

BUSINESS NEWS

China Aims to Dominate AI Driving

By Yoko Kubota

GUANGZHOU, China—With electric vehicles, China sped past the rest of the world. Now, it is looking to repeat the feat with autonomous driving.

Competition is intensifying in driver-assistance software—one pathway to full autonomous driving—among startups such as **XPeng** and national technology champions including **Huawei**. To speed up innovation and drive down costs, they are using artificial-intelligence techniques to mimic human driving patterns and navigate cars through many traffic situations, although the latest models still require a human driver to stay alert and at times take control of the car.

The Chinese technology isn't yet widely available in the U.S., but American scrutiny is growing. The Biden administration is probing whether connected vehicles loaded with Chinese software to monitor drivers and connect to networks pose a risk to national security.

Dominating these technologies is important for China if it hopes to realize its ambitions of becoming a global automotive power, challenging the West and Japan.

Compared with the U.S., where **Tesla** has been at the forefront of driver-assistance technology in cars sold to consumers, China offers some advantages for companies that could accelerate progress.

About half of new cars sold in the country are electric vehicles or plug-in hybrids. Advanced driving technology consumes electricity because of the sophisticated computers on board making split-second calculations, and electrified vehicles provide a more-stable power supply than lead-acid batteries in gasoline-powered cars, industry analysts say.

And China's tech-savvy consumers, many of them relatively new to driving, are more open to ceding vehicle controls to a computer. In a survey last year by PwC, 85% of Chinese consumers said they were comfortable with



XPeng, one of China's biggest EV startups, unveiled its end-to-end driver-assistance software.

autonomous driving that doesn't require human action or supervision compared with 39% of American consumers.

Companies are looking at both driving-assistance systems in consumer cars and robotaxis as steps toward full self-driving. Ministries in Beijing and local governments have been introducing guidelines aimed at developing the self-driving car industry.

Michael Dunne, who runs his own automotive consulting firm, said local governments were eager to help companies try out the technology. "The China ecosystem is designed to accelerate the commercialization of autonomous driving," he said.

Inspired by Tesla

Tesla has served as an inspiration to China's EV industry, from its minimalist interiors to its direct-sales model. It is now doing the same for driver-assistance technology, although this time, Tesla's latest technology isn't yet available in China. Tesla said on Sept. 5 that it aimed to introduce the technology in China

in the first quarter of 2025.

Tesla and the Chinese companies are focusing on AI-powered driver-assistance technology that can respond to new roads and scenarios instead of relying on high-definition maps and preset rules written by engineers. This technology is called an end-to-end system because it uses a single AI model to absorb input from sensors and decide how to drive rather than splitting the tasks among separate programs.

The system is trained on data including videos of cars driven by humans, which allows it to simulate how people drive. In theory, that allows the system to spontaneously respond to new roads and scenarios, though many in the industry say safety challenges remain, especially in uncommon driving situations.

With a stream of announcements that recall China's rush into EVs a few years ago, the nation's top carmakers and technology companies are stepping up plans for end-to-end AI driving.

XPeng, one of China's biggest EV startups, introduced

its version in May. **BYD**, the country's biggest carmaker by vehicle sales, is working with Huawei, the telecommunications and smartphone company targeted by U.S. sanctions. BYD's first car using end-to-end driving software, an off-road sport-utility vehicle, is set to go on sale this year. **NIO**, another EV startup, has announced similar plans.

Driving systems

In the first quarter of 2024, more than half of the cars sold in China were equipped with Level 2 and Level 2+ driving-assistance systems, according to research firm Canalys. Level 2 technology can handle steering, acceleration and braking under certain conditions while the driver stays ready to take over.

XPeng says its system has been tested on 4 million miles of Chinese roads and can be used nationwide in contrast to its earlier driver-assistance program, which was limited to

a handful of cities with high-definition maps. A new car with the system will cost as little as \$22,000.

On a test ride recently in Guangzhou, the driver—an XPeng employee—took control several times on the 10-mile route through crowded urban roads and some quieter side streets. At one point, the car, trying to make a left turn, kept inching forward while there was a red light for left turns until the driver took over.

A XPeng spokeswoman said the car was still within the waiting area for left-turning vehicles when the driver took over.

For the most part, the car drove without human intervention, hitting a top speed of about 45 mph. The braking and turning were smooth. "It's not meant to replace human beings. It is meant to help the driver" by relieving fatigue, said Liyun Li, who heads XPeng's autonomous driving center.

Li said XPeng was spending around \$500 million a year on AI computing and talent recruitment, or about two-thirds of its research-and-development budget.

American consumers aren't likely to experience any of the Chinese technology for now because of prohibitive tariffs placed on Chinese EVs.

XPeng said it hoped to bring its driver-assistance software to other overseas markets.

U.S. restrictions on China's access to advanced chips pose a challenge for China's auto industry. While the U.S. doesn't currently bar the export of **Nvidia's** Orin series and certain **Qualcomm** chips that are widely used inside Chinese vehicles, that could change.

However, China's chip industry is growing. Both XPeng and NIO have designed their own chips, as Tesla already does.

—Jiahui Huang contributed to this article.

UPS Buys Healthcare Logistics Companies

By Dean Seal

United Parcel Service is acquiring a pair of healthcare-logistics providers based in Germany, extending the carrier's expansion in a burgeoning distribution sector.

The Atlanta-based delivery company said Tuesday its acquisitions of Frigo-Trans and BPL should enhance its end-to-end capabilities throughout Europe for UPS Healthcare customers that require temperature-controlled logistics. UPS officials told analysts earlier this year it expects revenue from its healthcare logistics operations to double from \$10 billion last year to \$20 billion in 2026. The company expects the total global market for healthcare logistics to grow from \$130 billion last year to \$152 billion in 2026.

UPS has accelerated its push into healthcare logistics since the Covid-19 pandemic beginning in 2020 highlighted the dedicated logistics, including temperature-controlled facilities, needed for vaccines, pharmaceuticals and other medical products.

"The pandemic accelerated the need for better global infrastructure and other critical healthcare-focused innovations," Kate Gutmann, UPS's president of international healthcare and supply chain solutions, said in a March 26 presentation to analysts. "We view this as a structural shift in the marketplace, and one that offers tremendous growth opportunities."

The company created its UPS Healthcare division in 2020, pulling together several million square feet of distribution space and a series of acquisitions, including the 2016 purchase of life-sciences supply chain provider Marken for an estimated \$570 million.

Apollo, State Street Team Up To Launch Private-Credit ETF

By Matt Wirz

Apollo Global Management is teaming up with State Street Global Advisors to sell private-credit investments to individual investors. The two fund management giants announced Tuesday they will launch an exchange-traded fund and other products focused on private credit.

The venture combines one of the largest private-fund managers in Apollo, which has

about \$700 billion assets under management, with one of the biggest mutual fund and ETF managers in State Street, holding roughly \$4.4 trillion of assets.

Public fund managers like BlackRock and Franklin Resources have been pressing into alternative investment products such as private credit and private equity, which pay higher fees than their traditional stock and bond offerings. At the same

time, alts giants like Apollo, Ares Management, Blackstone and KKR are reaching the limits of what they can sell to institutional investors and are looking to the relatively untapped retail market to fuel growth.

The challenge is crafting funds that hold illiquid investments like private credit that are suitable for individual investors, who typically demand the ability to trade in and out of investment products quickly.

Hedge Fund Ties Fees to Performance

Continued from page B1
yielding about 5%, as are many high-yield savings accounts.

Dozens of hedge-fund managers over the years have amassed billion-dollar-plus fortunes through a compensation structure that traditionally involved charging a management fee of 2% of fund assets and a performance fee of 20% of fund profits. The latter fees typically kick in whether or not a hedge fund beats a benchmark.

More recently, fund investors such as pension plans and university endowments have started to push for fee models they say better align fund managers' interests with theirs. With interest rates higher than they have been in decades, investors today have plenty of places to put their money that cost significantly

less than hedge funds. That is giving them leverage to push for better terms.

In a Goldman Sachs survey late last year of 358 fund investors, also known as "limited partners" or LPs, nearly half said they were actively seeking cash-based hurdles. About 14% of firms had such hurdles in place, according to a Goldman survey of 302 fund managers around the same time.

A group of more than 50 large limited partners in hedge funds released an open letter over the summer advocating for the wider adoption of cash hurdles. The group said in the letter that a \$1 billion hedge fund that invested its cash conservatively could have taken home 20% of profits, for taking zero risk.

"This is not sustainable, especially as it seems the risk-free rate may remain elevated for the foreseeable future," the letter said. "Earning cash returns is not the reason institutional LPs invest in hedge funds."

Fees are a particular sticking point for clients of multi-manager hedge funds that gained popularity in recent

years with the promise of the steadiness of bonds but with a higher ceiling. Such firms can employ hundreds of specialized teams that invest semi-independently. In lieu of a management fee, these firms directly bill investors for the costs of running its funds, which often exceed 2% of fund assets and can amount to more than 7% of assets in a given year, according to Barclays.

ExodusPoint, a multimanager firm, raised about \$8 billion when it was launched in 2018, more than any startup hedge fund has ever raised. Investors have been dissatisfied with the firm's recent performance. The flagship fund's 4.6% gain so far this year comes after a 7.3% advance last year.

Under the new terms it negotiated with investors, ExodusPoint can't start charging performance fees until its returns surpass the interest rates that three-month U.S. Treasury bills have fetched at recent auctions, the people said. The firm is making the change, in which investors also agree to lock up their capital for longer, retroactive to the start of 2024.

ExodusPoint's investors include the Teacher Retirement System of Texas, one of the leaders of this summer's open letter. A TRS spokesman declined to comment.

Who's Who of Distinguished Leaders: 2024 Honorees

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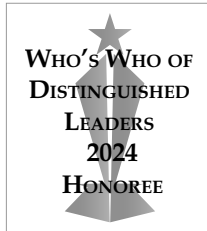
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