he recently told me, is "apolitical," more interested in promoting meditation and radical management techniques than in the role of all-powerful insider.

Steve Mnuchin or Gary Cohn? President Donald Trump's Treasury secretary and National Economic Council director, respectively, are the leading voices for an overhaul of the American tax system. One proposal reportedly on the table is ending the tax-favorable status of the 401(k) — a move that could decimate the market for retirement asset management, and retirements as a whole. Yet if recent history is any indication, big plans will beget big failures. Their status as potential power brokers will diminish accordingly.

Jim Vos or John Claisse? Respective leaders of hedge fund consulting firms Aksia and Albourne Partners, Vos and Claisse control the two most important gatekeepers for the flow of alternative assets. Hundreds of billions, if not trillions, of allocation decisions are effectively made by the people these men employ. Yet in the current comparison, Vos and Claisse seem more Moses men (advisers, of which he had many) than Moses himself.

The world's massive sovereign wealth funds and public pension systems? As much as I respect our columnist Ashby Monk and his work with allocator "giants," I find it hard to make any argument that these pools of capital have the willingness to move this industry as Moses did New York. Yes, some funds have thrown their weight around — I think of the Kuwait Investment Authority demanding huge concessions from State Street after some of the bank's employees were accused of overcharging transition management clients — but that hardly counts as Moses-level power.

Others come to mind. Janet Yellen? Too theoretical. Renaissance Technologies' Robert Mercer? Too dogmatic (I wrote "cynical" at first, but that's too mean). Two Sigma's John Overdeck and David Siegel? Too focused, and too early. Janus Henderson's Bill Gross? Too late.

And thus the search continues. Moses long hid his power behind the Triborough Bridge Authority, his seat of quiet power. (If every piece of pavement in the state is viewed as an approach road to a massive New York bridge, he argued, everything fell within his domain.)

Yet I am convinced the Moses of asset management exists — and finding him or her is now my stated goal.

Your suggestions are welcomed with unabashed enthusiasm — *kip.mcdaniel@institutionalinvestor.com*.

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Wanted in China

A real-estate tycoon's tweets have created a political storm.

BY ALLEN T. CHENG

U.S. PRESIDENT DONALD TRUMP isn't the only real-estate tycoon who stirs up a storm with his tweets.

Living in self-imposed exile since early last year in a high-rise luxury apartment overlooking New York's Central Park, Chinese real-estate tycoon Guo Wengui has been sending out so many controversial tweets and YouTube podcasts that he is now a wanted man back in China.

Interpol, the inter-agency of global police agencies, issued a "red alert" for Guo's arrest in mid-April at the request of Chinese authorities, who want him back because he stands accused of bribing former top Chinese counterintelligence officer, Ma Jian. Ma, a former vice minister of state security, was jailed for life a few years ago after being caught up in investigations into Bo Xilai, a Chinese politician who challenged and lost to President Xi Jinping in a leadership bid back in 2012.

Guo, who also goes by the name of Miles Kwok, has libel lawsuits against him adding up to $5.3 billion from various Chinese notables, including movie star Fan Bingbing, who have accused him of defaming them in a series of scandalous tweets that allude to corruption and illicit sex between them and senior Chinese politicians.

Besides the defamation lawsuits, Guo — the founder and chairman of real-estate developer Beijing Zenith Holdings — is facing a lawsuit and lien on his Central Park apartment, a full-floor co-op on the top levels of The Sherry-Netherland hotel building. Brought by Hong Kong-based PAG, an $18 billion hedge fund manager, the lien is an attempt to claim back an $88 million unpaid loan that the firm's Pacific Alliance Asia Opportunity Fund extended to Guo more than a decade ago for the development of a project in Beijing.

Guo disputes the lien and seems unfazed about the other lawsuits. On Aug. 12, he tweeted an advertisement for his next podcast: "Stayed tuned for my next exciting broadcast! It'll be at 9 am New York time on Aug. 18, or 9 pm Beijing time Aug. 19."

Guo did not respond to requests for comment.

His scandalous tweets are more than just showmanship, say scholars of Chinese politics. They may have significant impact on the upcoming 19th Party Congress, which is due to be held on October 18th in Beijing and will determine who sits on the Politburo Standing Committee, the lineup of top officials to lead China through 2022. Xi, who is guaranteed a second term as the president and chairman of the committee, has long been counting on keeping at his side a key ally, China's anti-corruption tsar Wang Qishan. The problem is that Wang, who turned 69 this year, has been one of the primary targets of Guo's salacious allegations of illicit sex and corruption.

"It is next to impossible to verify the truthfulness of Guo's piles of allegations," says Willy Lam, an adjunct professor at the Center for China Studies at the Chinese University of Hong Kong and a leading expert on Chinese politics. "What is probably true is that those allegations have damaged Wang Qishan's reputation to some extent."

In normal circumstances, Lam notes, these negative reports would hurt the chances of Wang getting another five-year term as a member of the Politburo Standing Committee. "Yet whether Wang will or will not stay in the standing committee depends largely on his relationship with supreme leader Xi Jinping," Lam says. "If Xi needs him to fend off his enemies, Wang may indeed be given a second five-year term."

Guo's slew of allegations is also at the root of Beijing's recent crackdown on a number of major Chinese conglomerates, halting their global merger and acquisition sprees, according to Lam. Guo has alleged that many Chinese groups that have made large acquisitions overseas have strong ties to political patrons in China, including families of former top leaders, some of whom have resisted President Xi's consolidation of power in recent years.

Among firms that have fallen under regulatory scrutiny is aviation and investment conglomerate HNA Group, whose purchases of high-profile U.S. financial firms include a deal to buy a stake in former White House communications director Anthony Scaramucci's SkyBridge Capital. Entertainment and real-estate investor Wanda Group, insurance and investment firm Fosun International, and Anbang Insurance Group Co. have also caught the attention of China's watchdogs. Anbang, for instance, is under pressure to sell some of its foreign assets, which include the Waldorf Astoria Hotel in New York, a property acquired for $1.95 billion in 2014, according to sources.

"The veracity of Guo's allegations about these groups is also hard to prove," says Lam. "However, he has exposed the unconventional ways in which these multi-billion-dollar private firms enjoy the support of the party's top clans."

WIKIMEDIA COMMONS

HINDSIGHT

We've Come a Long Way, Baby.

But we've got oh-so-far to go.

BY ALICIA MCELHANEY

WHEN STATE STREET'S "Fearless Girl" statue — a proud totem to gender equality — claimed her ground just steps from Wall Street's "Charging Bull," it felt like a long-sexist industry had finally noticed it had a problem.

But days after the statue went up, a drunken finance bro humped her in front of a crowd, the *New York Post* reported. The stark imagery reminded many women that finance's days of sexism are far from finished.

Dedicated *Institutional Investor* readers may have a sense of déjà vu. After all, we covered the status of women on Wall Street back in the May 1972 issue and again in July 1996. It's gotten a little better: Crowds of traders no longer pour onto the streets to ogle a woman's breasts. This actually happened back in 1968, when Chemical Bank secretary Francine Gottfried and her legendary "43-inch bustline" drew crowds in the thousands, Linda Francke reported for the '72 piece.

Women were indeed an oddity on the Street. In 1967, Muriel Siebert was the first to integrate the New York Stock Exchange — which, having had no ladies, also apparently had no ladies' rooms,

But two decades later, *II* declared Wall Street research departments "veritable meritocracies" and "unparalleled paradise" for women. But that paradise was short lived, the 1996 July issue counters. Many of the women who had poured into research roles just as quickly drained out in the '90s once they began having children, the author of "Can Wall Street Women Have it All?" declared.

Childcare and parental leave remain scant in benefits packages, and that old barrier stands between many women and executive roles in their careers. Women represent 13 percent of CEOs and 19 percent of CIOs at alternative investment funds, a KPMG srvey found. Those figures will strike many investors as high.

Since our initial stories on the state of women on Wall Street, the industry's gender inequities have pushed into view, from pioneering women's private crises of nowhere to pee, to the 2016 film *Equity*, which dramatized the struggle to climb the male-dominated finance ladder.

Advocates have become industry celebrities, like Sallie Krawcheck, the former Citigroup executive who launched the women-centered investing platform Ellevest in 2014. She has since raised $32.5 million from venture capital and individual investors.

And yet, for this progress, there's little doubt that we will publish yet another missive on the status of the women of Wall Street. It's only a matter of time.

Ted Seides Capital Calls

Boosting confidence in asset management — and asset managers

A FEW MONTHS AGO I STARTED recording conversations with some well-known allocators I had come to know in my two decades in this industry. I posted the first few on Apple's podcast platform, emailed a group of friends to tell them about it, and waited.

One conversation flowed into the next; each offered fun stories and juicy nuggets of information about how the best in the business practice their craft.

We've discussed investment beliefs, asset allocation frameworks, manager selection challenges, governance hurdles, and team dynamics with allocators, managers, and entrepreneurs. Before I knew it, the podcast became a thing — enough so that editor Kip McDaniel asked me to expand on what I was learning using a decidedly older form of journalism: the column.

I'll endeavor to bring you observations that I hope will be of assistance in your investing. In this inaugural column, I'd like to share a challenge we all face but rarely speak about: managing ourselves.

In a recent podcast episode with Harvard Business School professor Thomas DeLong, a renowned expert on organizational behavior, the subject of managing high performers arose. Almost everyone we interact with in this profession — allocators and managers alike — exemplifies the "high need for achievement" genotype, which DeLong has studied extensively.

In the podcast he describes four stories that commonly describe us all.

First, there are stories that we tell other people about ourselves, as if composing a résumé.

Second, there are stories that other people tell about us, as when our parents brag to their friends or our peers conduct performance evaluations.

The last two categories are the most interesting and are both types of self-talk — the stories we tell ourselves about ourselves.

Self-talk stories typically are either/or tales. Either they are self-affirming and boost our confidence, or they are self-doubting and serve the opposite extreme.

Perhaps counterintuitively, DeLong's research has shown that high-need-for-achievement personalities — ubiquitous in asset management — spend far more time focused on self-doubting narratives. Although we don't often speak about it aloud, there's a good chance this is true for you, just as it is for me.

I'll endeavor to bring you observations that I hope will be of assistance in your investing. In this inaugural column, I'd like to share a challenge we all face but rarely speak about: managing ourselves.

I'll use the present moment as an example. I could tell myself a self-affirming story about this column: I've written extensively about the industry in the past, come up with clever ideas for my clients, made astute observations and market calls, and consistently received praise for my work, and later wrote a book that sold far more copies than I had expected.

But I'm more likely to do exactly what I have been doing in preparing to write: telling myself a story of doubt and failure. It goes something like this: I'm worried that my next piece won't be as good as my last one, I wonder if I have enough to say, I don't like being held to deadlines, and I remind myself that I wrote a book (when no one reads books anymore) about start-up hedge funds (a mature and maligned industry hardly in need of a new product).

I tell you this because we are all in the same boat.

So are our colleagues and peers.

Investing is a people business, yet relating deeply to the people around us and communicating in an authentic and vulnerable way are foreign concepts in asset management. DeLong asks questions that don't normally come up in our day-to-day work experience.

When was the last time you asked a colleague what he is most proud of, and what he fears?

When was the last time you told someone you were wrong about something?

When was the last time you apologized?

In these challenging times for active management, understanding DeLong's points about high performers and creating real dialogue among team members are the key drivers of so-called organizational alpha. Internally, those seeking to beat a benchmark must learn to bring out what is deeply human and special from their teams. Externally, bonds forged with clients build a shared understanding of mission and a long-term perspective that all asset managers aspire to deliver.

Active management is not dead; it just needs more players to learn from successful lessons of the past.

One of those lessons is the importance of communication. A look inside firms like Capital Group and AQR reveals organizations equally renowned for performance, low employee turnover, and client communication — the three legs of a symbiotic stool.

The podcast and this column, then, are a new way of communicating with leaders in the money game. Top active managers will once again have their day in the sun, and soon. It's time to get prepared. II

Ted Seides, *CFA, is the host of the Capital Allocators podcast.*