

Report of the Audit and Risk Management Committee



“The committee performs a vital role with regards to financial reporting, monitoring and reviewing internal controls and assessing the principal risks facing the Company.”

Dear Shareholder,

I am pleased to present the Audit and Risk Management Committee report for the year ended 31 March 2021, which has been approved by both the Audit and Risk Management Committee and the Board.

The committee has continued to support the Board by ensuring the integrity of the Company’s financial reporting providing independent scrutiny and challenging the judgments made by the Investment Adviser. The main aspects considered by the committee included valuations of catalogues, change in presentation and functional currency and a review of the Company’s risk matrix.

These topics will remain key areas for the year ahead and the committee will continue to support the Board.

Purpose and Aim

The terms of reference of the Audit and Risk Management Committee, which are reviewed annually, are set out on the Company’s website (www.hipgnosissongs.com) and include all matters indicated by Disclosure and Transparency Rule 7.1, the AIC Code and the UK Code. The Company complies with the provisions of the Competition and Markets Authority’s (CMA) Order 2014.

The primary functions of the Audit and Risk Management 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 judgments contained in them;
- reporting to the Board on the appropriateness of the Group’s accounting policies and practices including critical judgment 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 assessing 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 UK Code, the AIC Code, the FRC Guidance on audit committees; and
- reviewing the risks facing the Group and monitoring the risk matrix.

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

Membership and Meetings

Composition of the Audit and Risk Management Committee

As at 31 March 2021, given the current size of the Board, the composition of the committee is all Directors.

Mr Andrew Wilkinson (Chair of the committee)
Mr Paul Burger
Ms Sylvia Coleman
Mr Simon Holden
Mr Andrew Sutch

The Chair of the Board is currently a member of the Audit and Risk Management Committee and the Board as a whole considers Mr Sutch to be an independent Non-executive Director. Due to the further expansion of the Board the composition and membership of the Audit and Risk Management Committee is under review by the Nomination Committee and the membership will be adjusted, if considered advisable, following that review. The varied backgrounds of the committee's members and their collective skills, experience and knowledge of the Company allow them to fulfil the committee's remit. Mr Andrew Wilkinson, as Chair, is a chartered accountant and is deemed to have recent and relevant experience. The other members have significant business experience, both within the music industry and in the asset management industry. Detailed information on the experience, qualifications and skillsets of all committee members can be found on pages 87-89. The Audit and Risk Management Committee's performance is evaluated as part of the overall evaluation of the Board and the Board committees as further disclosed on page 86.

Meeting Schedule

The committee has an annual work plan, developed from its terms of reference, with standing items that the committee considers at each meeting, in addition to any specific matters arising and topical items on which the committee has chosen to focus.

During the year the Audit and Risk Management Committee met formally on three occasions, on 2 July 2020, 3 December 2020 and 29 January 2021, and attendance at those meetings is shown on page 84 of the Corporate Governance Report. The committee also provides a formal update on their work to the Board at each scheduled quarterly Board meeting.

During the year the committee:

- reviewed the terms of reference of the Audit and Risk Management Committee for approval by the Board;
- conducted a detailed review of the Interim Report and recommended it for approval by the Board;
- reviewed the Group's risk matrix and made observations for further consideration;
- reviewed and approved the audit plan and final Audit and Risk Management Committee report of the auditor;
- reviewed and approved the fee for the external audit as well as non audit services and associated fees;
- assessed the independence of the external auditor;
- assessed the effectiveness of the external audit process as described below;
- reviewed the Group's key risks and internal controls; and
- after the interim financial statements were released, reviewed the accounting policies and format of the Interim Financial Statements, which included approving a change in presentation and functional currency.

Financial Reporting

The primary role of the Audit and Risk Management 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 judgments have been applied or there has been discussion with external consultants;
- 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 and Risk Management Committee considers reports from the Investment Adviser and the external auditor.

Significant issues considered by the Audit and Risk Management Committee during the year:

Presentation and Functional Currency Change

As disclosed in Note 2n) on pages 134-135, the Company changed its presentation and functional currency from Sterling to Dollars with effect from 1 October 2020. The Board approved this change following consultation with the Investment Adviser, the Administrator and the external auditor. Following assessment, the Board agreed with the conclusion that as the majority of catalogues, revenues and transactions are denominated in Dollars, the primary economic environment in which the Company operates had fundamentally shifted. The share capital of the Company is denominated in Sterling and dividends will continue to be paid in Sterling. Under IFRS these are considered to be secondary indicators of functional currency and the Company was acquiring proportionally more Dollar than Sterling catalogues. The fundamental shift was triggered by the acquisition of Big Deal Music Group (which has since been rebranded Hipgnosis Songs Group) and the Kobalt Music Copyrights Sarl on 10 September 2020 and 30 September 2020 respectively. The acquisition of the former has led to a Dollar operating company being part of the Group. The restructuring of the debt facility from Sterling to Dollars pays further testament to this fundamental shift and is a result of the Company's strategic objective of deeper expansion in the US market. The Board also reviewed and approved the methodology applied to effect this change as disclosed on page 80.

Valuations of Catalogues

The Board engaged the Portfolio Independent Valuer, Massarsky Consulting, Inc., to value the Catalogues as at 30 September 2020 and as at 31 March 2021. 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 8.5%, unchanged since the interim results of 30 September 2020 (31 March 2020: 9.0%). Income was analysed and forecast at the level of each individual Catalogue (Kobalt was analysed at a Fund level) and by income type. Future revenues were also estimated, often at the level of individual Songs, and incorporated into their valuation. Massarsky Consulting, Inc., 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 received a report from Massarsky Consulting, Inc., and held two meetings with them to discuss the fundamental changes emerging over the year influencing the value of catalogues, the discount rate methodology and further factors impacting the movements in valuations before approving the valuation. Further detail is disclosed within Note 6 on pages 141-142..

Internal Control and Risk Management

The Board has overall responsibility for risk management. The risk management process is designed to manage rather than eliminate the risk of failure to achieve the Company's business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss.

On behalf of the Board, the Audit and Risk Management Committee reviewed the effectiveness of the Group's risk management processes and the way in which significant business risks are managed. The work of the Audit and Risk Management Committee is driven primarily by the Company's assessment of its principal risks and uncertainties as set out in the Strategic Report on page 62. The Audit and Risk Management Committee has established a set of ongoing processes designed to meet the particular needs of the Company in managing the risks to which it is exposed. The process is one whereby the Investment Adviser identifies the principal risks to which the Company is exposed and records them on a risk matrix together with the controls employed to mitigate these risks. It has a process in place to identify emerging risks and determines whether any actions are required. A residual risk rating has been applied to each risk. The Audit and Risk Management Committee is responsible for reviewing the risk matrix and associated controls before recommending to the Board for consideration and approval, challenging the Investment Adviser's assumptions to ensure a robust internal risk management process.

During the year the Audit and Risk Management Committee reviewed the risk matrix and made some observations for further consideration, in respect of cyber security, expansion into USA exchange rate risk and the impact of the COVID-19 pandemic. More details on all of these key risk management activities are provided on pages 62-65.

During the year, the Audit and Risk Management Committee discussed and reviewed the internal controls frameworks in place at the Investment Adviser, the Administrator and Hipgnosis Songs Group. The Administrator holds the International Standard on Assurance Engagements (ISAE) 3402 Type 2 certification. This entails an independent rigorous examination and testing of their controls and processes. The Audit and Risk Management Committee concluded that these frameworks were appropriate for the identification, assessment, management and monitoring of financial, regulatory and other risks, with particular regard to the protection of the interests of the Company's Shareholders.

Internal Audit

The Audit and Risk Management Committee continues to review the need for an internal audit function and has decided that the systems, processes and procedures employed by the Company, Investment Adviser and Administrator, including their own internal controls and procedures, provide sufficient assurance that an appropriate level of risk management and internal control is maintained. The Audit and Risk Management Committee has therefore concluded that an internal audit function specific to the Company is considered unnecessary. The Chair of the Audit and Risk Management Committee is available on request to meet investors in relation to the Company's financial reporting and internal controls.

Primary Areas of Judgment and Estimation

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

- Forecasting income for each Catalogue that is acquired in order to appraise investment opportunities. These judgments 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', judgments are made based on a Song by Song assessment by the Investment Adviser;
- Accruals, as estimates, are booked in the financial period based on historical analysis from royalty statements and a prudent calculation. 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 judgment of the useful life of the asset; and

- Indicators of impairment are considered on a timely basis and a judgment would be made as to whether a Catalogue should be written down.

Fair, Balanced and Understandable

At the request of the Board, the committee has considered whether in its opinion the 31 March 2021 Annual Report and Financial Statements are fair, balanced and understandable and whether they provide the information necessary for Shareholders to address the Group's position and performance, business and strategy.

The committee was provided with a full draft of the report and provided feedback highlighting the elements that would benefit from further clarity. The draft report was amended ahead of providing final approval to ensure that the report reflected the key strategic messages without diluting the overall transparency in the disclosures. Following its review, the committee was of the opinion that the 2021 Annual Report and Financial Statements are representative of the year and present a fair, balanced and understandable overview, providing the necessary information for the Shareholders to assess the position, performance, business model and strategy.

External Audit

The Audit and Risk Management Committee is the formal forum through which the external auditor reports to the Board. The external auditor is invited to attend the Audit and Risk Management Committee meetings as the Board deems appropriate. The external auditor also has the opportunity to meet with the Audit and Risk Management Committee without representatives of the Investment Adviser or the Administrator being present at least once per year.

The external audit contract is required to be put to tender at least every 10 years. The Audit and Risk Management Committee shall give advance notice of any retendering plans within the Annual Report. The Audit and Risk Management Committee has considered the re-appointment of the Auditor and decided not to put the provision of the external audit out to tender at this time.

PricewaterhouseCoopers CI LLP were appointed on 14 January 2019 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 to the Company. The Companies Law requires the reappointment of the external auditor to be subject to Shareholders' approval at the AGM.

Effectiveness of the External Auditors

The committee evaluated the performance of PricewaterhouseCoopers CI LLP during the year and also reviewed the effectiveness of the external audit process.

The following factors were considered:

- the quality of the interactions between the audit team and the committee and other Board members involved in the preparation of the accounts;
- the external auditors' progress achieved against the agreed audit plan and communication of any changes to the plan, including changes in perceived audit risks;
- the competence with which the external auditors handled the key accounting and audit judgments and communication of the same with management and the committee;
- the external auditors' compliance with relevant regulatory, ethical and professional guidance on the rotation of partners;
- the external auditors' qualifications, expertise and resources and their own assessment of their internal quality procedures; and
- the stability and continuity that would be provided by continuing to use PricewaterhouseCoopers CI LLP.

Independence of External Auditor

The objectivity of the external auditor and the terms under which the external auditor may be appointed to perform non-audit services and the level of non-audit fees is reviewed by the Audit and Risk Management Committee. In order to safeguard external auditor independence and objectivity, the Audit and Risk Management Committee ensures that no other advisory and/or consulting services are provided by the external auditor. Any non-audit services conducted by the external auditor outside of these areas require the consent of the Audit and Risk Management 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.

To fulfil its responsibility regarding the independence of the external auditor, the Audit and Risk Management 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.

Non-audit Services

The Audit and Risk Management Committee seeks to ensure that any non-audit services provided by the external Auditor do not conflict with their statutory and regulatory responsibilities, as well as their independence, before giving written approval prior to their engagement.

The Audit and Risk Management 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 their role as reporting accountant for the Prospectus issued in January 2021 and respective comfort letters in September 2020 for a retail offer via PrimaryBid of up to 3,642,583 new Ordinary Shares and the non-pre-emptive placing of Ordinary Shares under the Company's existing placing programme pursuant to the previous prospectus, published by the Company in September 2019.

Nature of service	Fee (\$'000)	Threat(s) to independence	Safeguard(s) in place
C Share conversion	\$11	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 PricewaterhouseCoopers CI LLP.	The total non-audit fees for the year are less than the total proposed audit fee for the year ended 31 March 2021, and the total fees paid to the Group for both audit and non-audit services is immaterial to total PricewaterhouseCoopers CI LLP firm revenue.
Reporting accountant services	\$346	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 PricewaterhouseCoopers CI LLP. 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 2021, and the total fees paid to the Group for both audit and non-audit services is immaterial to total PricewaterhouseCoopers CI LLP 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.
Interim review	\$54	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 PricewaterhouseCoopers CI LLP.	The total non-audit fees for the year are less than the total proposed audit fee for the year ended 31 March 2021, and the total fees paid to the Group for both audit and non-audit services is immaterial to total PricewaterhouseCoopers CI LLP firm revenue.
	\$411		

All approved non-audit services are discussed and sanctioned at meetings of the Audit and Risk Management Committee.

Audit fees were \$732,000 and non audit fees were \$411,000 for the year ending 31 March 2021. Details of Auditor's Remuneration are set out in Note 21, on page 157. The ratio of audit to non-audit work is 1.78:1

Notwithstanding such services, the Audit and Risk Management 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. The Audit and Risk Management Committee was satisfied that PricewaterhouseCoopers CI LLP had adequate safeguards in place and that provision of these non-audit services did not provide threats to the Auditor's independence.

Non audit services are all pre approved by the Chair of the Audit and Risk Management Committee, and were limited to reporting accountant work regarding the fund raising in December 2020 and the execution of the Company's first Interim Review Report. Both these non-audit services are permissible under the FRC's Revised Ethical Standard 2019. Additionally, the level of audit fees to non-audit fees was considered appropriate and in line with the acceptable threshold applicable to the Company as a Guernsey domiciled company.

Review of External Auditor

Details of fees paid to PricewaterhouseCoopers CI LLP during the year are disclosed in Note 21 on page 157. The Audit and Risk Management Committee approved these fees after a review of the level and nature of work to be performed, and is satisfied that they are appropriate for the scope of the work required.

The Audit and Risk Management 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 and Risk Management 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 and Risk Management Committee has recommended to the Board that PricewaterhouseCoopers CI LLP be reappointed as external auditor for the year ending 31 March 2022.

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

2022 Objectives

It is the Audit and Risk Management Committee's intention to continue to oversee the Company's governance framework, providing valuable independent challenge and oversight.

The proposed activities for the Committee for the year ahead, in line with the core functions, include but are not limited to:

- 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 judgments contained in them;
- reporting to the Board on the appropriateness of the Group's accounting policies and practices including critical judgment areas;
- reviewing the valuations of the Group's investments as prepared and presented in report format by the Portfolio 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 assessing 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 UK Code, the AIC Code, the FRC Guidance on audit committees; and
- reviewing the risks facing the Group and monitoring the risk matrix.

I will be available at the AGM to answer any questions about the work of the Audit and Risk Management Committee.

On behalf of the Audit and Risk Management Committee,

Andrew Wilkinson

Chair of the Audit and Risk Management Committee

4 July 2021