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THE CORPORATION WHISPERER

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Like most activist investors, Blue Harbour Group LP's Clifton Robbins will buy minority stakes in publicly traded companies after completing intensive behind-the-scenes due diligence. And like most activists, that investment is made after Robbins and his team have identified a catalyst for improving their target's stock price.

But Robbins and his team generally don't engage in proxy fights, lawsuits or public criticism of the companies in which they invest-an approach that sets the fund apart from the majority of activist investors. Instead, Blue Harbour takes a collaborative approach, making private suggestions and working behind-the-scenes with boards and management over a number of years to effect change. If the company doesn't respond to the firm's suggestions, Blue Harbour won't make an investment-or it will sell its stake.

Robbins has been at it for a while: his fund, formed in 2004, is based in Greenwich, Conn., and has about $3.3 billion in assets, according to a May 15 securities filing.

Dealing with management in private comes naturally to Robbins, who cut his teeth working as a general partner at KKR between 1987 and 2000 followed by a four year stint at General Atlantic Partners.

It's not that Blue Harbour isn't an activist fund-since it was formed, it has filed Schedule 13Ds at seven companies, according to FactSet. Currently, the fund has activist positions in Rackspace Hosting Inc. (RAX), offshore driller Rowan Cos. (RDC) and Allscripts Healthcare Solutions Inc. (MDRX).

In July, Blue Harbour said it had "discussions" with Rowan's management, board and shareholders and analysts over capital allocations, governance and business. In August, the fund reported a 6.4% Rackspace stake and made similar comments. The same with Allscripts, where it acumulated a 7% stake in October. In May last year, Blue Harbour revealed a 6% stake in Babcock & Wilcox Co. (BWC), and in November, the company decided to spin off its power generation business. (In February, Blue Harbour hiked its BWC stake to 9.9%).

This year, on the sidelines of the Las Vegas hedge fund conference SALT, Robbins took time to chat with The Deal about his approach to allocations and about one of his latest investments-Investors Bancorp Inc. (ISBC)-a recently demutualized company that he believes will pay regular dividends and produce large share buybacks.

The Deal: *At Investors Bancorp, did you encourage the company to apply to get regulatory approval from the Federal Reserve to expedite a stock buyback?*

Robbins: Yes. There is a rule that says the first year after you go through a mutual holding company conversion you can't buy back stock for a year [from the completion of the demutualization] and this company went to the Fed and asked for special approval to be able to buy back shares early. It was last granted seven years ago so it is not something that regulators normally do. The Fed's decision to give them early approval is demonstrative of the central bank's opinion of Investors Bancorp and the quality of the management team and their balance sheet.

Why did you decide to launch one of your behind-the-scenes kind of activist campaigns at Investors Bancorp?

It is interesting because it is undervalued. These mutual holding company conversions can be confusing. Also we like the management team. They've been running this bank for seven or eight years and have done really well. At a bank it is important to have a high quality management team to make good loans and has good reserves. They are a very cheap undervalued company and they have all this excess capital with which they can do clever things with: buybacks, dividends, acquisitions.

Did you make a series of suggestions to them? Did you invest and then approach or approach them and then invest? Investors

Bancorp has $2 billion in cash and has a $4.2 billion market capitalization. Was that a key consideration?

Before we invested we made sure that we liked the management team. We became convinced that the loan book was solid and had no issues and we discussed with them what their long term plans would be for the $2 billion [in cash]. We wanted to make sure they were thinking about the world the same way as we were. Now we own 9%. This is an early investment: We only made this investment in the last couple quarters so all of this is going to play out over the next two to three years-not the next two to three weeks-but I am encouraged by it.

I like it because the risk reward is so strong. The chance of losing much money is very low when you are buying something close to book value where the book value is half cash. The downside I think is very limited and the upside is very significant; They are going to grow their business, make more loans, hire more loan officers and they will also deploy a lot of that capital back to shareholders.

What was the activism there?

The activism was about urging them to use the capital effectively. The management team is really good. Yes, we will be urging them and recommending them but they will not be resisting us. The management team run by CEO Kevin Cummings wants what we want. Maybe we want it bigger, bolder and faster but still the guy is great and his team is great.

Can you tell me more about your activist strategy?

If we find management teams that are right on the point and want to do exactly what we want them to do, we are happy to invest. Often that is not the case. Often we come with an idea and they say they hadn't thought of it before and they are not so sure and we need to convince them. If we find a management team like Investors Bancorp that is thinking about things similarly to us we're not going to decide to stay away simply because it wasn't Blue Harbour's unique idea.

There is a certain skill set in dialogue: We have credibility with management and boards and we spend the time and if we don't believe the management or board will do it, we won't make the investment or if we have an initial investment we will sell it but we won't make the large investment.

We're able to invest in companies and pay no premium while hoping to influence their direction and we're looking at the same kinds of companies that strategic buyers and private equity firms would pay a 30% to 50% premium for. Activists who are well funded and have skill set are able to take stakes in these companies and avoid paying the 30% to 50% premium.

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