Editorial

In valuing what an asset management company is worth, one could see the problem as an exercise in corporate valuation and apply the usual perpetuity calculation. This would take the annual income, which might be one per cent of fees under management and divide by the discount rate, which might be the discount rate for equity. Such a calculation could lead to a valuation of perhaps ten per cent to 15 per cent of fees under management, even though the current market price is apparently more like one per cent to four per cent. There is a very good draft paper by Gus Huberman, not yet quoted as yet, that addresses these issues.

Another take on this, however, is to think of the problem as more like a mortgage book. The asset management company has two principal assets, its employees and the funds under

management. In parallel with mortgages, both these assets can be redeemed through staff leaving and through clients moving their money. This would define redemption rates, which are not necessarily constant, or state independent. Furthermore, staff leaving may have exposure to the research/investment implementation processes and thus staff redemption can lead to weakening of the investment process or the setting up of a competing process that will draw away funds and/or discredit the existing company. These processes seem rather hard to model and, faced with model uncertainty, the market reacts by lowering the price. Perhaps this explains what seems to be the substantial discount available.

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Editor