

January 28, 2010

GenSpring - A Multi-Family Office With Momentum, Challenges

Charles Paikert

Editor in New York - Family Wealth Report

The chief executive officer of [GenSpring](#), the US multi-family office, has big ambitions. Asked about the firm's ambitions to be a national brand, Maria Elena "Mel" Lagomasino is quick to state that the firm's goal is to be a leading global, not just US, brand.

"From the beginning, the idea was not just to build a business, but to be the market leader in this space," Ms Lagomasino, the former chairman and chief executive of JP Morgan Private Bank, told this publication in a recent interview. "We wanted to build a platinum brand and put a great 12-cylinder engine in a six-cylinder car."

There is little doubt that GenSpring, a unit of SunTrust Banks, is widely considered one of the elite family offices in the business.

Bessemer Trust and GenSpring "are the two names that come up more than any other when we're reviewing names for clients seeking a multi-family office solution", said Jon Carroll, president and chief executive of New York-based Family Office Metrics.

"We are both competitive at the upper end of the high net worth market," said Rob Elliott, senior managing director for Bessemer, "and we both offer a high level of service and customization".

In fact, most family offices competing for families with \$50 million and up say they are likely to run into GenSpring at "bake-off" competitions to win business.

Making Money

Ms Lagomasino said the business has been making a profit and has been profitable for a year. Profitability was put on the back-burner for a number of years, however, as the firm built up its business, she said.

"In the business GenSpring is in, the number one expense is people, and that does not scale well," said industry consultant Tim Welsh, president of Nexus Strategy, of Larkspur, California.

Ms Lagomasino did not disagree, but said the firm has found a way to have the best of both worlds. "You have to separate activities that are scalable and those that are not," she said. "It's clear that the high touch service we offer families makes the client relationship unscalable. But there are a series of activities that are eminently scalable, including investment management decisions, technology, training and development and compliance."

By smartly combining customization and scale, "you can make a decent margin over a sustained period

of time,” Ms Lagomasino said. “That’s the beauty of this business – if you are doing a good job for families, they will stay with you for a very long time.”

Growth By Acquisition

For the last several years, GenSpring’s growth has been driven by acquisitions. While this strategy has expanded the firm’s footprint and boosted clients and assets, it can also cause internal headaches, industry observers say.

“The challenge of mergers and acquisitions versus organic growth is one of integrating cultures and clients,” Family Office Metrics' Mr Carroll said. “You have the benefit of history and locale but the uncertainty of new personalities.”

“We do extensive due diligence on culture to make sure the cultures are compatible,” Ms Lagomasino said. “That needs to be done way up front and long before agreement is reached,” she said, adding that bringing new blood to the business has brought in new ideas. “Most of our major innovations in the last couple of years have come from integrating best practices of new partners,” she said.

In fact, GenSpring’s most recent deal, a joint venture with Kiawah Capital, a single family office in Charleston, South Carolina, is a harbinger of similar deals, Ms Lagomasino said.

“One of the big things we’ve seen after the crisis is that single family offices are starting to realize that they may be better off in different combinations,” she said.

Family businesses are also being targeted by GenSpring, and last fall the firm opened a Family Business Center in Orlando as a resource center for wealthy families with operating businesses.

Geographically, Ms Lagomasino expects New York City and California to have “big wealth growth rates in the future”. And potential clients are ripe to be plucked from competitors, she said.

“I think people are re-evaluating 'how do I do things better',” she said. “Even when families have done things a certain way for a long time, this is an opportunity for change.”

As for SunTrust, rivals say the association is problematic, but Ms Lagomasino disagrees. GenSpring is a “totally independent separate company,” Ms Lagomasino said, and she described SunTrust, which owns 65 per cent of the firm, as a “wonderful partner.”

“One of the differences between us,” Bessemer’s Mr Elliott says, “is that we are privately owned and GenSpring is part of an institution. Being part of an institution has pluses, but it can also lead to a focus on near-term profits that might influence business decisions.”

There is no cross-selling, she said, but SunTrust has been a major source of referrals. “More than half of new clients know someone at SunTrust who talked to them about us,” Ms Lagomasino said. “It’s been hugely valuable.”