



Principal®

Brooks Case Competition

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Executive Summary

In this analysis, we provide a detailed recommendation for Principal to acquire Footprint. Footprint specializes in sustainable and environmentally friendly practices. Our recommendation is based on Footprints strong financial performance, their alignment with Principals ESG strategy, and company culture.

Based on the analysis of Footprint and Quants financials, market position, growth potential, and ESG strategies, Footprint is the clear option. Acquiring Footprint will allow Principal to maintain a competitive advantage and improve ESG capabilities.

Footprint's culture and values align well with Principals. Maintaining a strong company culture with talented and community-oriented employees is among one of Principals top priorities. With ESG strategies and culture aligning well with Principals, Footprint is a strong asset to acquire.

Environmental, social, and governance strategies are important to recognize while companies inherit sustainable practices. Investors have become focused on ESG metrics while making investment decisions. Companies with strong sustainability records are prioritizing ESG strategies and efforts. Integrating ESG strategies will enhance the company reputation, attract investors, and supplement a competitive edge. These trends are forecasted to expand & continue, adding more value to why Principal needs to acquire Footprint.



Footprint or Quant

Overview

Principal is committed to ESG investing. Lately, Principal has been looking to acquire Footprint and/or Quant to improve ESG capabilities. Both potential acquisition targets offer several financial, cultural, and legal pros and cons for Principal to assess. This analysis will evaluate Footprint and Quant from **Environmental, Social, and Governance** perspectives, and provide an executive recommendation for which company aligns best with Principal Financial Group.

Goal

1. Decide which company (*Footprint or Quant*) best aligns with Principals financial and cultural goals.

Principal ESG Strategy

ESG Integration

ESG considerations are a core step to Principals investment process. Principal seeks to invest in companies that excel in ESG practices.

Climate Risk Management

Principal assess's potential impacts of climate-related risks on investments & mitigate risks by partnering with companies to improve climate focused solutions.

Diversity, Equity, & Inclusion

Promotion of DEI is a core strategy within principal and organizations they invest in. DEI factors weigh in heavily when making investment decisions.

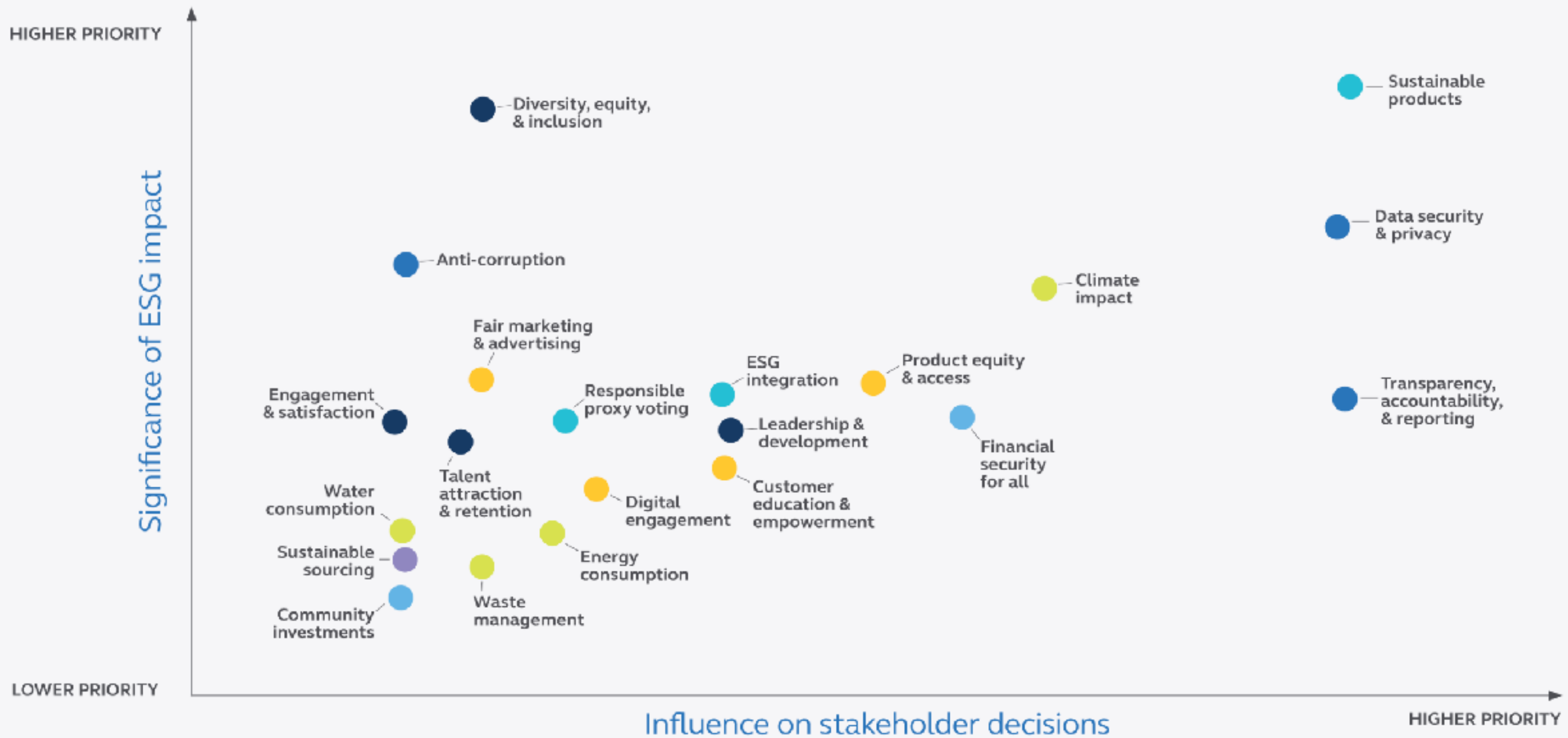
Sustainable investment options

Principal offers investment options centered around sustainability and ESG factors. Examples include funds that invest in companies with excellent ESG practices, green bonds, and renewable energy.

Active Ownership

Principal values engagement with companies in their portfolio to encourage them to improve their ESG strategies.

Materiality Matrix





Footprint Asset Management

Strengths

Footprint has plenty of strong characteristics that make it an interesting company to acquire. With fully integrated ESG research processes and ESG focused funds, their dedication to ethical environmental, social, and governance factors closely align with the practices of Principal. Additionally, Footprint prides themselves on being an industry leader for tenure of fund managers. Similarly, Principal's website states that they pride themselves on attracting, developing, and retaining the best talent. Footprint's long-term investment strategy and ethical operations will make for an easy acquisition process and merger, as the two companies have similar company culture.

Weaknesses

Footprint has weaknesses, one of which is net outflows of \$700M in 2022. (They had four straight years of growth before that.) Another issue that they face is higher than average expense ratios as of late. Additionally, Footprint has struggled as they lost multiple platform positions, representing a material share of their distribution.

Values

Footprint is dedicated to "Investing for Good." As stewards of the planet, Footprint believes in the adaptation of green fuels and modern technology across the globe. These values and ethics can be seen in that they exclude investing in any company that generates more than 5% of its income from restricted operations such as fossil fuels, tobacco, alcohol, firearms, gambling, and adult entertainment.

Strategy

Footprint believes that effective go-forward expense management and a long-term investment horizon will net significant returns and benefits for ESG efforts globally. Its client base is a diverse group of institutional and retail investors, small businesses, and high wealthy individuals. With an ownership group of primarily current and former employees, Footprint creates a closer connection between its business hierarchy while promoting healthy company culture.



Analyzing Quants Strengths & Weaknesses

Strengths

- **ESG investment strategy**

Quant also leverages mutual funds using a QI (Quant impacts) model which is a bonus. They use the QI model to drive investment decisions.

- **Established Client Base**

Mutual funds have an established client base and provide stability and recurring revenue.

- **Fossil Fuel Free Investment policy**

Mutual funds have a policy of avoiding fossil fuel investments which align with Principals ESG strategy.

Weaknesses

- **High turnover rate of employees**

A high turnover rate of employees will lead to instability and will negatively impact performance.

- **Underperformance against benchmarks**

Mutual funds have underperformed against benchmarks which is a negative for investors looking for consistent returns

- **Limited diversification**

Mutual funds are concentrated on high net worth and institutional customers which limits diversification. This goes against principals policies and strategies regarding diversification within their portfolio.

- **High acquisition cost**

Quant is the more expensive option at \$416M USD.

Analyzing Quants Company Culture and ESG through the lens of values and strategy

Values

Quant values ESG investing through their seven mutual funds, which have an asset under management (AUM) of more than \$10 billion USD. Restricting investments in coal/oil/gas industries is a major value that adds an appeal to acquiring Quant.

However, a high turnover rate of key employees, especially three portfolio managers in 2022 is a strong indicator of weak company culture.

Strategy

Quant has a fully quantitative modeling process that tracks several metrics (environmental, social, and governance). They rely heavily on a small number of high-net-worth and institutional customers. Lack of diversification is a risk and concern and does not align with Principals company culture and strategies.

Strengths & Weaknesses impact

Strengths & weaknesses are important to provide a comprehensive evaluation of Quant. Quant values their QI modeling to drive investment decisions, they include a fossil fuel-free policy, which restricts investments in coal, gas, and oil industries. These eco-friendly practices and policies align closely with Principal's current investment practices in the related fields. Additionally, Quant has a lucrative client base, making them an attractive investment opportunity.

However, the cons list highlights several concerns such as high employee turnover, inconsistent performance, limited diversification, and high acquisition costs. Quants investment strategies do not align with principals preferences. Principal prefers a diverse portfolio with a low-risk tolerance which Quant does not offer. Due to the concerns outweighing the positives, Quant is not recommended.

