

Our Purpose, Business Model, Culture and Values

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 our financial clout as influence to improve the Songwriter's position in the economic equation.

A. Our Business Model

The key characteristics of the Hipgnosis business model are:

1. Sustainable earnings, uncorrelated to global capital markets, with sources of income from across the spectrum of music consumption patterns made up of millions of microtransactions such as Streaming, physical purchase, downloading, Synchronisation, performance, licensing and merchandising.

Related principal risks: ①③④⑤⑥⑦⑨

2. 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.

Related principal risks: ⑦

3. The benefits of scale on diversification; giving smoother income the larger the fund gets; and the opportunity to drive incremental equity yield over the contracted period through active management and appropriate outsourcing of administration.

Related principal risk: ④

4. Exposure to structural growth themes in relation to:
 i) the penetration of technology into everyday life;
 ii) the growing value of entertainment markets; and
 iii) the recognition of the real asset value of intellectual property rights.

Related principal risk: ⑦

Our principal risks and uncertainties are discussed on pages 62-66.

The Income Stream for Copyright Owners

Every Song has two copyrights: Composition (lyrics & melody), held by the Songwriter and Sound Recording (the sound heard), held by those involved in the recording of the Song. Royalties stemming from the Composition Copyright are referred to as Publishing Rights (aka Songwriter Rights). Hipgnosis Songs Fund focuses primarily on acquiring these, but owns selective Sound Recording Rights as well.

Publishing Rights

These are rights in a musical composition (lyrics and/or music) and generate Mechanical and Performance Royalties. In the UK, "blanket licences" are issued to organisations including radio and TV.

Mechanical Royalties – These are triggered when a copy of a Song is made, whether physical (e.g. CDs, DVDs) or digital (e.g. permanent downloads, Streaming, webcast). The Streaming of a Song is a hybrid: a temporary copy is made, so it generates a Mechanical Royalty, but it is also treated as a public performance of that Song, generating a Performance Royalty.

Performance Royalties – These royalties largely come from live performances and licences taken out by shops, restaurants, clubs and bars etc to publicly perform or broadcast a Song.

Sound Recording Rights

Master (Recording) Royalties – These (aka Recording Royalties) are generated on behalf of a sound/master recording. This is the most basic royalty performing artists and labels earn when their master recording is downloaded, physically bought, or streamed.

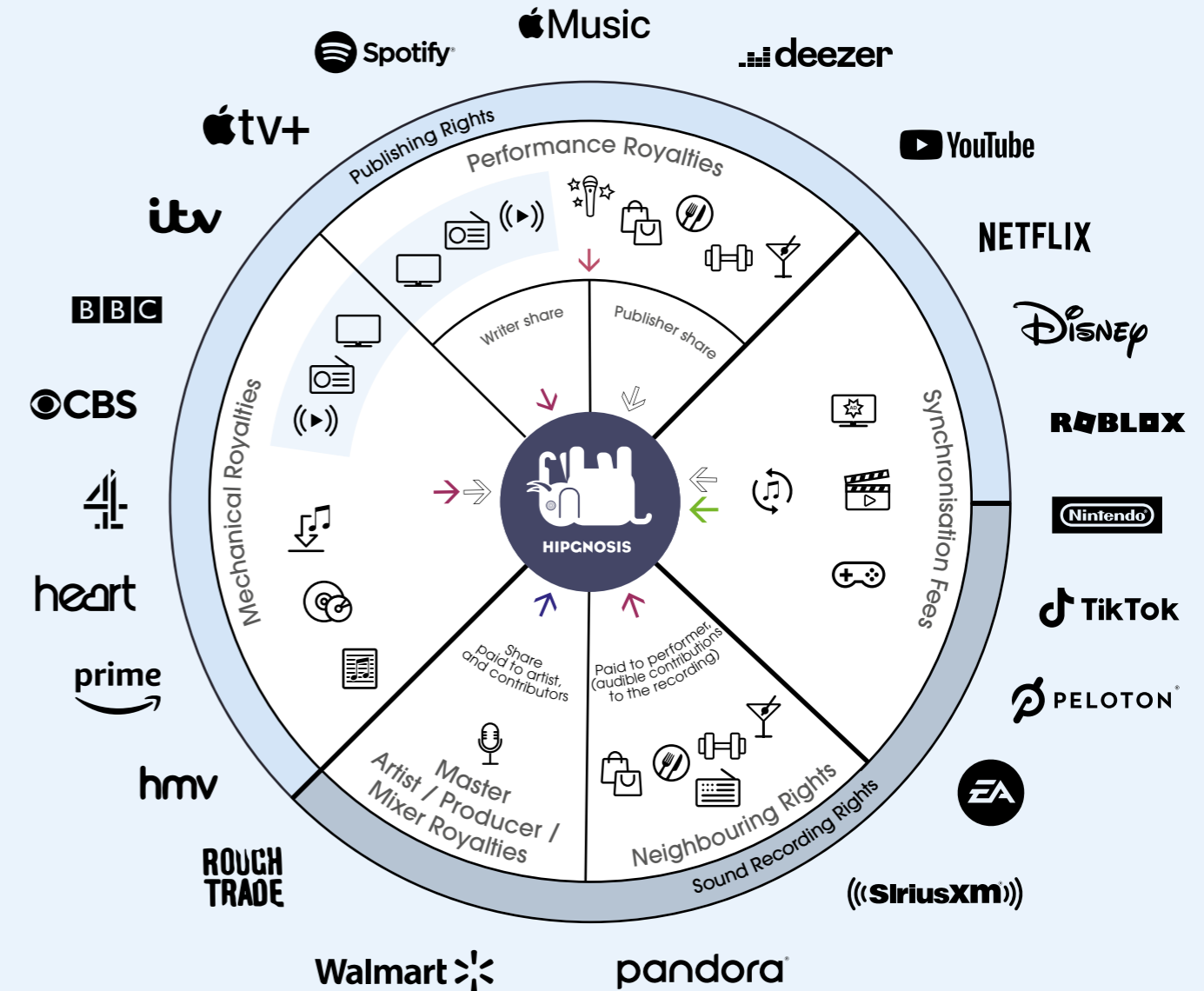
Neighbouring rights – These (aka Related Rights) are public performance royalties due to the sound recording copyright holder. One has to distinguish between terrestrial broadcast platforms (like radio, TV, and venues) and digital platforms (like Internet and satellite radio) because not every country, notably the US, recognises or pays terrestrial neighbouring rights.

Synchronisation Fees

These are generated when a visual image (e.g. TV, film, advertising or video games) is matched to a Song.

There are multiple channels through which royalties are collected. These are depicted by the arrows in the diagram opposite.

The diagram opposite shows the flows to Hipgnosis Songs Fund from its ownership of its Copyrights



Footnote: The logos above are representative of users for illustrative purposes only. The trade marks are the property of the respective owners. The Company does not earn revenue directly from these sources, but through third parties, as illustrated.

- ⇒ **Collected by the Administrators eg:**
 - Sony Publishing
 - Universal Publishing
 - Warner Chappell
 - Kobalt Publishing
 - HSG
 - BMG
 - Peermusic
- **Collected by the Societies eg:**
 - ASCAP
 - BMI
 - PRS for Music
 - SESAC
 - PPL
 - Sound Exchange
 - Sacem
- **Earned by the Record Companies eg:**
 - Universal Music Group
 - Sony Music
 - Warner Music Group
- **Direct**