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An Activist Investor, Minus the Fangs

Blue Harbour Group's Robbins Takes Velvet Glove Approach

By DAVID BENOIT

Clifton S. Robbins, an activist investor who has shaken up companies across the country, has a simple theory about what sets him apart from rivals such as Daniel Loeb and Bill Ackman.

"I'm more of a lover than a fighter," Mr. Robbins said recently during an interview in his glass-walled office overlooking Greenwich Harbor in Connecticut.

That is the antithesis of the typical image of an activist investor, many of whom have gained renown for buying up large holdings in companies then using tough tactics to force boards to make changes—from asset sales to executive ousters—bolstering the company's shares in the process.

Mr. Robbins, 55 years old, said he won't invest in a company unless its management appears receptive to his ideas. And, he said, public fights aren't his style.

So far, that spoonful of sugar appears to be paying off.

Mr. Robbins's fund, Blue Harbour Group LP, which manages $1.7 billion, is up 20% this year and 16%, after fees, on an annualized basis for the past three years, according to an investor presentation reviewed by The Wall Street Journal. The gains have been driven by profitable investments in fast-food chain Jack in the Box Inc. as well as technology companies Brocade Communications Systems Inc. and Akamai Technologies Inc.

The gains top Hedge Fund Research Inc.'s HFRI Activist Index, which tracks a basket of activist hedge funds and is up 10% in 2013 and 9.6% on an annualized basis over the past three years.

In comparison, the S&P 500-stock index has gained 16%, including dividends, on an annualized basis over the past three years. This year, the index is up 23%.

While many activist investors said they are reluctant to engage in a public battle, Mr. Robbins is one of the few that never has.

Mr. Robbins said his team conducts a long process of research before building a sizable stake in a company, holding phone calls, dinners and meetings with company executives to gauge their responses. If the company seems willing, Blue Harbour will typically invest $100 million to $200 million.

"We want to develop a relationship," Mr. Robbins said. "If you don't want to go along with us, we'll go invest in someone else."

Jack in the Box Chief Executive Linda Lang, who is retiring at the end of the year, said she felt trepidation when she first heard Blue Harbour was circling her company in 2010. But after meeting with Mr. Robbins's team, she felt more at ease, she said. Blue Harbour built up a 7% stake. Blue Harbour then pushed Ms. Lang to speed up plans to convert more company-owned stores into franchises. Now 77% of Jack in the Box stores are franchises, compared with 46% in late 2009. Jack in the Box also has bought back $412 million in shares over that time, at Mr. Robbins's urging, reducing the number of shares outstanding by almost a quarter. Blue Harbour sold the last of its shares in Jack in the Box in October, reaping a 75% return over its three-year investment, according to the investor presentation.

Even though Blue Harbour advocated moving faster, Ms. Lang said she never felt the firm was overly aggressive. "They were very respectful of my leadership, my expertise and the fact I had been with the company for a long time," she said.

In October, three companies owned by Blue Harbour took action to bolster their share price. Brocade increased its share buyback to $1 billion, sending the stock to a four-year high. Cloud-computing company Akamai began a $750 million buyback amid a three-year high for its shares. CACI International Inc., a security-technologies company, made an $820 million acquisition, which, along with buybacks, helped its shares hit an all-time high. The firms declined to comment.

Still, there have been a few misses. Blue Harbour lost 23% on an investment in auto-parts retailer CSK Auto Corp., according to a person familiar with the matter. And the strategy can mean missing out on investments other activist investors score on. Blue Harbour considered investing in movie-rental-kiosk company Outerwall Inc., but decided its involvement may get contentious. Last month, following a review of some of its operations, Outerwall pledged to return at least 75% of its cash flow to investors. That announcement came three weeks after activist fund Jana Partners LLC disclosed a 13.5% stake in the company.

Meanwhile, bigger activist funds can amass larger stakes and target companies out of Mr. Robbins's reach. For instance, Mr. Ackman manages $11.2 billion and Mr. Loeb recently decided to return some of his $14 billion fund.

Mr. Robbins founded Blue Harbour in 2004. He built his resume at private-equity firm KKR & Co. and decided to try what he describes as a private-equity approach to investing: Buy in and then help management make changes.

Blue Harbour is typically active in about eight to 10 companies at any one time and has a "farm team" of five to 10 smaller holdings, Mr. Robbins said.

James Bailey, co-founder of Cambridge Associates, which advises pension funds and endowments on where to invest money, said many of his clients avoid the "extreme" style of activists. But Mr. Bailey said he recommends Mr. Robbins.

"He's one of the best human-relations people I know," Mr. Bailey said. "He's very good at getting people's confidence and getting people to look at their ideas and persuading them."

And while his fund remains relatively small and his approach not typical of many activist investors, Mr. Robbins is well known in investing circles and a common face at industry events and conferences. Even there, though, he refuses to be drawn into criticism of more aggressive tactics.

And he is even humble about his own approach, saying, "It doesn't mean it's better."