

# THE WALL STREET JOURNAL.

MONDAY, MARCH 20, 2017

© 2017 Dow Jones & Company, Inc. All Rights Reserved.

## Activist Investor Prods Firms on Social Issues

Blue Harbour Group CEO Clifton S. Robbins says environmental, social and governance issues should be on the same plane as financial issues

By DAVID BENOIT

Clifton S. Robbins is already known as the nice-guy activist investor. Now he's trying to be the socially conscious one.

Mr. Robbins's Blue Harbour Group LP told investors it will urge companies to focus more attention on environmental and social issues such as climate change, diversity and employee well-being. The move builds on the traditional activist strategy of agitating to improve a company's financial metrics and operations to increase value for shareholders.

*'If we can add one more lens to look through that helps us determine risk, that's fantastic.'*

—Clifton S. Robbins

Mr. Robbins, who's known for eschewing the bitter public fights often waged by other activist investors, said the move makes good investing sense.

"This is a way of reducing risk," Mr. Robbins said in an interview. "If we can add one more lens to look through that helps us determine risk, that's fantastic."

Investors long have tried to influence corporate decision-making on environmental and social issues, but such causes have historically been the bailiwick of issue-driven investors like religious groups or nonprofit organizations such as Greenpeace. Recently, some big investors have said they plan to prod companies on such issues, arguing they can impact long-term value.

Index-fund giant State Street Global Advisors earlier this month challenged companies to put more women on their

board, installing a statue of a young girl in front of Wall Street's famed charging bull to underscore its position on the issue.

BlackRock Inc., the world's biggest money manager, this week said it would press companies to be more transparent about the potential effects of climate change on their business.

"Sustainable, responsible and impact investing" funds account for some \$9 trillion in assets under management in the U.S. and have grown 33% a year over the past two years, according to a December report from Bank of America Merrill Lynch. The report's authors found that companies that scored in the top third on environmental, social and governance characteristics relative to their peers outperformed stocks in the bottom third by 18 percentage points.

"Shareholders have been able to demonstrate that it is actually connected to the performance of the company," said Anne Sheehan, head of governance at California State Teachers' Retirement System, which is a Blue Harbour investor. "A nonfinancial issue can turn into a financial issue very quickly if you don't handle it well."

Still, social and environmental concerns rarely crop up in hedge-fund activism, which focuses on financial moves more closely associated with boosting stock prices such as asset sales, buybacks and governance changes.

Mr. Robbins says environmental, social and governance issues should be on the same plane as financial issues. If other activists fall in line, it could have a powerful effect on corporate behavior, as activists hold large stakes and wield significant influence.

"When we call a CEO we are going to be asking about this," Mr. Robbins said.

"We're going to hold you accountable to what we've talked about."

Mr. Robbins already stands apart from other activists by avoiding public fights. Blue Harbour, which manages about \$3.5 billion, makes sure management teams are willing to engage before taking big stakes in companies.

The fund is up about 3% this year. Last year it gained 15.5%, topping the average activist investor and the S&P 500, according to a person familiar with the matter.

Mr. Robbins mulled the move for about a year, reviewing previous investments, talking to advisers and sounding out Blue Harbour investors. He found that concerns about company culture and stewardship translated to concerns about other business decisions.

Managing director David A. Silverman was tasked with building a way to evaluate companies during Blue Harbour's investment process.

The fund examined employee training practices at WebMD Health Corp. to figure out how the company handles sensitive data about medical records. In a recent bet on semiconductor maker Xilinx Inc., Blue Harbour has focused on how much water the company's suppliers use in the production process. It is examining companies to make sure they don't benefit from underage workers in foreign countries.

Blue Harbour determined that discounting these issues can be costly.

In 2012, Blue Harbour sold its stake in packaging manufacturer Gerresheimer AG for a 69% gain, about a \$32 million profit. But the stock continued to gain as the company's efforts to reduce its carbon footprint bore fruit, lowering costs and boosting profits. The firm estimates it missed out on another \$25 million it would catch today.