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How one small bank is getting rich in wealth management

By John Reosti

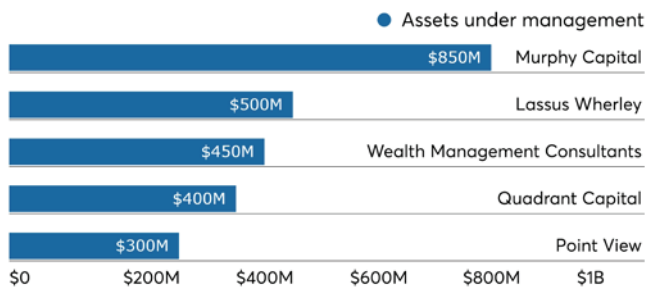
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Peapack-Gladstone Financial in Bedminster, N.J., is betting big on wealth management.

The \$4.8 billion-asset company has bought four boutique firms in the last four years, adding \$2.2 billion in assets under management with those deals. Overall, Peapack counted \$6.3 billion in assets under management on March 31.

The company continues to add heft, agreeing last week to buy Point View Wealth Management in Summit, N.J. The deal, which is expected to close in the third quarter, would add another \$300 million in assets under management.

Peapack-Gladstone's recent wealth management acquisitions



Source: The company

Peapack also plans to unite all of its wealth management units under the Peapack Private brand. The effort will include putting all of the businesses on the same operational and policy platform, said John Babcock, who has led the company's wealth management operation since 2014.

Over time, Babcock aims to increase his team's revenue contribution to Peapack from 22% to as much as 40%.

Consolidation has eliminated a number of traditional trust banks, and Babcock says that provides an opportuni-

ty for Peapack's high-touch business model.

Babcock recently discussed Point View, his expansion plans and the rebranding effort. This transcript has been edited for length and clarity.

What made the Point View so attractive?

JOHN BABCOCK: Summit is a very good market. It's a very upscale, high-net-worth market. As we look to grow and supplement our organic growth, we're not just looking for new assets and new revenue. We're looking for people that can help drive our business forward.

The principals of the firm, David Dietz and his wife Claire Toth, are very active and visible in the Summit community in civic and non-for-profit [activities]. ... Having that kind of visibility will be great.

Both Dave and Claire are lawyers and certified financial planners. Claire was a trust and estate attorney for a number of years at a New Jersey-based law firm. They're a wealth management firm that offers not just investment management but financial planning, advice and execution as well.

People are the first criteria for any firm we have a dialogue with. It's got to be a good fit. The people who join us need to get what we're trying to build and what we're trying to do. Over these past five years, we've added a lot of really great talent to our team. We're going to continue to do that as we move forward.

Can you discuss the integration experience of your four previous acquisitions?

In each of the acquisitions, which in total probably aggregates well over 1,000 clients, we've had a 99.5% retention rate. I only know of two clients who chose not to stay after being acquired by us. And each and every principal has stayed on with Peapack-Gladstone.

What's the latest on the rebranding initiative?

We currently have a two-year project plan to more effectively integrate all these firms under one umbrella, which we've branded as Peapack Private Wealth Management. There are a lot of components and pieces to it, but I'd say the big three are getting everybody on one operating, technology and trading platform. We're well on our way to launching that.

No. 2 is integrating the various investment professionals and investment policies and procedures under one connected construct. We didn't need or want four large-cap growth models, or four rebalancing technologies, or four firms using different research sources. We've tied all that together.

All of the investment professionals operate under one umbrella. John Creamer is our chief investment officer. Jeff Fisher, who was one of the principals of Quadrant that we acquired in 2017, is our chief investment strategist. Those two sit atop our investment organization with responsibility and oversight across all the various business units and subsidiaries.

The third key is building out a larger, broader financial planning capability. At Peapack-Gladstone, we never had financial planning as a separate role, or a separate business. Of course, given our trust and fiduciary background, we have those kinds of conversations with clients, about retirement, about transfer of wealth to the next generation, etc. But there was never a formal financial planning engagement or process.

We acquired Wealth Management Consultants in 2015, and Quadrant in 2017 and Lassus Wherley in 2018. All are financial planning firms at their core. These acquisitions gave us a solid financial-planning foundation we're now expanding and building upon.

How will the marketing work?

There's a transition period. We don't want to do anything to disrupt or shock the clients, but I think over time those names will either go away or become [de-emphasized]. Peapack Private will be the overall brand for all of our businesses. At the end of the day we're all going to be one business.

In terms of the Point View deal, did it follow the pattern of whole-bank deals, where there are often months of meetings and negotiations before terms are finalized?

I would say each and every one of them has taken somewhere between eight to 18 months [for the parties] to get to know each other, share information and bring things to a term-sheet discussion stage.

"I don't look at a number or a growth target," says John Babcock, who oversees wealth management at Peapack-Gladstone. "There's not a destination for us but,

strategically, recurring fee income is an important component of our overall income statement."



Once we've agreed to basic terms and conditions, we go in and do some deeper due diligence with some outside professionals. Assuming all is going smoothly, with no major findings or issues to resolve, we sign a merger agreement — which we just did and announced with Point View.

We would then expect to close a transaction approximately 60 days after delivering the required notices to the seller's clients and obtaining their consent.

How did you do in the second quarter and what growth targets are you working on?

We have not released end-of-June financials yet, so I can't comment on those numbers, but I will tell you that the second quarter was very good from a new-business standpoint, a net new-business standpoint and positive market conditions. Adding \$300 million-plus [in assets under management from Point View], on top of where we ended June 30, will put us significantly ahead of where we were at the end of March.

I don't look at a number or a growth target. There's not a destination for us but, strategically, recurring fee income is an important component of our overall income statement. For many community banks, probably 95% of their revenue is tied to the net interest margin. What comes with that, of course, is credit risk and use of capital, whereas with recurring fee income, there's really no capital — except for the upfront investment — involved. Having that kind of rudder on our profit-and-loss statement that's very consistent and repetitive is valued by investors and shareholders.

Today, in excess of 25% of our revenue is fee revenue, and 80%-plus of that fee revenue is the wealth management recurring fee revenue. We'd like to get that wealth management recurring fee revenue to 30%, 35% or 40% of total revenue. That's what I look at, as opposed to an assets-under-management number.

Assets under management have more than doubled since late 2013. How has Peapack been able to accomplish that?

There are high barriers to entry in this business. A lot of the really good old banks in New Jersey are no longer here. The old Summit Banks or Fidelity Union Banks or the other banks in this business have been swallowed up by larger and larger institutions.

Many of those clients went from feeling like valued clients of those smaller institutions to just an account number at the larger bank. They're looking for a wealth management firm where they can have a real relationship and

people to talk to, where they're not in a model portfolio, where they don't have an 800 number to call if they have a question or issue, where they have an experienced team to serve them and their families.

Being around as long as we've been around, having the caliber and quality of talent that we have, having the brand recognition and the reputation for being a high-touch, high-quality boutique private bank, all those things, along with the high barriers of entry for other banks that just jump into the business, put us in a very enviable position, certainly in New Jersey and I would say for the Tri-State area, as well.