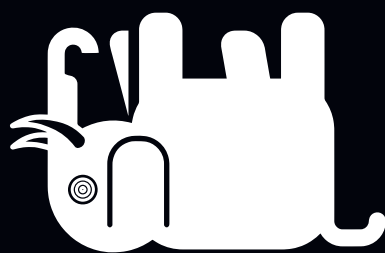
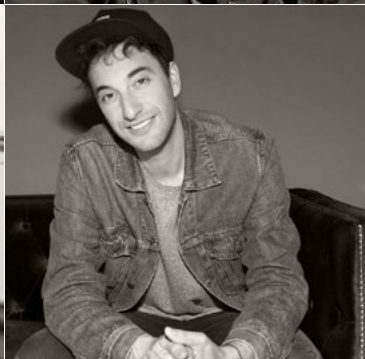
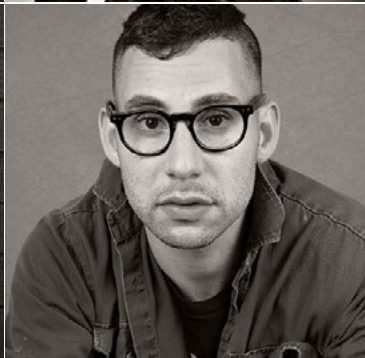
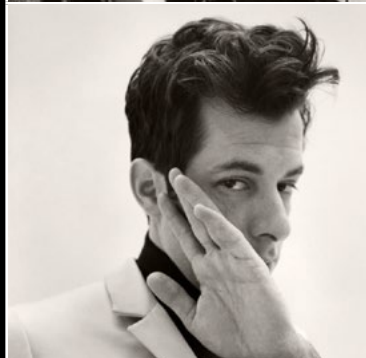
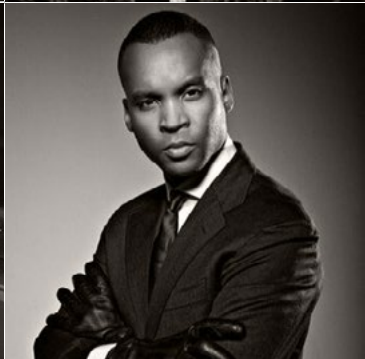
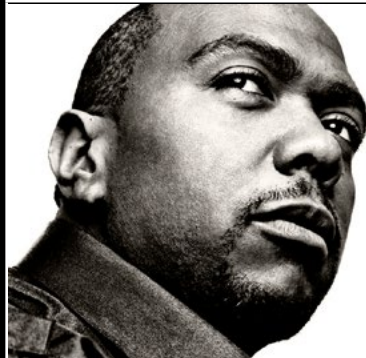


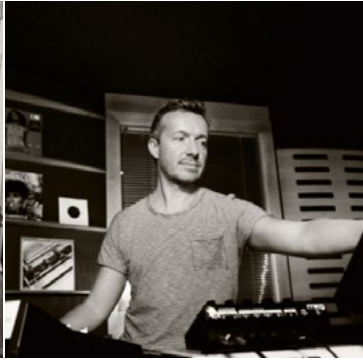
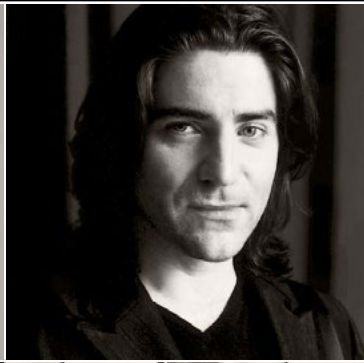
Don't Stop Believin' • Something Just Like This • **Shape Of You** • Girls Like You • **Don't Let Me Down** • Castle On The Hill • **Sweet Dreams (Are Made Of This)** • What About Us • **Love Yourself** • In My Blood • **Closer** • No Tears Left To Cry • **High Hopes** • Look What You Made Me Do • **There's Nothing Holdin' Me Back** • Beautiful Trauma • **What Lovers Do** • Treat You Better • **Uptown Funk** • Photograph • **Havana** • Happier • **Separate Ways/Worlds Apart** • Faithfully • **Breathin** • Livin' On A Prayer • **Wanted Dead Or Alive** • Single Ladies (Put A Ring On It) • **Anyway You Want It** • God Is A Woman • **River** • Locked Out Of Heaven • **Roses** • Shallow • **Sick Boy** • Love Me Again • **Supermarket Flowers** • Paris • **Break Up With Your Girlfriend, I'm Bored** • Smooth • **Set Fire To The Rain** • Skin • **Umbrella** • Close To Me • **Green Light** • Galway Girl • **Feels** • Rockabye • **I Don't Wanna Live Forever** • #Selfie • **We Are Young** • Stone In Love • **All Time Low** • These Days • **Best Of Me** • It's My Life • **You Give Love A Bad Name** • Baby • **Just The Way You Are** • Handclap • **Great Are You Lord When** • I Was Your Man • **Eraser** • Dive • **Cold Water** • 2002 • **Symphony** • Moves Like Jagger • **Issues** • Open Arms • **New Man** • Trumpets • **Back To Black** • Know No Better • **Rise** • 2U • **What Do You Mean?** • Mama • **Marry You** • Nothing Breaks Like A Heart • **So Far Away** • Don't Wanna Know • **Lost In Japan** • Hey Look Ma, I Made It • **All We Know** • Wait • **Live In The Moment** • Here Comes The Rain Again • **Let's Stay Together** • Treasure • **Wheel In The Sky** • Heart's Don't Break Around Here • **Despacito (Remix)** • Stitches • **We Are Family** • Hurt Somebody • **Naked** • Needed Me • **Blame** • Love My Life • **Brave** • Believe • **Titanium** • Story Of My Life • **Now Or Never** • Call It What You Want • **Who's Crying Now** • There Must Be An Angel (Playing With My Heart) • **I'm The One** • Nancy Mulligan • **Some Nights** • Everybody Hates Me • **Tenerife Sea** • What Do I Know? • **Too Much To Ask** • Bloodstream • **Drag Me Down** • Only The Young • **1-800-273-8255** • Lights • **Stand By You** • Rearview Town • **Runaway Baby** • Scared To Be Lonely • **All The Small Things** • Electricity • **Come And Get It** • I Predict A Riot • **Disturbia** • Not Giving In • **Mercy** • Getaway Car Liability • **I'll Be There For You** • This Is Why We Can't Have Nice Things • **Out Of The Woods** • **Somewhere On A Beach** • Count On Me • **Just Give Me A Reason** • Don't Be So Hard On Yourself • Nervous • **Someone To You** • Sign Of The Times • **Supercut** • Even So Come • **Soundtrack 2 My Life** • Unknown (To You) • **I Miss You** • Run The World (Girls) • **All Of The Lights** • You Make It Easy • **Bad Medicine** • Love On Top • **Cheating** • Fallin' All In You • **As You Are** • Don't Come Around Here No More • **Young** • Dance For You • **Thorn In My Side** • Lay Your Hands On Me • **It Won't Kill Ya** • Fake Love • **Something Big** • Hunger • **Where Are Ü Now** • Love • **The Same Power** • Open Up The Heavens • **Birthday Cake** • Stereo Hearts • **Setting Fires** • How Can It Be • **Black Magic** • **Swish Swish** • Here's My Heart • **Green Onions** • Life Of The Party • **Everytime** • Feel The Love • **Holy Grail** • Arrow • **Head Held High** • Born To Be My Baby • **Company** • Obsessed • **We Weren't Born To Follow** • A Different Way • **You Owe Me** • How Do You Sleep? • **Break Your Heart** • Hard • **What's My Age Again?** • The One • **This Town** • Give Me Your Love • **Motivation** • Runaway • **Girl On Fire** • Le Freak • **Underneath It All** • Parallel Line • **King Is Born** • Keep The Faith • **Inside Out** • The Rest Of Our Life • **Monster** • Wild Horses • **Mr. Rager** • Glad You Came • **Fuck You** • Say Amen (Saturday Night) • **Young Girls** • Polaroid • **History** • Touch My Body • **Been You** • Bloodline • **Miracle Of Love** • Would You Ever • **Yo (Excuse Me Miss)** • Mariners Apartment Complex • **I'm Coming Out** • You And I • **We Can Do Better** • Is That For Me • **Because He Lives (Amen)** • Me And My Broken Heart • **Wasted Times** • Be Without You • **Chains** • The Lord Our God



HIPCNOSIS SONGS FUND

Hipgnosis Songs Fund Limited
 Annual Report 2020







Hipgnosis Songs Fund is the first and only UK investment company offering investors a pure-play exposure to Songs and associated musical intellectual property rights. Our focus is building a diversified Portfolio acquiring Catalogues that are built around proven hit Songs of cultural importance by some of the most talented and important songwriters globally.

Our shares listed on the Main Market of the London Stock Exchange in July 2018 and transferred to the Premium Segment of the Main Market in November 2019. Since March 2020, Hipgnosis Songs Fund has been a constituent of the FTSE 250 Index.

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Introduction from Merck Mercuriadis

I founded Hipgnosis to give the investment community access to extraordinarily successful hit Songs by culturally important artists and to establish Songs as an uncorrelated asset class with attractive risk-adjusted returns. **Our ulterior motive is to use the importance of our unparalleled Catalogue and financial clout as influence to improve the songwriter's position in the economic equation.**

We have become a FTSE 250 company in only 20 months and as of the date of this report we are now the 58th biggest yielder on the FTSE 250.

All of our Songs have a proven track record and we do not speculate on new Songs regardless of the past performance of the songwriter, producer or artist. These proven hit Songs produce reliable, predictable and uncorrelated cash flows which are highly investible. Furthermore, 15 years of technological disruption in the form of illegal downloading has left these assets available at attractive prices at a time when the rapid adoption of streaming and its paid music subscription services is growing industry revenues significantly. The convenience and access afforded by streaming combined with a price point of c.£10/\$10 per month has moved music from a luxury/discretionary purchase to very much an indispensable utility alongside the electricity and gas bill. It's at the centerpoint of the technology that has penetrated everyone's life and the Company's revenues/net asset value are being impacted positively as a result. This has been demonstrated more profoundly than ever during the course of the pandemic when the comfort and escape of music has played a critical role in seeing everyone through these challenging times.

We are very excited about these results and we are particularly proud that everything we have promised our investors over the last two years has either come to fruition or been exceeded. We have bought amongst the finest Songs of all time against a backdrop of dramatic streaming growth and we are adding significant value by actively managing these great Songs and bringing efficiencies to collection.

When compared with the 3 major song companies we have achieved between 7% and 12.5% of their revenue on between 0.5% and 0.9% of their number of Songs. Our small Catalogue of 13,291 Songs, albeit with an extraordinarily high ratio of success within it, is earning £4,868 per song vs something less than £150 per song for our competitors.

With over £1 billion of acquisitions in the pipeline covering some of the most important Songs and artists of all time, much of it in exclusivity already, we have just launched a placing targeting £200 million of new equity financing to help capture this pipeline and deliver further returns for our shareholders. With all of this in mind we are very much looking forward to the year ahead where we will work extremely hard to offset any adverse effects of the COVID-19 pandemic and deliver added value to our shareholders.

It remains only for me to thank our incredible shareholders for their support and the Songwriter, Artist and Producer community for entrusting us with their incomparable work that is the energy that makes the world go around whether times are good or bad, happy or sad.

Thank you all for joining us in our mission: To champion the power of Songs and songwriters of the greatest cultural importance.

Merck Mercuriadis

Founder of Hipgnosis Songs Fund Limited and Founder/CEO of The Family (Music) Limited (Investment Adviser to Hipgnosis Songs Fund Limited)

3 July 2020



Hipgnosis has 4 out of the top 5 Billboard Songs Of The Decade...

billboard

DECADE-END CHARTS
HOT 100 SONGS
2010-2019

1 Uptown Funk!
Mark Ronson Featuring Bruno Mars • Mark Ronson and Jeff Bhasker Catalogues
1 Peak Position **2015-01-17 Peak Date**

2 Party Rock Anthem
LMFAO Featuring Lauren Bennett & GoonRock
2 Peak Position **2011-07-16 Peak Date**

3 Shape Of You
Ed Sheeran • Johnny McDaid Catalogue
1 Peak Position **2017-01-28 Peak Date**

4 Closer
The Chainsmokers Featuring Halsey • Chainsmokers Catalogue
1 Peak Position **2016-09-03 Peak Date**

5 Girls Like You
Maroon 5 Featuring Cardi B • Starrah Catalogue
1 Peak Position **2018-09-29 Peak Date**

...and **18** of the Top 100!

9 Despacito (Remix)	Luis Fonsi & Daddy Yankee Featuring Justin Bieber • Poo Bear Catalogue
20 Moves Like Jagger	Maroon 5 Featuring Christina Aguilera • Ammar Malik Catalogue
22 Just The Way You Are	Bruno Mars • Ari Levine Catalogue
29 We Are Young	fun. Featuring Janelle Monae • Jack Antonoff and Jeff Bhasker Catalogues
42 Love Yourself	Justin Bieber • Benny Blanco Catalogue
45 Locked Out Of Heaven	Bruno Mars • Ari Levine, Mark Ronson, Emile Haynie and Jeff Bhasker Catalogues
54 Grenade	Bruno Mars • Ari Levine Catalogue

58 Don't Let Me Down	The Chainsmokers Featuring Daya • Chainsmokers and Scott Harris Catalogues
59 Havana	Camila Cabello Featuring Young Thug • Starrah Catalogue
67 Some Nights	fun. • Jack Antonoff and Jeff Bhasker Catalogues
77 Payphone	Maroon 5 Featuring Wiz Khalifa • Ammar Malik Catalogue
86 What Do You Mean?	Justin Bieber • Poo Bear Catalogue
95 F**k You! (Forget You)	CeeLo Green • Ari Levine Catalogue
97 Break Your Heart	Taio Cruz Featuring Ludacris • Fraser T Smith Catalogue

Hipgnosis has 8 out of Spotify's Top 25 Most Played Songs Of All Time

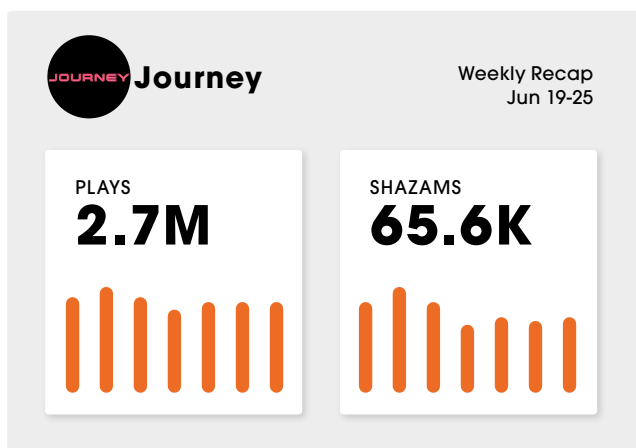


▶	1 Shape of You Ed Sheeran • ÷ (Deluxe) • Johnny McDaid Catalogue	3:53
♪	2 Rockstar Post Malone, 21 Savage • Beerbongs & Bentleys	3:38
♪	3 One Dance Drake featuring Wizkid and Kyla • Views	2:53
▶	4 Closer The Chainsmokers featuring Halsey • Collage • Chainsmokers Catalogue	4:05
♪	5 Dance Monkey Tones and I • The Kids Are Coming	3:29
♪	6 God's Plan Drake • Scorpion	3:18
♪	7 Thinking Out Loud Ed Sheeran • x (Deluxe Edition)	4:41
♪	8 Sunflower Post Malone, Swae Lee • Spider-Man: Into the Spider-Verse & Hollywood's Bleeding	2:38
♪	9 Señorita Shawn Mendes, Camila Cabello • Shawn Mendes (Delux)	3:10
▶	10 Havana (feat. Young Thug) Camila Cabello, Young Thug • Camila • Starrah Catalogue	3:37
♪	11 Perfect Ed Sheeran • ÷ (Deluxe)	4:23
♪	12 Say You Won't Let Go James Arthur • Back from the Edge	3:31
♪	13 Bad Guy Billie Eilish • When We All Fall Asleep, Where Do We Go?	3:14
▶	14 Love Yourself Justin Bieber • Purpose (Deluxe) • Benny Blanco Catalogue	3:53
♪	15 Believer Imagine Dragons • Evolve	3:24
▶	16 Photograph Ed Sheeran • x (Deluxe Edition) • Johnny McDaid, Jeff Bhasker and Emile Haynie Catalogues	4:18
♪	17 Starboy The Weeknd featuring Daft Punk • Starboy	3:50
♪	18 Lean On (feat. MØ & DJ Snake) Major Lazer, MØ, DJ Snake • Peace Is the Mission : Extended	2:56
♪	19 New Rules Dua Lipa • Dua Lipa (Deluxe)	3:32
▶	20 Despacito – Remix Luis Fonsi, Daddy Yankee, Justin Bieber • Vida • Poo Bear Catalogue	3:48
♪	21 Sorry Justin Bieber • Purpose (Deluxe)	3:20
▶	22 Something Just Like This The Chainsmokers, Coldplay • Memories...Do Not Open • Chainsmokers Catalogue	4:07
♪	23 Sad! XXXTentacion • ?	2:46
▶	24 Don't Let Me Down (feat. Daya) The Chainsmokers, Daya • Collage EP • Chainsmokers and Scott Harris Catalogues	3:28
♪	25 Thunder Imagine Dragons • Evolve	3:07



Apple Music for Artists

Global Weekly Recap June 19-25



Insights



Jun 21, 2020

Wheel in the Sky hit 20,000,000 all-time plays.



Jun 21, 2020

It Could Have Been You hit 1,000 all-time Shazams.



Jun 20, 2020

Who's Crying Now hit a new high of 1,000 daily plays in Canada.

Most Played Songs

	1. Don't Stop Believin'	901,348	0%
	2. Faithfully	232,037	-2%
	3. Separate Ways (Worlds Apart)	185,111	0%

Most Shazamed Songs

	1. Don't Stop Believin'	24,346	0%
	2. Separate Ways (Worlds Apart)	9,315	-2%
	3. Faithfully	5,227	-3%

Top Cities

1.	Los Angeles	73,215
2.	Chicago	64,554
3.	New York City	63,894

Top Shazam Cities

1.	New York City	1,178
2.	Mexico City	1,078
3.	Los Angeles	714

Financial and Operational Highlights

As at 31 March 2020, the Company had raised a total of over £625 million (gross equity capital) through its Initial Public Offering on 11 July 2018, and subsequent placings in April 2019, August 2019 and the C Share raise in October 2019, with the subsequent conversion in January 2020.

Catalogue Acquisitions during the period

As at 31 March 2020, the Company had deployed approximately £679 million in total since IPO on 54 Catalogues and 13,291 Songs.

The Portfolio as at 31 March 2020 is below:

Catalogue	Acquisition Date	Interest Ownership	Total Songs
Terius Nash (The-Dream)	11 July 2018	75%	302
Jason Boyd (Poo Bear)	16 November 2018	100%	214
Bernard Edwards	28 November 2018	37.5%	290
TMS	7 December 2018	100%	121
Tricky Stewart	17 December 2018	100%	121
Giorgio Tuinfort	3 January 2019	100%	182
Itaal Shur	30 January 2019	100%	209
Rico Love	21 March 2019	100%	245
Sean Garrett	21 March 2019	100%	588
Johnta Austin	21 March 2019	100%	249
Ari Levine	31 March 2019	100%	76
Sam Hollander	31 March 2019	100%	499
Teddy Geiger	9 April 2019	100%	6
Starrh	23 April 2019	100%	73
David A Stewart	10 May 2019	100%	1,068
Jamie Scott	21 May 2019	100%	144
Al Jackson Jr.	30 May 2019	100%	185
Michael Knox	10 June 2019	100%	110
Lyric Catalogue	12 June 2019	100%	571
Brian Kennedy	12 June 2019	100%	101
Jon Bellion	12 June 2019	100%	180
Neal Schon	21 June 2019	100%	357
Eric Bellinger	1 July 2019	100%	242
Jason Ingram	1 July 2019	100%	462
Andy Marvel	26 July 2019	100%	740
Benny Blanco	7 August 2019	100%	93
The Chainsmokers	20 August 2019	100%	42

Catalogue	Acquisition Date	Interest Ownership	Total Songs
Timbaland	9 October 2019	100%	108
10CC	17 October 2019	100%	29
Journey (Publishing)	17 October 2019	100%	103
Jaron Boyer	5 November 2019	100%	109
John Newman	7 November 2019	100%	47
Arthouse	15 November 2019	100%	44
Fraser T Smith	25 November 2019	100%	298
Ammar Malik	5 December 2019	100%	90
Ed Drewett	9 December 2019	100%	109
Kaiser Chefs	9 December 2019	100%	48
Jeff Bhasker	10 December 2019	100%	436
Jack Antonoff	10 December 2019	99%	188
Emile Haynie	10 December 2019	100%	122
Brendan O'Brien	10 December 2019	100%	1,855
Savan Kotecha	18 December 2019	100%	49
Johnny McDaid	11 December 2019	100%	164
Tom DeLonge	23 December 2019	100%	157
Journey (Masters)	10 January 2020	65%	389
Rebel One	10 January 2019	100%	157
Scott Harris	10 January 2019	100%	129
Brian Higgins	23 January 2020	100%	361
Gregg Wells	10 February 2020	100%	11
Jonathan Cain	28 February 2020	100%	216
Johnny Coffey	28 February 2020	100%	85
Richie Sambora	4 March 2020	100%	186
Mark Ronson	31 March 2020	70%	315
Total Songs			13,291

Financial highlights¹

Year ended 31 March 2020

IFRS NAV²

£621,479,961

(31 March 2019: £198,558,826)

Operative NAV³

£718,863,294

(31 March 2019: £208,794,543)

IFRS NAV per share

100.91p

(31 March 2019: 98.21p)

(Discount)/Premium to Operative NAV

(11.76%)

(31 March 2019: 4.10%)

Middle market share price

103.00p

(31 March 2019: 107.50p)

Ongoing charges figure (%)

1.52%

(31 March 2019: 1.70%)

Operative NAV per share

116.73p per Share

(31 March 2019: 103.27p)

Total dividends declared in respect of the period

5.00p

(31 March 2019: 2.25p)

The footnotes are shown on page 31

The Chair's Statement

This is the Company's first full 12 months' fiscal year report since its launch, covering the 12 months ended 31 March 2020. I am delighted to issue a report which summarises the significant continued progress that has been made in building a Portfolio of proven Songs which are generating strong investment returns, and in raising new equity capital to fund further investments with a view to delivering increased value for our shareholders.

During the period, the Company invested a further £560 million across 42 Catalogues utilising proceeds from the £141.5 million placing in April 2019, the £51.1 million placing in August 2019, £231 million C Share issue in October 2019 and subsequent conversion to Ordinary Shares in January 2020 and from the £60 million drawn down from the £100 million revolving credit facility (subsequently upsized post year-end). Total equity raised since IPO is now over £625 million.

The Portfolio has been independently valued at £757 million, representing a net increase of 11.4% on the aggregate purchase price of £679 million (of which approximately 89% has been acquired in USD), and an increase of 8.6% excluding the impact of foreign exchange gains and losses.

In September 2019, the Company moved the listing of its shares from the Specialist Fund Segment of the London Stock Exchange, to a Premium Listing on the Main Market. This move has benefitted the Company from wider research coverage and has also made its shares accessible to a wider range of shareholders, including retail investors. I am pleased to report that towards the end of March 2020 the Company became a constituent of the FTSE 250 Index.

Investments

During the period to 31 March 2020, the Company acquired 42 Catalogues comprising 10,180 Songs for a total consideration of £560 million. The acquisitions have significantly diversified the Portfolio which now includes Songs performed by hundreds of artists across multiple genres and vintages. All of the acquisitions were sourced by our Investment Adviser, The Family (Music) Limited, who together with its Advisory Board provide access to some of the most successful artists, songwriters and producers globally.

Performance

I am pleased to report an increase in revenue to £64.7 million for the period (financial period ended 31 March 2019: £7.2 million), which was ahead of management's expectations for the period by 2%. During the period adjusted Operating Costs were £10.0 million. Accordingly, the Ongoing charges ratio decreased from 1.70% to 1.52%, reflecting the increased scale of the Company. The Board believes that the Ongoing charges ratio will continue to fall, particularly once the current level of Catalogue investment stabilises and the Company reaches steady state.

Profit before tax, excluding amortisation of Catalogues of Songs under IFRS, was £51.6 million.

EPS, excluding total amortisation of Catalogues, was 10.7p, representing over 2x cover on the full year dividend target⁴ of 5p per Ordinary Share.

The Board considers that the most relevant NAV for Shareholders is the 'Operative NAV', which reflects the fair value of the Company's Portfolio as valued by an Independent Valuer.

As at 31 March 2020, the Operative NAV per Ordinary Share was 116.7p, reflecting an increase of 13.0% since 31 March 2019 and 14.3% since the last published Operative NAV per Ordinary Share of 102.2p as at 10 January 2020, which was the post C Share conversion NAV.

Including dividends paid, at 31 March 2020 Hipgnosis has produced a Total Operative NAV Return of 17.7% since 31 March 2019, and 22.7% in less than two years since the IPO on 11 July 2018.

As at 31 March 2020 the Ordinary Share price was 103p, a 0.8% premium to the then last published Operative NAV per Ordinary Share of 102.2p as at 10 January 2020. As at 30 June 2020 the Ordinary Share price had risen to 116p, a 0.6% discount to the latest published NAV per share of 116.7p.

Dividend

In the financial year the Company paid total dividends of 5p per Ordinary Share, paid in four quarterly instalments of 1.25p each at the end of May, August and November 2019 and February 2020.

As previously reported, the Company continues to target a total dividend of 5.0p⁴ per Ordinary Share for the current financial year ending 31 March 2021 and has today declared its first interim dividend for the year ending 31 March 2021 of 1.25p per Ordinary Share.

Working Capital Facility

In its first Annual Report, the Company stated that the Directors considered it a priority that the Company's level of gearing should be established at appropriate levels with sufficient flexibility to enable the Board to adapt at short notice to take advantage of changing conditions in the market for purchasing Songs.

On 29 August 2019, the Company signed a Revolving Credit Facility (RCF) of £100 million with JPMorgan Chase Bank, the facility being available for 3 years.

As at 31 March 2020, net debt (Total amount drawn down less cash in bank) was £45.9 million, with facility headroom of £39.5 million. Post year end the Company



entered into an agreement to increase its RCF to £150 million (and may request a further increase of £50 million subject to certain conditions). The term of the facility was also extended to 5 years.

In addition, on 29 May 2020, the Company announced that it was seeking shareholder support to increase the Company's current borrowing limit of 20% of its Operative NAV to a maximum of 30% of its Operative NAV, given that the Company's assets and their associated income streams are well suited to supporting leverage. This approval was given by shareholders at an Extraordinary General Meeting on 11 June 2020.

The Board

Preparations for the Company's migration to a Premium Listing on the Main Market of the London Stock Exchange resulted in planned changes to the Board and its Committees throughout the year ended 31 March 2020:

- Mr Burger, an existing independent Non-Executive Director, was appointed as Senior Independent Director on 9 September 2019;
- Ms Coleman was appointed as an independent Non-Executive Director with effect from 27 November 2019; and
- On 9 September 2019, the Board established a Nomination committee and a Remuneration committee which will be responsible for appointment and remuneration of Directors:

– Nomination Committee

Mr Burger has been appointed as the Chair of the Nomination Committee. As the Board is comprised wholly of independent Non-Executive Directors, all members of the Board are members of the Nomination Committee.

– Remuneration Committee

Mr Holden has been appointed as the Chair of the Remuneration Committee. As the Board is comprised wholly of independent Non-Executive Directors, all members of the Board are members of the Remuneration Committee.

Annual General Meeting

Due to the ongoing situation surrounding COVID-19 and the restrictions on public meetings, it is intended that this year's Annual General Meeting ('AGM') will be held later in the year, probably in September or October. The Company will announce details of the AGM later in the summer and will send the Notice of AGM to Shareholders at that time.

It is hoped that Shareholders will be able to attend the AGM in person should they wish to do so, although this will be subject to Government restrictions and advice in force at the time. In any event, in these exceptional circumstances, even if restrictions on public meetings have been relaxed by the time of the AGM, Shareholders are strongly encouraged to consider whether it will be appropriate for them to attend the AGM.

In the event that the situation changes and the arrangements for the AGM have to be amended after the Notice of the AGM has been issued, the Company will update Shareholders through an announcement to the London Stock Exchange and on the Company's website.

Outlook

The first half of 2020 has seen enormous shocks to the global economy as a result of the COVID-19 pandemic. The pandemic will have significant effects on lives, livelihoods, and businesses, for some time to come.

The music industry is not immune to the impact of the pandemic, with performance and live entertainment in particular having been materially disrupted during the immediate period of lockdown. However, people listen to music in good times and bad and the streaming of music has increased noticeably during the lockdown period, demonstrating the resilience and longevity of quality music and Songs. The Company benefits from investing in an asset class which can thrive when other sectors and markets are suffering and I am confident that this can continue to be the case over the coming year.

On behalf of the Board I would like to express my thanks to all of our Shareholders for their continuing support. The Company has assembled a diversified Portfolio of proven Songs, across vintage and genres, sourced by our Investment Adviser. Our pipeline of Catalogues remains very strong with a potential total investment fair value in excess of £1 billion and it is the Board's view that the investment thesis remains as solid now as at the time of our IPO. Accordingly on 2 July 2020, the Company announced a placing and retail offer to raise a target of £200 million of new equity capital. I look forward to the next exciting 12 months of activity for Hipgnosis.

Andrew Sutcliffe

Chair

3 July 2020

Investment Adviser's Report

Introduction

I started Hipgnosis to give the investment community access to extraordinarily successful hit Songs by culturally important artists and to establish Songs as an uncorrelated asset class with attractive risk-adjusted returns. All of our Songs have a proven track record and we do not speculate on new Songs regardless of the past performance of the songwriter, producer or artist. These proven hit Songs produce reliable, predictable and uncorrelated cash flows which are highly investible. Furthermore, 15 years of technological disruption in the form of piracy has left these highly investible assets available at attractive prices at a time when the rapid adoption of paid music subscription services is growing industry revenues significantly. The convenience of streaming and the access afforded by it combined with a price point of £10/\$10 per month has moved music from a luxury/discretionary purchase to very much an indispensable utility alongside the electricity and

gas bill. It's the centerpoint of the technology that has penetrated everyone's life and the revenues/net asset value are being impacted positively as a result. This has been demonstrated more profoundly than ever during the course of the pandemic when the comfort and escape of music has played a critical role in seeing everyone through these challenging times.

We are very excited about these results and we are particularly proud that everything we have promised our investors over the last two years has either come to fruition or been exceeded. We have bought what we consider to be amongst the finest Songs of all time against a backdrop of dramatic streaming growth and we are adding significant value by actively managing these great Songs and bringing efficiencies to collection.

A core part of our thesis is that Song revenues are uncorrelated as whether in good times or when facing challenges, music is always being consumed. While we would not have wished for a pandemic to demonstrate this it has indeed done exactly that and that has been reflected in our strong performance.

We have become a FTSE 250 company in only 20 months and as of the date of this report we are now the 58th biggest yielder on the FTSE 250 meaning there are only 57 companies paying a higher dividend (relative to share price) and at a time when many have had to cancel their dividends altogether. The lockdown due to COVID-19 has had a devastating impact on the economy. Despite music being uncorrelated there are still certain income streams that have been impacted. Live events are not possible and it may be 2021 before mass gatherings



Merck Mercuriadis, Founder of Hipgnosis Songs Fund Limited and CEO of The Family (Music) Limited (Investment Adviser to Hipgnosis Songs Fund Limited)

are widely permitted. Revenue from licenses issued to shops, gyms, bars and restaurants that were temporarily closed will feel adverse effect despite most of them being annual licences paid in advance. TV/Radio advertising have also been affected as the advertising market has also been negatively impacted, but it has been temporary and it is expected this will be offset with increased programming for television and streaming services where our synchronisation activity remains strong. Netflix alone have 52 new shows in production as announced on 20 June. It is important in this context to highlight that the majority of our Songs have a proven track record of extraordinary success and we do not speculate on new Songs regardless of the success of the songwriter, producer or artist.

Music streaming remains buoyant with now more than 400 million subscribers globally and there have been extensive reports throughout the pandemic that subscriptions are up across the entertainment sector as people have consumed more music and entertainment whilst in isolation. This is explored in more detail within the current market conditions below and it is expected that this will outpace the decline in other revenues streams, and this is reflected in Goldman Sachs' COVID-19 report* which projects that song related revenues will grow by 3.5% overall in 2020.

Since 31 March 2019, we have acquired a further 42 Catalogues which contain some of what we believe to be the most culturally important and commercially successful Songs of all time including Eurythmics' 'Sweet Dreams (Are Made of This)', Journey's 'Don't Stop Believin', The Chainsmokers'

'Closer', Al Green's 'Let's Stay Together', Ed Sheeran's 'Shape of You' and 'Castle On The Hill', Mark Ronson's 'Uptown Funk', Amy Winehouse's 'Back To Black', Lady Gaga and Bradley Cooper's 'Shallow', Bon Jovi's 'Livin' on a Prayer', P!nk's 'What About Us', Justin Bieber's 'Love Yourself' and Shawn Mendes' 'Stitches'.

We are delighted that we co-own five of the "Top 10 Songs of the Decade" (including 4 of the Top 5) as announced last year by Billboard Magazine. We further cemented our interest in the Top 10 through our recent acquisition of Mark Ronson's Catalogue which includes the record-breaking Number 1 hit of the decade 'Uptown Funk'.

We are pleased to note that 'Shallow' by Lady Gaga and Bradley Cooper, co-written by Mark Ronson, was in the global top 10 digital singles of 2019. Furthermore, Taylor Swift's album 'Lover', of which we own copyright interest through our Jack Antonoff acquisition, was ranked second in the IFPI global top albums of 2019 and Camila Cabello's 'My Oh My' has just been #1 on radio in the US.

Significantly we also own 8 of the 25 most streamed Songs of all time on Spotify and our interest in that chart is likely to continue to grow as we acquire other classic Songs.

I would sincerely like to thank all of our investors for their belief in helping us to establish proven Songs as arguably the strongest of new asset classes, which is not only great news for all of us, but the wider community of songwriters, artists and producers as a whole.

* Source: Goldman Sachs (Equity Research), 'Music in the Air: The show must go on'

A Decade of 'Livin' on a Prayer' by Bon Jovi

co-written by Richie Sambora whose publishing Catalogue was acquired by Hipgnosis in March 2020

Publishing Income 2009-19 (US\$)

The income generated by 'Livin' On A Prayer' since 2009 provides an illustration of the enduring appeal and consumption of Songs in our Portfolio and how effective active management adds to the underlying performance. It encapsulates themes of activity the investment adviser will emulate and prioritise on all its classic assets.

The 44% increase in total income over the past decade for 'Livin' On A Prayer' is reflective of the overall music publishing business which has enjoyed fantastic growth over the past 5 years. This growth was driven by the global online subscriptions in Streaming from c.1 million¹ in 2009 to 358 million in 2019² more than offsetting the declines seen within Mechanicals and Downloads.

Performance (2)

Performance income has increased steadily reflecting better collections seen globally combined with growth in tv and radio. Between 2018 and 2019 there was a significant uptick of 66% driven by Bon Jovi touring income. Bon Jovi are currently planning a new World Tour for 2021/2022.

Streaming (3)

Over the past decade there has been a fundamental shift in streaming. Between 2009 and 2011, only 3% of total royalties were generated from streaming services. Since 2009, Streaming has grown from close to zero revenue to the second largest revenue source with the fastest current growth rate.

Streaming growth rate increased following Spotify's US launch in 2012. The growth in streaming for 'Livin' On A Prayer' has been impressive, at a staggering 276% since 2016.

We expect to see this income type become more dominant in the years to come with the continued adoption of DSPs such as Spotify and Apple Music, as well as new entrants to the marketplace such as Tik Tok and Peloton, which are being adopted by a widening demographic of user age groups.

1 Source: Wired Magazine 'Spotify Has 1 Million Paid Subscribers...'

2 Source: Counterpoint 3 April 2020 'Global Online Music Streaming Grew 32% YoY to Cross 350 Million Subscriptions in 2019'

2009

Synchronisation royalties for the iconic video game 'American Guitar Hero' and for music video game 'Rock Band 2'.

2011

Marked the highpoint in Mechanical royalties for the song over the decade with Mechanical sales declining for most of the period thereafter, common with the general trend in music consumption.

2012

The launch of Spotify in 2012 marks the start of an upward trend for Streaming which by 2019 accounted for 25% of total revenue for this Song. The growth in streaming has been impressive at a staggering 276% since 2016.

Synchronisation (4)

Synchronisation is buoyant over the period, reflecting that the song is highly 'syncable' with strong opportunities for Active Management. Synchronisation deals over the period include the song being placed in the iconic video games 'American Guitar Hero' and 'Rock Band 2' both in 2009, in 2014 was on the trailer for the 2013 animation film 'Free Birds' and in 2016 the football video series 'Madden NFL 2017'. These lucrative licenses across the decade demonstrate the continued earning power of the song.

Mechanicals (5) and Downloads (6)

Downloads and Mechanicals account for a small proportion of total royalties earned between 2017 and 2019. This trend is reminiscent of the general sentiment in music consumption of accessing music via streaming rather than ownership through downloads and the decline in physical sales, which both trigger a mechanical royalty.

Other (7)

Income was also generated from Print rights, for the song to be reproduced as sheet music, and Grand rights, to use the song in theatrical stage productions and musicals.

\$600k

\$450k

2018-19

saw a 66% growth in total income for the song. The growth was driven by Performance and Streaming, more than offsetting the declines in Mechanical and Download.

2016

Synchronisation earnings growth in 2016 was driven by license for the football video series 'Madden NFL 2017'.

\$300k

\$150k

KEY

- 1 Total
- 2 Performance
- 3 Streaming
- 4 Synchronisation
- 5 Mechanicals
- 6 Downloads
- 7 Other

2015

2016

2017

2018

2019 >

Investment Adviser's Report

Continued

Hitting the Key Notes in Our Musical World

Our Thesis

1. Access

- We are trusted by the artist, songwriter and producer community as a buyer and custodian
 - Creators are protective over their legacy and are selective about who they will sell to
 - They want to be sure that their Songs will be used in line with the ethos on which they have built their careers by a team that understands them
 - We are viewed as custodians who can protect the meaning and secure the financial future of the creator's Songs. We in fact do not view ourselves as publishers at all but rather SONG Managers who actively manage the Songs with great responsibility
 - We have the relationships, reputation and expertise in the industry to advocate on behalf of creators and look after their legacy
- We now have over £700 million invested across 54 Catalogues (13,291 Songs)

2. Streaming

- Technology has changed music consumption
- The monetisation of music has improved
- The revenue pie has grown dramatically from 50 million paid subscribers 2 years ago to more than 400 million today
- Music is now a utility purchase rather than discretionary or a luxury

3. The US Copyright Royalty Board

- The CRB has passed into law an increase in streaming songwriter royalty rates from 10.5% to 15.1% over the five years to 2022¹

4. Active Management

- Our Investment Adviser has an extensive network of relationships in the music industry
- We are specifically structured to have the bandwidth that allows us to Song Manage in order to extract incremental revenue with a focus on a smaller number of songs per Executive than the publishing majors

5. Efficiencies In Collection

- We work to bring efficiencies via faster and more transparent collection of micro-payments using our preferred administrator
- Different streams of income from the Songs will go to pay a 5p p.a. target dividend yield with significant capital upside²

6. Strategy

- We have made our reputation with songwriters, artists and producers not at their expense
- Target proven Songs
- Emphasis on the great works of the African American Community; since the days of Elvis Presley, The Beatles and The Rolling Stones covering Arthur 'Big Boy' Crudup, Chuck Berry, Little Richard, Muddy Waters, Smokey Robinson and Bobby Womack songs, black music has made the world go round.
- Act as custodians for the songwriter
- Leverage our assets to address structural imbalance between payments on recorded music and payments on Songs in favour of the songwriter

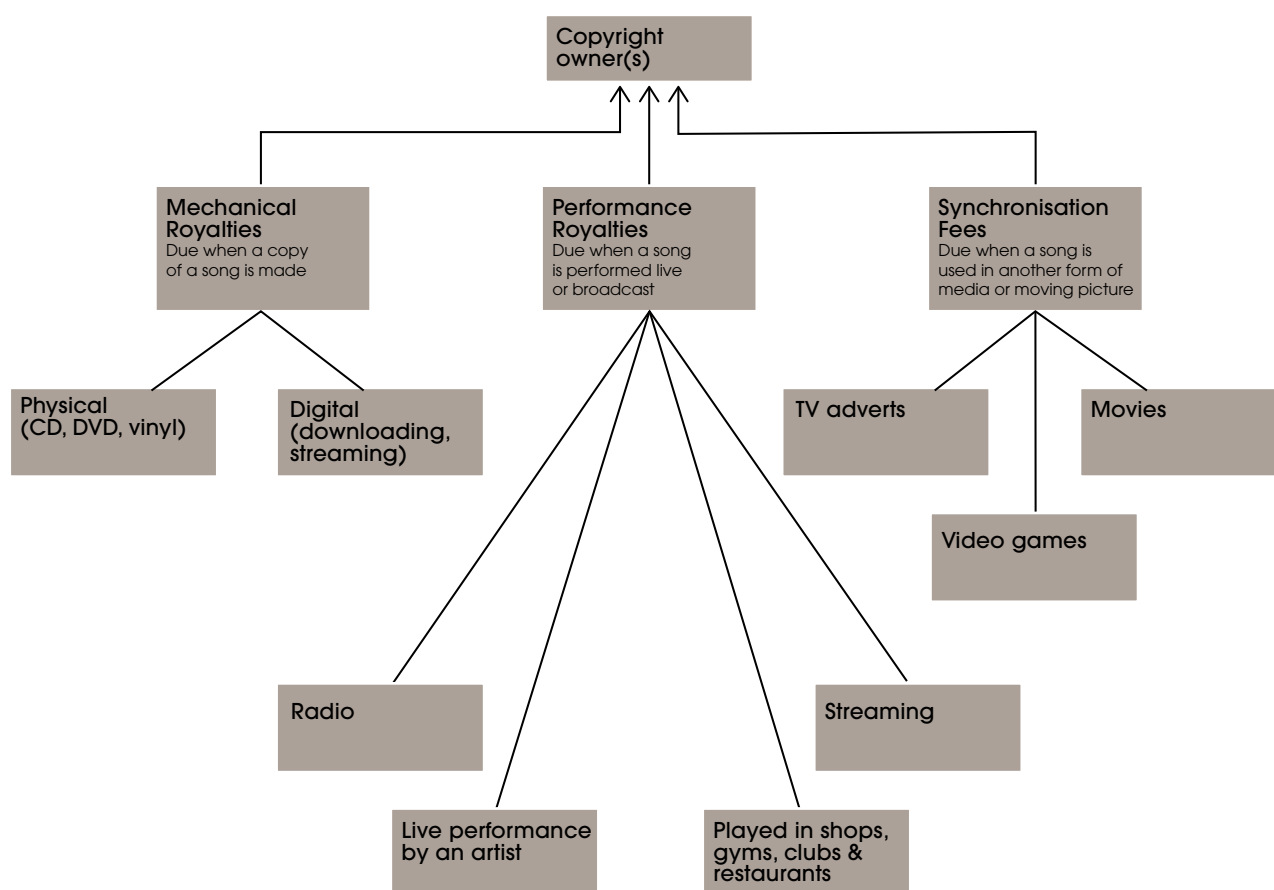
Sources:

¹ <https://www.musicbusinessworldwide.com/a-44-streaming-royalty-rise-is-now-locked-in-for-us-songwriters-so-long-as-the-likes-of-spotify-dont-declare-war/>

² The target dividend should not be taken as an indication of the Company's expected future performance or results over such period. The target dividend is a target only and there is no guarantee that it can or will be achieved and it should not be seen as an indication of the Company's expected or actual return

How Do We Know?

Understanding the income streams for copyright owners of Songs



Investment Adviser's Report

Continued

What is Happening?

Streaming

- Technology has changed music consumption
 - 2017 \$62bn -> 2030E \$131bn global revenues
 - Music Publishing revenues are projected to grow +108% over this period
- Legal streaming has replaced illegal downloading¹
 - Streaming: 50m paying users in 2016, 400m music subscribers globally by Q1 2020, up from 341m at the end of 2019.
 - By service, Spotify led with 32%, followed by Apple Music on 18% and Amazon Music on 14%².
 - Streaming: 2015 \$2.3bn -> 2030E \$28bn (+1117%)
 - Downloading: 2015 \$1.5bn -> 2030E \$0.2bn (-87%)
- Streaming is driving industry revenue growth³
 - Spotify Premium subscribers grew 31% year-on-year to 130m at 31 March 2020
 - Apple Music amassed 60m paid subscribers in June 2019, up from 50m in June 2018.
 - 65% consumption is classic catalogue, 35% new hits of the last few years
 - 5% growth in premium subscriptions in Q1 20, ahead of forecasts set before COVID-19
 - Total Monthly Active Users (MAU) grew 31% year-on-year to 286m
 - Passed 60m paid subscribers in June 2019, up from 50m in June 2018⁴
 - Rival streaming apps launched in December to challenge Spotify, TencentMusic and Apple Music in Asia
 - We are well positioned in this space with The Chainsmokers, Ariana Grande, Taylor Swift, Ed Sheeran, Camila Cabello, Shawn Mendes and Justin Bieber
 - Amazon Music Unlimited subscribers now over 55m⁵
- 51% streaming growth in vintage Catalogues⁶

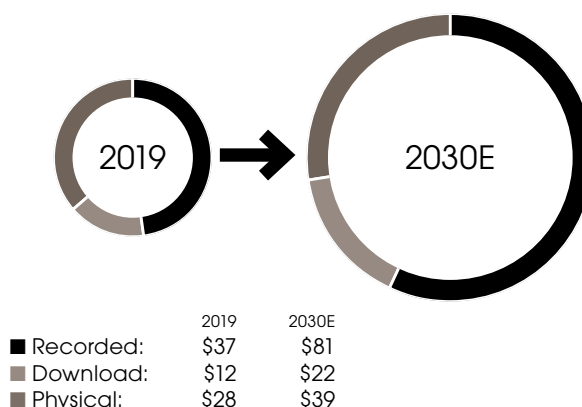
CRB Ruling

- In 2018 the CRB ruled to increase streaming songwriter royalty rates from 10.5% to 15.1% by 2022⁷
- Appeal to ruling by Spotify is expected to fail⁸

Warner Music Group IPO¹¹

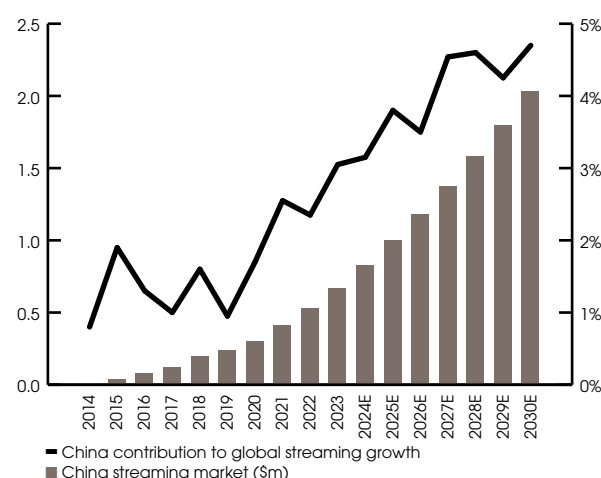
- IPO on Nasdaq on 3 June 2020
- \$2bn raised at \$25 per share, implying:
 - Market value of \$12.5bn
 - EV/EBITDA multiple of 20.2x
- Shares rose over 20% on first day of trading to c\$30, implying:
 - Market value of over \$15bn
 - EV/EBITDA multiple of 23.6x
- Key comparisons to Warner Music Group
 - Hipgnosis generated ~12.5% of Warner Chappell revenue on less than 1% of assets
 - Hipgnosis' Net Publisher Share per Song of c.£5,000 compares to £135

Global Music Market Breakdown, 2019 vs. 2030E (US\$ bn)



Source: Goldman Sachs Global Investment Research

China streaming market (US\$m) and % contribution to global streaming growth



Source: IFPI Global Music Report 2020, Goldman Sachs Global Investment Research

Sources:

- 1 Goldman Sachs (Equity Research) 'Music In the Air' update 2019
- 2 Media Research 2020
- 3 Spotify Q1 results: [https://s22.q4cdn.com/540910603/files/doc_financials/2020/q1/Shareholder-Letter-Q1-2020-\(Final\)-\(1\).pdf](https://s22.q4cdn.com/540910603/files/doc_financials/2020/q1/Shareholder-Letter-Q1-2020-(Final)-(1).pdf)
- 4 Endgadget Analytics
- 5 <https://www.google.co.uk/amp/s/www.theverge.com/platform/amp/2020/1/22/21077187/amazon-music-service-55-million-customers-spotify-apple-music-prime-members>
- 6 Company Data
- 7 <https://www.musicbusinessworldwide.com/a-44-streaming-royalty-rise-is-now-locked-in-for-us-songwriters-so-long-as-the-likes-of-spotify-dont-declare-war/>
- 8 This ruling has been challenged but is expected to fail
- 9 Goldman Sachs (Equity Research) 2016
- 10 For musical works/composition. Not applicable for sound recordings. Copyright terms vary from jurisdiction to jurisdiction
- 11 <https://www.rollingstone.com/pro/news/warner-music-group-nasdaq-ipo-1009778/#%7E:text=WMG%20is%20once%20again%20a,company%20a%20%2415%20billion%20valuation%20and%20https://www.billboard.com/articles/business/9395845/warner-music-group-shares-up-20-percent-first-day-trading>

Giving a Perfect Storm of Opportunities for Investment Now

1. Disruption from technology has created a surge in music streaming

- Integration with other products
 - Spotify now comes with your Sky box
 - BMW, Volvo and Ford cars pre-installed with Spotify and Apple Music CarPlay
 - Easy to play music by voice commands to Amazon's Alexa and the Apple Homepod speakers
 - Spotify integrated into Android Wear and Samsung Gear Fit watches

2. Songs are available to buy

- Until recently, 15 years of declining revenue has resulted in attractively priced copyrights and writers who are willing to sell to the right buyer
- Estate and pension planning is a priority for many creators – a good song's copyright can produce predictable and reliable royalty income⁹
 - 'Merry Christmas Everybody' by Slade earns c.£500,000 every Christmas⁹
 - 'Yesterday' by the Beatles has been covered over 2,200 times. The songwriters receive royalties from every version, totalling around \$30m since the song's inception⁹

3. Copyrights remain attractively priced

- Valuation multiples applied to historical royalty income
- Royalty revenues have declined for 15 years until 2016¹
- Based on our Investment Adviser's view, portfolio acquisition multiples remain attractively priced

4. Longevity of Income

- Song copyrights persist for decades – In the UK, 70 years after the death of the last co-composer giving, on average, 120 years of rule of law protected revenue¹⁰
- Income from owning the writer's and publisher's share of a song is protected by law

5. Improvement in royalty income collection with increased transparency and efficiency

- Music Modernization Act was passed by US Congress in April
- The Copyright Royalty Board ruled to increase the revenue paid to songwriters by 44%⁸
- \$1 of income purchased last year will now be worth \$1.44 by the end of 2022

6. Increasing synch opportunities with income produced from music being used in trackable sources

- Movies, video games, TV adverts and programmes
- Virtual reality and social media
- YouTube videos made by bloggers with millions of followers ("vlogging")
- Cover versions are stronger than ever (e.g. from a rise in televised talent shows)

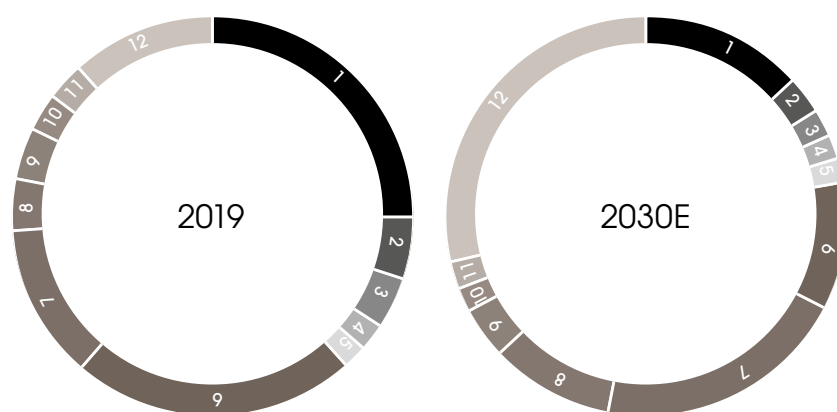
7. Opportunities in emerging markets

- Historic high piracy rates
- Recent payment solutions, business models and recognition of intellectual property rights have set the stage for growth
- Increased uptake in legal streaming
- Apple, Spotify and local services are delivering revenues from markets that are not in the data on which we buy Catalogues

8. Emerging technologies

- Increasing income created from high smartphone usage
- Creating more sources of music usage and opportunities to produce synchronisation income

Streaming Subscriber Mix by Geography, 2019 vs. 2030E (%)



	2019	2030E
DEVELOPED MARKETS	1. USA	24%
	2. UK	5%
	3. Germany	4%
	4. France	2%
	5. Japan	2%
	6. Other	22%
EMERGING MARKETS	7. China	12%
	8. India	4%
	9. Brazil	4%
	10. Mexico	3%
	11. Russia	3%
	12. Oth. ex BRICS	11%

Source: IFPI Global Music Report 2020, Goldman Sachs Global Investment Research

Investment Adviser's Report

Continued

Our Purpose and Business Model

Our Purpose

Hipgnosis was created to give the investment community access to extraordinarily successful hit Songs by culturally important artists and to establish Songs as an uncorrelated asset class with attractive returns. **Our ulterior motive is to use the importance of our unparalleled Catalogue and financial clout as influence to improve the songwriter's position in the economic equation.**

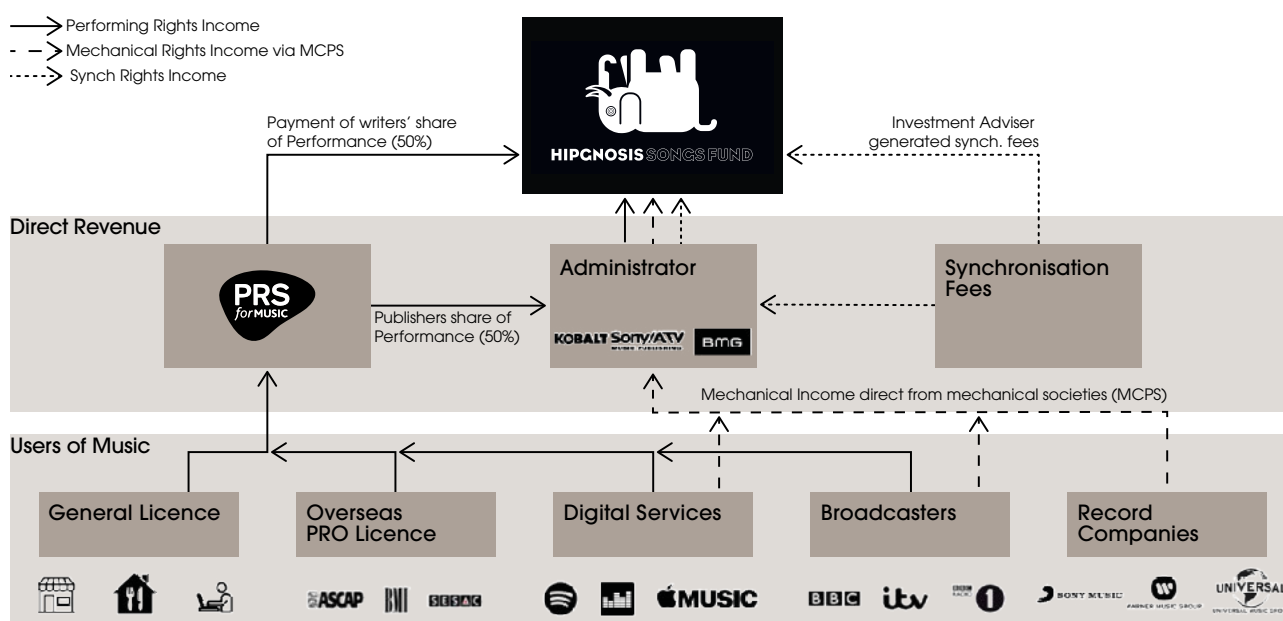
Our Business Model

The key characteristics of the Hipgnosis business model are:

- Sustainable earnings, with sources of income from across the spectrum of consumption patterns made up of millions of microtransactions such as streaming, physical purchase, downloading, synchronisation, performance, licensing and merchandising. The main revenue streams are:
 - i) **Mechanical royalties** – are paid to the owner of the composition copyright. Mechanical royalties are also collected by royalty collection agents or the portfolio administrators whom the copyright owner appoints;
 - ii) **Performance royalties** – these are collected by various performance rights organisations (“PROs”) worldwide which represent songwriters and other copyright owners; and
 - iii) **Synchronisation fees** – these are typically paid directly to the owner of the relevant copyright or its publisher, on the terms and in the amounts agreed with the relevant film or television production company, advertising agency or end customer.
- A durable and diversified portfolio of high-quality assets founded on the copyright security – 70 years after the death of the last co-composer – of works across a broad range of genres, vintages and geographies of consumer markets. On average our Songs have more than 100 years of copyright protected revenue.
- Offering uncorrelated returns against all major asset classes.
- The benefits of scale on volatility, giving smoother income the larger the Company gets, and the opportunity to drive incremental equity yield over the contracted period through active management and appropriate outsourcing of administration.
- Exposure to structural growth themes in relation to:
 - i) the penetration of technology into everyone's everyday life;
 - ii) the growing value of entertainment markets; and
 - iii) the recognition of the real asset value of intellectual property rights.
- High barriers to entry in relation to the acquisition and active management of Catalogues. We believe that the market experience, reputation and relationships of our Investment Adviser and our Advisory Board enable us to overcome those barriers, so as to position Hipgnosis as an attractive potential purchaser of Catalogues from songwriters or assorted owners of music intellectual property rights who are selective about whom they are willing to sell to.
- The combination of our Investment Adviser's expertise and the expertise of our current and potential portfolio administrators that results in us being well-positioned to manage the Songs we own successfully, increasing royalty collection, improving the speed and accuracy of collection of royalty income, and improving synch placement of the Songs.
- Our Investment Adviser's extensive network of relationships with broadcasting networks, TV studios and advertising agencies to create synchronisation opportunities for the Company and enable it to increase its income. Having a diversified Portfolio of Songs enables the Company to capitalise on multiple synch opportunities.
- Our Investment Adviser's strategy of having not only a “motive” of providing great returns for shareholders but also an “ulterior motive” of using the influence of the Company and our great Songs to improve the songwriter's position in the economic equation.

The diagram below sets out an overview of the various revenue streams that the Company can benefit from.

Publishing Rights Flows into Hipgnosis Songs Fund



Source: The Family (Music) Limited, March 2019

We intend that, following the acquisition of each Song, we will step into the songwriter's position with regard to the collection of their share of the royalties and payments (which could comprise their writer's share, their publisher's share and/or their performance rights) due in respect of each Song.

The Company aims to register the musical works it owns or acquires in order to protect its copyright ownership to the extent legally permissible and where the Investment Adviser and the Board considers it to be commercially prudent to do so. We seek to acquire both the writer's share and publisher's share of the rights to the synchronisation fee so that, in most cases, the synchronisation fee is not split.

Investment Adviser's Report

Continued

Our Investment Objective and Policy

Investment Objective

The Company's objective is to provide Shareholders with an attractive and growing level of income, together with the potential for capital growth, from investment in Songs and associated musical intellectual property rights, in accordance with its investment policy.

Investment Policy

The Company's investment policy is to diversify risk through investment in a Portfolio of Songs and associated musical intellectual property rights (including, but not limited to, master recordings and producer royalties). The Company seeks to acquire 100% of a songwriter's copyright interest in each Song, which would comprise their writer's share, their publisher's share and their performance rights. In appropriate cases, however, the Company may not acquire all three elements of the songwriter's interest. The Company acquires interests in Songs which are sole authored or co-authored. The Company may also acquire interests in Songs jointly with another purchaser. Each Song is considered by the Company to be a separate asset.

The Company, directly or indirectly via portfolio administrators, enters into licensing agreements, under which the Company receives payments attributable to the copyright interests in the Songs which it owns. Such payments may take the form of royalties, licence fees and/or advance payments, including:

- mechanical royalties – when a copy of a Song is made, whether physical (e.g. CDs, DVDs) or digital (e.g. permanent downloads, streaming, webcast);
- performance royalties – when a Song is performed live or broadcast on TV or Radio, or when a song is streamed online; and
- synchronisation fees – when a Song is used in another form of media (e.g. movie, TV show, video game, advertisement).

The Company focuses on delivering income growth and capital growth by pursuing efficiencies in the collection of payments and active management of the Songs it owns.

The Company may acquire Songs for consideration consisting of cash, Shares or a combination of cash and Shares, and payment of part of the consideration may be on deferred terms. The Company may acquire Songs or Catalogues directly, or indirectly by acquiring the entity through which such Songs or Catalogues are held.

Whilst the Company does not intend to sell the Songs it owns, it may make disposals of Songs where it considers such a disposal to be in the best interests of Shareholders.

Investment restrictions

The Company invests its assets and manages the Songs it acquires with the objective of constructing a high quality and diversified Portfolio of Songs. The Company acquires Catalogues from a number of different songwriters, which includes Songs diversified across music genres and sung by numerous recording artists. The Company is subject to the following investment restrictions:

- a) the Company holds interests in a minimum of 300 Songs;
- b) the value of any single Song does not, and will not, represent more than 10% of the Company's Gross Assets, calculated at the date of the acquisition of such Song (and re-calculated in the aggregate upon the acquisition of any additional interest in a Song). In the event this limit is breached at any point after the relevant investment has been made or added to (for example due to a change in valuation of any Song), there is no requirement to sell any Song, in whole or in part; and
- c) the Company does not, and will not, invest in closed-ended investment companies or other investment funds.

Cash management

The Company's uninvested capital may be invested in cash, cash equivalents, near cash instruments and money market instruments.

Hedging and derivatives

The Company may utilise derivatives for efficient portfolio management. In particular, the Directors may engage in full or partial foreign currency hedging and interest rate hedging. The Company does not, and will not, enter into such arrangements for investment purposes.

Leverage

The Company may now incur indebtedness of up to a maximum of 30% of its Net Asset Value, calculated at the time of drawdown. For these purposes all bank borrowings and other forms of indebtedness incurred by any member of the Group (as defined below), and any nonequity share capital, will be taken into account. "Group" means the Company and its subsidiaries (as defined in section 531 of the Companies (Guernsey) Law, 2008, as amended).

Amendments to and compliance with the Investment Objective and Policy

Any material change to the Company's Investment Objective and Policy will be made only with the prior approval of the FCA and the Shareholders by ordinary resolution.

In the event of a material breach of any of the investment restrictions applicable to the Company, Shareholders will be informed of the actions to be taken by the Company through an announcement made via a RNS.

Our Song Acquisition Strategy

Focuses on proven Songs and Artists of great cultural importance

- High profile
- Artists well known to society
- Culturally influential
 - Typically continuously played over time
 - Often with enduring appeal that attracts covers from new recording artists
- With a track record of producing predictable and reliable income
- Uncorrelated to global capital markets

And acting as custodians for the songwriter...

- Creators are protective over their legacy and are selective about who they will sell to
- We are Song Managers, compared to the major publishing houses, we are viewed as a safer alternative who can protect the meaning and secure the financial future of the creator's songs
- We have the relationships, reputation and expertise in the industry to advocate on behalf of creators and look after their legacy

To deliver value by leveraging our assets to address structural imbalance between payments on recorded music and payments on Songs

- We are advocates and catalysts for improving the songwriters share of income and where they sit in the economic equation
- Identifying under-exploited Songs in a Catalogue with significant opportunity for active management
- Having a lower ratio of Songs to each individual in the team managing the Songs, thereby targeting opportunities more effectively, generating enhanced returns
- Tailoring the Catalogue to fit the new requirements of popular culture and media, including playlists, social and virtual reality platforms
- High exposure to streaming and low exposure to live music

Our Strategic Advantages

- We see ourselves, and are determined to be seen by others, as Song Managers and custodians for the songwriter
- Our relationships are key to sourcing Catalogues and opportunities
- In addition, we have a competitive advantage over most of the major publishers because we have created an Advisory Board, assembled from leading music industry figures, who we believe are well placed to advise on any given Song's potential market, reach and popularity.

Investment Adviser's Report

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Market Conditions

2020 has not been the year expected with the world feeling the devastating effects of COVID-19, not only on the global economy, but also with the tragic loss of lives.

At this difficult time, people have looked to music for a sense of positivity and comfort. This is being seen most evidently with streaming where there has been a surge in listening to vintage (10+ years) Songs.

Spotify's first quarter 2020 results showed a 5% quarterly increase in paid streaming subscribers, which was at the top end of their expectations set before the onset of COVID-19. In addition, Neilson's report, 'COVID-19: Tracking the Impact on the Entertainment Landscape – Release 3', highlighted that streaming subscriptions in the first two weeks of April were higher than the previous 8 weeks as consumers looked to stay entertained through lockdown. Importantly for Hipgnosis, consumers are re-discovering 'older hits' during this time with 62% listening to 'music they used to listen to but have not heard in a while'.

There will be reductions in Public Performance and Live Income as the lockdown impacts the leisure and live entertainment industry. Whilst it is too early to quantify this impact, the Company's Portfolio of vintage Catalogues have a relatively low weighting to these sectors with Live Income representing approximately 3% and Public Performance 12% of Catalogue revenues.

In addition, whilst advertising budgets were temporarily affected and film releases were being paused, the Company has not seen a decrease in the demand for Song placements and synchronisations and it is expected there will be significant uptake for Songs due to increased productions for TV, HBO, Netflix and Hulu.

Hipgnosis' investment strategy of building a Portfolio with a core of extraordinarily successful proven hit Songs, which have a high exposure to streaming and low exposure to live music, leaves it well positioned in the COVID-19 world. Overall, we expect that the income growth from streaming will exceed any lost earnings from Public Performance and Live Income.

Feelgood hits, such as 'Sweet Dreams (Are Made Of This)' and 'Livin' On A Prayer', have performed particularly strongly during the pandemic where consumers have sought comfort in these Songs. Some selected examples of this include:

- 'Don't Stop Believin'', by Journey, which entered the Top 200 most streamed weekly Songs on Spotify UK at the start of lockdown and has steadily risen since with 362k streams per week. On Apple Music the song is doing more than 2.7 million plays per week globally!
- 'Something Just Like This', by The Chainsmokers featuring Coldplay, which re-entered the Global Top 200 chart at the beginning of April
- 'Shallow', performed by Lady Gaga and co-written by Mark Ronson, which has consistently remained within Spotify's Top 100 most streamed weekly Songs throughout the pandemic
- 'Thinking of You', by Sister Sledge and co-written by Bernard Edwards, which has experienced over 500% growth in synchronisation income since the pandemic

Portfolio

To take advantage of the structural growth drivers outlined above we identify Catalogues of culturally important proven hit Songs which offer significant value opportunities both from market growth and active management.

In order to generate the most attractive return for Shareholders, the Portfolio is mostly comprised of seasoned, classic Songs (often referred to as 'evergreen'), which are Songs older than 3 years from release. These Songs, which as 'Catalogue' make up approximately 65% of consumption on streaming, have often been badly managed or neglected yet still produce highly reliable steady state income that will grow progressively with the continued adoption of streaming and the addition of being actively managed responsibly.

In addition, with streaming growth being the backbone of the Company's investment thesis, the Investment Adviser will also invest in some newer 'hits' of extraordinary success. These newer 'hits' are at the heart of highly concentrated streaming across only 400 or so Songs that make up 35% of total consumption.

Since inception, the Company has acquired 1,810 Songs that have held Number 1 positions in global charts, 7,013 Songs that have held Top 10 positions in global charts and 49 Grammy award winning Songs. This provides not only significant diversification with a multitude of highly predictable revenue streams, but also provides significant opportunities to extract value through our active management capabilities.

The entire Portfolio includes 8 of the 25 most streamed Songs of all time on Spotify and 4 out of the top 5 of Billboard's "Hot 100 Songs of 2010s" including the Number 1 song 'Uptown Funk'.

During the year, the Company has invested a further £560 million through the acquisition of 42 Catalogues taking the total Portfolio to 54 Catalogues comprising 13,291 Songs. The Portfolio has been independently valued at £757 million representing an increase of 11.4% on the aggregate purchase price of £679 million (of which approximately 89% has been acquired in USD). This value reflects a multiple of 15.0x historic annual earnings compared to the blended acquisition multiple of 13.9x. The increase in the acquisition multiple since 30 September 2019 reflects the acquisition of some of what we consider to be the finest vintage Catalogues of all time during the period including those of Journey, Richie Sambora (Bon Jovi), Timbaland, Brendan O'Brien, Tom DeLonge (Blink 182), Brian Higgins, 10cc, Fraser T Smith, Al Jackson Jr, and Mark Ronson.

In order to derive a fair value, the Independent Valuer, in line with market practice, values music publishing rights based on a Discounted Cash Flow (DCF) valuation. Discount rates have remained constant during the period at 9% with the like for like increase in the fair value of the Catalogue driven by:

- Royalty statements exceeded both management's and the valuer's expectations by 2% thereby increasing baseline revenues in valuation models; and
- Streaming growth rates increased in the Independent Valuer's assumptions

We believe that there continues to be significant valuation upside and hidden value in the Portfolio from:

- Paid streaming consumer numbers continuing to grow, particularly into markets where it has historically been difficult to monetise recorded music (for example in China and India)

- Adoption of new music consumption methods which are not currently included in the valuations (for example TikTok, Facebook video and Peloton)
- The Investment Adviser's active management which is increasing revenues from previously under-managed Songs
- Several music valuation experts have reduced their discount rates to reflect changing consumer behaviours towards streaming music, which is becoming a utility, rather than consumers making discretionary music purchases. As proven hit Songs produce long-term cash flows (typically around 100 years⁵, any decrease in discount rates would have a significant impact on the Portfolio's valuation. For example a 100 basis point decrease in the discount rate would increase the valuation of the Portfolio by 18%; likewise, a 100 basis point increase in the discount rate would decrease the valuation of the Portfolio by 15%
- A "Portfolio Effect" that comes from having curated 54 Catalogues of this quality into 1 portfolio

Our proven hit Songs are highly diversified by vintage, genre and recording artist as set out below:

Selected Globally successful original recording artists:

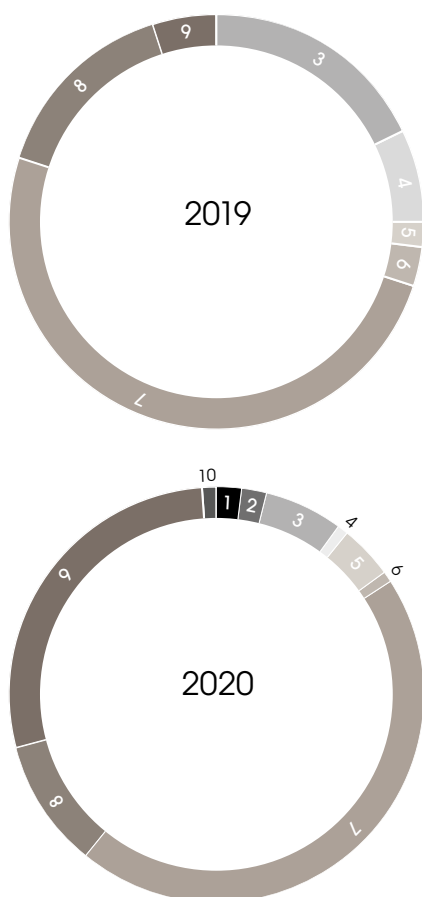
Our Songs are represented by some of the most successful original recording artists of all time, a selection of which are:

Eurythmics, Al Green, Diana Ross, Cher, Beyoncé, Rihanna, Adele, Justin Timberlake, Madonna, Britney Spears, Jay Z, Bruno Mars, Journey, Chic, Sister Sledge, Booker T & The MG's, Rudimental, Jess Glynne, One Direction, Mick Jagger, Tom Petty & The Heartbreakers, 10cc, Little Mix, Justin Bieber, The Chainsmokers, Sugarhill Gang, Camila Cabello, Mariah Carey, Mary J. Blige, No Doubt, Gwen Stefani, Sia, David Guetta, Shawn Mendes, Maroon 5, Stormzy, John Newman, James Morrison, Jason Aldean, Ariana Grande, Ed Sheeran, Taylor Swift, Mark Ronson, Kanye West, Pearl Jam, Bruce Springsteen, Red Hot Chili Peppers, Harry Styles, Rick Ross, Rage Against The Machine, Panic At The Disco, TLC, Michael Jackson, Robbie Williams, Amy Winehouse, Bon Jovi, Lana Del Rey, Miley Cyrus, Dua Lipa, Diplo, A\$AP Rocky, Rod Stewart, Miguel, Paul McCartney, Fun, AC/DC, Kylie Minogue, Duran Duran, Santana, Celine Dion, Timbaland and Blink 182.

Investment Adviser's Report

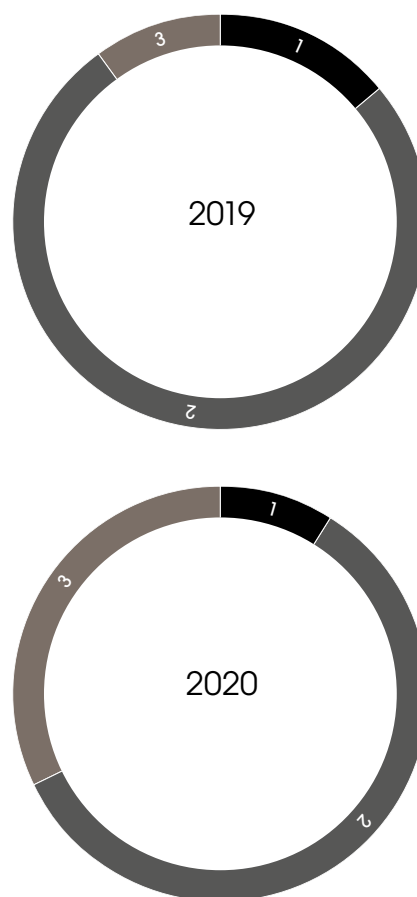
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Breakdown of Portfolio by genre (based on fair value)



Genre	31 March 2019	31 March 2020
1. Christian	0%	2%
2. Country	0%	2%
3. Dance ⁶	18%	6%
4. Disco	7%	1%
5. Hip-Hop	2%	4%
6. Latin Rock	3%	1%
7. Pop	50%	45%
8. R&B	15%	10%
9. Rock ⁷	5%	28%
10. Soul	0%	1%

Breakdown of Portfolio by age (based on fair value)



Age	31 March 2019	31 March 2020
1. 0-3 years	14%	9%
2. 3-10 years	76%	59%
3. 10+ years	10%	32%

The full list of Catalogues acquired is set out in the Financial and Operational Highlights on pages 8 to 9.

Recent Portfolio Highlights

In February 2020, 'Shallow' by Lady Gaga and Bradley Cooper re-entered the Top 40 on iTunes, after a cover of the song became a global internet sensation.

In April 2020, Camila Cabello's 'My Oh My' rose to No. 1 on Billboard's Pop Songs radio airplay chart. The song was co-written by Savan Kotecha and was part of the Catalogue when acquired by Hipgnosis. 'My Oh My' debuted on the Pop Songs chart in January and ascended to the summit in its 19th week.

We have 4 Songs in the new Will Farrell "Eurovision" movie which is the #1 movie in the US with a Top 10 soundtrack album.

The IFPI also recently issued a report stating that 'Shallow' by Lady Gaga and Bradley Cooper was in the global top 10 digital singles of 2019, whilst Taylor Swift's album 'Lover', featuring songs by Jack Antonoff, was ranked second in the IFPI global top albums of 2019.

Financial Review

As at 31 March 2020, the IFRS NAV per Ordinary Share was 100.91p reflecting an increase of 2.7% since 31 March 2019.

As the Board have noted, in order for Shareholders to fully understand the potential of the Company's Catalogues of Songs, the Operative NAV has been used as an alternative performance measure as this includes the fair value of the Company's Catalogues as valued by the Independent Valuer.

As at 31 March 2020, the Operative NAV per Ordinary Share was 116.7p reflecting an increase of 13.0% since 31 March 2019 and 14.3% since the last published Operative NAV per Ordinary Share of 102.2p as at 10 January 2020.

Including dividends paid, at 31 March 2020 Hipgnosis has produced a Total NAV Return of 17.7% since 31 March 2019, and 22.7% in less than two years since the IPO on 11 July 2018.

This growth in the Operative NAV is primarily a result of an 8.6% increase in the fair value of the Portfolio since acquisition, excluding the impact of foreign exchange gains and losses. Discount rates have remained constant during the period at 9% with the increase in value principally due to Catalogue

streaming and performance revenues exceeding expectations, which has offset any negative impact from COVID-19. There has also been a reversal of the negative FX effect recognised in the post C Share conversion Operative NAV as at 10 January 2020 as GBP:USD exchange rates have fallen back to the levels experienced at the beginning of the financial year.

Operative NAV Bridge from 1 April 2019 to 31 March 2020:

Opening Operative NAV per Ordinary Share	103.27p
Increase in fair value of Catalogues ^a	9.50p
Net income	5.68p
Dividends paid	-2.96p
FX impact	3.07p
Share Issue Costs*	-1.83p
Closing Operative NAV per Ordinary Share	116.73p

* Share issue costs include the costs of the issue of C Shares on 22 October 2019, which were borne out of the gross proceeds of the issue.

The IFRS NAV as at April 2019 was 98.92p and as at March 2020 it was 100.91p per Ordinary Share. The bridge between the Operative NAV and the IFRS NAV is disclosed within the financial statements.

Operative NAV Bridge from 11 January 2020 to 31 March 2020:

Opening Operative NAV per Ordinary Share	102.16p
Increase in fair value of Catalogues ^a	8.16p
Net income	2.45p
Dividends paid	-0.79p
FX impact	4.75p
Closing Operative NAV per Ordinary Share	116.73p
Closing Operative NAV per Ordinary Share	116.73p

In the year to 31 March 2020, Catalogue revenue increased to £64.7 million with cash receipts from royalty statements on average 2% higher than expected at the time of Catalogue acquisitions, driven by streaming revenues.

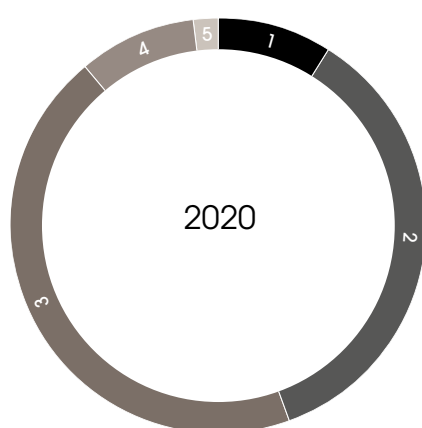
The Portfolio has been built around Catalogues positioned to benefit most as recorded music and Song publishing revenues grow dramatically through the continual uptake of paid streaming. Music is fast becoming a utility rather than luxury purchase.

Investment Adviser's Report

Continued

Accordingly, a significant proportion of royalty income is received from streaming. Streaming accounts for 87% of digital income and approximately 39% of total Catalogue revenue, as seen below in the breakdown of the sources of Catalogue revenue during the year:

Portfolio Income by Source



Income Source

At 31 March 2020	£'000	%
1. Mechanical	5,905	9%
2. Performance ⁹	22,804	35%
3. Digital	28,824	45%
4. Synchronization	5,925	9%
5. Other	1,132	2%
Total	64,695	

Analysing our Catalogues from publishing royalties, on which the most granular data is available, streaming revenues grew across all vintages of Catalogues as shown below:

Age	Cal. 2019 YOY % growth
0-3 years	+75%
3-10 years	+11%
10+ years	+80%

Streaming grew particularly strongly in the Catalogues aged over 10 years. We have acquired vintage Songs that transcend generations of listeners and therefore have a high proportion of streaming income so as to benefit from the market growth in streaming. For example, 'Don't Stop Believin'' and 'Sweet Dreams

Are Made Of This' are the UK's most streamed Songs from 1981 and 1983 respectively, whilst 'Livin' On A Prayer' is not only Bon Jovi's but also 1986's most streamed song. These Songs have benefited not only from strong organic growth in streaming but also from settlement payments from Peloton and Spotify for historical streams unpaid.

The newer, 0-3 year Catalogues have also seen strong growth in streaming income from the prior year. This is largely as 2019 income from these Catalogues is heavily weighted towards some of the biggest streaming Songs of 2019 as they produced peak earnings in the year. This includes Ariana Grande's album 'thank u, next', which included 4 Songs co-written by Savan Kotecha, and pushed her to be the third biggest streaming artist of 2019 and Lana Del Rey's multiple Grammy nominated 'Norman F*cking Rockwell' co-written and produced by Jack Antonoff.

Streaming growth in the 3 to 10 year vintage Catalogues grew less than the Portfolio average as some of these Catalogues include some newer Songs which are still in decay from peak earnings.

When acquiring Catalogues, the Company makes various assumptions about the future income they will generate. These assumptions include forecast market growth, enhancement of earnings from CRB Ruling as well as collection efficiencies and any 'decay' in earnings expected where Catalogues have not yet reached steady state income.

Typically, income from a Song is expected to 'decay' for 5 years following peak earnings. In total, revenues are assumed to decay by 50-70% of their peak earnings over that 5 year period.

In order to accurately forecast future earnings from a Catalogue, a decay matrix is utilised to identify how revenues from newer Catalogues will perform over time. The level of decay applied on each Catalogue's revenues is dependent on:

- how many annual periods have passed since the Catalogue's "peak"; and
- the composition of royalty streams within the Catalogue, with mechanical physical sales shown to decay more quickly and decline ad infinitum, whereas more modern royalty sources such as streaming experience less significant decay.

In 2019, the Catalogues where we expected decay in earnings at the time of acquisition exceeded management's expectations by 3%; this was driven by better than expected performance and streaming revenues.

Accruals and Receivables

There is an inherent time lag with royalties between the time a Song is performed and the revenue being received by the Copyright owner. The time lag can be as much as 24 months on international income.

A breakdown of the Revenue Accruals and Receivables, at 31 March 2020, is set out below:

- A £12.4 million receivable relates to invoices raised for 2019 H2 earnings which were reported in royalty statements received prior to the financial year end. As at the time of writing, £10.3 million of these invoices have now been paid in full, with a further £1.0 million received as banked cheques which are waiting to clear and the remainder is expected to be received within the next 30 days.
- A £29 million income accrual was recognised as at 31 March 2020. In calculating the accrual, latest forecast earnings are considered and adjusted for the latest trend of earnings reported. The accrued income comprises of:
 - £7 million related to Q2 to Q4 2019 earnings for Catalogues acquired less than 6 months before the year end date, where royalty reporting is still in the process of being switched over to Hipgnosis. These accruals are based on royalty statements received with invoices due to be raised on completion of the Letter of Direction being concluded.
 - £12.5 million for Q1 2020 earnings where, due to the time lag in royalty reporting, statements are not expected to be received until 30 September 2020.
 - £5.4 million related to Q3 to Q4 2019 PRO earnings due to be reported in Q2 2020 and Q3 2020
 - A further £4.1 million income accrual relating to time-lagged international reporting on PRO earnings. International PRO reporting has a significant time lag due to the additional collection time taken for PROs to collect and distribute income from International territories.

The lag in collection is due to the nature of collecting and processing royalties locally then distributing them to the domestic PRO which will in turn process and distribute these royalties to Hipgnosis. The Company's policy is to accrue for 6 months of international PRO earnings, although the lag can typically result in earnings for 12-24 months to be due.

- As of 31 May 2020, the last full reported month prior to the publication of the annual accounts, £1.7 million of royalty statements have been received which are in line with the accruals.

Right To Income

As previously highlighted, on acquisition, the Company sometimes receives a right-to-income as part of the Catalogue acquisition, which is typically dependent on the timing of the negotiations. The right-to-income, which related to a period before 1 April 2019, was £13.3 million. Whilst these revenues will not recur next year, this is expected to be partly offset by Catalogues representing a fair value of £109 million which received less than 12 months income due to the timing of the acquisition.

The Company, through its Investment Adviser, continues to actively manage Songs to increase their revenue earning capability. During the period, over 1,000 synchronisation deals were issued with highlights including: Bernard Edwards' 'Good Times', 'Le Freak' and 'We Are Family'; Journey's 'Don't Stop Believin''; Eurythmic's 'Sweet Dreams (Are Made of This)'; Al Jackson's 'Green Onions' and 'Let's Stay Together'; Richie Sambora's 'Wanted Dead Or Alive'; Brian Higgins' 'Believe'; Tom DeLonge's 'All The Little Things'; Jack Antonoff's 'We Are Young'; The-Dream's many Songs with Beyoncé; and Sam Hollander's 'High Hopes', which was arguably the most synced song of 2019. Following the placement of a Song it is typical to see an increase in consumption of that Song through all other channels. Due to the inherent time lag with the receipt of royalties, the revenue and valuation impact of these placements will continue to feed into next year's revenues and valuations as the full value of these deals comes through in the associated cash flows.

Investment Adviser's Report

Continued

In addition, the Investment Adviser moved seven Catalogues to the Preferred Portfolio Administrator securing a higher income flow-through to the Company.

During the period, adjusted Operating Costs were £10 million. Accordingly the Ongoing Charges decreased as a percentage of the weighted average Operative NAV, from 1.7% to 1.52%, reflecting the increased scale of the Company. The Board believes that Operating Costs as a percentage of Operative NAV will continue to fall, in particular once costs related to acquisitions decrease when the Company reaches stabilisation/steady state.

The Operative NAV Profit before Tax excluding total amortisation, was £51.6 million. EPS, excluding total amortisation of Catalogues, was 10.7p, representing over 2x cover on our full year dividend target of 5p per Ordinary Share.

As at 31 March 2020, net debt was £45.9 million, with £60 million drawdown and facility headroom of £39.5 million. Post year end the Company entered into an agreement to increase its RCF to £150 million (and may request a further increase of £50 million subject to certain conditions).

In addition, on 29 May 2020, the Company announced that it was seeking shareholder support to increase the Company's current borrowing limit of 20% of its Operative NAV to a maximum of 30% of its Operative NAV. This was subsequently approved by a majority of voting shareholders at an EGM on 11 June 2020.

Market Outlook

Our thesis when we listed 2 years ago was as follows:

1. We had access as a result of my track record managing artists.
2. Streaming was going to grow the revenue pie exponentially.
3. The Copyright Board would vote the songwriter a greater share of the income.
4. We would add value with significant active management.
5. We would add value by bringing efficiencies and savings to collection.
6. Our strategy of recognising the songwriter would make us the preferred buyer in the community.

I am delighted to say that every aspect of our thesis has come to fruition and in most cases been exceeded.

We have demonstrated our access to what we believe to be some of the finest songs of all time by having invested total capital raised to date in a portfolio that has a fair value of close to US\$1 billion as at 31 March 2020.

Paid subscribers to streaming services have gone from just over 50 million paid subscribers globally at the date of our IPO to the current 400 million today with projections of 458 million by the end of the year and 2 billion by 2030. Very few of those new subscribers are factored into the revenue data on which we buy the Catalogues.

The Copyright Board passed into law last year a 44% increase to the songwriter incrementally by the end of 2022. We have seen the 1st increment increase already and are about to see the 2nd increment shortly.

Over 1,000 synchronisation licenses have been issued in respect of the Company's Songs this year, in movies, TV commercials, TV programmes, video games and musicals. We have also had artists record new covers and interpolations including John Legend's new album which includes an interpolation of 'Let's Stay Together' and is expected to be #1 in the US this week. In addition to this our team actively works to put our songs on the most important playlists for both old and new music. We are rapidly replacing traditional publishing with Song Management to the benefit of the songs, our songwriters and our shareholders.

We are moving Catalogues at the earliest opportunity to our Preferred Portfolio Administrator bringing cost savings and increased revenues which drop immediately to the bottom line.

Our strategy has perhaps been the biggest factor in our success. I have made my reputation and success with artists, songwriters and producers and that is a distinct contrast to other buyers in the marketplace. Our articulated vision of recognising the songwriter and pressing for reform on where the songwriter sits in the economic equation is not only in complete alignment with the best interests of our shareholders but has also unequivocally made us the preferred buyer for songwriters, artists and producers who care about their legacy.

All of the above has led to the Company's stellar NAV and financial performance for the year ended 31 March 2020.

When compared with the 3 major song companies we have achieved between 7% and 12.5% of their revenue on between 0.5% and 0.9% of their number of Songs. Our small Catalogue of 13,291 Songs, albeit with an extraordinarily high ratio of success within it, is earning £4,868 per song vs something less than £150 per song for our competitors.

With over £1 billion of acquisitions in the pipeline covering some of the most important Songs and artists of all time, much of it in exclusivity already, we have just launched a placing targeting £200 million to help capture this pipeline and deliver further returns for our shareholders. With all of this in mind we are very much looking forward to the year ahead where we will work extremely hard to offset any adverse effects of the COVID-19 pandemic and deliver added value to our shareholders.

It remains only for me to thank our incredible shareholders for their support and the Songwriter, Artist and Producer community for entrusting us with their incomparable work that is the energy that makes the world go around whether times are good or bad, happy or sad.

Thank you all for joining us in our mission: To champion the power of Songs and songwriters of the greatest cultural importance.

Merck Mercuriadis

Founder of Hipgnosis Songs Fund Limited and Founder/CEO of The Family (Music) Limited (Investment Adviser to Hipgnosis Songs Fund Limited)

3 July 2020



HIPGNOSIS SONGS FUND

Footnotes

- 1 A number of Alternative Performance Measures are used within the Annual Report and can be found on page 115 (the APM page)
- 2 Catalogues of Songs are classified as intangible assets and measured at amortised cost or cost less any impairment in accordance with IFRS.
- 3 The Directors are of the opinion that an Operative NAV provides a meaningful alternative performance measure and the values of Catalogues of Songs are based on fair values produced by an Independent Valuer.
- 4 This is a target only and there can be no assurance that the target can or will be met and should not be taken as an indication of the Company's expected or actual future results. Accordingly, potential investors should not place any reliance on this target in deciding whether or not to invest in the Company or assume that the company will make any distributions at all and should decide for themselves whether or not the target dividend yield is reasonable or achievable.
- 5 Assumption based on the income streams protection by copyright law. For example in the UK, copyright in written, dramatic and musical work endures for 70 years after the death of the last co-songwriter, and copyright in a sound and music recording endures for 70 years from first production.
- 6 Relatively high compared to other genres given it includes the Chainsmokers who are an electronic dance music act.
- 7 The increase from prior year is driven by investments in Journey, Richie Sambora and Brendan O'Brien.
- 8 Including any right to income on acquisition of Catalogues.
- 9 Includes royalties collected from Shops, Bars and Restaurants, TV and Radio Performance and Live Concerts.

The Advisory Board

The Advisory Board assembled by Merck Mercuriadis assists the Investment Adviser assists in sourcing attractive investment opportunities.



Nile Rodgers

Rock And Roll Hall Of Fame and Songwriters Hall Of Fame Inductee, Chairman Of The Songwriters Hall Of Fame. Grammy award-winning songwriter, producer and musician. Founder of the band Chic. Co-writer and producer of iconic hits for David Bowie, Madonna, Duran Duran and Daft Punk.



The-Dream

Grammy award-winning songwriter, producer and musician. Wrote and produced iconic hits for Beyoncé, Jay Z, Kanye West, Rihanna, Mariah Carey, Britney Spears and Justin Bieber.



David Stewart

One of the most successful Songwriters, Artists and Producers of all time. His work with Eurythmics, Tom Petty & The Heartbreakers, Shakespears Sister, No Doubt, Mick Jagger, Bob Dylan and Eric Clapton amongst many others defines its era.



Starrah

Amongst the most important young songwriters having written 14 hit singles thus far including the No. 1 Songs "Havana" by Camila Cabello and "Girls Like You" by Maroon 5. "Havana" was the biggest song in the world in 2018.



Giorgio Tuinfort

Grammy award winning songwriter and one of the most important pop writers of the last 10 years. The partner of choice for David Guetta and Akon. He has written number 1 Songs for Sia, Gwen Stefani and Ariana Grande.



Nick Jarjour

Manager of several songwriters and producers, such as Starrah. He began his music career at 16 for what was to become the youngest partnership at Maverick Management, a division of Maverick Entertainment.



Bill Leibowitz

Attorney, founding partner of Roberts, Leibowitz and Hafitz PLLC. Former COO and General Counsel for The Sanctuary Group (and continued in this capacity after The Sanctuary Group was acquired by Universal Music Group until Bill returned to private practice). Specialises in intellectual property law and during his legal career of 35 years he has represented many renowned artists and major international intellectual property companies.



Jason Flom

American music industry executive and CEO of Lava Records and Lava Music Publishing. Flom previously served as Chairman and CEO at Atlantic Records, Virgin Records and Capitol Music Group and is personally responsible for launching acts such as Kid Rock, Katy Perry and Lorde. The New Yorker described him as "one of the most successful record men of the past 20 years...known for his specialty in delivering 'monsters'".



Michael Naylor

Chairman of the London FTSE listed Jupiter Green Investment Trust plc. Advisory Board appointments include the US\$400 million Toronto-based water private equity fund XPV Capital LLP and the \$1.3 billion Energy Fund III of the emerging markets private equity firm Actis. In 2013, Michael joined the board of the University of Cambridge Institute for Sustainability Leadership (CISL).



Poo Bear

Multi-platinum producer, singer and songwriter aficionado, Jason Boyd, better known to the masses as Poo Bear, is a five-time Grammy winning musical force of nature having sold over 500 million records worldwide. Best known for his unforgettable collaborations with Ed Sheeran and Justin Bieber.



Ian Montone

Attorney and founder of Monotone Management. Manager of Jack White, The White Stripes, Vampire Weekend, The Shins and Danger Mouse.

Our Resources and Relationships

To achieve our purpose, Hipgnosis has to generate attractive financial returns from our business; to do that we need to have the right resources and relationships in place, and to nurture them.

As a consequence of the nature of what we do – music – we have a profound influence on communities and society at large, and we recognise that this privilege carries with it significant responsibilities. An important facet of this is having a clear approach to environmental, social and governance matters.

As a young company, we are developing our approach and the necessary processes and systems to manage how we do this effectively. The speed with which we went from IPO to joining the Main Market to being in the FTSE250, with all that each step has entailed, has presented us with some interesting challenges, but good ones. We know we have work to do, but that is what growing your Company is all about.

From the outset, the whole team has been aware that there is a careful balance to be struck between our creation of financial value and providing wider social returns. This is why our ulterior motive is at the heart of our stated purpose. That motive is to use the importance of our unparalleled Catalogue and financial clout as influence to improve the songwriter's position in the economic equation. That concern flows into wider issues in society and the environment, and we have set out our position at the start of this journey in this section of our report.

Key Decisions

We view key decisions as those that are material to the success and sustainability of Hipgnosis, but also as those that are materially significant to any of our key stakeholders, or that have a material impact on our community or environment. In making a decision, we consider the outcome based on our understanding from our stakeholder engagement activities, as well as the need to maintain a reputation for high standards of business conduct.

Understandably, the major decisions for us this year have been mostly financial (discussed in the Corporate Governance Report on pages 48 to 49); the Company has to grow in order to achieve its ulterior motive.

There have, however, been two very big decisions that were not hard to make – the most important was to confirm our support for Black Lives Matter loudly, wholeheartedly and unequivocally, and the other was to do our bit to help deal with the COVID-19 pandemic.

Relations with Stakeholders

The culture, and success, of the music industry are founded on relationships. We are very much part of this and welcome it. We have groups of stakeholders with whom we have close and direct relationships fundamental to our existence, they are our shareholders, our service providers and Advisory Board, the song writing community, and the publishers, administrators and PROs. There are many others who we recognise as well, even though we may not interact with them directly – prime amongst these are the millions who listen to music.

Hipgnosis places great importance on its relationships with its Shareholders, as they provide us with the resources to make the acquisitions necessary to build our portfolio and so support song writers and performers. We undertake the typical engagement activities with this group and this is covered in more detail in the Corporate Governance Report on page 49.

Hipgnosis does not have any direct employees, but we do operate through, and work closely with, a number of service providers including the Investment Adviser, Administrator, Company Secretary, corporate brokers, lawyers and other professional advisers. The quality and timeliness of their service provision is critical to the success of the Company. Throughout the evolving working conditions imposed by the COVID-19 pandemic, the Company has assessed the business continuity plans of all major service providers to assure itself of safe working practices at this time of elevated health and safety risk for those who undertake our outsourced services. Each year, a detailed review of the service providers' performance is undertaken by the Management Engagement Committee.

Our Investment Adviser, The Family (Music), is at the heart of our engagement work and is responsible for the day-to-day interactions with our stakeholders. The Investment Adviser manages the vital input of our Advisory Board, discussed on pages 10, 20, 23, 32 and 33. Our Investment Adviser also enables us to engage with the writers and composers of song Catalogues acquired to update them on management activity around the Catalogues, explore creative projects, create new interpolations and discuss new commercial opportunities. An example of this is placing songwriters, who are featured in the Hipgnosis portfolio, in the recording studio together to collaborate and create new compositions together.

The Investment Adviser also has regular communications with publishers and Administrators (such as Kobalt) and the PROs (such as ASCAP) who administer the payment of royalties due to a songwriter or recording artist in respect of a Song, either directly from the end user or from royalty collection agents,

in order to assess that the royalties paid through are accurate and delivered in a timely manner.

The Company first arranged a £100 million Revolving Credit Facility (RCF) with JPMorgan Chase Bank (JP Morgan) as Lead Arranger. Post year end the Company entered into an agreement to increase its RCF to £150 million (and may request a further increase of £50 million subject to certain conditions). The term of the facility was also extended to 5 years. The Directors and the Investment Adviser believe that the Company's assets and their associated income streams are well suited to supporting leverage. Due to the quality of the Catalogues acquired, the Company has been able to obtain leverage on terms that the Directors consider to be attractive. As a result, acquiring Catalogues using leverage is expected to be earnings accretive for the Company whilst not materially impacting the risk profile of the Company.

The Investment Adviser liaises closely with JPMorgan on a monthly and quarterly basis with regard to covenant reporting and disclosure of all new acquisitions as they become security to the RCF.

Community and Environmental Impacts

The Social Mandate

While the Company's motive is to give our shareholders a strong, reliable and uncorrelated return on investment we also have an 'ulterior motive' which is to use the importance of our unparalleled Catalogue and financial clout as influence to improve the songwriter's position in the economic equation. The songwriter has been treated as the low man or woman in the music industry for too long and reforming how they are remunerated is an important responsibility and in alignment with our shareholders.

We fully support TFM and its Advisory Board, who are equally active in using that same influence as a catalyst for an end to all discrimination including sex, ethnicity, background or other discriminatory lenses. We endorse their strong Anti-Racist, Anti Gender and Anti LGBTQIAAP bias and welcome social change organisations and programmes which fight for equality such as Black Lives Matter Foundation, to which the Company has made a donation. We support the actions taken by TFM to promote #blacklivesmatter initiatives and calls to action and the important achievements of the We Are Family Foundation founded by its Advisory Board Member, Nile Rodgers, which has created programmes to amplify the voices of diverse youth leaders across the globe addressing issues surrounding basic human needs including the fight against systemic racism. We are further grateful for the contribution of TFM Advisory Board Member, Jason Flom, founding board member of the Innocence Project, in his work for criminal justice reform and his advocacy for those who have been wrongfully convicted and imprisoned. We are also donating to the Reva May Nash Foundation which was established by TFM Advisory Board Member, Terius 'The-Dream' Nash, and LaLonne Nash to honour the legacy of The-Dream's late mother and which assists cancer survivors and their families facing critical need as a result of the cost of cancer treatments.

We are proud that our sponsorship of the MITS (Music Industry Trusts Award) has directly benefited Nordoff Robbins whose groundbreaking work uses music as

therapy to enrich the lives of people with life limiting illnesses, disabilities and feelings of isolation and that TFM contributes to the talent of tomorrow via the UK's leading educational establishment in Performing and Creative Arts, The BRIT School. We are happy to support Songwriters Hall of Fame, chaired by Nile Rodgers, and their work celebrating and developing writing talent and also MusiCares which helps music people in times of need. We are grateful that in the last 16 months the 'Nile Rodgers BRIT Awards Viewing Party' which was established and funded by TFM to give our institutional investors the opportunity of celebrating the UK Music Industry's biggest night of the year, has raised over £750,000 to jointly support The BRIT School and the We Are Family Foundation and the important work they undertake.

The Board acts responsibly with regard to social factors. The Company invests in a multi-culturally diverse range of Songs, with a particular emphasis on supporting music from African-American heritage. The Company has adopted a responsible investing policy and legal due diligence is undertaken to make sure the Company acquires assets from reputable sources.

The Environment

Hipgnosis' direct environmental impact is very limited, whilst the activities of our Investment Adviser are also limited to running office facilities and the international transport of key personnel.

Hipgnosis acquires, curates and creatively manages a growing portfolio of music copyrights. As intangible real assets, returns from these assets are generated by the provision of Songs into a variety of third-party channels including retail, hospitality, digital entertainment, advertising, film and others. With the exception of digital service providers specialised exclusively in music entertainment (e.g. Spotify), our assets are being consumed and monetised as an adjunct to other, more environmentally impactful, business activities that would occur whether our assets were used or not.

We keep under consideration the impact on the environment relating to the shift from the physical to digital consumption of music. The popularity of streaming as the preferred method of enjoying digital entertainment has generated concerns about a concomitant increase in the energy consumption of the required data centre infrastructure. At the moment there is considerable debate, with no clear evidence either way, or the development of a consensus view, on the relative environmental merits and impacts of the various channels, physical and virtual, used to supply entertainment. Indirectly, we continue to monitor the environmental commitments made by DSPs to reduce the energy intensity of their datacentres.

The necessity for international travel is another area on which much attention has been focussed, brought into stark practical relief by the necessary responses to the pandemic. The entertainment industry generally, and our business model specifically, are heavily reliant on the establishment and maintenance of personal relationships; to us, these relationships are amongst our most valuable assets. Hipgnosis, and its suppliers, are applying the lessons learned during the pandemic about the various alternatives to physical meetings and are working to keep international travel to the level needed to sustain these key relationships.

Principal Risks and Uncertainties

1. Due Diligence risk

Probability: Medium; Impact High

Description

The due diligence process that the Investment Adviser undertakes in evaluating Catalogues for the Company may not reveal all facts that may be relevant in connection with such investment opportunities and any mismanagement, fraud or accounting irregularities on the part of any seller of Catalogues, or their advisers, may materially affect the integrity of the Investment Adviser's due diligence on investment opportunities

Mitigation

When conducting due diligence and making an assessment regarding an investment, the Investment Adviser and the Company's legal and financial advisers are required to rely on resources available to them, including internal sources of information as well as information provided by existing and potential sellers of Songs. The due diligence process may at times be required to rely on limited or incomplete information.

The Investment Adviser will select investment opportunities to be tabled to the Directors for their consideration in part on the basis of information and data relating to potential investments that has been made directly available to the Investment Adviser by the sellers. Although the Investment Adviser will verify and evaluate all such information and data, and seek independent corroboration when it considers it appropriate and reasonably available, the Investment Adviser may not be in a position to confirm the completeness and accuracy of such information and data. Further, investment analysis and decisions by the Investment Adviser may be undertaken on an expedited basis in order to make it possible for the Company to take advantage of short-lived investment opportunities. Where there is lack of time or information the Investment Adviser is dependent upon the integrity of the management of the sellers as regards such information and of such third parties.

The value of the investments made by the Company may be affected by adverse reputation accruing to performers of a song or Songs, fraud, misrepresentation or omission on the part of the sellers of the Songs, by parties related to the sellers or by other parties. Such fraud, misrepresentation or omission may increase the likelihood of an intellectual

property rights dispute relating to such Songs or may adversely affect the valuation of the Songs in question or may adversely affect the Company's ability to enforce its contractual rights in relation to the investment.

The Company conducts a thorough review of all due diligence conducted on potential Catalogue purchases. However, due to a number of factors, the Company cannot guarantee that the due diligence investigation carried out by the Investment Adviser and the Company's legal and financial advisers with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful to the Directors in evaluating such investment opportunity, which may therefore lead the Directors to decide to acquire Songs which subsequently fail to perform in line with expectations and may have a material adverse effect on the Company's financial situation.

2. Key person risk

Probability: Low; Impact High

Description

The ability of the Company to achieve its investment objective depends on the services and reputation of the Investment Adviser and in particular on the experience of Merck Mercuriadis as the chief executive of the Investment Adviser. As a result, the success of the Company will depend largely upon the continuing availability of Merck Mercuriadis and the ability of the Investment Adviser's team to meet the strains of a rapidly growing portfolio of Catalogues. The death, incapacity or loss of service of Merck Mercuriadis at the Investment Adviser could have a material adverse impact on the business of the Company and the investments made.

Mitigation

The Company has an agreement with the Investment Adviser which sets out the basis on which the Investment Adviser provides services to us. In order to meet the continuing rapid growth of the portfolio of catalogues the Investment Adviser is continually growing its internal and external resource. The Investment Adviser is also supported by the Advisory Board members (named on pages 32 to 33 of this report), who bring their considerable industry experience to bear in support of the

Company's investment objectives. Furthermore the third party Administrators to the Company's Catalogues (e.g. Kobalt), each have an important role to play in pursuing efficiencies in the collection of payments and active management of the Songs that the Company owns. The Investment Adviser's longstanding relationships with those third party Administrators bring with them further music management experience that adds support for Merck Mercuriadis and his team in the performance of their services to the Company.

3. Adverse change in distribution policies and royalty rates set by Performing Rights Organisations (PROs)

Probability: Low/Medium; Impact High

Description

PROs represent the rights and interests of publishers and songwriters. They collect royalties, create collection policies and set royalty rates for the use of music copyrights. There are over 120 PROs around the world and most of them have agreements and frameworks in place with each other. Should PROs alter the way that they collect royalties, or set lower royalty rates, the Company may receive significantly reduced revenues compared to the level it had forecast at the time of acquiring the relevant Catalogues or Songs. The threat to revenue as a result of the COVID-19 pandemic is ongoing and the Company is particularly conscious of the pressures that may be brought to bear on the PROs to collect and account in a timely manner.

Mitigation

The Investment Adviser actively monitors the market and will provide the Company with any data or intelligence of which it becomes aware, including that relating to the COVID-19 pandemic. Updates to the financial model will be made to reflect any such regulatory or industry changes. In the current opinion of the Company any royalty payment delay resulting from the COVID-19 pandemic is likely to be temporary over one or two semi-annual accounting periods but it continues to assess the situation at every opportunity.

4 Risks associated with the lack of commercial success of individual Songs

Probability: Medium; Impact Medium

Description

The commercial success of a Song is dependent upon the public's response to it, which may not always be predictable, the existence and success of competing entertainment offerings and general economic circumstances. Consequently, a Song may not prove to be as popular, or as commercially successful, as had been forecast at the time of acquisition.

Mitigation

Whilst the Company intends primarily to acquire Catalogues containing evergreen Songs from established recording artists and will carry out substantial due diligence on each Catalogue (including on the historic revenues of each Song), there can be no guarantee that the historic performance of a Song will continue in the future.

5. Exchange rate risks

Probability: Medium; Impact High

Description

The Company has issued share capital denominated in Pounds Sterling and aims to pay regular dividends in that currency. However, much of the Group's revenue is received in other currencies, particularly US Dollars, and exchange rate fluctuations may significantly affect the NAV and the ability to pay the targeted dividends.

Mitigation

In order to mitigate this risk, the Company considers on a regular basis the benefits and cost of hedging this exposure. To date the Company has considered that currency risk hedging is not advisable, given the associated costs, investor sentiment and a potential distraction from the core focus of acquiring catalogues.

Principal Risks and Uncertainties

Continued

6. Risks associated with streaming

Probability: Medium; Impact High

Description

The Company is heavily reliant on streaming, or an equivalent technology which generates high volumes and rates of royalty revenues for songwriters, continuing to be popular with consumers. Historically the music industry has been shown to be especially innovative, with new technology causing changes in consumer demand and experience. Whilst it is possible that new technology may reduce non-synchronisation related royalty revenues, it is also possible that technological advances would lead to a growth in royalties as consumers' access to music continues to improve. Furthermore, the streaming business model is yet to be proven in the long term and the streaming market is vulnerable to online domination by one DSP. Additionally, a limited number of online streaming and online music stores have achieved a large market share, giving them market power to alter the prices or selection of music offered to consumers and therefore the royalty revenue received by the Group. Any further market concentration could increase this risk.

Mitigation

The Company will be heavily reliant on the continuing presence and popularity of DSPs in order to maximise access to the consumer market. The Company is continuously reviewing this risk and most recently took note from the Goldman Sachs report (published 14 May 2020) that they have increased their global streaming subscriptions estimates by 6% to US\$1.22 billion by 2030 on the back of faster-than-expected streaming adoption and a proliferation of new streaming services.

7. Operational reliance on service providers

Probability: Low; Impact Medium

Description

The Company does not have any employees of its own and relies on service providers for its routine operations. In particular, although the ultimate responsibility for the investment strategy lies with the Company, the Investment Adviser is responsible for sourcing potential opportunities and advising the Company on acquisitions, active management and disposals of Catalogues. The performance of the Group is dependent on the diligence, skill and judgment of the personnel of the Investment Adviser, and in particular on the key executive, Merck Mercuriadis.

The Company also depends heavily on the specialist administrative services of the Investment Adviser, the Preferred Portfolio Administrator and other collection agents. In the event that these service providers experience business disruption or cyber security breaches, the ability of the Group to collect revenues due may be limited.

Mitigation

The Company continually reviews the performance of its service providers and will raise any concerns regarding performance or efficiency should the need arise.

8. Cyber Risk

Probability: Low; Impact Medium

Description

The Company (as with all companies) continues to be exposed to external cyber-security threats which have the possible impact of sensitive information leakage and cyber fraud.

Mitigation

The Company recognises the increased incidence of cyber-security threats and has recently reviewed its policies, procedures and defences to mitigate associated risks, as well as those of the Investment Adviser, Administrator and key service providers; engaging market-leading specialists where appropriate.

9. Risks associated with withholding taxes

Probability: Low; Impact High

Description

Withholding tax is a complex issue that requires analysis of domestic legislation, double tax treaties and the submission of forms and documents to relevant payers and tax authorities.

Mitigation

Due to the inherent complexities there is a risk that not all withholding tax has been accounted correctly. The Company, therefore, continues to consult with tax specialists on a regular basis to consult and review its tax structuring arrangements.

Emerging Risks

Emerging risks are regularly considered to assess any potential impact on the Group and to determine whether any actions are required. Emerging risks include those related to regulatory/legislative change and macroeconomic and political change.

The threat to revenue as a result of the pandemic is ongoing and the Company is particularly conscious of the pressures that may be brought to bear on music publishers and PROs to collect and account in a timely manner. As time passes there is the additional danger that the worldwide rise in unemployment will result in a reduction of streaming subscriptions. As we emerge from the global pandemic the Investment Adviser will be closely monitoring the situation and will continue to meet with the Board regularly to assess these risks.

The risk surrounding Brexit, with the transition phase scheduled to end at the end of this year, remains a focus for the Company. Having considered the implications that could possibly arise, such as a restriction on the flow of royalties or the introduction of a withholding tax on royalties between the UK and the countries of the EU, and having taken advice on this matter, the Company presently believes that Brexit will have no material impact on the business.

Both the political risk surrounding the US Presidential election and extended COVID-19 issues could add additional volatility to the USD:GBP FX rate. With 89% of the portfolio fair value and 84% of revenues denominated in USD, an adverse movement of the exchange rate could have a serious effect on the Company's performance and the portfolio valuations.

In summary, the above risks are mitigated and managed by the Company through continual review, policy setting and updating of the Company's risk matrix at each quarterly meeting to ensure that procedures are in place with the intention of minimising the impact of the above-mentioned risks. The Company relies on periodic reports provided by the Investment Adviser and Administrator regarding risks that the Group faces. When required, experts including tax advisers and legal advisers will be employed to gather information and to provide advice.

Key Statements

Going Concern

The Directors monitor the capital and liquidity requirements of the Company on a regular basis. They have also reviewed cash flow forecasts prepared by the Investment Adviser which are based in part on assumptions about the future purchase of Catalogues of Songs, and the returns from existing Catalogues of Songs.

Based on these sources of information and their own judgement, the Directors believe it is appropriate to prepare the Consolidated Financial Statements of the Group on a going concern basis.

The Directors have considered the immediate and potential impacts of COVID-19 on the Group as reflected in the Viability Statement below.

Viability Statement

The Directors have assessed the future prospects of the Group.

The Board have conducted a Portfolio review for a period of three years to 31 March 2023 which is deemed appropriate given:

- (i) The long-term outlook for music publishing and recorded music remains very positive;
- (ii) The remaining copyright term of the Company's Portfolio as at 31 March 2020;
- (iii) The accuracy of external forecasts to support the income projections; and
- (iv) Experience to date regarding the performance of the portfolio of Catalogues against their acquisition business plans.

Based on past performance, the returns generated within the investment Portfolio are expected to be stable and predictable in both the medium and longer term.

The Investment Adviser has prepared, and the Board has reviewed, the Portfolio projections which forecast the Group's revenue, cashflow and working capital projections over the next four years and considered the impact of the principal risks and some of the emerging risks of the Group.

On a rolling basis, the Directors evaluate the outcome of the portfolio of Songs and the Group's financial position as a whole.

In support of this statement, the Directors have taken into account all of the principal risks and the emerging risks and their mitigation as identified in the risk register that is periodically reviewed by the Board. The most relevant potential impacts of the identified principal risks and uncertainties on viability were determined to be:

- Royalties due to a songwriter or recording artist are earned globally and paid in global currencies, the largest of which is USD and which represents 84% of the Group's income. The Ordinary Shares are denominated in Sterling and therefore adverse currency movements in revenues held in currencies

other than Sterling may impact the Company's ability to meet its dividend targets as these will only be paid in Sterling. As previously noted, the Group's strategy is currently to not employ any currency hedging;

- Risk of delays in deployment of capital, resulting in an adverse impact on dividend yield from cash drag;
- The due diligence process that the Investment Adviser undertakes in evaluating Catalogues for the Company may not reveal all facts that may be relevant in connection with such investment opportunities and any mismanagement, fraud/misrepresentation or accounting irregularities on the part of any seller of Catalogues, or their advisers, may materially affect the integrity of the Investment Adviser's due diligence on investment opportunities;
- The risks relating to Brexit and COVID-19, as discussed further below;
- The risk that the Company may not meet its debt covenants and reporting requirements with regard to the Revolving Credit Facility (RCF) with JPMorgan Chase Bank;
- Risk of decreasing royalty rates being paid to rights holders, such risks not being detected or analysed resulting in underperformance or a higher risk profile than investors expect; and
- The ability of the Company to achieve its investment objective depends heavily on the experience of Merck Mercuriadis as the Investment Adviser. As a result, the success of the Company will depend largely upon the continuing availability of Merck Mercuriadis. The death, incapacity or loss of service of this key individual at the Investment Adviser could have a material adverse impact on the business of the Company and the investments made.

Having conducted a robust analysis of the above scenarios and the stresses applied to each, the Directors are satisfied that the Company is a going concern and can meet its liabilities as they fall due and that it remains viable over the period under consideration (to March 2023). Notwithstanding this assessment, forecasting for individual Catalogues can deliver variances versus the actual revenues received, but these variances are considered immaterial in the context of the whole diversified Portfolio. Any risk is therefore reduced to a low level, and the overall forecast assumptions adopted are considered to be reasonable and sustainable at the present time.

The Investment Adviser and the Board have also considered the impact of Brexit on the performance of the Portfolio once the transition period ends on 31 December 2020. The Board is satisfied that Brexit does not pose an existential risk to the business given that the underlying European sources of income collection for rights owners remain unchanged by Brexit, the acquisition pipeline remains strong, together with the fact that the majority of investments are made in the US.

The Investment Adviser and the Board have also considered the scope for the Portfolio's performance to be impacted by the global pandemic that was declared by the World Health Organisation on 11 March 2020 in response to the spread of COVID-19. An unprecedented and evolving situation, COVID-19 has had a negative impact on the global economy, and has resulted in travel restrictions, social distancing measures, a shutdown of the hospitality and non-essential retail sectors, and restrictions on the off line entertainment industry.

The Investment Adviser and the Board are actively monitoring this and its potential effect on the Company and its Catalogues. It is believed that impacts will be felt in the short term as a result of the decline in live music, commercial radio, retail outlet licence revenues, and reduced leisure facility offerings. Additionally, although streaming would seem to have benefitted and compensated for any decline in other revenue areas to date it is possible that the increase in global unemployment may reverse some or all of this benefit over the coming 24-36 months until employment numbers restabilise.

The Board is of the opinion that the long-term outlook for music publishing and recorded music continues to remain favourable. As further explained in Principal Risks and Uncertainties on pages 36 to 39 the Directors do not consider the effects of COVID-19 to have had an impact on their assessment of the Company as a going concern or the future prospects of the Company.

Key Statements

Continued

Section 172(1) Statement

Section 172 of the UK Companies Act 2006 applies directly to UK domiciled companies. Nonetheless the AIC Code requires that the matters set out in section 172(1) are reported on by all companies, irrespective of domicile. This requirement does not conflict with Guernsey company law.

The Directors have had regard for the matters set out in section 172(1)(a)-(f) of the Companies Act 2006 when performing the duties set out in

section 172. The Directors consider that they have acted in good faith in the way that would be most likely to promote the success of the Company for the benefit of its members as a whole, while also considering the broad range of stakeholders who interact with and are impacted by our business.

The table below indicates where the relevant information is in this annual report that demonstrates how we act in accordance with the requirements of s.172(1).

s172 matter

Likely consequences of any decision in the long term

Introduction from Merck Mercuriadis, page 4
The Chair's Statement, pages 10 to 11
Hitting the Key Notes in Our Musical World, pages 16 to 19
Investment Adviser's report, pages 12 to 13, 24 to 31
Our Purpose and Business Model, pages 20 to 21
Our Investment Objective and Policy, page 22
Our Song Acquisition Strategy, page 23
Our Resources and Relationships, pages 34 to 35
Principal Risks and Uncertainties, pages 36 to 39
Viability Statement, pages 40 to 41
Board Leadership and Company Purpose, pages 48 to 49
Division of Responsibilities, pages 50 to 52
Composition, Succession and Evaluation, page 53
Report of the Nomination Committee, pages 56 to 57
Audit, Risk and Internal Control, pages 58 to 59
Report of the Audit and Risk Management Committee, pages 60 to 63
Report of the Management Engagement Committee, page 64

The interests of the Company's employees

Hipgnosis Songs Fund Limited does not have any employees

The need to foster the Company's business relationships with suppliers, customers and others

Introduction from Merck Mercuriadis, page 4
The Chair's Statement, pages 10 to 11
Hitting the Key Notes in Our Musical World, pages 16 to 19
Investment Adviser's report pages, 12 to 13, 24 to 31
Our Purpose and Business Model, pages 20 to 21
Our Investment Objective and Policy, page 22
Our Song Acquisition Strategy, page 23
Our Resources and Relationships, pages 34 to 35
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Impact of the Company's operations on the community and environment

Introduction from Merck Mercuriadis, page 4
Hitting the Key Notes in Our Musical World, pages 16 to 19
Investment Adviser's report pages, 12 to 13, 24 to 31
Our Purpose and Business Model, pages 20 to 21
Our Song Acquisition Strategy, page 23
Our Resources and Relationships pages, 34 to 35
Principal Risks and Uncertainties pages, 36 to 39

The Company's reputation for high standards of business conduct

Introduction from Merck Mercuriadis, page 4
The Chair's Statement pages, 10 to 11
Hitting the Key Notes in Our Musical World pages, 16 to 19
Our Purpose and Business Model pages, 20 to 21
Our Song Acquisition Strategy, page 23
Our Resources and Relationships, pages 34 to 35
Principal Risks and Uncertainties, pages 36 to 39
Board Leadership and Company Purpose, pages 48 to 49

The need to act fairly as between members of the Company

The Chair's Statement, pages 10 to 11
Our Investment Objective and Policy, page 22
Our Resources and Relationships, pages 34 to 35
Principal Risks and Uncertainties, pages 36 to 39
Viability Statement, pages 40 to 41
Board Leadership and Company Purpose, pages 48 to 49
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Governance

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Corporate Governance Report

Compliance Statement

Hipgnosis Songs Fund Limited is a company registered in Guernsey and has a Premium Listing on the Main Market in London. The Company became a member of the AIC on 22 August 2018.

The Board has considered the Principles and Provisions of the AIC Code of Corporate Governance (AIC Code). The AIC Code addresses the relevant Principles and Provisions set out in the UK Corporate Governance Code (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to the Company.

The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council and the Guernsey Financial Services Commission, provides more relevant information to shareholders. By reporting against the AIC Code we are meeting our obligations under the UK Code (and associated disclosure requirements under paragraph 9.8.6 of the Listing Rules) and as such do not need to report

further on issues contained in the UK Code which are irrelevant to us.

Throughout the year ended 31 March 2020, the Company has applied the Principles (as explained on pages 44 to 46), and complied with the relevant Provisions of the AIC Code.

The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

Application of the AIC Code Principles

The AIC Code, and the underlying UK Code, have placed increased emphasis on “apply and explain” with regard to the Principles of the Codes.

Our explanations about how we have applied application of the main principles of the AIC Code can be found as follows:

Board leadership and Company purpose

Principle A. A successful company is led by an effective Board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

Strategic Report, pages 2 to 42
Governance, pages 44 to 72

Principle B. The Board should establish the company’s purpose, values and strategy, and satisfy itself that these and its culture are aligned. All Directors must act with integrity, lead by example and promote the desired culture.

Strategic Report, pages 2 to 42
Board Leadership and Company Purpose, pages 48 to 49

Principle C. The Board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

Our Resources and Relationships, pages 34 to 35
Principal Risks and Uncertainties, pages 36 to 39
Section 172(1) Statement, page 42
Board Leadership and Company Purpose, pages 48 to 49
Audit, Risk and Internal Control, pages 58 to 59
Report of the Audit and Risk Management Committee, pages 60 to 63

Principle D. In order for the company to meet its responsibilities to shareholders and stakeholders, the Board should ensure effective engagement with, and encourage participation from, these parties.

Our Resources and Relationships, pages 34 to 35
Section 172(1) Statement, page 42
Board Leadership and Company Purpose, pages 48 to 49

Division of responsibilities

Principle F. The chair leads the Board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive Board relations and the effective contribution of all Non-executive Directors, and ensures that Directors receive accurate, timely and clear information.

The Chair's Statement, pages 10 to 11
Board Leadership and Company Purpose, pages 48 to 49
Division of Responsibilities, pages 50 to 52

Principle G. The Board should consist of an appropriate combination of Directors (and, in particular, independent Non-executive Directors) such that no one individual or small group of individuals dominates the Board's decision making.

Division of Responsibilities, pages 50 to 52
Board Directors, pages 54 to 55

Principle H. Non-executive Directors should have sufficient time to meet their Board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold third party service providers to account.

The Chair's Statement, pages 10 to 11
Board Leadership and Company Purpose, pages 48 to 49
Division of Responsibilities, pages 50 to 52
Report of the Audit and Risk Management Committee, pages 60 to 63
Report of the Management Engagement Committee, page 64

Principle I. The Board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Our Resources and Relationships, pages 34 to 35
Principal Risks and Uncertainties, pages 36 to 39
Section 172(1) Statement, page 42
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Composition, succession and evaluation

Principle J. Appointments to the Board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

Report of the Nomination Committee, pages 56 to 57

Corporate Governance Report

Continued

Composition, succession and evaluation

Principle K. The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed.

Board of Directors, pages 54 to 55

Principle L. Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Report of the Nomination Committee, pages 56 to 57

Audit, risk and internal control

Principle M. The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of external audit functions and satisfy itself on the integrity of financial and narrative statements.

Audit, Risk and Internal Control, pages 58 to 59
Report of the Audit and Risk Management Committee, pages 60 to 63

Principle N. The Board should present a fair, balanced and understandable assessment of the company's position and prospects.

Strategic Report, pages 2 to 42
Audit, Risk and Internal Control, pages 58 to 59
Report of the Audit and Risk Management Committee, pages 60 to 63
Financial Statements, pages 84 to 113

Principle O. The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Principal Risks and Uncertainties, pages 36 to 39
Viability Statement, pages 40 to 41
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Notes to the Financial Statements, pages 88 to 113

Remuneration

Principle P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success.

Strategic Report, pages 2 to 42
Board Leadership and Company Purpose, pages 48 to 49
Report on Remuneration, pages 65 to 66

Principle Q. A formal and transparent procedure for developing policy (on) remuneration should be established. No director should be involved in deciding their own remuneration outcome.

Report on Remuneration, pages 65 to 66

Principle R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

Report on Remuneration, pages 65 to 66

Other key governance statements

The Directors confirm that:

Going concern

The Going concern statement is made on page 40.

Viability

The Viability Statement is made on pages 40 to 41. Further details of the Board's assessment of the viability of the Company are set out in Audit, Risk and Internal Control on pages 58 to 59. The Principal Risks and Uncertainties are set out on pages 36 to 39.

Robust assessment of principal risks

The Board has undertaken a robust assessment of the Group's principal and emerging risks, including those that would threaten its business model, future performance, solvency or liquidity. This annual report identifies the procedures to identify these risks, see Audit, Risk and Internal Control on pages 58 to 59 and Principal Risks and Uncertainties on pages 36 to 39 for further information on how these risks are identified and managed.

Review of risk management and internal control

A continuing process for identifying, evaluating and managing the risks the Company faces has been established and the Audit and Risk Committee has

reviewed the effectiveness of the internal control systems. Further details are set out in the Audit, Risk and Internal Control on pages 58 to 59.

Continuing appointment of the Investment Adviser

The continuing appointment of The Family (Music) Limited as the Investment Adviser, on the terms agreed, is in the interests of the shareholders as a whole. Further details on the basis for this conclusion, and the terms, are set out in the Management Engagement Committee report on page 64.

Fair, balanced and understandable

The annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. See the Report of the Audit and Risk Committee on pages 60 to 63 for further information on how this conclusion was reached.

Section 172(1)

The Section 172(1) statement is made on page 42. It provides cross-references to the required detail set out throughout this annual report.

Board Leadership and Company Purpose

The Board

The Company is led and controlled by a Board of Directors, which is collectively responsible for the long-term success of the Company. It does so by acting in the interests of the Company, creating and preserving value and has as its foremost principle to act in the interests of Shareholders.

The Directors believe that the composition of the Board is a fundamental driver of its success as the Board must provide strong and effective leadership of the Company. The current Board was selected, as their biographies illustrate, to bring a breadth of knowledge, skills and business experience to the Company. The Directors' details are listed on pages 54 to 55 which set out their range of investment, financial and business skills and experience.

Culture and Values

The Board recognises that tone and culture are set from the top, and that every interaction with the Company's stakeholders, whether the Board's interaction with its Shareholders, or one of The Family Music's junior analyst's day to day business dealings with the Company's service providers, all have a great influence on the sustainability of long-term shareholder value. The importance of sound ethical values and behaviours is crucial to the ability of the Company to achieve its objectives successfully.

The Board individually and collectively seeks to act with diligence, honesty and integrity and expects the same values from its service providers. It encourages its members to express differences of perspective and to challenge views and opinions but always in a respectful, open, cooperative and collegiate fashion. The Board encourages diversity of thought and approach and chooses its members with this approach in mind.

The Company's culture emulates that of the Investment Adviser, with a focus on long lasting relationships with its investor base; investment excellence delivered with integrity; and world-class leadership backed by extensive industry knowledge that will help create a song-writer community rapport and a diverse, innovative, multi-cultured portfolio of song assets.

Key Decisions

Key decisions are defined as both those that are material to the Company, but also those that are significant to any of the key stakeholder groups as discussed above.

In making the following key decisions the Board considers the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company.

Dividends

The Board has given consideration to FRC announcements regarding dividends, viability and going concern and is proud to declare that the commitment made in the Prospectus to pay total dividends to Shareholders of 5p per Ordinary Share with respect to the financial year has been achieved.

Share Issues, Migration to a Premium Listing on the Main Market and FTSE 250 Index promotion

On 25 September 2019 the Company migrated to a Premium Listing on the Main Market of the London Stock Exchange, and on 16 October 2019 the Company issued 231,000,000 C Shares which were converted on 10 January 2020 to 226,287,600 Ordinary Shares. Following conversion, the total number of Ordinary Shares in issue is 615,851,887. The Company engaged with the Corporate Broker who advised on specific areas of compliance throughout each process. The Board was delighted that the Company's successful growth was evidenced by promotion to the FTSE250 Index on 20 March 2020, within 22 months of the Company's launch.

Leverage Facility

The RCF was concluded in order to act as a bridge of financing between equity raises in order to maintain the pace of acquisition of Writer Catalogues, manage capital more efficiently and to continue to provide access to investment opportunities and stable returns for Shareholders.

Acquisitions

As at 31 March 2020, the Company had acquired 54 Catalogues for a total of approx. £679 million. These are principally Writer Catalogues but also include sound recording royalties from artists and producers. Each Catalogue was reviewed in detail by the Portfolio Committee and the Board at the 23 ad-hoc meetings called for this purpose. On every occasion, in advance of the meeting, a comprehensive investment paper and financial model was presented to the Board by the Investment Adviser along with an Independent Valuation Report. A majority of the Board approved all Catalogues acquired.

Relations with Shareholders

Relationships with our other stakeholders is discussed on pages 34 to 35.

The Board welcomes Shareholders' views and places great importance on communication with its Shareholders. The Company reports formally to Shareholders in a number of ways; regulatory news releases through the London Stock Exchange's Regulatory News Service, and announcements issued in response to events or routine reporting obligations. In addition, the Company's website contains comprehensive information, including Company notifications, share information, financial reports, investment objectives and policy, investor contacts and information on the Board and corporate governance. Shareholders and other interested parties can subscribe to email news updates by registering online on the website. In its first full financial year, the Company hosted a Capital Markets Day on 10 September 2019 and plans to do so annually. It is the Company's intention to provide shareholders with a chance to engage with and learn more about the opportunities for rights owners in a growing market for music entertainment and the strategic themes which the Company offers exposure to (e.g. technology within the value chain).

The Investment Adviser has regular contact with Shareholders and any views that they may have are communicated to the Board. All shareholders have access to the Chairman and the other Directors, who are available to discuss any questions which they may have in relation to the running of the Company. All major shareholders were given the opportunity to meet with the Chairman and Committee Chairs during the year. The Board is also kept fully informed

of all relevant market commentary on the Company by the Investment Adviser and the Corporate Broker. The Directors and Investment Adviser receive informal feedback from analysts and investors, which is presented to the Board by the Corporate Broker. The Company Secretary also receives informal feedback via queries submitted through the Company's website and these are addressed by the Board, the Investment Adviser or the Company Secretary, where applicable.

Financial results, events, corporate reports, webcasts and fact books are all stored in the Investor Relations section of our website: <https://www.hipgnosissongs.com/investorinfo>

Conflicts of interest

A Director has a duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company. The Board requires Directors to regularly declare all appointments and other situations that could result in a possible conflict of interest and has adopted appropriate procedures to manage and, if appropriate, approve any such conflicts. The Board is satisfied that there is no compromise to the independence of those Directors who have appointments on the Boards of, or relationships with, companies outside the Company.

Whistleblowing

The Board has considered the AIC Code recommendations in respect of arrangements by which staff of the Investment Adviser or Administrator may, in confidence, raise concerns within their respective organisations about possible improprieties in matters of financial reporting or other matters.

It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where necessary, for appropriate follow-up action to be taken within their organisation.

Division of Responsibilities

Duties and Responsibilities

The Board is responsible for the determination of the Company's Investment Objective and Policy and has overall responsibility for maximising the Company's success by directing and supervising the affairs of the business and meeting the appropriate interests of Shareholders and relevant stakeholders, and also ensuring the protection of investors. A summary of the matters reserved for the Board is as follows:

- strategic matters;
- risk assessment and management including reporting, compliance, governance, monitoring and control and financial reporting;
- statutory obligations and public disclosure;
- declaring Company dividends;
- managing and assessing the performance of the Company's advisers and service providers; and
- other matters having a material effect on the Company.

The Directors have access to the advice and services of the Administrator, who also assist the Board in ensuring that Board procedures are followed and the Board complies with the Companies Law and applicable rules and regulations of the GFSC and the London Stock Exchange. Where necessary, in carrying out their duties, the Directors may seek independent professional advice and services at the expense of the Company. The Company maintains appropriate Directors' and Officers' liability insurance in respect of legal action against its Directors on an on-going basis.

The Board's responsibilities for the Annual Report are set out in the Directors' Responsibilities Statement on pages 71 to 72. The Board is also responsible for issuing appropriate Interim Reports and other price-sensitive public reports.

Chair

The Chair leads the Board and is responsible for its overall effectiveness in directing the Company. The Chair is appointed in accordance with the Company's Articles of Incorporation. In considering the independence of the Chair, the Board took note of the provisions of the AIC Code relating to independence and has determined that Mr Sutch is an independent director. The Board is satisfied that the Chair has no relationships that may create a conflict of interest between his interests and those of shareholders.

Senior Independent Director

Mr Burger, an existing independent Non-Executive Director, was appointed as Senior Independent Director on 9 September 2019.

Independence

The Board considers that every Director is independent.

Commitment

One of the key criteria the Company uses when selecting non-executive Directors is their confirmation prior to their appointment that they will be able to allocate sufficient time to the Company to discharge their responsibilities in a timely and effective manner.

Meetings and advice

The Board meets at least four times a year for regular quarterly Board meetings. At each meeting the Board follows a formal agenda that covers the business to be discussed. In addition, a considerable number of ad-hoc Board meetings, and Board Portfolio and/or Asset Management Committee meetings (as detailed on page 51), have been held regularly since the Company's launch. The Directors meet regularly with the senior management employed by the Investment Adviser both formally and informally to ensure the Board remains regularly updated on all issues. The Board also has regular contact with the Administrator, and the Board requires to be supplied in a timely manner with information by the Investment Adviser, the Company Secretary and other advisers in a form and of a quality to enable it to discharge its duties.

The Company has adopted a share dealing code for the Board and seeks to ensure compliance by the Board and relevant personnel of the Investment Adviser and other third party service providers with the terms of the share dealing code.

Attendance

The Board formally met four times during the year for scheduled Board meetings and the ad-hoc Board meetings were called in relation to specific events or to issue approvals, often at short notice, and did not necessarily require full attendance. Each Board member receives a comprehensive Board pack prior to each meeting which incorporates a formal agenda together with supporting papers for items to be discussed at the meeting. Directors who have been unable to attend a meeting have, without exception, given the Chair their views and comments on matters to be discussed, in advance.

In addition to their meeting commitments, the Directors also liaise with the Investment Adviser whenever required and there is regular contact outside the Board meeting schedule.

Attendance is further set out below:

Director	Scheduled Board Meetings	Ad-hoc Board Meetings	Committee of the Board	Audit and Risk Management Committee	Portfolio Committee Meetings	Total⁵ Meetings attended
Paul Burger ²	4 of 4	21 of 23	6 of 7	3 of 3	22 of 22	56 of 59
Sylvia Coleman ^{3, 4}	1 of 1	8 of 8	1 of 2	2 of 2	10 of 10	22 of 23
Simon Holden	4 of 4	21 of 23	7 of 7	3 of 3	18 of 22	53 of 59
Andrew Sutch ¹	4 of 4	23 of 23	6 of 7	3 of 3	19 of 22	55 of 59
Andrew Wilkinson	4 of 4	20 of 23	6 of 7	3 of 3	20 of 22	53 of 59

¹ Chair

² Senior Independent Director

³ Ms Coleman was appointed to the Board from 27 November 2019 at which point three Board Meetings had already taken place

⁴ Ms Coleman was appointed to the Audit and Risk Committee, Portfolio Committee from 27 November 2019, at which point one Audit and Risk Committee Meeting, 12 Portfolio Committee Meetings, 6 Board Committee Meetings and 15 ad-hoc Board Meetings had already taken place

⁵ Directors work extensively with the Investment Adviser, brokers and administrator on strategy, acquisition, operating and reporting related matters between the formal Board meetings recorded herewith. Compared with typical investment trusts, this highlights the more executive level of management and oversight commensurate with the intrinsic opportunities and risks of this high-growth, intangible asset class,

A quorum is comprised of any two or more members of the Board from time to time, to perform administrative and other routine functions on behalf of the Board, subject to such limitations as the Board may expressly impose on this committee from time to time.

Committees of the Board

The Board believes that it and its committees have an appropriate composition and blend of backgrounds, skills and experience to discharge their duties effectively. The Board is of the view that no one individual or small group dominates decision-making. The Board keeps its membership, and that of its committees, under review to ensure that an acceptable balance is maintained, and that the collective skills and experience of its members continue to be refreshed. It is satisfied that all Directors have sufficient time to devote to their roles and that undue reliance is not placed on any individual.

Each committee of the Board has written terms of reference, approved by the Board, summarising its objectives, remit and powers, which are available on the Company's website (www.hipgnosissongs.com) and are reviewed on an annual basis. Each Committee has access to such external advice as it may consider appropriate.

All committee members are provided with an appropriate induction on joining their respective committees, as well as on-going access to training. Minutes of all meetings of the committees are made available to all Directors and feedback from each

of the committees is provided to the Board by the respective committee Chair at the next Board meeting. The Chair of each committee attends the AGM to answer any questions on their committee's activities.

The Board and its committees are supplied with regular, comprehensive and timely information in a form and of a quality that enables them to discharge their duties effectively. All Directors are able to make further enquiries of the Investment Adviser or Administrator whenever necessary and have access to the services of the Company Secretary.

Nomination Committee

The Nomination Committee activities are contained in the Report of the Nomination Committee on pages 56 to 57.

Audit and Risk Management Committee

The Audit and Risk Management Committee activities are contained in the Report of the Audit and Risk Management Committee on pages 60 to 63.

Management Engagement Committee

The Management Engagement Committee activities are contained in the Report of the Management Engagement Committee on page 64.

Division of Responsibilities

Continued

Remuneration Committee

The Remuneration Committee's activities are contained in the Report on Remuneration on pages 65 to 66.

Portfolio Committee

The Portfolio Committee is chaired by Mr Burger and also comprises Mr Sutch, Mr Wilkinson and Mr Holden, all of whom held office throughout the year, and Ms Coleman who joined on 27 November 2019. The principal duties of the Portfolio Committee are to undertake the following functions:

- making the final decision as to the acquisition of Catalogues of Songs based on a comprehensive investment paper and financial model as presented by the Investment Adviser along with an Independent Valuation Report;
- determining, in collaboration with the Company's legal, tax or corporate finance advisers, the most appropriate means for acquiring the Catalogues of Songs in the event that such Catalogues of Songs are not directly transferable, but are available in an intermediated form (such as a special purpose company, or similar) including determining any adjustments to the price if necessary or appropriate;
- making enquiries, at any stage, of the Investment Adviser with regards to the pipeline opportunities identified by the Investment Adviser from time to time;
- making the final decision as to the disposal of any Catalogue of Songs; and
- determining, in collaboration with its legal, tax or corporate finance advisers, the most appropriate means for disposal of the Catalogues of Songs in the event that such Catalogues of Songs are not directly transferable but are held in an intermediated form (such as a special purpose company, or similar).

The Portfolio Committee meets on an ad hoc basis when requested on reasonable prior notice from the Investment Adviser. The quorum for any meeting of the Portfolio Committee shall be at least one Director. All Board members shall use reasonable endeavours to attend each meeting of the Portfolio Committee.

Asset Management Committee

The Asset Management Committee is chaired by Mr Sutch and also comprises Mr Wilkinson, Mr Holden and Mr Burger, all of whom held office throughout the year, and Ms Coleman who joined on 27 November 2019. The principal duties of the Asset Management Committee are to consider the ongoing management and revenue maximisation of the Catalogues of Songs acquired by the Company, which includes performing the following functions:

- making any final decision required to be made as to the allocation of assets that might arise under the arrangements with portfolio administrators;
- making any final decision required to be made as to whether or not to enter into or terminate any contract with a portfolio administrator or other royalty collection agent;
- reviewing and, if considered appropriate, approving any updates to the strategies to maximise revenue collection from the Portfolio; and
- making any final decision required to be made as to whether or not to pursue any recommended revenue maximisation opportunity which exceeds £500,000 in revenues, provided that such decisions will be made in a timely manner and the Asset Management Committee shall use all reasonable endeavours to effect such decisions within the timetables proposed by the Investment Adviser.

The Asset Management Committee meets on an ad hoc basis when requested on reasonable prior notice from the Investment Adviser. The quorum for any meeting of the Asset Management Committee shall be at least one Director. All Board members shall use reasonable endeavours to attend each meeting of the Asset Management Committee.

Composition, Succession and Evaluation

Board Tenure and Re-election

No member of the Board has served for longer than nine years as the Company was incorporated on 8 June 2018. As such no issue has arisen to be considered by the Board with respect to long tenure. In accordance with the AIC Code, when and if any Director shall have been in office (or on re-election would at the end of that term have been in office) for more than nine years the Company will consider further whether there is a risk that such a Director might reasonably be deemed to have lost independence through such long service. The Board recognises that Directors serving nine years or more may appear to have their independence impaired. However, the Board may nonetheless consider Directors to remain independent and will provide a clear explanation with future Annual Report and Consolidated Financial Statements as to their reasoning.

Directors are appointed under letters of appointment, copies of which are available at the registered office of the Company. The Board considers its composition and succession planning on an on-going basis. The Company's Articles of Incorporation specify that each of the Directors shall retire and may offer themselves for re-election at each AGM of the Company.

All of the Directors are non-executive and are each considered independent for the purposes of Chapter 15 of the Listing Rules.

Biographies

Board of Directors



Andrew Sutch

Chair, Non-executive Independent Director and chair of the Asset Management Committee

Tenure: 1 year 10 months

Experience

Mr Sutch is a corporate lawyer and a consultant to Stephenson Harwood LLP. He was a partner of that firm for over 30 years and its senior partner for 10 years. He has extensive experience in advising investment funds and investment managers. He is chair of JPMorgan Claverhouse Investment Trust Plc and European Opportunities Trust Plc, and a council member of the Royal Academy of Dramatic Art.



Paul Burger

Senior Non-executive Independent Director, chair of the Portfolio Committee and chair of the Nomination Committee

Tenure: 1 year 9 months

Experience

Mr Burger's career spans more than 40 years working with music artists of very diverse backgrounds in a variety of locations. Having previously served as President, Europe, Middle East, and Africa for Sony Music Europe, his last corporate posting after having worked for 27 years in senior management positions within Sony Music (including chair & chief executive officer of Sony Music UK & Ireland; president Sony Music Canada; VP Marketing Sony Music Europe), Mr Burger founded SohoArtists in 2003, a boutique artist management company focused largely on new and developing talent. In addition to artist management, SohoArtists runs a consultancy arm for artists, labels and entertainment companies.

From 2012-2018 Mr Burger served as chair of the board of governors of England's The BRIT School for Performing Arts & Technology, a state-funded school sponsored by the British music industry focussed on providing training for careers in the creative industries, and he continues to serve as a governor of the school. Some of the school's famous graduates include Adele, Jessie J, Rizzle Kicks, Leona Lewis, Rex Orange County, and Katie Melua. Furthermore, Mr Burger is a long-time director of The BRIT Trust Ltd where he recently was appointed as Chair of the Finance Committee, and continues to serve as a trustee of the University of Pennsylvania Foundation (UK) Ltd. He recently stood down after 16 years as a board member of the Music Managers Forum (UK) and Chair of their Governance and Nominations Committee.



Andrew Wilkinson

Non-executive Independent Director and chair of the Audit and Risk Management Committee

Tenure: 1 year 10 months

Experience

Mr Wilkinson is a chartered accountant who has worked at Peat Marwick Mitchell and merchant bankers Leopold Joseph. Mr Wilkinson was a founder of the Promo Group, which managed the business affairs of the Rolling Stones. In 1981, he became a partner of Prince Rupert Loewenstein, providing business management services to clients in the entertainment and sports sectors. Mr Wilkinson is co-founder and CEO of Music Plus Sport Ltd. and its subsidiary Live at the Races Limited. The group specialises in large-scale concerts at sporting events. Further, Mr Wilkinson was founder and chief executive of Kingstreet Tours Limited, a company that was in the forefront of concert tour production for over 30 years and delivered worldwide concert tours for artists including The Rolling Stones, Pink Floyd, Sir Elton John, Robbie Williams and Shakira. Mr Wilkinson is a member of the fundraising committee and former treasurer of Nordoff Robbins, a charity that uses music therapy in the treatment and care of autistic children.



Simon Holden

Non-executive Independent Director and chair of the Remuneration Committee

Tenure: 1 year 10 months

Experience

Mr Holden, a Guernsey resident, brings board experience from both private equity and portfolio company operations roles at Candover Investments and then Terra Firma Capital Partners. Since 2015, Mr Holden has become an independent director to listed investment companies, many focused on alternative assets (HICL Plc., Trian Investors 1 Limited, Merian Chrysalis Investment Company Limited and JPMorgan Global Core Real Assets Limited), private equity funds as well as private company and States of Guernsey owned Trading Assets boards.

Mr Holden holds the DiploD in Company Direction from the Institute of Directors, graduated from the University of Cambridge with an MEng and MA Cantab. in Manufacturing Engineering and is an active member of Guernsey's GIFA, NED Forum and IP Commercial Group.



Sylvia Coleman

Non-executive Independent Director (Appointed 27 November 2019)

Tenure: 4 months

Experience

Ms Coleman, initially a lawyer with Stephenson Harwood, has since spent most of her career in the Music Industry serving, across 25 years, as Senior Vice President of Legal and Business Affairs at EMI Music and prior to that, Sony Music where she was responsible for overseeing the Company's International and European legal and business affairs respectively. Most recently, she co-founded BPureSounds, a boutique urban music IP rights company which launched in early 2019. Additionally Ms Coleman was a Non-Executive Director of FTSE 250 bwin.party digital entertainment plc until its acquisition by GVC Holdings plc. She also served as a long-standing Chair of Chickenshed Theatre Company, a not for profit music and theatre company for young people celebrating diversity and inclusion and was on the Board of Reprieve, a charitable human rights organisation. She also co-founded Ceroc Enterprises, a dance company franchising a contemporary dance phenomenon across the UK.

Founder



Merck Mercuriadis

Founder of Hipgnosis Songs Fund Limited and its Investment Adviser, The Family (Music) Ltd.

Mr Mercuriadis is also the CEO and managing partner of Hipgnosis Songs Ltd, an artist management firm label based in London and Los Angeles.

Experience

Mr Mercuriadis is the manager of music legend Nile Rodgers and the former manager of several notable award winning artists and songwriters including Sir Elton John, Guns'N'Roses, Iron Maiden, Morrissey, Pet Shop Boys, Mary J. Blige, Jane's Addiction, Diane Warren and Justin Tranter to name a few. Additionally, Mercuriadis is notable for serving from 1986-2007 as Director and CEO of The Sanctuary Group PLC, a major management company, an independent record label, a merchandise company (Bravado) and a booking agency (Helter Skelter now CAA UK) based in London, New York and Los Angeles.

Report of the Nomination Committee



Membership

The Nomination Committee was established on 9 September 2019 and is chaired by Mr Burger and also comprises Mr Wilkinson, Mr Holden and Mr Sutch, all of whom held office since establishment, and Ms Coleman who joined on 27 November 2019. The Nomination Committee will meet at least once a year pursuant to its terms of reference.

Remit

The Nomination Committee's remit is to review regularly the structure, size and composition of the Board, to give full consideration to succession planning for Directors, to keep under review the leadership needs of the Company and be responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise. The Chair is not permitted to chair the Nomination Committee at such times when dealing with the appointment of their successor.

During the year Ms Coleman was appointed as a Director. Her recruitment took place before the Company migrated to a Premium Listing on the Main Market and, after the process was completed, the decision was taken to appoint Ms Coleman with effect from 27 November 2019. In making the appointment the Board took into account the profile and experience of the existing Board and the factors to be considered in appointing new directors.

Board performance and evaluation

In accordance with Provision 26 of the AIC Code, the Board is required to undertake a formal and rigorous evaluation of its performance on an annual basis. The Board believes that annual evaluations are helpful and provide a valuable opportunity for continuous improvement. Internal evaluation of the Board, individual Directors and the Chair is carried out under the mandate of the Nomination Committee.

An informal evaluation of each Director and the Board was carried out by the Board as a whole, and the non-executive directors discussed, without the Chair present, the Chair's performance. A formal, written process will be introduced for the current year and plans are being made for the performance of external board evaluations in the future.

The evaluation concluded that the Board is performing satisfactorily and is acquitting its responsibilities well in the areas reviewed which incorporated: investment matters, Board composition and independence, relationships and communication, shareholder value, knowledge and skills, Board processes and the performance of the Chair. The Board believes that the current mix of skills, experience, knowledge and age of the Directors is appropriate to the requirements of the Company.

The Nomination Committee has also reviewed the composition, structure and diversity of the Board, the independence of the Directors and whether each of the Directors has sufficient time available to discharge their duties effectively. The Committee and the Board confirm that they believe that the Board has an appropriate mix of skills and backgrounds and that all Directors should be considered as independent in accordance with the provisions of the AIC Code and have the time available to discharge their duties effectively. Accordingly, the Board recommends that Shareholders vote in favour of the re-election of all Directors at the forthcoming AGM.

In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and evaluates the balance of skills, experience, independence, knowledge and time commitments of each candidate. Appointments are therefore made on personal merit and against objective criteria with the aim of bringing new skills and different perspectives to the Board whilst taking into account the existing balance of knowledge, experience and diversity. The Board also believes that diversity of experience and approach, including gender diversity, amongst Board members is of great importance and it is the Company's policy to give careful consideration to issues of Board balance and diversity when making new appointments.

The Board recognises the progress being made to improve the governance of listed companies by increasing both gender and racial diversity amongst the Directors who serve these businesses. The appointment of Ms Coleman on 27 November 2019 is part of the Board's commitment to support the recommendations of the Hampton Alexander and Parker Reviews. We acknowledge our responsibility to strive to meet the targets set for us now we are a member of the FTSE 250 – this became a requirement for us a couple of weeks before the end of the period covered by this report. Additional female and ethnic minority candidates will be considered by the Board as part of its next phase of recruitment designed to improve its own composition in 2020.

Directors regularly meet with the senior management employed by the Investment Adviser both formally and informally to ensure that the Board remains regularly updated on all issues. All members of the Board are members of professional bodies and serve on other Boards, which ensures they are kept abreast of the latest technical developments in their areas of expertise. New Directors receive an induction on joining the Board. The Board arranges for presentations from the Investment Adviser, the Company's brokers and other advisers on matters relevant to the Company's business. The Board assesses the training needs of Directors on an annual basis.

On behalf of the Nomination Committee,

Paul Burger

Chair of the Nomination Committee

3 July 2020

Audit, Risk and Internal Control

Internal Control and Financial Reporting

The Directors acknowledge that they are responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. Internal control systems are designed to manage rather than eliminate the failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatements or loss. The Directors can confirm they have carried out a robust assessment of the principal and emerging risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The key procedures which have been established to provide internal control are:

- the Board has delegated the day to day operations of the Group to the Administrator, Investment Adviser and Preferred Portfolio Administrator; however, it remains accountable for all functions it delegates;
- the Board clearly defines the duties and responsibilities of the Company's agents and advisers and appointments are made by the Board after due and careful consideration. The Board monitors the on-going performance of such agents and advisers and will continue to do so through the management engagement committee;
- the Board monitors the actions of the Investment Adviser at regular Board meetings and is also given frequent updates on developments arising from the operations and strategic direction of the underlying borrowers; and
- the Administrator provides administration and company secretarial services to the Company. The Administrator maintains a system of internal control on which it reports to the Board.

The Company's service providers demonstrated a resilience of controls under COVID-19. The service providers activated their business continuity plans and their regular working patterns have changed to remote working, though with all staff continuing to assume their day-to-day responsibilities remotely.

The Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the Administrator and Investment Adviser, including their own internal controls and procedures, provide sufficient assurance that an appropriate level of risk management and

internal control, which safeguards Shareholders' interests and the Group's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary, as explained on page 62.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes. The Administrator and Investment Adviser both operate risk controlled frameworks on a continual ongoing basis within a regulated environment. The Administrator undertakes an ISAE 3402: Assurance Report on Controls at a Service Organisation audit annually which is provided to the Board when finalised. The Administrator also formally reports to the Board quarterly through a compliance report. The Investment Adviser formally reports to the Board quarterly, including relevant updates regarding their policies and procedures, and also engages with the Board on an ad-hoc basis as required. No weaknesses or failing within the Administrator or Investment Adviser have been identified.

The systems of control referred to above are designed to ensure effectiveness and efficient operation, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control. It follows, therefore, that the systems of internal control can only provide reasonable but not absolute assurance against the risk of material misstatement or loss. This process has been in place for the year under review and up to the date of approval of this Annual Report and Consolidated Financial Statements. It is reviewed by the Board and is in accordance with the FRC's internal control publication: Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Principal and Emerging Risks

Each Director is fully aware of the risks inherent in the Company's business and understands the importance of identifying, evaluating and monitoring these risks. The Board has adopted procedures and controls that enable it to carry out a robust assessment of the risks facing the Company, manage these risks within acceptable limits and to meet all of its legal and regulatory obligations. The Board thoroughly

considers the process for identifying, evaluating and managing any significant risks faced by the Company on an ongoing basis and these risks are reported and discussed at Board meetings. It ensures that effective controls are in place to mitigate these risks and that a satisfactory compliance regime exists to ensure all applicable local and international laws and regulations are upheld. For each material risk, the likelihood and consequence are identified, management controls and frequency of monitoring are confirmed and results reported and discussed at the quarterly Board meetings.

The Group's assets consist mainly of intangible assets representing copyright interests in musical compositions and associated intellectual property rights. The primary focus is on what the Investment Adviser considers to be proven Songs from well-known songwriters with a sufficient proven track record of producing royalty income to enable them to be viewed as evergreen. In those instances where the acquisition of a Catalogue is made with different criteria in mind, for example where in the opinion of the Investment Adviser the acquisition is strategic and may facilitate the acquisition of a more significant Catalogue in due course, the Board considers the exceptional circumstances carefully before reaching a decision on the acquisition in question. On some occasions such an acquisition may be made in the knowledge that the forecast revenue stream will be below the target revenue stream for the portfolio as a whole.

The Company's principal and emerging risks are related to market conditions in the music business in general, but also the particular circumstances of the Catalogues of Songs in which it is invested. The Board and the Investment Adviser seek to mitigate these risks through active asset management initiatives and carrying out due diligence work on potential targets before entering into any investments.

The principal risks and uncertainties of the Company, as set out on pages 36 to 39, are continually monitored by the Board, with assistance from the Investment Adviser and its Advisory Board.

Report of the Audit and Risk Management Committee



The Audit and Risk Management Committee (the Audit Committee), chaired by Mr Wilkinson, operates within clearly defined terms of reference (which are available from the Company's website) and includes all matters indicated by Disclosure and Transparency Rule 7.1, the AIC Code and the UK Code. Its other members are Mr Sutch, Mr Burger and Mr Holden, all of whom held office throughout the year, and Ms Coleman who was appointed on 27 November 2019. At the time of incorporation of the Company there were only four members of the Board and it was considered appropriate by the Chair of the Audit Committee that all Board members should join the Audit Committee. The expansion of the Board, the Company having recently joined the FTSE 250, is under review by the Nomination Committee and the membership of the Audit Committee will be adjusted, if considered advisable, following that review.

The Audit Committee members have considerable financial and business experience and the Board has determined that the membership as a whole has sufficient recent and relevant sector and financial experience to discharge its responsibilities given that the Chair is a chartered accountant and other members have significant business experience, both within the music industry and in the asset management industry.

The duties of the Audit Committee include reviewing the Annual Report and Consolidated Financial Statements and the Interim Report, the system of internal controls, and the terms of appointment of the Company's independent auditor together with their remuneration. It is also the formal forum through which the auditor will report to the Board of Directors. The objectivity of the auditor is reviewed by the Audit Committee which will also review the terms under which the external auditor is appointed to perform non-audit services and the fees paid to them or their affiliated firms.

Responsibilities

The main duties of the Audit Committee are:

- reviewing and monitoring the integrity of the Financial Statements of the Group and any formal announcements relating to the Group's financial performance, reviewing significant financial reporting judgements contained in them;
- reporting to the Board on the appropriateness of the Group's accounting policies and practices including critical judgement areas;
- reviewing the valuations of the Group's investments as prepared and presented in report format by the Independent Valuer, and making a recommendation to the Board on value of the Group's investments;
- meeting regularly with the external auditor to review their proposed audit plan and the subsequent audit report and assess the effectiveness of the audit process and the levels of fees paid in respect of both audit and non-audit work;
- making recommendations to the Board in relation to the appointment, re-appointment or removal of the external auditor and approving their remuneration and the terms of their engagement;
- monitoring and reviewing annually the auditor's independence, objectivity, expertise, resources, qualification and non-audit work;
- considering annually whether there is a need for the Group to have its own internal audit function;
- monitoring the internal financial control and risk management systems on which the Group is reliant;
- reviewing and considering the Corporate Governance Code, the AIC Code, the FRC Guidance on audit committees; and
- reviewing the risks facing the Group and monitoring the risk matrix.

The Audit Committee reports formally its findings to the Board, identifying any matters on which it considers that action or improvement is needed, and make recommendations on the steps to be taken.

The external auditor is invited to attend the Audit Committee meetings as the Directors deem appropriate and at which they have the opportunity to meet with the Audit Committee without representatives of the Investment Adviser or the Administrator being present at least once per year.

Financial Reporting

The primary role of the Audit Committee in relation to financial reporting is to review with the Administrator, the Investment Adviser and the external auditor the appropriateness of Interim Reports and Annual Reports, concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with both any external consultant as appointed by the Investment Adviser and the external auditor;
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's performance, business model and strategy; and
- any correspondence from regulators in relation to the Group's financial reporting.

To aid its review, the Audit Committee considers reports from the Investment Adviser and also reports from the external auditor on the outcomes of their annual audit. The Audit Committee supports PricewaterhouseCoopers CI LLP in displaying the necessary professional scepticism their role requires.

Meetings

During the year ended 31 March 2020, the Audit Committee met formally on three occasions. The matters discussed at those meetings include:

- review of the terms of reference of the Audit Committee for approval by the Board;
- review of the accounting policies and format of the Interim Financial Statements;
- detailed review of the Interim Report and recommendation for approval by the Board including the going concern basis and the viability statement;
- review of the Group's risk matrix;
- review and approval of the audit plan and final Audit Committee report of the auditor;
- discussion and approval of the fee for the external audit;

- assessment of the independence of the external auditor;
- assessment of the effectiveness of the external audit process as described below; and
- review of the Group's key risks and internal controls.

Primary Areas of Judgement and Estimation

The Company has issued share capital denominated in Pounds Sterling and aims to continue paying regular dividends in that currency. However, much of the Group's revenue is received in other currencies, particularly US Dollars, and exchange rate fluctuations may affect the NAV and the ability to pay the targeted dividends.

The Board, alongside the Investment Adviser, is involved in various estimates and judgements, as noted below:

- Forecasting income for each Catalogue that is acquired in order to appraise investment opportunities. These judgements are based on detailed reports and management accounts prepared by the Investment Adviser showing historical earnings as well as industry projections, published by verified third parties. For the income that is driven by 'active management', judgements are made based on a Song by Song assessment by the Investment Adviser;
- Accruals, as estimates, are booked in the financial period are based on historical analysis from royalty statements and a prudent calculation is derived. These calculations are reviewed by the Board with the Investment Adviser and the Auditors;
- The estimated Amortisation booked per annum is based on 20 years which is the Company's judgement of the useful life of the asset; and
- Indicators of impairment are considered on a timely basis and a judgement would be made as to whether a Catalogue should be written down.

Report of the Audit and Risk Management Committee

Continued

Risk Management

The Board is accountable for carrying out a robust assessment of the principal risks facing the Group, including those threatening its business model, future performance, solvency and liquidity. On behalf of the Board, the Audit Committee reviews the effectiveness of the Group's risk management processes. The Group's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Audit Committee. The work of the Audit Committee is driven primarily by the Company's assessment of its principal risks and uncertainties as set out in the Corporate Governance Report. The Audit Committee receives reports from the Investment Adviser and Administrator on the Company's risk evaluation process and reviews changes to significant risks identified.

Internal Audit

The Audit Committee continues to review the need for an internal audit function and has decided that the systems and procedures employed by the Administrator and the Investment Adviser, including their own internal controls and procedures, provide sufficient assurance that an appropriate level of risk management and internal control, which safeguards Shareholders' interests and the Group's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

External Audit

PricewaterhouseCoopers CI LLP has been appointed as the Company's external auditor with Mr Roland Mills as the lead audit partner who can serve as such until the year ended 31 March 2024 in accordance with normal audit partner rotation arrangements at which point a new audit partner will be introduced

The non-audit services provided by PwC were:

Nature of service	Fee (£)	Threat(s) to independence	Safeguard(s) in place
Reporting accountant services	£147,500	There may exist a self-interest threat where the fees from non audit services are in excess of the statutory audit fee or otherwise considered material to PwC. A self review threat may exist where the audit team places reliance on work performed by the reporting accountant team.	The total non audit fees for the year are less than the total proposed audit fee for the year ended 31 March 2020, and the total fees paid to the Group for both audit and non audit services is immaterial to total PwC CI firm revenue. The reporting accountant services rendered are delivered and supervised by a separate independent team, including a partner and manager fully independent of the audit team, to ensure appropriate segregation.
Agreed upon procedures	£10,000	There may exist a self-interest threat where the fees from non audit services are in excess of the statutory audit fee or otherwise considered material to PwC. A self review threat may exist where the audit team places reliance on work performed by the reporting accountant team.	The total non audit fees for the year are less than the total audit fee for the year ended 31 March 2020, and the total fees paid to the Group for both audit and non audit services is immaterial to total PwC firm revenue. The agreed upon procedures undertaken relate to the C-Share conversion and are generally considered in the normal course of business when converting C-shares, with it being common practice on having the auditors to undertake this service.
£157,500			

The fees charged by PwC for the financial year ended 31 March 2020 are further detailed in Note 20.

to the Company. The Companies Law requires the reappointment of the external auditor to be subject to Shareholders' approval at the AGM.

The objectivity of the external auditor is reviewed by the Audit Committee which also reviews the terms under which the external auditor may be appointed to perform non-audit services and the level of non-audit fees. In order to safeguard external auditor independence and objectivity, the Audit Committee ensures that any other advisory and/or consulting services provided by the external auditor does not conflict with its statutory audit responsibilities. Advisory and/or consulting services will generally only cover reviews of interim financial statements, tax compliance and capital raising work. Any non-audit services conducted by the external auditor outside of these areas require the consent of the Audit Committee before being initiated.

The external auditor may not undertake any work for the Company in respect of preparation of the financial statements, preparation of valuations used in financial statements, provision of investment advice, taking management decisions or advocacy work in adversarial situations.

The Audit Committee regularly monitors non audit services being provided by PricewaterhouseCoopers CI LLP to ensure there is no impairment to their independence or objectivity. The only non-audit services provided by PricewaterhouseCoopers CI LLP related to the role as reporting accountant on the migration of the Company to a Premium Listing on the Main Market and the agreed upon procedures in respect of the conversion of the C Shares into Ordinary Shares. All approved non-audit services are discussed and sanctioned at meetings of the Audit Committee.

Notwithstanding such services, the Audit Committee considers PricewaterhouseCoopers CI LLP to be independent of the Company and that the provision of such non-audit services is not a threat to the objectivity and independence of the conduct of the audit as appropriate safeguards are in place.

To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee considered:

- the audit personnel in the audit plan for the current period;

- a report from the external auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditor.

To assess the effectiveness of the external auditor, the Audit Committee reviewed:

- the external auditor's fulfilment of the agreed audit plan and variations from it;
- reports highlighting the major issues that arose during the course of the audit; and
- feedback from the Investment Adviser and Administrator evaluating the performance of the audit team;
- arrangements for ensuring independence and objectivity; and
- the robustness of the auditor in handling key accounting and audit judgements.

The Audit Committee is satisfied with PricewaterhouseCoopers CI LLP's effectiveness and independence as external auditor having considered the degree of diligence and professional scepticism demonstrated by them. As such, the Audit Committee has not considered it necessary this year to conduct a tender process for the appointment of its external auditor. Having carried out the review described above and having satisfied itself that the external auditor remains independent and effective, the Audit Committee has recommended to the Board that PricewaterhouseCoopers CI LLP be reappointed as external auditor for the year ending 31 March 2021.

A resolution to reappoint PricewaterhouseCoopers CI LLP as independent external auditor to the Company will be proposed at the forthcoming AGM.

Subject to the COVID-19 restrictions being lifted, the Chair of the Audit Committee will be available at the AGM to answer any questions about the work of the Audit Committee.

On behalf of the Audit Committee,

Andrew Wilkinson

Chair of the Audit and Risk Management Committee

3 July 2020

Report of the Management Engagement Committee



The Management Engagement Committee is chaired by Mr Sutch and also comprises Mr Burger, Mr Holden and Mr Wilkinson, all of whom held office from 27 September 2019 when the the Management Engagement Committee was formed, and Ms Coleman who was appointed on 27 November 2019. The Management Engagement Committee will meet at least once a year pursuant to its terms of reference.

The Management Engagement Committee provides a formal mechanism for the review of the performance of the Investment Adviser and the Company's other advisers and service providers. It carries out this review through consideration of a number of objective and subjective criteria and through a review of the terms and conditions of the advisers' appointments with the aim of evaluating performance, identifying any weaknesses and ensuring value for money for the Shareholders.

Investment Advisory Agreement

The Board is responsible for the determination of the Company's Investment Objective and Policy and has overall responsibility for its activities. The Company has, however, entered into an Investment Advisory Agreement dated 27 June 2018 with the Investment Adviser under which it will advise the Group in relation to the acquisition, holding, disposal and management of Songs, whether organised into Catalogues or otherwise, and provide the subsidiaries with certain assets related and other ongoing services.

The Group is responsible for paying an advisory fee to the Investment Adviser in return for their services, and, subject to the fulfilment of certain conditions, an additional performance fee.

In accordance with Listing Rule 15.6.2(2)R and having formally appraised the performance and resources of the Investment Adviser, in the opinion of the Directors the continuing appointment of the Investment Adviser on the terms agreed is in the interests of the Shareholders as a whole.

On behalf of the Management Engagement Committee,

Andrew Sutch

Chair of the Management Engagement Committee

3 July 2020

Report on Remuneration



The Remuneration Committee is chaired by Mr Holden and also comprises Mr Burger, Mr Sutch and Mr Wilkinson, all of whom held office from 9 September 2019 when the Remuneration Committee was formed, and Ms Coleman who was appointed on 27 November 2019. Mr Holden takes the Remuneration Committee Chair for the first time for the Company. However, Mr Holden already sits on the Remuneration Committees of several other listed company committees and chairs the Risk, Market & Risk, Management Engagement committees of some of them. In addition, Mr Holden has experience of negotiating executive compensation schemes from his previous career as a private equity Investment Director.

The Remuneration Committee is responsible for recommending and monitoring the level and structure of remuneration for all the Directors, taking into account the time commitments and responsibilities of Directors and any other factors which it deems necessary, including the recommendations of the AIC Code. The Remuneration Committee will meet at least once a year pursuant to its terms of reference.

Directors' Remuneration

The level of remuneration of the Directors reflects the time commitment and responsibilities of their roles. Directors also get reimbursed for out of pocket expenses, including travel. At 1 April 2019 the Chair was entitled to annual remuneration of £45,000. The Chair of the Audit and Risk Management Committee and the Portfolio Committee were entitled to annual remuneration of £40,000. The other Directors were entitled to annual remuneration of £35,000. The Remuneration Committee resolved that, with effect from 1 July 2019, the annual remuneration for each Director would be increased to £50,000, with an additional £7,500 per annum for the Chair and an additional £5,000 per annum for each of the Chairs

of the Audit and Risk Management Committee and the Portfolio Committee. These increases sought to begin to recognise the considerable commitment and involvement of the Directors, outside the basic cycle of the quarterly Board meetings, in attending to committee and ad hoc Board work largely related to the review of new Catalogue acquisitions and oversight of the development of the Investment Adviser's operational infrastructure. This level of commitment can be seen in the number of meetings shown in the attendance table on page 51 and is expected to be maintained as the Company continues to grow and to acquire new Catalogues.

The Directors intend to confirm their commitment to their roles by increasing over time their investment in Ordinary Shares of the Company, in accordance with their personal circumstances and individual investment arrangements.

The Directors expect that the levels of remuneration will be reviewed annually in the light of the expected level of the commitment and involvement of the Directors outside of regular Board meetings. For any change in Directors remuneration, it would be necessary to seek shareholder consent to increasing or removing the remuneration cap contained within the Company's Articles of Incorporation.

During the year ended 31 March 2020 the Directors' remuneration was as follows:

	31 March 2020 £	31 March 2019 £
Paul Burger	61,250	24,374
Sylvia Coleman (appointed 27 Nov 2019)	17,295	–
Simon Holden	56,250	28,455
Andrew Sutch	64,375	36,586
Andrew Wilkinson	61,250	32,521

The Directors' remuneration, excluding disbursements, which include the additional payment for the C Share issue referred to below, for the year amounted to £260,420 with outstanding fees of £nil due to the Directors at 31 March 2020 (31 March 2019: £121,936 with outstanding fees of £nil due at 31 March 2019).

In light of the work undertaken for the C Share issue an additional payment of £10,000 was granted to each of the then Directors following the successful completion of the C Share launch on 8 October 2019.

Report on Remuneration

Continued

Compared with the majority of investment companies, the more operational nature of the Company's business of acquiring, integrating and overseeing the effective management of its song rights places an unusually high and sustained workload on the Directors. In addition, the Company invests in intangible real assets which inherently require more nuanced scrutiny through due diligence, custodianship and business intelligence reporting than more traditional tangible assets. The schedule of the Directors' attendance is testament to the breadth and depth of investment, strategy and other project work they have supported or lead during the year. Whilst deal volumes invariably will not be consistent every quarter, in between periods of investment activity the Directors are closely involved in planning work to evolve the Company's capital structure to scale its asset base and improve shareholder returns.

The Directors reflected on the lessons learned about the Board's role over the first 18 months in which the Company was established and successfully grown in several phases and, in December 2019, the Remuneration Committee commissioned Tyzack Associates in London (after considering at least 3 further options) to perform an independent remuneration review of appropriate levels and models for Directors' fees to take account of these factors. Tyzack has no other connection with the Company or any Directors.

Tyzack Associates were appointed to the role on account of their combined experience of advising on independent directorship roles within both investment companies, as well as listed trading companies where Board involvement extends to governance and oversight within more of an operational environment. This combination better reflects the nature of the

Company's business model, the time and risk commitments of the Directors in fulfilling their roles, as well as their more integrated role in self-managing the Company's rapid growth and development.

Following conclusion of the independent remuneration review by Tyzack Associates, the Remuneration Committee resolved on 28 April 2020 to grant an additional payment to each of the Directors of £25,000, and £9,000 to Ms Coleman reflecting her appointment on 27 November 2019, in consideration of the variable elements of workload during FY2020. The additional payment was paid following the year end and is included as an operating cost of the Company. The Directors have each undertaken to reinvest the net amount of these additional payments (after tax) in Ordinary Shares of the Company.

Tyzack Associates also recommended an increase in the Directors' normal annual fees. This, if implemented, would require Shareholder approval to a variation of the remuneration cap contained in the Articles. Accordingly, it is proposed that major Shareholders will be consulted on a proposal to increase Directors' fees and, following and dependent on that consultation, a resolution regarding fees will be proposed at the AGM.

On behalf of the Remuneration Committee,

Simon Holden

Chair of the Remuneration Committee

3 July 2020

Report of the Directors

The Directors hereby present the Annual Report and Audited Consolidated Financial Statements for the Group, Hipgnosis Songs Fund Limited and its subsidiaries, for the year ended 31 March 2020. Please note that the reporting periods are not entirely comparable as the results at 31 March 2019 were reported for a shorter period, from incorporation on 8 June 2018. This Report of the Directors should be read together with the Strategic Report on pages 2 to 42 and the Corporate Governance Report on pages 40 to 66, which are both incorporated into this Report of the Directors by reference.

General Information

The Company is a company limited by shares incorporated on 8 June 2018 under the Companies Law. The Company's registration number is 65158, and it has been registered with the GFSC as a registered collective investment scheme. The Company's Ordinary Shares were admitted to trading on the Specialist Fund Segment of the London Stock Exchange on 11 July 2018, and migrated to a Premium Listing on the Main Market of the London Stock Exchange on 25 September 2019. The Company was promoted to the FTSE 250 Index on 20 March 2020. The registered office address is Floor 2, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 4LY.

Principal Activities

The investment objective of the Group is to provide Shareholders with an attractive and growing level of income, together with the potential for capital growth, from investment in a portfolio of Songs and their associated musical intellectual property rights. The Group's principal activities are to invest in a diverse Portfolio of Song Catalogues, to collect income generated across a wide variety of sources from the ongoing exploitation of those copyrights, and to manage the development of those assets as intensively as possible to broaden awareness and stimulate consumption.

Provision of information elsewhere in this annual report.

Business Review

A review of the Group's business and its likely future development is provided in the Strategic Report on pages 2 to 42.

Financial Risk Management Policies and Objectives

Financial risk management policies and objectives are disclosed in Note 16 on pages 106 to 109.

Section 172(1) Statement

The Section 172(1) statement is made on page 42.

Going Concern and Viability Statements

Going Concern and Viability Statements are made on pages 40 to 41.

Principal and Emerging Risks

Principal and emerging risks are discussed in the Strategic Report on pages 36 to 39.

Subsequent Events

Significant subsequent events have been disclosed in Note 21 on page 113.

Alternative Performance Measures

The Directors believe that the performance indicators detailed in the Financial Highlights, on page 9, and Financial Review on pages 27 to 30, will provide Shareholders with sufficient information to assess how effectively the Company is meeting its objectives. The alternative performance measures are described in the table on page 115.

Listing Requirements

Since being admitted to the Official List of the UK Listing Authority, as maintained by the FCA, the Company has complied with the applicable Listing Rules.

Report of the Directors

Continued

Results and Dividends

The results for the year are set out in the Consolidated Financial Statements on pages 84 to 87.

During the year, and since the year end, the Directors declared the following dividends:

Dividend	Quarter Ended	Date of Declaration	Payment Date	Amount per Ordinary Share (pence)
Interim dividend	30 June 2019	24 June 2019	30 August 2019	1.25
Interim dividend	30 September 2019	24 October 2019	29 November 2019	1.25
Interim dividend	31 December 2019	23 January 2020	21 February 2020	1.25
Interim dividend	31 March 2020	29 April 2020	27 May 2020	1.25

Share Capital

The Company has two classes of share capital: (i) Ordinary Shares; and (ii) C Shares. C Shares constitute a temporary and separate class of shares which can be issued at a fixed price determined by the Company. These are subsequently converted into Ordinary Shares, at NAV, once the proceeds of each C Share issue have been invested or substantially invested in accordance with the Company's investment policies. The Company's Prospectus currently accommodates C-share issuance and this authority expires on 25 September 2020. There are no C-shares in issue at 31 March 2020.

Under the Company's Articles of Incorporation, each Shareholder present in person or by proxy has the right to one vote at general meetings. On a poll, each Shareholder is entitled to one vote for every Ordinary Share or C Share held.

Shareholders are entitled to all dividends paid by the Company and, on a winding up, provided the Company has satisfied all of its liabilities, the Shareholders are entitled to all of the residual assets of the Company.

Shareholdings of the Directors

The Directors with beneficial interests in the Ordinary Shares of the Company as at 31 March 2020 are detailed below:

Director	Ordinary Shares held 31 March 2020	% holding at 31 March 2020	Ordinary Shares held 31 March 2019	% holding at 31 March 2019
Paul Burger	32,296	0.005	15,000	0.007
Sylvia Coleman	25,000	0.004	–	–
Simon Holden	64,796	0.010	15,000	0.007
Andrew Sutch	30,041	0.005	10,090	0.005
Andrew Wilkinson	51,462	0.008	15,000	0.007

In addition, the Company also provides the same information as at 2 July 2020, being the most current information available:

Director	Ordinary Shares held 2 July 2020	% holding at 2 July 2020
Paul Burger	47,500	0.008
Sylvia Coleman	25,000	0.004
Simon Holden	64,796	0.011
Andrew Sutch	44,598	0.007
Andrew Wilkinson	51,462	0.008

Directors' Authority to Buy Back Shares

The Directors will consider repurchasing Ordinary Shares in the market if they believe it to be in the Shareholders' interests as a whole and as a means of correcting any imbalance between supply and demand for the Ordinary Shares.

The timing, price and volume of any buy back of Ordinary Shares will be at the absolute discretion of the Directors and is subject to the Company having sufficient working capital for its requirements and surplus cash resources available. Ordinary Shares acquired pursuant to this authority are subject to compliance with the solvency test and any other relevant provisions of the Companies Law.

Annually the Company passes a resolution granting the Directors general authority to purchase in the market up to 14.99% of the number of Ordinary Shares in issue. The Directors intend to seek renewal of this authority from the Shareholders at the AGM.

In the event that the Board decides to repurchase Ordinary Shares, purchases will only be made through the market for cash at prices not exceeding the last reported IFRS NAV per Share and such purchases will only be made in accordance with: (a) the Listing Rules, which currently provide that the maximum price to be paid per Ordinary Share must not be more than the higher of: (i) 5% above the average of the mid-market values of the relevant Ordinary Shares for the five business days before the purchase is made; or (ii) the higher of: (1) the price of the last independent trade; and (2) the highest current independent bid for an Ordinary Share on the trading venues where the market purchases by the Company pursuant to the authority conferred by that resolution will be carried out; and (b) the Companies Law, which provides among other things that any such purchase is subject to the Company passing the solvency test contained in the Companies Law at the relevant time.

The Directors will not buy back any Shares from any class of C Shares in issue prior to Conversion. Therefore, the Company will not assist any class of C Shares in limiting discount volatility or provide an additional source of liquidity.

Directors' and Officers' Liability Insurance

The Group maintains insurance in respect of Directors' and Officers' liability in relation to their activities on behalf of the Group.

Substantial Shareholdings

As at 31 March 2020, the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following substantial voting rights as Shareholders of the Company.

Shareholder	Shareholding	% holding
Newton Investment Mgt (London)	59,253,159	9.62
CCLA Investment Mgt (London)	43,903,558	7.13
JO Hambro Capital Mgt (London)	38,492,296	6.25
Quilter Investors (London)	37,718,413	6.12
Schroder Investment Mgt (London)	34,901,545	5.67
Heartwood Investment Mgt (London)	33,801,181	5.49
Aviva Investors (London)	21,964,124	3.52
Investec Wealth & Investment (RS) (London)	20,254,516	3.29

In addition, the Company also provides the same information as at 10 June 2020, being the most current information available.

Shareholder	Shareholding	% holding
Newton Investment Mgt (London)	58,944,335	9.57
CCLA Investment Mgt (London)	42,778,821	6.95
JO Hambro Capital Mgt (London)	42,417,864	6.89
Quilter Investors (London)	34,910,882	5.67
Schroder Investment Mgt (London)	31,005,314	5.03
Heartwood Investment Mgt (London)	26,681,337	4.33
Aviva Investors (London)	24,692,654	4.01
Investec Wealth & Investment (RS) (London)	22,799,807	3.70

The Directors confirm that there are no securities in issue that carry special rights with regard to the control of the Company.

Report of the Directors

Continued

Independent External Auditor

PricewaterhouseCoopers CI LLP has been the Company's external auditor since the Company's incorporation. The Audit and Risk Management Committee reviews the appointment of the external auditor, its effectiveness and its relationship with the Company, which includes monitoring the use of the external auditor for non-audit services and the balance of audit and non-audit fees paid, as included in Note 20. Following a review of the independence and effectiveness of the external auditor, a resolution will be proposed at the AGM to re-appoint PricewaterhouseCoopers CI LLP. Each Director believes that there is no relevant information of which the external auditor is unaware. Each had taken all steps necessary, as a Director, to be aware of any relevant audit information and to establish that PricewaterhouseCoopers CI LLP is made aware of any pertinent information. This confirmation is given and should be interpreted in accordance with the provisions of Section 249 of the Companies Law. Further information on the work of the external auditor is set out in the Report of the Audit and Risk Management Committee on pages 60 to 63.

Articles of Incorporation

The Company's Articles of Incorporation may only be amended by special resolution of the Shareholders.

AEOI Rules

Under AEOI Rules the Company continues to comply with both FATCA and CRS requirements to the extent relevant to the Company.

Annual General Meeting

The Company will make a future announcement as to the date and time of the AGM and will post the Notice of AGM to Shareholders at that time.

Subject to the restrictions in place as a result of COVID-19 it is intended that members of the Board will be in attendance at the AGM and will be available to answer shareholder questions.

By order of the Board,

Andrew Sutch

Chair

3 July 2020

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and Consolidated Financial Statements in accordance with applicable law and regulations.

The Companies Law requires the Directors to prepare the Annual Report and Consolidated Financial Statements for each financial year. Under the Companies Law, the Directors must not approve the Consolidated Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these Consolidated Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the Consolidated Financial Statements; and
- prepare the Consolidated Financial Statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Annual Report and Consolidated Financial Statements. The Directors have considered the immediate and potential impacts of COVID-19 on the Company as reflected in the Viability Statement on pages 40 to 41.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Consolidated Financial Statements comply with the Companies Law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law and regulations.

The Directors are responsible for ensuring that the Annual Report and Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Directors are also responsible under the AIC Code to promote the success of the Group for the benefit of its members as a whole and in doing so have regard for the needs of wider society and other stakeholders.

As part of the preparation of the Annual Report and Consolidated Financial Statements the Directors have received reports and information from the Company's Administrator and Investment Adviser. The Directors have considered, reviewed and commented upon the Annual Report and Financial Statements throughout the drafting process in order to satisfy themselves in respect of the content.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the website (www.hipgnosissongs.com).

Legislation in Guernsey governing the preparation and dissemination of the Consolidated Financial Statements may differ from legislation in other jurisdictions.

Directors' Responsibilities Statement

Responsibility Statement of the Directors in Respect of the Annual Report under the Disclosure and Transparency Rules

Each of the Directors confirms to the best of their knowledge and belief that:

- the Consolidated Financial Statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Annual Report includes a fair review of the development and performance of the business and the position of the Company and its subsidiaries, together with a description of the principal risks and uncertainties faced; and
- the Annual Report and Consolidated Financial Statements include information required by the FCA and ensuring that the Company complies with the provisions of the Listing Rules, Disclosure Guidelines and Transparency Rules of the FCA. With regard to corporate governance, the Company is required to disclose how it has applied the principles and complied with the provisions of the Corporate Governance Code applicable to the Company with which it has voluntarily agreed to comply. In addition, there is no information that is required to be disclosed under Listing Rules 9.8.4.

Responsibility Statement of the Directors in Respect of the Annual Report under the AIC Code of Corporate Governance 2019

The Directors are responsible for preparing the Annual Report and Consolidated Financial Statements in accordance with applicable law and regulations. Having taken advice from the Audit and Risk Management Committee, the Directors consider the Annual Report and Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and that they provide the information necessary for Shareholders to assess the Group's performance, business model and strategy.

By order of the Board

Andrew Sutch
Chair

3 July 2020

Hipgnosis Songs Fund Limited

Independent Auditor's Report

to the members of Hipgnosis Songs Fund Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Hipgnosis Songs Fund Limited (the "Company") and its subsidiaries (together "the Group") as at 31 March 2020, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 March 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements of the Group, as required by the Crown Dependencies' Audit Rules and Guidance. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Materiality

- Overall Group materiality was £6.4 million which represents 1% of the Group's Adjusted Net Asset Value.
- The Group's Adjusted Net Asset Value is calculated as £641 million, being the Net Asset Value of the Group calculated in accordance with International Financial Reporting Standards, adjusted for by adding back the cumulative amortisation of intangible assets and deducting any cumulative impairment of intangible assets.

Audit scope

- The Company is incorporated in Guernsey and has underlying subsidiaries incorporated in the United Kingdom ("UK"). The consolidated financial statements are a consolidation of the Company and all of the underlying subsidiaries.
- We conducted our audit of the consolidated financial statements based on information provided by Etera International Fund Managers (Guernsey) Limited who on 6 April 2020 changed their name to Ocorian Administration (Guernsey) Limited (the 'Administrator') and The Family (Music) Limited (the 'Investment Adviser'), to whom the board of directors has delegated the provision of certain functions.
- We conducted our audit work in Guernsey and we tailored the scope of our audit taking into account the types of investments within the Group, the involvement of the third parties referred to above, and the industry in which the Group operates.
- We performed an audit of the complete financial information of the Guernsey and UK components of the Group.
- The components of the Group where we performed full scope audit procedures accounted for 100% of the net assets and total comprehensive income.

Key audit matters

- Risk of fraud and error in revenue recognition
- Impairment and fair value disclosure of intangible assets
- Management's consideration of the impact of COVID-19

Independent Auditor's Report

to the members of Hipgnosis Songs Fund Limited

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Scoping was performed at the Group level, irrespective of whether the underlying transactions took place within the Company or within the subsidiaries. The Group audit was led, directed and controlled by PricewaterhouseCoopers CI LLP and all audit work for material items within the consolidated financial statements was performed in Guernsey by PricewaterhouseCoopers CI LLP.

The transactions relating to the Company and the subsidiaries are maintained by the Administrator and therefore we were not required to engage with component auditors from another PwC global network firm operating under our instruction. Our testing was therefore performed on a consolidated basis using thresholds which are determined with reference to the overall Group materiality and the risks of material misstatement identified.

As noted in the Audit scope section above, the components of the Group for which we performed full scope audit procedures accounted for 100% of the net assets and total comprehensive income.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to

influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality

£6.4 million (period ended 31 March 2019: £2 million)

How we determined it

1% of Adjusted Net Asset Value

Rationale for the materiality benchmark

We believe that the Adjusted Net Asset Value represents the most appropriate materiality benchmark given the nature and activities of the Group, and that this is a key consideration for investors when assessing the financial performance.

The Group's Adjusted Net Asset Value is calculated as £641 million (period ended 31 March 2019: £200 million), being the Net Asset Value of the Group calculated in accordance with International Financial Reporting Standards, adjusted for by adding back the cumulative amortisation of intangible assets and deducting any cumulative impairment of intangible assets.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £320,000, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Risk of fraud and error in revenue recognition

Please refer to Notes 3 and 12 to the consolidated financial statements.

The Group earns revenue from the catalogues of songs in which it owns interests. Such revenue takes the form of royalties, licence fees and/or other payments including mechanical royalties, performance royalties, and synchronisation fees.

Revenue is collected by the portfolio administrators/royalty collection agents, reported on a quarterly or semi-annual basis and paid based on predetermined revenue payment dates thereafter. These contractual revenue arrangements entered into by the Group with the portfolio administrators/royalty collection agents may be complex in nature and there is therefore a risk of error, in that revenue may be incorrectly recognised in the accounting records of the Group, or subject to manipulation.

In addition, because of the contractual reporting and revenue payment dates with the various portfolio administrators/royalty collection agents, the directors make an estimate of the revenue accrued to the Group at the period end, but for which revenue reports from the portfolio administrators/royalty collection agents may be unavailable at the time of reporting. The directors seek the input of the Investment Adviser in making these estimates and accrual, which involves significant judgement (see Note 3). The period end accrual is based on the catalogues of songs' historic performance for previous periods, adjusted for the Investment Adviser's and directors' assessment of the expected performance of the various catalogues of songs, based on the latest available music consumption information.

Revenue is also one of the key performance indicators for the Group and changes to the contractual arrangements with the portfolio administrators/royalty collection agents, which may report on a basis that is not coterminous with the period end, and the associated accrual determined by the directors, can have a significant impact on the recognition of revenue by the Group. As a result, there is a heightened risk of material misstatement and hence this is considered a significant risk for audit purposes.

How our audit addressed the Key audit matter

We met with the directors and Investment Adviser and understood and evaluated the Group's processes, internal controls and revenue recognition policies as a result of the various music royalty, licence fee and other payments earned from the catalogues of songs owned by the Group.

We also assessed the Group's revenue recognition accounting policies for compliance with International Financial Reporting Standards, and in particular IFRS 15 – Revenue from Contracts with Customers.

We performed the following procedures:

- We reviewed the contractual basis for recognising revenue from each catalogue of songs by reading and understanding each catalogue agreement and the contracts in place with each portfolio administrator/royalty collection agent;
- We selected a sample of portfolio administrator/royalty collection agent statements, which we obtained through download from the respective portfolio administrator/royalty collection agent websites, and reconciled these to the revenue recognised by the Group for each of these respective catalogues of songs. In addition, we traced these amounts to the subsequent cash receipts (where applicable);
- We identified, evaluated and verified journal entries that impacted revenue; and
- In line with International Standards on Auditing, we incorporated an element of unpredictability in our testing approach which involved independently observing the download of a sample of royalty statements from the relevant online portals for each portfolio administrator, and obtaining direct confirmations from the portfolio administrators of a sample of royalty statements to confirm their authenticity.

We also performed the following procedures in assessing the period end revenue accrual determined by the directors with the input of the Investment Adviser:

- We evaluated the methodology applied by the Investment Adviser in developing the period end revenue accrual recommended to the directors;

Independent Auditor's Report

to the members of Hipgnosis Songs Fund Limited

Key audit matter

How our audit addressed the Key audit matter

- We evaluated the underlying information used by the Investment Adviser in the revenue accrual model by comparing this to the revenue information already audited (as discussed above);
- We evaluated the reasonableness of the revenue accrual assumptions made by the directors and Investment Adviser against supporting information, such as the fair value models provided by the Independent Valuer; and
- We reconciled the details of a sample of the royalty statements previously received by the Group to the amounts included as a basis for the revenue accrual model and checked the arithmetic accuracy of the revenue accrual calculation.

We did not identify any material issues from our procedures.

Impairment and fair value disclosure of intangible assets

Please refer to Notes 3 and 5 to the consolidated financial statements.

The primary activity of the Group is to acquire and hold catalogues of songs and earn the music royalty, licence fees and other revenue associated with its ownership.

The Group's portfolio of songs are classified as intangible assets under IAS 38. The various catalogues of songs are held at cost and amortised over their useful life (which is determined at acquisition of each of the catalogue of songs) less impairment. The catalogues of songs are subject to an impairment assessment at the earlier of the end of each accounting period and when an indicator of impairment is identified. The determination of the useful life of each catalogue requires the application of significant judgement by the directors (see Note 3).

The directors have chosen to voluntarily disclose the fair value of the catalogues of songs (see Note 5). The directors also present an 'Operative Net Asset Value', which takes into account the catalogue of songs at this fair value rather than at the IFRS amortised cost value, as included in the consolidated financial statements and reflected in the IFRS Net Asset Value.

With regard to the catalogues of songs recognised as intangible assets and carried at amortised cost, we evaluated management's processes and assumptions used to initially recognise and measure the catalogues of songs at amortised cost and used to assess the need for impairment (if any) of the respective catalogues of songs. We performed the following procedures:

- We obtained and read the purchase agreements for each catalogue of songs held by the Group to ensure they have been accounted for correctly, and agreed to the cash payments made;
- We also discussed with management any deferred compensation terms within the purchase contracts and assessed whether these have been appropriately recognised and/or disclosed within the consolidated financial statements;
- We discussed the useful life of each catalogue with the Investment Adviser and considered these in light of industry benchmarks;
- We recalculated the carrying value in accordance with the useful life determined by the directors and the purchase agreements for each catalogue of songs; and
- We obtained, discussed and challenged the directors and Investment Adviser on their impairment assessment undertaken with respect to each catalogue of songs (which included the assessment of the fair value of the catalogues of songs discussed below).

Key audit matter

The directors have, in consultation with the Investment Adviser, engaged the Independent Valuer to assess the fair value of each catalogue. In general, the fair value of each catalogue is determined using a discounted cash flow model and incorporates assumptions that are subject to significant judgement by the Independent Valuer, Investment Adviser and directors. These estimates and assumptions include future catalogue revenue and cash flow projections; aggregate catalogue maturity; music industry growth rates by revenue type (e.g. physical sales, downloads, streaming etc.); and the determination of an appropriate discount rate. The fair value of the catalogues of songs as disclosed in Note 5 reflects the fair value as calculated by the Independent Valuer, recommended by the Investment Adviser and adopted by the board of directors.

The directors have also used the fair value determined by the Independent Valuer as an initial point of consideration in their impairment assessment of the catalogues of songs held at amortised cost, based on a comparison of the fair value of each catalogue to the carrying value calculated under International Financial Reporting Standards.

As the catalogues of songs are significant to the Net Asset Value of the Group and because of the level of judgement applied in determining the useful life, the need for impairment and in determining the fair value of each catalogue, there is a heightened risk of misstatement. As a result, both the carrying value at which the catalogues of songs are measured in the consolidated financial statements and the fair value as disclosed in the notes to the consolidated financial statements (and used in determining the Operative Net Asset Value by the directors) are considered significant risks from an audit perspective.

How our audit addressed the Key audit matter

Based on our work performed, we did not identify any material differences.

With regard to the fair value of the catalogues of songs disclosed in Note 5 to the consolidated financial statements, and used in determining the Operative Net Asset Value of the Group by the directors and as an initial basis of the impairment review undertaken by the directors, we performed the following procedures:

- We discussed with the directors and Investment Adviser the process of appointment of the Independent Valuer;
- We contacted the Independent Valuer directly and obtained their valuation model for each catalogue of songs;
- We held discussions with the Independent Valuer, confirmed their independence and evaluated their experience and objectivity;
- We gained an understanding of the assumptions the Independent Valuer adopted to determine the projected growth rates for each revenue stream and catalogue, and in determining the discount rate applied to the projected revenue/cash flow streams;
- We challenged the Independent Valuer on the impact of COVID-19 on the valuations of the catalogues of songs, and in particular considered the appropriateness of the assumptions made by the Independent Valuer on future cash flows by revenue type for each catalogue;
- We agreed the forecasted revenue assumptions used by the Independent Valuer in their model to the revenue recognised by the Group with respect to each catalogue and the latest revenue reports from the portfolio administrators/royalty collection agents. We assessed the rationale for any adjustments made thereto against supportable data;
- We compared the discount rate used to available independent industry benchmarks;
- We recalculated the arithmetic accuracy of the valuation for each catalogue of songs; and
- We performed a benchmark analysis of the valuation by obtaining independent music industry market growth data by revenue stream, applying this to the baseline revenue/cash flow projections, discounting at the assessed discount rate and comparing this to the Independent Valuer's determination of fair value.

Based on our work performed, we did not identify any material differences.

Independent Auditor's Report

to the members of Hipgnosis Songs Fund Limited

Key audit matter

Management's consideration of the impact of COVID-19

Management and the directors have considered the impact of the events that have been caused by the pandemic, COVID-19, on the current and future operations of the Group (Note 21). In doing so, management have made estimates and judgements that are critical to the outcomes of these considerations with particular focus on the Group's ability to continue as a going concern for a period of at least 12 months from the date of the consolidated financial statements.

As a result of the impact of COVID-19 on the wider financial markets we have determined management's consideration of the impact of COVID-19 (including their associated estimates and judgements) to be a key audit matter.

How our audit addressed the Key audit matter

In assessing management's consideration of the impact of COVID-19, we have undertaken the following audit procedures:

- We obtained management's most recent financial results forecasts and liquidity analysis underlying their going concern assessment and verified the integrity of the forecasts;
- We inspected management's most recent forecasts and assessed the underlying calculations and assumed duration of the disruption having considered information from recent industry sources;
- We challenged management on the key assumptions included in the scenarios and we subjected management's most recent forecasts to additional stress testing to confirm that both management and the directors have considered a balanced range of outcomes in their assessment of the impact of COVID-19 on the Group;
- We also considered the likelihood and effect of potential mitigating actions available to management which had not been reflected in their assessment;
- We discussed the most recent forecasts with the Investment Adviser to understand management's and the directors' views on going concern and the impact of COVID-19 on the Group; and
- We considered the appropriateness of the disclosures made by management and the directors in respect to the impact of COVID-19 on the current and future operations of the Group, which include the operational resilience of the Group's major service providers.

Based on our procedures and the information available at the time of the directors' approval of the consolidated financial statements we have not identified any matters to report with respect to both management and the directors' consideration of the impact of COVID-19 on the current and future operations of the Group, albeit acknowledging that the situation continues to evolve.

Other information

The directors are responsible for the other information. The other information comprises all the information included in the Annual Report 2020 (the "Annual Report") but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, the requirements of Guernsey law and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance

with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the consolidated financial statements. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report

to the members of Hipgnosis Songs Fund Limited

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of this report

This independent auditor's report, including the opinions, has been prepared for and only for the members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Report on other legal and regulatory requirements

Company Law exception reporting

Under The Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the consolidated financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Listing Rules of the Financial Conduct Authority (FCA)

The Company has reported compliance against the 2019 AIC Code of Corporate Governance (the "Code") which has been endorsed by the UK Financial Reporting Council as being consistent with the UK Corporate Governance Code for the purposes of meeting the Company's obligations, as an investment company, under the Listing Rules of the FCA.

We have nothing material to add or draw attention to in respect of the following matters which we have reviewed based on the requirements of the Listing Rules of the FCA:

- The directors' confirmation that they have carried out a robust assessment of the principal and emerging risks facing the Group, including a description of the principal risks, what procedures are in place to identify emerging risks, and an explanation of how those risks are being managed or mitigated.
- The directors' explanation as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal and emerging risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the Group and its environment obtained in the course of the audit.

Additionally, we have nothing to report in respect of our responsibility to report when:

- The directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.
- The statement given by the directors that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group obtained in the course of performing our audit.
- The section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Roland Mills

For and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants and Recognised Auditor

Guernsey, Channel Islands

3 July 2020

Financial Statements

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Consolidated Statement of Comprehensive Income

For the year ended 31 March 2020

	Notes	1 April 2019 to 31 March 2020 £	June 2018 to 31 March 2019 £
Income			
Total revenue	12	64,694,500	7,218,852
Interest income		986,807	682,491
Total income		65,681,307	7,901,343
Expenses			
Advisory fees	18	(4,597,567)	(1,579,190)
Performance fee	18	–	(429,054)
Amortisation of Catalogues of Songs	5	(18,463,798)	(1,491,922)
Amortisation of capitalised borrowing costs	9	(463,490)	–
Administration fees	18	(816,997)	(155,954)
Directors' remuneration	17	(260,420)	(121,936)
Broker fees		(103,739)	(44,550)
Royalty costs		(103,856)	–
Audit fees	20	(287,265)	(110,000)
Legal and professional fees		(1,960,582)	(813,714)
Loan Interest	9	(374,675)	–
Other operating expenses	13	(1,526,610)	(267,821)
Foreign exchange (losses)/gains	14	(4,053,809)	104,773
Total expenses		(33,012,808)	(4,909,368)
Operating profit for the year/period before taxation		32,668,499	2,991,975
Taxation	4	(7,474,588)	(632,521)
Profit for the year/period after tax		25,193,911	2,359,454
Total comprehensive income for the year/period		25,193,911	2,359,454
Basic Earnings per Share (pence)	19	6.14	1.17
Diluted Earnings per Share (pence)	19	6.14	1.17

All activities derive from continuing operations.

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position

As at 31 March 2020

	Notes	31 March 2020 £	31 March 2019 £
Assets			
Catalogues of Songs	5	659,435,205	118,458,818
Trade and other receivables	7	42,440,593	10,808,398
Cash and cash equivalents	6	14,098,374	108,483,752
Total assets		715,974,172	237,750,968
Liabilities			
Bank loan	9	56,082,763	–
Other payables and accrued expenses	8	38,411,448	39,192,142
Total liabilities		94,494,211	39,192,142
Net assets		621,479,961	198,558,826
Equity			
Share capital	10	614,208,042	198,221,140
Retained earnings		7,271,919	337,686
Total equity attributable to the owners of the Company		621,479,961	198,558,826
Number of Ordinary Shares in issue at year/period end		615,851,887	202,176,800
IFRS Net Asset Value per Ordinary Share (pence)	11	100.91	98.21
Operative Net Asset Value per Ordinary Share (pence)	11	116.73	103.27

Approved and authorised for issue by the Board of Directors on 3 July 2020 and signed on their behalf by:

Andrew Sutch Chair

Andrew Wilkinson Director

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes In Equity

For the year ended 31 March 2020

	Notes	Number of Ordinary Shares	Share capital £	Retained earnings £	Total equity £
As at 1 April 2019		202,176,800	198,221,140	337,686	198,558,826
Shares issued	10	187,387,487	192,844,052	–	192,844,052
C Share Conversion		226,287,600	231,000,000	–	231,000,000
Share issue costs	10	–	(7,857,150)	–	(7,857,150)
Dividends paid	15	–	–	(18,259,678)	(18,259,678)
Profit for the year		–	–	25,193,911	25,193,911
As at 31 March 2020		615,851,887	614,208,042	7,271,919	621,479,961

For the period from incorporation on 8 June 2018 to 31 March 2019

	Notes	Number of shares	Share capital £	Retained earnings £	Total equity £
As at 8 June 2018		–	–	–	–
Shares issued	10	202,176,800	202,176,800	–	202,176,800
Share issue costs	10	–	(3,955,660)	–	(3,955,660)
Dividends paid	15	–	–	(2,021,768)	(2,021,768)
Profit for the period		–	–	2,359,454	2,359,454
As at 31 March 2019		202,176,800	198,221,140	337,686	198,558,826

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2020

	Notes	1 April 2019 to 31 March 2020 £	June 2018 to 31 March 2019 £
Cash flows used in operating activities			
Operating profit for the year/period before taxation		32,668,499	2,991,975
Adjustments for non-cash items:			
Movement in trade and other receivables	7	(31,793,657)	(10,808,398)
Movement in other payables and accrued expenses	8	(1,381,185)	39,192,142
Movement in equity for share based payments		225,884	–
Amortisation of Catalogues of Songs and borrowing costs		18,927,288	1,491,922
Foreign exchange (gains)/losses	14	4,053,809	(104,773)
		22,700,638	32,762,868
Taxation		(7,474,588)	(632,521)
Purchase of Catalogue of Songs	5	(559,440,185)	(119,950,740)
Net cash used in operating activities		(544,214,135)	(87,820,393)
Cash flows generated from financing activities			
Proceeds from issue of shares	10	423,618,166	202,176,800
Issue costs paid	10	(7,857,150)	(3,955,660)
Dividends paid	15	(18,259,678)	(2,021,768)
Interest paid		(374,675)	–
Borrowing costs		(4,380,727)	–
Bank loan	9	60,000,000	–
Net cash generated from financing activities		452,745,936	196,199,372
Net movement in cash and cash equivalents		(91,468,199)	108,378,979
Cash and cash equivalents at the start of the year/period		108,483,752	–
Effect of foreign exchange rate changes on cash and cash equivalents	14	(2,917,179)	104,773
Cash and cash equivalents at the end of the year/period	6	14,098,374	108,483,752

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

1. General information

Hipgnosis Songs Fund Limited was incorporated and registered in Guernsey on 8 June 2018 with registered number 65158 and is governed in accordance with the provisions of the Companies Law. The registered office address is Floor 2, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 4LY.

The Company's Ordinary Shares were admitted to trading on the Specialist Fund Segment of the London Stock Exchange on 11 July 2018, and migrated to a Premium Listing on the Main Market of the London Stock Exchange on 25 September 2019. The Company was added as a constituent of the FTSE 250 Index effective from after the market close on 20 March 2020.

The Company makes its investments through its subsidiaries, which are registered in the UK as limited companies, in which the Company is the sole shareholder. The principal place of business of the subsidiaries is the UK.

The Consolidated Financial Statements present the results of the Group for the year to 31 March 2020, rounded to the nearest pound Sterling, compared to the results for the Group as at 31 March 2019. Please note that the reporting periods are not entirely comparable as the results at 31 March 2019 were reported for a shorter period, from incorporation on 8 June 2018. The Group is principally engaged in investing in and managing music copyrights and associated musical intellectual property.

2. Accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied, unless otherwise stated.

New and amended standards and interpretations applied

On incorporation, the Company adopted all of the IFRS standards and interpretations that were in effect at that date and are applicable to the Group. No new standards during the year ended 31 March 2020 had a material impact on the Consolidated Financial Statements.

Amended standards and interpretations not applied

The following are amended standards and interpretations in issue effective from years beginning on or after 1 January 2020:

Amended standards and interpretations		Effective date
IFRS 7	Financial Instruments Disclosures (Amendments regarding pre-replacement issues in the context of the IBOR reform)	1 January 2020
IFRS 9	Financial Instruments (Amendments regarding pre-replacement issues in the context of the LIBOR reform)	1 January 2020
IFRS 17	Insurance Contracts	1 January 2023
IAS 1	Presentation of Financial Statements (Amendments regarding the definition of material)	1 January 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors (Amendments regarding the definition of material)	1 January 2020

The Company has considered the IFRS standards and interpretations that have been issued but are not yet effective. None of these standards or interpretations are likely to have a material effect on the Company, as it is the belief of the Board that the activities of the Company are unlikely to be affected by the changes to these standards, although any disclosures recommended by these standards, where applicable, will be provided as required.

a) Group information

As at 31 March 2020, the details of the Company's subsidiaries are as follows:

Name of the subsidiary	Place of incorporation and operation	% of voting rights	% Interest	Consolidation method
Hipgnosis Holdings UK Limited	UK	100	100	Full
Hipgnosis SFH I Limited	UK	100	100	Full
Hipgnosis SFH II Limited*	UK	100	100	Full
Hipgnosis SFH III Limited*	UK	100	100	Full
Hipgnosis SFH IV Limited*	UK	100	100	Full
Hipgnosis SFH V Limited*	UK	100	100	Full
Hipgnosis SFH VI Limited*	UK	100	100	Full
Hipgnosis SFH VII Limited*	UK	100	100	Full
Hipgnosis SFH VIII Limited*	UK	100	100	Full
Hipgnosis SFH IX Limited*	UK	100	100	Full
Hipgnosis SFH X Limited*	UK	100	100	Full
Hipgnosis SFH XI Limited*	UK	100	100	Full
Hipgnosis SFH XII Limited*	UK	100	100	Full
Hipgnosis SFH XIII Limited*	UK	100	100	Full
Hipgnosis SFH XIV Limited*	UK	100	100	Full
Hipgnosis SFH XV Limited*	UK	100	100	Full
Hipgnosis SFH XVI Limited*	UK	100	100	Full
Hipgnosis SFH XVII Limited*	UK	100	100	Full
Hipgnosis SFH XVIII Limited*	UK	100	100	Full
Hipgnosis SFH XIX Limited	UK	100	100	Full
Hipgnosis SFH XX Limited	UK	100	100	Full
RubyRuby(London)Limited†	UK	100	100	Full

*During the year a restructuring took place and the subsidiaries as highlighted above transferred their Catalogues and all other assets and liabilities to Hipgnosis SFH I Limited. After a three-month period of dormancy, on 1 April 2020 an application was made to Companies House to strike off these subsidiaries.

†This is a subsidiary of Hipgnosis SFH XX Limited and therefore an indirect subsidiary of Hipgnosis Songs Fund Limited.

The subsidiaries of the Company are considered tax resident in the UK and are subject to UK corporation tax.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. Accounting policies (continued)

b) Going concern

The Directors monitor the capital and liquidity requirements of the Company on a regular basis. They have also reviewed cash flow forecasts prepared by the Investment Adviser which are based in part on assumptions about the future purchase and returns from existing Catalogues of Songs and the annual operating cost.

Based on these sources of information and their own judgement, the Directors believe it is appropriate to prepare the Consolidated Financial Statements of the Group on a going concern basis.

c) Basis of preparation

Basis of Accounting

The Consolidated Financial Statements have been prepared in accordance with IFRS and applicable company law. The Consolidated Financial Statements have been prepared on a historical cost basis as amended from time to time by the fair valuing of certain financial assets and liabilities where applicable.

Consolidation

In accordance with section 244 of the Companies Law, the Directors have elected to prepare consolidated accounts for the financial period for the Group. Therefore, there is no requirement to present individual accounts for the Company within the Consolidated Financial Statements.

The Company is not considered to be an Investment Entity, as defined in IFRS 10. The Company, in addition to evaluating the Portfolio on a fair value basis as demonstrated by the Operating NAV provided as an alternate performance measure, also manages the acquisitions and revenue of those Songs.

All companies in which the Company has a controlling interest, namely those in which it has the power to govern financial and operational policies in order to obtain benefits from their operations, are fully consolidated. The Control defined by IFRS 10 is based on the following three criteria to be fulfilled simultaneously to conclude that the parent company exercises control:

- a parent company has power over a subsidiary when the parent company has existing rights that give it the current ability to direct the relevant activities of the subsidiary, i.e., the activities that significantly affect the subsidiary's returns. Power may arise from existing or potential voting rights, or contractual arrangements. Voting rights must be substantial, i.e., they shall be exercisable at any time without limitation, particularly during decision making related to significant activities. The assessment of the exercise of power depends on the nature of the subsidiary's relevant activities, the internal decision-making process, and the allocation of rights among the subsidiary's other shareowners;
- the parent company is exposed, or has rights, to variable returns from its involvement with the subsidiary which may vary as a result of the subsidiary's performance. The concept of returns is broadly defined and includes, among other things, dividends and other economic benefit distributions, changes in the value of the investment in the subsidiary, economies of scale, and business synergies; and
- the parent company has the ability to use its power to affect the returns. Exercising power without having any impact on returns does not qualify as control.

Consolidated financial statements of a group are presented as if the Group were a single economic entity. The Group does not include any non-controlling interest.

Segmental reporting

The chief operating decision maker is the Board of Directors. The Directors are of the opinion that the Group is engaged in a single segment of business, being the investment of the Group's capital in the Portfolio, with an attractive and growing level of income, together with the potential for capital growth.

All of the Company's income is global but received from sources within US, Europe, UK and Guernsey.

All of the Company's non-current assets are located in UK and Guernsey.

d) Revenue Recognition

Bank Interest Income

Interest income from cash deposits is recognised as it accrues by reference to the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value or principal amount, and is accounted for on an accruals basis.

Revenue from operations and associated costs

Revenues from operations are recorded when it is probable that future economic benefits will be obtained by the Group and when they can be reliably measured. The revenue earned by the Group is recognised in accordance with IFRS 15 and solely consists of royalty income, which is divided into three main revenue categories:

- i) Mechanical royalties – these are collected by performance rights organisations ("PROs") worldwide which represent songwriters and other copyright owners. Mechanical royalties are also collected by royalty collection agents or the portfolio administrators with whom the Group contracts;
- ii) Performance royalties – these are collected by various performance rights organisations ("PROs") worldwide which represent songwriters and other copyright owners; and
- iii) Synchronisation fees – these are typically paid directly to the owner of the relevant copyright or its publisher, on the terms and in the amounts agreed with the relevant film or television production company, advertising agency or end customer.

These revenue categories are further disaggregated into individual revenue streams which are disclosed in detail in Note 12. The Group follows the same accounting policies in respect of all revenue streams, unless otherwise disclosed.

As royalty income is typically reported by the royalty collection agents/performance rights organisations on an arrears basis via statement (3-6 months for mechanical royalties and 6-12 months for performance royalties) and where statements have not been received at the year end, the Group accrues for those reporting delays by assessing historic and forecasted earnings over the equivalent reporting period based on evidenced historic revenue reporting, seasonality and industry consumption and growth rates since the last statement date.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. Accounting policies (continued)

Licence arrangements for all income types which include publishing income (mechanical, performance, downloads, streaming, synchronisation and writer share income), income derived from master recordings and producer royalties

The Company enters into licence arrangements in respect of Catalogues of Songs with third party collection agents. Licences granted to collection agents are deemed to constitute usage based, right of use licences as per IFRS 15. Revenue arising from licences entered into with collection agents is therefore recognised in the period. Payment is made upon reporting of those usages within royalty statements delivered typically 3-6 months after usage (see above). The significant payment terms are 60-90 days. This revenue is disaggregated to be reviewed by song usage period, source of income, work title, reporting period and royalty deductions (i.e. administration fee retained by the collection agent). The contractual basis of the licence arrangements are such that the agents are deemed as 'principals' for tax purposes, therefore the Company recognises its revenue net of administration fees.

Where available at the end of each month or earlier interval to which the revenue relates, revenue is recorded on the basis of royalty statements received from collection agents.

Where notification has not yet been received from collection agents, an estimate is made of the revenue due to the Company at the end of the month to which the usage of the music copyright relates. Estimates are made on the basis of the historical track record of music Catalogues, ad hoc data provided by collection agents, industry forecasts and expected seasonal variations.

Non-recourse fixed fee arrangements are recognised at the point at which control of the licence passes to the collection agents. Variable consideration is recognised in the period when the usage of the Catalogues of Songs occurs.

e) Expenses

Expenses are accounted for on an accruals basis. Expenses are charged through the Statement of Comprehensive Income.

f) Dividends to Shareholders

Dividends are accounted for in the period in which they are declared and approved by the Board of Directors.

g) Assets

Catalogues of Songs

Catalogues of Songs include music catalogues, artists' contracts and music publishing rights and are recognised as intangible assets measured initially at the fair value of the consideration paid. Catalogues of Songs are subsequently amortised in expenses over the useful life of the asset and shown net of any impairment considered necessary. This amortisation is shown in the Statement of Comprehensive Income as 'amortisation of catalogues of songs'. Useful life is separately considered for each Catalogue and is reviewed at the end of each reporting period.

Asset impairment

Each time events or changes in the respective Catalogues of Songs or economic environment indicate a risk of impairment of intangible assets, the Group re-examines the value of these assets for indicators of impairment. When there are indicators of impairment, the impairment test is performed to compare the recoverable amount to the carrying value of the asset. The recoverable amount is determined as the higher of: (i) the value in use; or (ii) the fair value (less costs to sell) as described hereafter, for each individual asset.

The value in use of each asset is determined by the Board and Investment Adviser with the support of independent third parties commissioned to appraise the catalogue value at time of acquisition, which is the discounted value of future cash flows by using cash flow projections consistent with the expected portfolio cash flows and the most recent forecasts as at that time. Applied discount rates are determined by reference to an appropriate benchmark as determined by the Board and reflect the current assessment by the Group of the time value of money and risks specific to each asset. Growth rates used for the evaluation of individual assets are based on industry growth rates sourced from independent market reports and other third-party sources. This value in use methodology applies to all except very small acquisitions that don't warrant the independent valuation, given the related expense. In these instances, the value in use is established from the Investment Adviser's internal discounted cash flow method.

The fair value (less costs to sell) is considered to be equal to the fair value determined by the portfolio Independent Valuer, which is also the discounted value of future cash flows by using cash flow projections consistent with the expected Portfolio cash flows and the most recent forecasts as at that time cross referenced, where appropriate, against market multiples for recent transactions for similar assets. The portfolio Independent Valuer use their own propriety analysis to project out income streams, which is based on independent market reports and third-party sources. The discount rate used by the Portfolio Independent Valuer is 9.0%.

Whilst the Board and Investment Adviser regularly assess other indicators of impairment (such as a songwriter's or key performance artist's reputation etc.), the Board and Investment Adviser typically use the fair value of the assets, being the Catalogues of Songs, as an initial indicator of impairment. For assets that are currently valued below their fair value, the Board and Investment Adviser will consider the qualitative and quantitative aspects of the respective asset in determining its value in use to determine if the indicator of impairment holds true.

If the recoverable amount is still lower than the carrying value of an asset or group of assets and the qualitative and quantitative aspects do not support a recoverable amount higher than the carrying amount, an impairment loss equal to the difference is recognised in profit and loss. The impairment losses recognised in respect of intangible assets may be reversed in a later period if the recoverable amount becomes greater than the carrying value, within the limit of impairment losses previously recognised.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market initially measured at fair value plus transaction costs directly attributable to the acquisition, and subsequently measured at amortised cost using the effective interest method, less allowance for Expected Credit Loss (Note 3). Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Derecognition of assets

The Group derecognises an asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

On derecognition of an asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. Accounting policies (continued)

h) Contingent consideration

Under the terms of the acquisition agreements for Catalogues, contingent consideration may be payable dependent on future independent valuations of the Catalogues or revenue received within a specific time frame of acquiring the Catalogues that reach agreed upon revenue targets. At 31 March 2020 the likelihood of the aforementioned performance condition to be met was deemed remote and hence the possibility of economic outflows remote, and therefore no contingent consideration was disclosed.

i) Deferred consideration

In such cases where payment is deferred under the terms of the acquisition agreements for Catalogues, a liability will be recognised at net present value with any associated finance charge to be accrued over the respective deferral period.

j) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the value of proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

During the year 231,000,000 C Shares were issued on 22 October 2019 and converted on 10 February 2020 to 226,287,600 Ordinary Shares at a conversion rate of 0.9796 Ordinary Shares for each C Share held.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

k) Share based payments

Investment Adviser's Performance fee

The Group recognises the variable fee for the services received in a share-based payment transaction as the Group becomes liable to the variable fee on an accruals basis.

The fair value of the performance fee, as defined in the Investment Advisory Agreement, which is payable to the Investment Adviser in Shares is recognised as an expense when the fees are earned with a corresponding increase in equity.

l) Cash and Cash Equivalents

Cash at bank and short term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as call deposits, short term deposits with a term of no more than three months from the start of the deposit and highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents consist of cash in hand and short-term deposits in banks with an original maturity of three months or less.

m) Functional and Foreign currency

Items included in the Consolidated Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates ('the functional currency'). The Consolidated Financial Statements are presented in Sterling, which is the functional and presentation currency of the Company and each of its subsidiaries.

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise. Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's Consolidated Financial Statements requires the application of estimates and assumptions which may affect the results reported in the financial statements. Uncertainty about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Group based its assumptions and made estimates based on the information available when the Consolidated Financial Statements were prepared. However these assumptions and estimates may change based on market changes or circumstances beyond the control of the Group.

Critical estimates in applying the Group's accounting policies - revenue recognition:

In calculating accruals, we make judgments around seasonality, over or under performance, and commercial factors based on historical performance, our knowledge of each catalogue and our regular correspondence with the various administrators, record labels and international societies.

Estimated royalty revenue receivable is accrued for on the basis of historical earnings for each Catalogue, which incorporates an element of uncertainty. The estimated revenue accrual may not therefore directly equal the actual cash received in respect of each accounting period and adjustments may therefore be required throughout the financial period when the actual revenue received is known, and these adjustments may be material.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

3. Significant accounting judgements, estimates and assumptions (continued)

Net revenues also include an accrual for performance income, to account for the writer's share of performance royalties which are subject to a significant time lag in reporting in the industry, but which the Company is entitled to receive in due course. In recommending the estimate of this accrual to the Board of Directors and the auditors, the Investment Adviser used its analysis of each Catalogue's revenue history as well its knowledge of the respective Catalogue performance trends to recommend the estimated accruals. The PRO income accrual is based on analysis of each Catalogue's revenue history as well as knowledge of the respective Catalogue's performance trends.

Expected Credit Loss (ECL) in relation to revenue receivables

Royalty earnings for accruals and receivables recognised in the period ending 31 March 2020 are distributed by Performance Rights Organisations (PROs), Publishers and Record Labels who collect royalties at the source of usage and distribute those earnings directly to Hipgnosis.

The Company's current risk assessment includes analysis of the exposure to commercial risk by PROs Publishers and Record Labels, and the likely impact of their credit risk on Hipgnosis' revenue streams.

Findings from management's sensitivity analysis demonstrates revenue by source from the following types of organisations:

- 40% US PROs
- 8% European PROs
- 29% Major publishers (US & UK)
- 14% Independent publishers
- 9% Record labels

The probability of future default has been deemed close to nil, due to the long-standing history of PROs, Publishers and Record Labels within the music industry and the existing framework of cash collection amongst the Company's stakeholders. Whilst there are smaller/newer organisations that have relatively unproven credit resilience these account for a small minority of our receivables. In addition, as demonstrated in the following breakdown of revenue accruals and receivables, 83% of the £12.4m royalty statement debtors balance has been received at the time of writing, with the remainder expected within 30 days. To date, there has been no default of debt for royalty payments by PROs, Publishers or Record Labels.

Additional credit risk with regards to accruals is taken into consideration at the point of calculating each accrual. On calculation, latest forecast earnings are considered and adjusted down for the latest trend of cash receipted earnings if there is any suggestion of a downwards performance indicator. In some cases, a trim (of varying size depending on the source) is applied to ensure a prudent accrual against future royalty reporting. As of 31 May 2020, £1.7 million of royalty statements have been received which are in line with the accruals for those statements made at 31 March 2020.

A breakdown of the Revenue Accruals and Receivables, at 31 March 2020, is set out below:

- A £12.4 million receivable relates to invoices raised for calendar second half 2019 earnings which were reported in royalty statements received prior to the financial year end. £10.3 million of these invoices have now been paid in full, with a further £1.0 million received as banked cheques which are waiting to clear. Of that £2.1 million debtor, the remaining receivable of £1.0 million is expected to be received within the next 30 days.
- A £29 million income accrual was recognised as at 31 March 2020. In calculating the accrual, latest forecast earnings are considered and adjusted for the latest trend of earnings reported. The accrued income comprises of:
 - £7 million related to calendar second quarter through to fourth quarter 2019 earnings for catalogues acquired less than 6 months before the year end date, where royalty reporting is still in the process of being switched over to Hipgnosis. These accruals are based on royalty statements received with invoices due to be raised on completion of the letter of direction being concluded.
 - £12.5 million for calendar first quarter 2020 earnings where, due to the time lag in royalty reporting, statements are not expected to be received until 30 September 2020.
 - £5.4 million related to calendar third quarter to fourth quarter 2019 PRO earnings due to be reported in calendar second quarter and third quarter 2020.
- A further £4.1million income accrual relating to time-lagged international reporting on PRO earnings. International PRO reporting has a significant time lag due to the additional collection time taken for PROs to collect and distribute income from International territories. The lag in collection is due to the nature of collecting and processing royalties locally then distributing them to the domestic PRO which will in turn process and distribute these royalties to Hipgnosis. For prudence, 6 months of international PRO earnings are accrued, although the lag can typically result in earnings for 12-24 months to be due.

Management have also assessed potential increased credit risk, due to COVID-19.

The £12.4 million royalty statement debtor relates to periods up to September 2019 and therefore has no exposure to any commercial risks related to COVID-19.

The £29 million earnings accrual relates to the period up to 31 March 2020, which was before the lockdown impact of COVID-19 therefore the impact by 31 March is expected to be immaterial.

The major PROs have released statements since the financial year end date attesting to their ability to meet their obligations, in both the short and mid-term, despite the impact of COVID-19. The Investment continues to evaluate credit risk during COVID-19 and has not become aware of any issues with cash collections or changes in the existing royalty collection arrangements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

3. Significant accounting judgements, estimates and assumptions (continued)

Assessment of useful life of intangible assets

In order to calculate the amortised cost of the intangible assets it is necessary to assess the useful economic life of the copyright interests in Songs. This requires forecasts of the expected future revenue from the copyright interests, which contains significant uncertainties as the ongoing popularity of a Song can fluctuate unexpectedly.

Based on the Board's consideration of the international music market and the sustained growth in streaming revenues, the Board has separately considered the useful life of each Catalogue of Songs. The Board has assessed the weighted average useful life of the Catalogues of Songs to be 20 years. In making this estimate, the Board has also considered the period over which revenue is expected to be reliably generated by each Catalogue of Songs. The Board notes this is in line with useful life estimates of other large music companies.

Assessment of impairment and the Calculation of Operative NAV

As disclosed in Note 2(g) above, intangible assets are subject to annual impairment review which relies on assumptions made by the Board. Assumptions are updated annually, specifically those relating to future cash flows and discount rates.

The fair value estimates that are prepared in order to calculate the Operative NAV and Operative NAV per Share are also used to assess whether there is evidence that the intangible assets may be impaired.

Valuations of music publishing rights typically adopt the DCF valuation approach which measures the present value of anticipated future revenues from acquiring the Catalogues, which are discounted at a 'market cost of capital', 9.0% and a terminal value in 10 years. This method is accepted as an objective way of measuring future benefits; taking into account income projections from various music industry sources across various revenue flows whilst also factoring in the associated cost of capital.

It is the intention of the Board that Catalogues of Songs will be valued on an ongoing basis using a consistent DCF valuation methodology, and that this be used as an initial indicator of impairment for each Catalogue of Songs.

4. Taxes

The major components of income tax expense for the year ended 31 March 2020 and period ended 31 March 2019 are:

Current Income tax

	1 April 2019 to 31 March 2020 £	8 June 2018 to 31 March 2019 £
United Kingdom corporation tax based on the profit for the year at 19% (2019: 19%)	7,400,000	632,521
Non-reclaimable withholding tax on royalty payments received	74,588	–
Total current tax	7,474,588	632,521

Deferred taxation

Origination and reversal of timings differences	–	–
Total tax	7,474,588	632,521

The Company is exempt from taxation in Guernsey under the provisions of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 2008 and is charged an annual fee of £1,200.

Whilst the Company is incorporated in Guernsey, all of the Company's subsidiaries are incorporated and tax resident in the UK and the majority of the Group's income and expenditure is incurred in these entities. Therefore, it is considered most appropriate to prepare the tax reconciliation below at the standard UK tax rate for the year of 19% (2019: 19%).

The actual tax charge for the current year and the previous period differs from the standard rate for the reasons set out in the following reconciliation:

	1 April 2019 to 31 March 2020 £	8 June 2018 to 31 March 2019 £
Profit on the Group's ordinary activities before tax	32,688,499	2,991,975
Tax on the profit on the Group's ordinary activity at the standard UK rate	6,207,015	568,475
Factors affecting charge for the year:		
Expenses incurred by the Company in the period on which no tax credit is recorded	1,192,985	64,046
Net non-reclaimable withholding tax on royalty payments received	74,588	–
Total actual amount of current tax	7,474,588	632,521

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

5. Catalogues of Songs

	£
Cost	
At 1 April 2019	119,950,740
Additions	559,440,185
At 31 March 2020	679,390,925
Amortisation and impairment	
At 1 April 2019	1,491,922
Amortisation	18,463,798
Impairment	–
At 31 March 2020	19,955,720
Net book value	
At 1 April 2019	118,458,818
At 31 March 2020	659,435,205
Fair value as at 31 March 2020	756,818,538
Cost	
At 8 June 2018	–
Additions	119,950,740
At 31 March 2019	119,950,740
Amortisation and impairment	
At 8 June 2018	–
Amortisation	1,491,922
Impairment	–
At 31 March 2019	1,491,922
Net book value	
At 8 June 2018	–
At 31 March 2019	118,458,818
Fair value as at 31 March 2019	128,694,535

The Group amortises Catalogues of Songs with a limited useful life using the straight-line method of 20 years (other than in exceptional circumstances for specific Catalogues of Songs). At 31 March 2020 the Portfolio consisted of Catalogues of Songs held for no longer than 2 years. Useful life is separately considered for each Catalogue of Songs and is reviewed at the end of each reporting period. At 31 March 2020 accumulated amortisation for Catalogue of Songs is £19,955,720 and the accumulated impairment to date is £nil.

The Board engaged portfolio Independent Valuer, Massarsky Consulting, Inc., to value the Catalogues as at 31 March 2020. Each income type from each Catalogue was analysed and forecast to derive the fair value of the Catalogues by adopting a DCF valuation methodology using a discount rate of 9.0%. Income was analysed and forecast at the level of each individual Catalogue and by income type. Future revenues were also estimated, often at the level of individual Songs, and incorporated into their valuation. Massarsky Consulting has also taken into consideration macro factors including the growth of streaming revenue, the global growth of the recorded music industry and the short and medium term impact of COVID-19 in their analysis. The Board has approved and adopted the valuations prepared by the portfolio Independent Valuer.

The sensitivity to the discount rate used in the Operative NAV is as follows:

-1% discount rate will grow the FV of the Portfolio by 18%, increasing the Operative NAV by £133.1 million which represents an increase of +21.6p Operative NAV per share.

+1% discount rate will reduce the FV of the Portfolio by 15%, reducing the Operative NAV by £98.7 million which represents a decrease of - 16p Operative NAV per share.

6. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group available on demand, cash held in deposits and cash in a money market fund. Cash and cash equivalents were as follows:

	31 March 2020 £	31 March 2019 £
Cash available on demand	5,642,057	3,720,550
Cash held in deposits	3,138	37,064,106
Money market fund	8,453,179	67,699,096
Cash and cash equivalents	14,098,374	108,483,752

7. Trade and other receivables

	31 March 2020 £	31 March 2019 £
Loan receivable	–	3,957,500
Income receivable	12,392,520	2,040,135
Accrued income	28,954,040	3,847,679
VAT recoverable	–	852,201
Prepayments	1,094,033	110,883
Trade and other receivables	42,440,593	10,808,398

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For the year ended 31 March 2020

8. Other payables and accrued expenses

	31 March 2020 £	31 March 2019 £
Investment acquisition payable	31,081,376	37,711,582
Performance fee	–	429,054
Accrued borrowing costs	2,867,849	–
Loan interest payable	233,537	–
Amounts owed to Songwriters	103,888	97,352
Administration fees	169,412	101,528
Legal and professional fees	392,722	110,533
Advisory fees	547,475	–
VAT payable	11,773	–
Audit fees	241,765	100,000
Corporation tax	2,627,197	632,521
Other expenses	134,454	9,572
Other payables and accrued expenses	38,411,448	39,192,142

As at 31 March 2020 an amount of £31,081,376 relating to the acquisition prices for five Catalogues remained outstanding (31 March 2019: £37,711,582, relating to the acquisition prices for three Catalogues). Since 31 March 2020 the Investment acquisitions payable has reduced, following subsequent payments, to £9,570,857 at 31 May 2020 (17 May 2019: £nil).

9. Revolving credit facility

On 2 September 2019 it was announced the Company had entered into a Revolving Credit Facility, (RCF), with JP Morgan Chase Bank (JPM) as Lead Arranger of £100 million which was uplifted post year end to £150 million. As detailed in Note 21, this is capped at £150 million though calculated as 20% of most recent music catalogue valuation and 20% of acquisitions since most recent valuation valued at purchase price, capped at £20m. The loan bears interest at 3.75%. The Revolving Credit Facility, which had an original maturity date of 29 August 2022 and has been extended for a further three years to 2 April 2025 on 15 April 2020, provides the Company with greater flexibility to fund investments and provide additional working capital. The RCF's key covenant imposes a loan to value test and a liquidity test reviewed quarterly and is secured by, inter alia, a charge over the shares in all the subsidiaries of the Company and over all of their assets including all Catalogues of Songs of the Company held through these subsidiaries, a charge over the bank accounts of the Company and a floating charge over all its assets the fair value of which deemed by JPM. The Company has also provided a parent company guarantee. In accordance with the Investment Policy, any borrowings by the Company will not exceed 30 percent of the value of the net assets of the Company.

During the year £4,380,727 of costs relating to the set-up of the Revolving Credit Facility were capitalised, to be amortised over the 5 year length of the agreement, with £3,917,237 remaining on the Statement of Financial Position at the year end.

At the year end £60,000,000 remained drawn down with £374,675 paid in interest. This figure is drawn in Sterling as both Hipgnosis Holdings UK Limited and Hipgnosis Songs Fund Limited, which are the principal Group companies party to the RCF, are English and Guernsey companies respectively.

10. Share capital and capital management

The share capital of the Company may consist of an unlimited number of: (i) Ordinary Shares of no par value which upon issue the Directors may classify as Ordinary Shares; and (ii) C Shares denominated in such currencies as the Directors may determine.

Ordinary Shares of no par value

	No.
Issued and fully paid:	
Shares as at 1 April 2019	202,176,800
Shares issued on 17 April 2019	138,750,000
Shares issued on 29 August 2019	48,429,541
Shares issued on 30 December 2019 ¹	207,946
Shares issued on 10 February 2020 ²	226,287,600
Shares as at 31 March 2020	615,851,887

	£
Issued and fully paid:	
Share capital at 1 April 2019	198,221,140
Shares issued on 17 April 2019	141,525,000
Share issue costs	(2,853,852)
Shares issued on 29 August 2019	51,093,166
Share issue costs	(981,727)
Shares issued on 30 December 2019 ¹	225,884
Share issue costs	–
Shares issued on 10 February 2020 ²	231,000,000
Share issue costs	(4,021,571)
Shares as at 31 March 2020	614,208,042

	No.
Issued and fully paid:	
Shares issued on 11 July 2018	202,176,800
Shares as at 31 March 2019	202,176,800

	£
Issued and fully paid:	
Shares issued on 11 July 2018	202,176,800
Share issue costs	(3,955,660)
Shares as at 31 March 2019	198,221,140

¹ Shares issued as performance fee in respect of year ended 31 March 2019.

² 231,000,000 C Shares converted to 226,287,600 Ordinary Shares.

During the year 231,000,000 C Shares were issued on 22 October 2019 and converted on 10 February 2020 to 226,287,600 Ordinary Shares at a conversion rate of 0.9796 Ordinary Shares for each C Share held.

Under the Company's Articles of Incorporation, each Shareholder present in person or by proxy has the right to one vote at general meetings. On a poll, each Shareholder is entitled to one vote for every Ordinary Share held.

Shareholders are entitled to all dividends paid by the Company and, on a winding up, provided the Company has satisfied all of its liabilities, the Shareholders are entitled to all of the residual assets of the Company.

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For the year ended 31 March 2020

11. Net Asset Value per Share and Operative Net Asset Value per Share

	31 March 2020	31 March 2019
Number of Ordinary Shares in issue	615,851,887	202,176,800
IFRS NAV per share (pence)	100.91	98.21
Operative NAV per share (pence)	116.73	103.27

The IFRS NAV per share and the Operative NAV per share are arrived at by dividing the IFRS Net Assets and Operative Net Assets (respectively) by the number of Ordinary Shares in issue.

Catalogues of Songs are classified as intangible assets and measured at amortised cost or cost less impairment in accordance with IFRS.

The Directors are of the opinion that an Operative NAV provides a meaningful alternative performance measure and the values of Catalogues of Songs are based on fair values produced by the portfolio Independent Valuer.

Reconciliation of IFRS NAV to Operative NAV

	31 March 2020 £	31 March 2019 £
IFRS NAV	621,479,961	198,558,826
Adjustments for revaluation of Catalogues of Songs to fair value	76,964,123	8,743,795
Reversal of amortisation	20,419,210	1,491,922
Operative NAV	718,863,294	208,794,543

12. Revenue

	31 March 2020 £	31 March 2019 £
Mechanical income	3,455,973	417,487
Performance income	10,074,708	1,104,493
Digital downloads income	2,290,250	232,741
Streaming income	11,985,267	1,285,485
Synchronisation income	6,038,054	1,212,161
Producer royalties	3,933,048	–
Masters Income	4,275,739	–
Writer's share income	21,494,155	2,914,228
Other income*	1,147,306	52,257
Total revenue	64,694,500	7,218,852

*Other Income refers to any income not covered by the other income types, for example sheet income and lyric exploitation.

There is an inherent time lag with royalties between the time a Song is performed, and the revenue being received by the Copyright owner. The time lag ranges from 3-6 months on domestic income and 12-18 months on international income. The revenue accruals booked in the period are disclosed in detail within the Accruals and Receivables.

All revenue streams disclosed in this Note are in scope of IFRS 15.

13. Other operating expenses

	1 April 2019 to 31 March 2020 £	8 June 2018 to 31 March 2019 £
Regulatory fees	33,958	8,605
Listing fees	385,562	17,667
Directors and officers Insurance	20,601	14,104
Directors expenses	2,238	1,329
Registrar fees	36,329	6,306
Postage, stationery and printing	16,790	12,777
Public relation fees	275,133	48,371
Travel and accommodation fees	339,853	88,438
Bank charges	19,297	4,469
Credit facility bank charges	19,000	–
Aborted Deal Expenses	237,152	–
Disbursements and sundry	140,697	65,755
Total other operating expenses	1,526,610	267,821

14. FX Gains and losses in Profit or Loss

	31 March 2020 £	31 March 2019 £
FX Gain/(loss) creditors/debtors	(1,136,630)	796
FX Gain/(loss) cash and cash equivalents	(2,917,179)	103,977
Total FX Gain/(loss)	4,053,809	104,773

Currency risk is discussed further in Note 16.

15. Dividends

A summary of the dividends is set out below:

1 April 2019 to 31 March 2020	Dividend per share Pence	Total dividend £
Interim dividend in respect of quarter ended 31 March 2019	1.25	4,261,585
Interim dividend in respect of quarter ended 30 June 2019	1.25	4,261,585
Interim dividend in respect of quarter ended 30 September 2019	1.25	4,866,954
Interim dividend in respect of quarter ended 31 December 2019	1.25	4,869,554
	5.00	18,259,678

8 June 2018 to 31 March 2019	Dividend per share Pence	Total dividend £
Interim dividend in respect of period ended 30 September 2018	0.50	1,010,884
Interim dividend in respect of period ended 31 December 2018	0.50	1,010,884
	1.00	2,021,768

Subsequent to the year end, the Company announced an interim dividend for the first quarter of the new financial year from 1 April to 30 June 2020 of 1.25p per Ordinary Share.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

16. Financial Risk Management

Financial Risk Management Objectives

The Company's activities expose it to various types of financial risk, principally market risk, credit risk, and liquidity risk. The Board has overall responsibility for the Company's risk management and sets policies to manage those risks at an acceptable level.

Fair values

Management assessed that the fair values of cash and cash equivalents, trade and other receivables, trade and other payables and royalty advances approximate their carrying amount largely due to the short-term maturities and high credit quality of these instruments.

Capital Risk Management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the capital return to Shareholders. The capital structure of the Company consists of issued share capital and retained earnings, as stated in the Statement of Financial Position.

In order to maintain or adjust the capital structure, the Company may buy back shares or issue new shares. There are no external capital requirements imposed on the Company.

During the year ended 31 March 2020, the Company drew down £60,000,000 from the RCF which remained drawn down as at 31 March 2020 (31 March 2019: nil).

The Company's investment policy is set out in the Investment Objective and Policy section of the Annual Report, on page 22.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. The Company is exposed to currency risk and interest rate risk.

a) Currency risk

Currency risk is the risk that the fair values of future cashflows will fluctuate because of changes in foreign exchange rates. The revenue earned from the Catalogue of Songs may be subject to foreign currency fluctuations.

Royalties are earned globally and paid in a number of currencies, therefore the Company may be impacted by adverse currency movements. The Company will convert the majority of overseas currency receipts into Sterling by agreeing to currency exchange arrangements with collection agents, or otherwise itself undertaking foreign exchange conversions. The Company may engage in full or partial foreign currency hedging and interest rate hedging. The Company will not enter into such arrangements for investment purposes.

The currencies in which financial assets and liabilities are denominated are shown below:

As at 31 March 2020	GBP £	USD Converted to £	EUR Converted to £	Total £
Trade and other receivables	6,540,128	35,124,967	775,498	42,440,593
Cash and cash equivalents	8,830,608	5,031,014	236,752	14,098,374
Total financial assets	15,370,736	40,155,981	1,012,250	56,538,967
Revolving Credit Facility	60,000,000	–	–	60,000,000
Trade and other payables	7,161,908	31,172,786	76,754	38,411,448
Total financial liabilities	67,161,908	31,172,786	76,754	98,411,448
Net asset position	(51,791,172)	8,983,195*	935,496**	(41,872,481)

*At the reporting date 31 March 2020, if the USD had strengthened/weakened by 10% against GBP with all other variables held constant, the net assets and movement in profit and loss would have been £898,320 higher/lower.

**At the reporting date 31 March 2020, if the EUR had strengthened/weakened by 10% against GBP with all other variables held constant, the net assets and movement in profit and loss would have been £93,550 higher/lower.

As at 31 March 2019	GBP £	USD Converted to £	EUR Converted to £	Total £
Trade and other receivables	1,185,147	9,623,168	83	10,808,398
Cash and cash equivalents	27,217,708	81,266,044	–	108,483,752
Total financial assets	28,402,855	90,889,212	83	119,292,150
Trade and other payables	39,154,329	37,813	–	39,192,142
Total financial liabilities	39,154,329	37,813	–	39,192,142
Net asset position	(10,751,474)	90,851,399*	83**	80,100,008

*At the reporting date 31 March 2019, if the USD had strengthened/weakened by 10% against GBP with all other variables held constant, the net assets and movement in profit and loss would have been £10,094,600 higher/lower.

**At the reporting date 31 March 2019, if the EUR had strengthened/weakened by 10% against GBP with all other variables held constant, the net assets and movement in profit and loss would have been £9 higher/£8 lower.

b) Cash flow and fair value interest rate risk

The Company is exposed to cash flow interest rate risk on cash and cash equivalents and also on the interest bearing RCF. The RCF bears interest at 3.75% which when annualised for the £60 million drawn down at the year end would have been covered 6.2 times by the closing cash balance at 31 March 2020. This interest rate is the London Interbank Offered Rate (LIBOR) rolling over at 7 Nov 2020, the Company is able to elect 1, 3 or 6 month rollovers.

Credit Risk

Credit risk is the risk of loss due to failure of a counterparty to fulfil its contractual obligations. The Group is exposed to credit risk in respect of its contracts with PROs. This exposure is minimised by dealing with reputable PROs whose credit risk is deemed to be low given their respective position in the industry.

As reported in Note 3, there is no impairment of the receivables balance, credit risk of third parties has been taken into account when calculating accruals, and expected credit loss has been deemed nil, or close to nil.

The Group is exposed to credit risk through its balances with banks and its indirect holdings of money market instruments through those money market funds which are classified as cash equivalents for the purposes of these Consolidated Financial Statements.

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For the year ended 31 March 2020

16. Financial Risk Management (continued)

The table below shows the Group's material cash balances and the short-term issuer credit rating or money-market fund credit rating as at the year end date:

	Location	Rating	31 March 2020 £	31 March 2019 £
Barclays Bank plc	Guernsey	A-1*	5,642,057	3,720,550
Investec Bank plc	UK	P-1**	3,138	37,064,106
Blackrock Institutional Sterling Liquidity Fund	UK	AAAm*	8,453,179	67,699,096

*Rated by Standard & Poor's

**Rated by Moody's

Liquidity Risk

Liquidity risk is the risk that the Company will encounter in realising assets or otherwise raising funds to meet financial commitments. The Company's liquidity risk is managed on an ongoing basis by the Investment Adviser and Directors on a monthly basis.

Liquidity risk is the risk that the Company may not be able to meet their financial obligations as they fall due. The Company maintains a prudent approach to liquidity management by maintaining sufficient cash reserves to meet foreseeable working capital requirements. In order to mitigate liquidity risk, the Group aims to have sufficient cash balances to meet its obligations for a period of at least twelve months.

The Company prepares a 12 month rolling cash forecast, which is reviewed by the Board on a monthly basis. The cash flow forecast includes a sensitivity analysis with downside scenarios on income streams impacted specifically relating to COVID-19. Cash is delivered with royalty statements, and the majority are delivered quarterly or semi-annually. A small number of collections are delivered monthly. Cash is collected and processed throughout calendar quarters or half years by the administrators and paid out on either 60/90 day accounting.

During the year ended 31 March 2020, the Group had no financial liabilities other than the RCF and trade and other payables.

At the reporting date, the Company's financial assets and financial liabilities are:

	Carrying amount assets £'000	Less than 1 month £'000	1-3 months £'000	3-12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000	Total contractual cash flows £'000
Trade and other receivables								
Income receivable	12,393	9,677	2,716	-	-	-	-	12,393
Accrued income	28,954	10,004	5,699	13,251	-	-	-	28,954
Prepayments	1,094	1,094	-	-	-	-	-	1,094
Total	42,441	20,775	8,415	13,251	-	-	-	42,441

	Carrying amount assets £'000	Less than 1 month £'000	1-3 months £'000	3-12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000	Total contractual cash flows £'000
Other payables and accrued expenses								
Bank loan	60,000	-	-	-	-	60,000	-	60,000
Investment acquisition payable	31,081	20,312	1,277	5,588	921	2,984	-	31,081
RCF costs accrued	2,868	2,868	-	-	-	-	-	2,868
Loan interest payable	234	-	234	-	-	-	-	234
Amounts owed to songwriter	104	-	-	104	-	-	-	104
Administration fees	169	169	-	-	-	-	-	169
Legal & professional fees	386	386	-	-	-	-	-	386
Advisory fees	547	547	-	-	-	-	-	547
Audit fees	242	123	-	119	-	-	-	242
VAT	11	-	11	-	-	-	-	11
Corporation tax	2,627	-	-	2,627	-	-	-	2,627
Other expenses	141	141	-	-	-	-	-	141
Total	98,410	24,546	1,522	8,438	921	62,984	-	98,410
Net receivable/(payable)	(55,969)	(3,772)	6,893	4,813	(921)	(62,984)	-	(55,969)

17. Related Party Transactions and Directors' remuneration

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial or operational decisions.

The Company Directors' fees for the year amounted to £260,420 with outstanding fees of £nil due to at year end (31 March 2019: £121,936 with outstanding fees of £nil due at 31 March 2019). (see Corporate Governance Report pages 44 to 47. Further detail on the additional payments made to the Directors is disclosed in the Report on Remuneration on pages 65 to 66.

Merck Mercuriadis is the founder and owner of the Investment Adviser. Merck was a Director of Jonny Coffey Limited and RubyRuby London (Limited) as at 31 March 2020 and stepped down from his duties on the 13 May 2020.

Notes to the Consolidated Financial Statements

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18. Material Agreements

Investment Adviser

The Company has entered into an Investment Advisory Agreement with the Investment Adviser pursuant to which the Investment Adviser will source Songs and provide recommendations to the Board on acquisition and disposal strategies, manage and monitor royalty and/or fee income due to the Company from its copyrights and collection agents, and develop strategies to maximise the earning potential of the Songs in the portfolio through improved placement and coverage of Songs.

The Investment Adviser is entitled to receive an advisory fee (payable in cash) and a performance fee (usually payable predominantly in Shares subject to an 18 month lock up arrangement). The full terms and conditions of the calculation of the advisory and performance fees are disclosed in the Company's prospectus, which is available on the Company's website (www.hipgnosissongs.com). However in summary:

Advisory Fee

The advisory fee is calculated at the rate of:

- (i) 1% per annum of the Average Market Capitalisation up to, and including, £250 million;
- (ii) 0.90% per annum of the Average Market Capitalisation in excess of £250 million and up to and including £500 million; and
- (iii) 0.80% per annum of the Average Market Capitalisation in excess of £500 million.

Performance fee

In respect of each accounting period, the Investment Adviser (or, where the Investment Adviser so directs, any member of the Investment Adviser's team) is entitled to receive a performance fee (the "Performance Fee") equal to 10% of the Excess Total Return relating to that accounting period provided that the Performance Fee shall be capped such that the sum of the advisory fee (payable in respect of the Average Market Capitalisation of Ordinary Shares only) and the Performance Fee paid in respect of that accounting period is no more than 5% of the lower of: (i) Net Asset Value; or (ii) Closing Market Capitalisation at the end of that accounting period.

The Excess Total Return for an accounting period is calculated by reference to: (i) the difference between the Performance Share Price at the end of that Accounting Period and the higher of: (a) the Performance Hurdle (being issue price compounded by 10% per annum from initial Admission subject to appropriate adjustments in certain situations); and (b) high watermark (being the Performance Share Price at the end of the last Accounting Period where a Performance Fee was payable); multiplied by (ii) the weighted average of the number of Ordinary Shares in issue (excluding any shares held in treasury) at the end of each day during that accounting period.

For the purposes of calculating the Performance Fee:

"Performance Share Price" means, in relation to each accounting period, the average of the middle market quotations of the Ordinary Shares for the one month period ending on the last business day of that accounting period (which shall be adjusted as appropriate: (i) to include any dividend declared but not paid where the Ordinary Shares are quoted ex such dividend at any time during that month; (ii) to exclude any dividend paid in respect of the shares during that month; and (iii) for the PSP Adjustments). During the period, the average of the middle market quotations was 108.27p; and

"PSP Adjustments" means adjustments to the Performance Share Price to (i) include the gross amount of any dividends and/or distributions paid in respect of an Ordinary Share since initial Admission; and (ii) make such adjustments to take account of C Shares as were agreed between the Company and the Investment Adviser, acting reasonably and in good faith, at the time of issuance of such C Shares.

The amount of Performance Fee payable to the Investment Adviser shall be paid in the form of a combination of: (a) cash equal to all taxes or charges payable with respect to the Performance Fee by the Investment Adviser or member(s) of the Investment Adviser's Team; and (b) Ordinary Shares ("Performance Shares") which are either issued by the Company where the Ordinary Shares are on average trading at par or at a premium to the last reported Operative NAV per Ordinary Share at the relevant time or purchased from the secondary market where the Ordinary Shares are on average trading at a discount to the last reported Operative NAV per Ordinary Share at the relevant time and transferred to, the Investment Adviser or member(s) of the Investment Adviser's Team.

The Performance Shares is subject to 18 month lock-up arrangements.

There was no performance fee for the year with no amount accrued at the reporting date (31 March 2019: £429,054 had been accrued with the whole amount outstanding as at the reporting date).

Administration Agreement

Pursuant to the Administration Agreements: (i) Ocorian Administration (Guernsey) Limited has been appointed as Administrator of the Company; and (ii) Ocorian Administration (UK) Limited has been appointed as administrator to the subsidiaries. The Administrator or Ocorian Administration (UK) Limited (as applicable) are responsible for the day to day administration of the Company and the subsidiaries which accedes to the relevant Administration Agreement (including but not limited to the calculation and publication of the semi-annual NAV, the IFRS NAV and Operative NAV) and general secretarial functions required by the Companies Law (including but not limited to maintenance of the Company's accounting and statutory records). For the purposes of the RCIS Rules, the Administrator is the designated manager of the Company.

Investors should note that it is not possible for the Administrator or Ocorian Administration (UK) Limited to provide any investment advice to investors.

Under the terms of the Administration Agreement between the Administrator and the Company, with effect from 1 October 2019 the Administrator is entitled to a fixed fee of £172,500 (2019: £139,000) per annum for services such as administration, accounting, corporate secretarial, corporate governance, regulatory compliance and stock exchange continuing obligations. Additional ad hoc fees are payable in respect of certain additional services. Administration fees for the year amounted to £418,660 (31 March 2019: £104,470) of which £28,891 (31 March 2019: £50,045) was outstanding at the year end.

Under the terms of the Administration Agreement between Ocorian Administration (UK) Limited and the subsidiaries, with effect from 1 October 2019 the administrator is entitled to a fixed fee of £15,000 per annum (£14,000 per annum effective from 1 January 2019) per subsidiary and £6,500 per annum per additional Catalogue held by a subsidiary for services such as administration, corporate secretarial and accounting. Administration fees for the subsidiaries for the year amounted to £398,337 (31 March 2019: £51,484) of which £140,521 (31 March 2019: nil) was outstanding at the year end.

Registrar Agreement

Computershare Investor Services (Guernsey) Limited (a company incorporated in Guernsey on 3 September 2009 with registered number 50855) has been appointed as registrar to the Company pursuant to the Registrar Agreement. In such capacity, the Registrar will be responsible for the transfer and settlement of Shares held in certificated and uncertificated form. The Registrar is also entitled to reimbursement of all out of pocket costs, expenses and charges properly incurred on behalf of the Company.

Under the terms of the Registrar Agreement, the Registrar is entitled to a fixed fee of £7,500 per annum in respect of the Ordinary Shares and £5,500 per annum in respect of the C Shares (if applicable), together with additional ad hoc fees in respect of additional out of scope services provided by the Registrar. Registrar fees for the year were £6,306 with £1,440 outstanding at the reporting date.

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19. Earnings per share

	Basic	31 March 2020 Diluted
Profit for the year (£)	25,193,911	25,193,911
Weighted average number of Ordinary Shares in issue	410,527,510	410,527,510
Earnings per share (pence)	6.14	6.14

	Basic	31 March 2019 Diluted
Profit for the period (£)	2,359,454	2,359,454
Weighted average number of Ordinary Shares in issue	202,176,800	202,176,800
Earnings per share (pence)	1.17	1.17

The earnings per share is based on the profit or loss of the Group for the year and on the weighted average number of Ordinary Shares for the year ended 31 March 2020.

There are no dilutive shares at 31 March 2020.

20. Auditor's Remuneration

Audit and non-audit fees payable to the auditors can be analysed as follows:

	31 March 2020 £	31 March 2019 £
PricewaterhouseCoopers CI LLP FY 2020 audit fees*	287,265	110,000
PricewaterhouseCoopers CI LLP audit fees	287,265	110,000
PricewaterhouseCoopers CI LLP project accounting fees relating to the migration to premium segment	147,500	–
PricewaterhouseCoopers CI LLP C Share conversion fees	10,000	–
PricewaterhouseCoopers CI LLP professional fees in relation to the IPO in their role as reporting accountants	–	80,000
PricewaterhouseCoopers CI LLP non audit fees	157,500	80,000

*This includes £26,000 relating to under accrued amount in year ending 31 March 2019

21. Subsequent events

On 15 April 2020 the Company increased its Revolving Credit Facility from £100 million to £150 million. In addition to the increase of the commitment of the Revolving Credit Facility, the maturity date has been extended from 29 August 2020 to 2 April 2025.

On 29 April 2020 the Company declared a dividend of 1.25p per Ordinary Share in respect of the quarter ended 31 March 2020 payable on 27 May 2020.

On 3 July 2020 the Company declared a dividend of 1.25p per Ordinary Share in respect of the quarter ended 30 June 2020 payable on 31 July 2020.

The lockdown due to COVID-19 has had a devastating impact on the economy. Despite music being uncorrelated there are still certain income streams that have been impacted. Live events are not possible, and it may be 2021 before mass gatherings are widely permitted. Revenue from licenses issued to shops, gyms, bars and restaurants that are temporarily closed will feel adverse effect despite most of them being annual licences paid in advance. Given the inherent time-lag in the collection and accounting of the royalty statements the Company is currently unable to quantify the impact of COVID-19 on revenue as the majority of these statements are to expected until September 2020. The Company however continues to monitor the development and impact of COVID-19 and is mitigating any potential shortfall in revenues through the active management of synchronisation deals where possible.

Music streaming however remains buoyant it is expected that this will outpace the decline in other revenues streams, and this is reflected in Goldman Sachs' COVID-19* report which projects that Song related revenues, across music publishing, will grow by 3.5% overall in 2020.

* Source: Goldman Sachs (Equity Research), 'Music in the Air: The show must go on'

Additional Information

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Alternative Performance Measures

Performance Measure	Definition	Reason for Use
Annualised ongoing charges	Adjusted Operating Costs (£10,032,000) less Non Recurring administrative expenses (£1,369,957) over a twelve month period	Ongoing charges are a good indicator of expenses likely to recur in the foreseeable future
Adjusted Operating Costs	Operational expenses (£33,012,808) excluding the cost of amortisation of investments (£18,927,288) and foreign exchange gains/losses arising on investments (£4,053,809)	Ongoing charges are a good indicator of expenses likely to recur in the foreseeable future
EPS excluding total Amortisation	Profit after Tax excluding total Amortisation (£44,121,199) divided by Weighted average number of Ordinary Shares in issue (410,527,510)	The Operating profit adjusted for Amortisation aligns with the Operative NAV which reflects that the values of Catalogues of Songs are based on fair values produced by an Independent Valuer
NAV Return	Latest published Operative NAV per share (116.7p as at 31 March 2020) increase as a percentage of the last published Operative NAV per share 103.27p as at 31 March 2019 equals 13%	To show how the assets have performed over time to shareholders
Net Debt	Loan facility amount (£60,000,000) utilised less cash held in bank (£14,098,000)	Liquidity metric used to determine how well a company can pay all of its debts if they were due immediately
Non Recurring administrative expenses	Exceptional Costs included within legal and professional fees (£758,130) plus Aborted deal expenses (£237,152) plus Interest Costs (£374,675)	Good indicator of expenses not likely to recur in the foreseeable future
Ongoing charges %	Annualised ongoing charges (£8,662,043) divided by weighted average Operative NAV (£570,576,564)	To monitor the likely to recur expenses relative to the fund size over time
The Operative NAV Profit before Tax	Operating profit for the year/period before taxation (£32,668,499) plus total Amortisation (£18,927,288)	The Operating profit adjusted for Amortisation aligns with the Operative NAV which reflects that the values of Catalogues of Songs are based on fair values produced by an Independent Valuer
Total NAV Return	Nav Return (13%) plus dividend yield (4.7%, based on average share price of 105p)	The average was taken given the share issuance has grown rapidly over the year
Weighted Average Operative NAV	Average of the Operative NAV as at 30 September 2019 (£422,289,834) and the Operative NAV as at 31 March 2020 (£718,863,294)	The average was taken given the share issuance has grown rapidly over the year

Glossary of Capitalised Defined Terms

“Administrator” means Ocorian Administration (Guernsey) Limited;

“Admission” means admission, on 11 July 2018, to trading on the SFS of the London Stock Exchange, of the Ordinary Shares becoming effective in accordance with the Listing Rules and/or the LSE Admission Standards and on 25 September 2019 to a Premium Listing on the Main Market;

“AEOI” means Automatic Exchange of Information;

“AIC” means the Association of Investment Companies;

“AIC Code” means the AIC Code of Corporate Governance;

“Annual General Meeting” or **“AGM”** means the annual general meeting of the Company;

“Annual Report” or **“Annual Report and Consolidated Financial Statements”** means the annual publication of the Company provided to the Shareholders to describe their operations and financial conditions, together with their Consolidated Financial Statements;

“Apple Music” means the music and video streaming service developed by Apple Inc.;

“Articles of Incorporation” or **“Articles”** means the articles of incorporation of the Company;

“ASCAP” means the American Society of Composers, Authors and Publishers;

“Asset Management Committee” means a committee which considers the ongoing management and revenue maximisation of the Catalogues of Songs;

“Audit Committee” or **“Audit and Risk Management Committee”** means a formal committee of the Board with defined terms of reference;

“Average Market Capitalisation” means, in relation to each month where the advisory fee is payable, (“A” multiplied by “B”) plus (“C” multiplied by “D”), where:

“A” is the average of the middle market quotations of the Ordinary Shares for the five day period ending on the last business day of that month (adjusted as appropriate to exclude any dividend where the Ordinary Shares are quoted ex such dividend at any time during that five day period);

“B” is weighted average of the number of Ordinary Shares in issue (excluding any Shares held in treasury) at the end of each day during that month;

“C” is the average of the middle market quotations of a class of C Shares in issue for the five day period ending on the last business day of that month (adjusted as appropriate to exclude any dividend where the C Shares of that class are quoted ex such dividend at any time during that five day period); and

“D” is weighted average of the number of that class of C Shares in issue (excluding any Shares held in treasury) at the end of each day during that month;

“Board” or **“Directors”** means the Directors of the Company;

“BMI” means Broadcast Music, Inc.;

“BPI” means the British Phonographic Institute;

“Brexit” means the departure of the UK from the EU;

“C Shares” means a temporary and separate class of shares which are issued at a fixed price determined by the Company;

“Catalogue” means one or more Songs acquired from a single songwriter or artist;

“CBS” means a US commercial broadcast television and radio network;

“CD” means compact disc;

“CEO” means chief executive officer;

“CISAC” means the International Confederation of Societies of Authors and Composers;

“Closing Market Capitalisation” means, in relation to each Accounting Period, “E” multiplied by “F”, where: “E” is the Performance Share Price; and “F” is the weighted average of the number of Ordinary Shares in issue (excluding any Shares held in treasury) at the end of each day during the Accounting Period;

“Companies Law” means the Companies (Guernsey) Law, 2008, (as amended);

“Company” means Hipgnosis Songs Fund Limited. References to the Company are also considered to be references to the Group, where applicable;

“Company Secretary” means Ocorian Administration (Guernsey) Limited;

“Consolidated Financial Statements” means the audited financial statements of the Company, including the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and associated notes;

“Conversion” means the conversion of C Shares to Ordinary Shares;

“Copyright Royalty Board” means the US Copyright Royalty Board;

“Corporate Broker” means Nplus1 Singer Advisory LLP (N+1 Singer) and J P Morgan Securities plc;

“Corporate Governance Code” means The UK Corporate Governance Code 2019 as published by the Financial Reporting Council;

“COVID-19” means the global coronavirus pandemic;

“DCF” means discounted cash flow;

“Disclosure Guidance and Transparency Rules” or **“DTRs”** mean the disclosure guidance published by the FCA and the transparency rules made by the FCA under section 73A of FSMA;

“Downloads” means royalties for the permanent digital mechanical transfer of music;

“DSP” means digital service providers;

“Earnings per Share” or **“EPS”** means the Earnings per Ordinary Share and is expressed in pounds Sterling;

“ECL” means expected credit losses;

“Excess Total Return” means for an accounting period, it is calculated by reference to:

(i) the difference between the Performance Share Price at the end of that accounting period and the higher of: (a) the Performance Hurdle (being issue price compounded by 10% per annum from initial Admission subject to appropriate adjustments in certain situations); and (b) high watermark (being the Performance Share Price at the end of the last accounting period where a performance fee was payable); multiplied by

(ii) the weighted average of the number of Ordinary Shares in issue (excluding any shares held in treasury) at the end of each day during that accounting period;

“EU” means European Union;

“FCA” means the UK Financial Conduct Authority (or its successor bodies);

“FRC” means Financial Reporting Council;

“FSMA” means the UK Financial Services and Markets Act 2000;

“GFSC” or **“Commission”** means the Guernsey Financial Services Commission;

“GFSC Code” means the GFSC Finance Sector Code of Corporate Governance;

“GMR” means Global Music Rights;

“Grammy” means an award presented by the Recording Academy to recognise achievements in the music industry;

“Group” means Hipgnosis Songs Fund Limited and its subsidiaries;

“IAS” means international accounting standards as issued by the Board of the International Accounting Standards Committee;

“IFPI” means International Federation of the Phonographic Industry;

“IFRIC” means International Financial Reporting Interpretations Committee;

“IFRS” means the International Financial Reporting Standards, being the principles-based accounting standards, interpretations and the framework by that name issued by the International Accounting Standards Board;

“IFRS NAV” means the value of the Gross Assets of the Company less its liabilities (including accrued but unpaid fees) in accordance with the accounting policies adopted by the Directors;

“Independent Valuer” means Massarsky Consulting, Inc., appointed by the Board to independently value the Company’s Catalogues within the Portfolio;

“Interim Report” means the Company’s half yearly report and unaudited condensed consolidated financial statements for the period ended 30 September;

“Investment Adviser” means The Family (Music) Limited;

“Investment Advisory Agreement” means the investment advisory agreement dated 27 June 2018 between The Family (Music) Limited, the Company and Hipgnosis SFH I Limited;

“Investment Entity” means an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both;

“IPO” means the initial public offering of shares by a private company to the public;

“ISAE 3402” means International Standard on Assurance Engagements 3402, “Assurance Reports on Controls at a Service Organisation”;

“ISIN” means an International Securities Identification Number;

“LGBTQQIAAP” means the abbreviation of ‘lesbian, gay, bisexual, transgender, transsexual, queer, questioning, intersex, asexual, allies, and pansexual.’

“LIBOR” means the London Interbank Offered Rate the basic rate of interest used in lending between banks on the London interbank market and also used as a reference for setting the interest rate on other loans.

“Listing Rules” means the listing rules made by the UK Listing Authority under section 73A FSMA;

“Live” means publishing revenue derived from the live performance of music copyrights at concerts;

“London Stock Exchange” or **“LSE”** means London Stock Exchange Plc;

“MAR” means EU regulation 596/2014 on market abuse;

“MAU” means monthly active users;

“Mechanical” means royalties for reproducing music, for example CD, vinyl, etc. (excluding mechanical downloads and mechanical streaming);

“NAV per Share” means the Net Asset Value attributable to the Ordinary Shares in issue divided by the number of Ordinary Shares in issue (excluding any Shares held in treasury) at the relevant time and expressed in Sterling;

“Net Asset Value” or **“NAV”** means the value of the assets of the Company less its liabilities as calculated in accordance with the Company’s valuation policy and expressed in pounds Sterling;

“Nomination Committee” means a formal committee of the Board with defined terms of reference;

“Operative NAV” means NAV as adjusted for the fair value of Catalogues of Songs;

Glossary of Capitalised Defined Terms

Continued

“Ordinary Shares” means redeemable ordinary shares of no par value in the capital of the Company issued and designated as “Ordinary Shares” and having the rights, restrictions and entitlements set out in the Articles;

“Other income” means any income not covered by the other income types, for example sheet income and lyric exploitation;

“Performance” means royalties for playing music in public, for example TV/radio broadcasts, live performance, etc. and paid through to the publisher;

“Performance Right Organisations” or **“PROs”** means a performing rights organisation, such as PRS or BML, which represents and collects performance royalties for and on behalf of each of its members;

“Performance Share Price” means in relation to each accounting period, the average of the middle market quotations of the Ordinary Shares for the one month period ending on the last business day of that accounting period;

“Portfolio” means the portfolio of Songs (whether organised into Catalogues or otherwise) held by the Company directly or indirectly from time to time;

“Portfolio Committee” means a committee which approves all purchases of Catalogues of Songs;

“Preferred Portfolio Administrator” means the portfolio administrators appointed by the Company in order to assist with the administration of the Portfolio including Kobalt Music Services Limited, the Company’s preferred portfolio administrator;

“Premium Listing” means the a Premium Listing on the Main Market of the London Stock Exchange;

“Premium to Operative NAV” means the situation where the Ordinary Shares of the Company are trading at a price higher than the Company’s Operative NAV;

“Prospectus” means the prospectus issued by the Company on 27 June 2018 and further prospectus published on 27 September 2019;

“PSP Adjustment” means adjustments to the Performance Share Price to (i) include the gross amount of any dividends and/or distributions paid in respect of an Ordinary Share since initial Admission; and (ii) make such adjustments to take account of C Shares as were agreed between the Company and the Investment Adviser, acting reasonably and in good faith, at the time of issuance of such C Shares;

“Public Performance” means revenue generated from licenses for the right to play music publicly in a commercial environment e.g. shops, bars, restaurants and shopping malls;

“QR” means quick response;

“RCIS Rules” means the Registered Collective Investment Scheme Rules 2015;

“Record Labels” means a company that owns, distributes and promotes musical recordings;

“Recording Academy” means a US academy of musicians, producers, recording engineers and other musical professionals;

“Registrar” means Computershare Investor Services (Guernsey) Limited;

“Remuneration Committee” means a formal committee of the Board with defined terms of reference;

“RIAA” means Recording Industry Association of America;

“SFS” means London Stock Exchange’s specialist fund segment of the main market for listed securities;

“Shareholder” means the holder of one or more Ordinary Shares;

“Song” means a songwriter’s and/or publisher’s share of copyright interest in a song, being a musical composition of words and/or music and the songwriter’s proportion of the publishing rights of a single musical track, and when construction permits, the collection of words and/or music as purchased by consumers;

“Streaming” means performance and mechanical royalties for digitally playing music in real-time, for example through Spotify;

“Synchronisation” means royalties for playing music in connection with visual media (for example film, TV, advertisements);

“The-Dream” means the Catalogue purchased from Terius Nash, better known by his stage name ‘The-Dream’;

“TMS” means the Catalogue purchased from an English songwriting and music production team comprised of Thomas ‘Froe’ Barnes, Benjamin Kohn and Peter ‘Merf’ Keller;

“TV” means television;

“UK” or **“United Kingdom”** means the United Kingdom of Great Britain and Northern Ireland;

“UKLA” means UK Listing Authority;

“US” or **“United States”** means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;

“Writer’s Share” means performance royalties collected by a Performance Rights Organisation and paid through directly to the songwriter as opposed to the publisher share of performance;

“YouTube” means the US video-sharing website;

“£” or **“Pounds Sterling”** or **“Sterling”** means British pound sterling and **“p”** or **“pence”** means British pence;

“\$” or **“USD”** means United States dollars and **“cents”** means United States cents; and

“€” or **“EUR”** means the official currency of the majority of member states of the EU.

Directors and General Information

Company Registration Number: 65158

Board of Directors

Chair – Andrew Sutch

Senior Independent
Director – Paul Burger

Andrew Wilkinson
Simon Holden
Sylvia Coleman

Founder

Merck Mercuriadis

Advisory Board

Nile Rodgers
The-Dream
Giorgio Tuinfort
Starrak
Nick Jarjour
David Stewart
Bill Leibowitz
Ian Montone
Jason Flom
Michael Naylor
Poo Bear

Investment Adviser

The Family (Music) Limited
Merck Mercuriadis, CEO
Bjorn Lindvall, COO
Chris Helm, CFO

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Tileyard Rd
Kings Cross
London
N7 9AH

www.hipgnosissongs.com

Registered Office

PO Box 286
Floor 2
Trafalgar Court
Les Banques
St Peter Port
Guernsey
GY1 4LY

Administrator and Company Secretary

**Estera International Fund
Managers (Guernsey) Limited**
(merged with Ocorian
10 September 2019)
PO Box 286
Floor 2
Trafalgar Court
Les Banques
St Peter Port
Guernsey
GY1 4LY

Effective from 6 April 2020

**Ocorian Administration
(Guernsey) Limited**
PO Box 286
Floor 2
Trafalgar Court
Les Banques
St Peter Port
Guernsey
GY1 4LY

Corporate Brokers

N+1 Singer Advisory LLP
1 Bartholomew Lane
London
EC2N 2AX

J P Morgan Securities plc

(Appointed 10 September 2019)
25 Bank Street
Canary Wharf
London
E14 5JP

Independent Auditor

PricewaterhouseCoopers CI LLP
Royal Bank Place
1 Glatigny Esplanade
St Peter Port
Guernsey
GY1 2HJ

Music Specialist Legal Counsel

Bill Leibowitz
271 Madison Avenue
20th Floor
New York
New York 10016

Legal Advisers to the Company

Herbert Smith Freehills LLP
Exchange House
Primrose Street
London
EC2A 2EG

Legal Advisers to the Company as to Guernsey Law

Ogier (Guernsey) LLP
Redwood House
St Julian's Avenue
St Peter Port
Guernsey
GY1 1WA

Principal Banker

Barclays Bank PLC
PO Box 41
Le Marchant House
St Peter Port
Guernsey
GY1 3BE

Registrar

**Computershare Investor Services
(Guernsey) Limited**
1st Floor
Tudor House
Le Bordaige
St Peter Port
Guernsey
GY1 1DB

Identifiers

ISIN: GG00BFYT9H72
Ticker: Song
SEDOL: BFYT9H7
Website: www.hipgnosissongs.com
LEI: 213800XJIPNDV/KXMOC11
GIIN: 5XGPC8.99999.SL.831

Managing your account online

The Company's registrar, Computershare Investor Services (Guernsey) Limited, allows you to manage your shareholding online. If you are a direct investor you can view your shareholding, change the way the registrar communicates with you and buy and sell shares. If you haven't used this service before, all you need to do is enter the name of the Company and register your account at:

<https://www-uk.computershare.com/investor>.

You'll need your Investor code (IVC) printed on your share certificate in order to register.

Corporate Summary

Structure

The Company is an investment company limited by shares, registered and incorporated in Guernsey under the Companies Law on 8 June 2018. The Company is registered with the Guernsey Financial Services Commission under the Registered Collective Investment Scheme Rules 2015, and the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended. The Company is not authorised or regulated by the Financial Conduct Authority.

The Company makes and manages its investments directly or indirectly through a number of wholly owned subsidiary companies incorporated in England & Wales, together referred to as the Group.

Investment Process

The Company's Investment Adviser, The Family (Music) Limited, was founded by Merck Mercuriadis. Merck is the manager and/or former manager of globally successful recording artists such as Elton John, Guns N' Roses, Morrissey, Iron Maiden, Nile Rodgers and Beyoncé, and hit songwriters such as Diane Warren, Justin Tranter and The-Dream. Merck is the former CEO of The Sanctuary Group plc.

The Family (Music) Limited has been appointed by the Board to source Songs and provide recommendations to the Board on acquisition and disposal strategies. The Investment Adviser is also responsible for managing and monitoring royalty and/or fee income due to the Company from its copyrights and collection agents, and developing strategies to maximise the earnings potential of the Songs in the portfolio through improved placement and coverage of Songs.

The Investment Adviser continues to assemble an Advisory Board of highly successful music industry experts which include award winning members of the artist, songwriter, publishing, legal, financial, recorded music and music management communities, all with in-depth knowledge of music publishing and access to a significant network of relationships in the music industry.

The Board has formed a Portfolio Committee which considers the recommendations of the Investment Adviser before granting its approval to purchase the Catalogues of Songs, as well as an Asset Management Committee which considers the ongoing management and revenue maximisation of the Catalogues of Songs. These committees are chaired by Mr Burger and Mr Sutch, respectively.

AIC

The Company is a member of the Association of Investment Companies, complies with the AIC Code and is the sole constituent of the AIC's "Royalties" Specialist Investment Trusts sector classification. The Company's page on the AIC's website is at <https://www.theaic.co.uk/companydata/0P0001BL9D>.

Website

The Company's website, which can be found at www.hipgnosissongs.com, includes information on the Company, such as its launch prospectus, past reports and accounts, policies, media coverage and regulatory news announcements.

Advice to Shareholders

In recent years investment related scams have become increasingly sophisticated and difficult to spot. We are therefore warning all our Shareholders to be cautious so that they can protect themselves and spot the warning signs.

Fraudsters will often:

- contact you out of the blue
- apply pressure to invest quickly
- downplay the risks to your money
- promise tempting returns that sound too good to be true
- say that they are only making the offer available to you
- ask you to not tell anyone else about it

You can avoid investment scams by:

- **Rejecting unexpected offers** – Scammers usually cold call but contact can also come by email, post, word of mouth or at a seminar. If you have been offered an investment out of the blue, chances are it's a high risk investment or a scam.
- **Checking the FCA Warning List** – Use the FCA Warning List to check the risks of a potential investment. You can also search to see if the firm is known to be operating without proper FCA authorisation.
- **Getting impartial advice** – Before investing get impartial advice and don't use an adviser from the firm that contacted you. If you are suspicious, report it
 - You can report the firm or scam to the FCA by contacting their Consumer Helpline on **0800 111 6768** or using their online reporting form.
 - If you have lost money in a scam, contact **Action Fraud** on **0300 123 2040** or www.actionfraud.police.uk.

For further helpful information about investment scams and how to avoid them please visit www.fca.org.uk/scamsmart.

Cautionary Statement

The Chair's Statement, the Investment Adviser's Report and the Report of the Directors have been prepared solely to provide additional information for shareholders to assess the Company's strategies and the potential for those strategies to succeed. These should not be relied on by any other party or for any other purpose.

The Chair's Statement, Investment Adviser's Report and the Report of the Directors may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology.

These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors and the Investment Adviser, concerning, amongst other things, the investment objectives and investment policy, financing strategies, investment performance, results of operations, financial condition, liquidity, prospects, and distribution policy of the Company and the markets in which it invests.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance.

The Company's actual investment performance, results of operations, financial condition, liquidity, distribution policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document.

Subject to their legal and regulatory obligations, the Directors and the Investment Adviser expressly disclaim any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

Hipgnosis Songs Fund Limited

PO Box 286, Floor 2, Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 4LY

Further information available online: www.hipgnosissongs.com

what happened to us?



#blacklivesmatter
#antiracist



Follow Your Fire • All Loved Up • **Empress** • Better Life • **Flames** • Not In That Way • **Shed A Light** • Get Ur Freak On • **Million Reasons** • End Of Time • **Billionaire** • Don't • **Bad Idea** • My Story • **Raise Your Hands** • Strawberries & Cigarettes • **Think Before I Talk** • Night Changes • **Ascension (Don't Ever Wonder)** • Purpose • **Who Says You Can't Go Home** • Kiss The Sky • **Feel The Love** • Talking To The Moon • **Baby, You Make Me Crazy** • Sexy Bitch • **Run It** • Nina • **Sky Full Of Song** • Ride • **Ghostin** • Partition • **Wings** • Be The Man • **King Of The Clouds** • 2 Phones • **Chain Breaker** • 1 + 1 • **Lovin', Touchin', Squeezin'** • The Fire • **Get Used To It** • Two Weeks • **We Belong Together** • Dangerous • **Afire Love** • Drops In The Ocean • **Ask The Lonely** • Mi Gente • **Drowns the Whiskey** • Crying In The Club • **God With Us** • Upside Down • **Mercy** • Faithful • **Flawless** • Let You Go • **Love Is A Stranger** • Best Song Ever • **Marry Me** • I Wish You Would • **Rockin' That Thang** • Luv • **This One's For You** • Who's That Girl? • **Burning** • The Louvre • **Faith** • Accidently In Love • **Gorilla** • Wildflowers • **Black And White** • Never Say Goodbye • **In God I Trust** • In These Arms • **Countdown** • Can't Help But Wait • **Shy Guy** • Lamb Of God • **Sober** • Hard 2 Face Reality • **Is This Love** • Bibia Be Ye Ye • **Like To Be You** • We Loved It • **Mo Money Mo Problems** • Code Blue • **Just Fine** • Have A Nice Day • **Sin Pijama** • Adam'S Song • **Hope Is A Dangerous Thing For A Woman Like Me To Have- But I** • My Type • **Venice Bitch** • Heaven • **Home** • La La La • **Send Her My Love** • I Sip • **Calling All My Lovelies** • Nights With You • **Carry On** • Bloodstream • **No Money No Love** • Try Sleeping With A Broken Heart • **Last Day Alive** • Patricia • **House On Fire** • Taking Chances • **Hold Me Tight Or Don't** • Ring The Alarm • **Kiss It Better** • I'll Sleep When I'm Dead • **Coming Home** • Novacane • **Break Up Every Night** • FirstDate • **Beat To My Melody** • This Ain't A Love Song • **Old Fashioned** • Without You • **Youth** • Life Is Worth Living • **Take It Back** • Where Were You In The Morning • **More Mess** • Roaring 20s • **Body** • Never Let You Go • **Pick Up Nights** • Lily Was Here • **Buttons** • **Crash & The Beauty Queen From Name Of Love** • Found In You • Darlin' • **Dancing's Not A Crime** • Boom Boom • **Crazy=Genius** • **(Melodrama)** • Ahead Of Myself Me • **Level Up** • Higher • **They Is Yours** • Burning House • **Mr New Love** • **Burnin' It Down** • Fire • Way You Move • **Cudi Zone** • **Poppin** • Magnify • **Emperor's Heartbreaker** • **All On My Mind** • Girl Is Mine • **Hoodie** • Joanne • **Don't Say** • John Wayne • **Mark My Words** • Gettin' Warmed Up • **One Of The Drunks** • Black Hole Sun • **Children** • Steal My Girl • **Kiwi** • Lost Highway • **I Care** • These Days • **Wake Up Alone** • Guts Over Fear • **My Kind Of Love** • Diamonds • **Bedroom Floor** • Thank You For Loving Me • **Hell Of A Night** • Jesus Son Of God • **Don't Call Me Angel (Charlie's Angels)** • Do What You Want To • **Golden Days** • Why Can't We Be Friends • **Don't Give In** • Any Ol' Barstool • **Video Phone** • Totally Spies • **Freedom** • Lady • **Writer In The Dark** • Beautiful Goodbye • **Will I See You** • Young, Wild And Free • **Life On Earth** • Caught Up • **The Rock Show** • Late Night Feelings • **Bambola** • Girls • **Satisfied** • All That Matters • **Hey Mama** • Headlights • **My Kinda Party** • Exalted Over All • **You Are In Love** • Guillotine • **Show Me How You Burlesque** • Miss You • **This We Know** • Prayers Up • **Breathe** • Blood On Blood • **Do You Know** • May I Have This Dance • **Always** • **Infinity** • Not In That Way • **Shed A Light** • Get Ur Freak On • **Million Reasons** • End Of Time • **Billionaire** • Don't • **Bad Idea** • My Story • **Raise Your Hands** • Strawberries & Cigarettes • **Think Before I Talk** • Night Changes • **Ascension (Don't Ever Wonder)** • Purpose • **Who Says You Can't Go Home** • Kiss The Sky • **Feel The Love** • Talking To The Moon • **Baby, You Make Me Crazy** • Sexy B**** • **Run It** • Nina • **Sky Full Of Song** • Ride • **Ghostin** • Partition • **Wings** • Be The Man • **King Of The Clouds** • 2 Phones • **Chain Breaker** • 1 + 1 • **Lovin', Touchin', Squeezin'** • The Fire (B-Unique) • **Get Used To It** • Two Weeks • **We Belong Together** • Dangerous • **Afire Love** • Drops In The Ocean • **Ask The Lonely** • Mi Gente • **Drowns the Whiskey** • Crying In The Club • **God With Us** • Upside Down • **Mercy** • Faithful • **Flawless** • Let You Go • **Love Is A Stranger** • Best Song Ever • **Marry Me** • I Wish You Would • **Rockin' That Thang** • Who's That Girl? • **Never Say Goodbye** • In God I Trust • **In These Arms** •



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