

Directors' Remuneration Report



Simon Holden, Chair of the Committee

"The Committee oversees the remuneration of the independent Board of Directors. Board remuneration must align the intellectual capital and time commitments required of Directors in fulfilling their fiduciary responsibilities, overseeing key operational projects, and ensuring the Company achieves strategic milestones and continues generating underlying operational performance for Shareholders and stakeholders alike."

Dear Shareholder,

I am pleased to present to you the Directors' Remuneration Report for the year ended 31 March 2023, which has been approved by both the Remuneration Committee and the Board.

During the year we reviewed our Terms of Reference to re-confirm it reflects best practice under the AIC Code including periodic, independent review of Director Remuneration.

The Company is a self-managed Alternative Investment Fund ("AIF") for the purposes of AIFMD regulations. The Investment Adviser's business is the management of song rights and associated intellectual property rights, activities which mean it is not an FCA regulated firm. For both reasons, the Board have enhanced responsibilities for both portfolio and risk management in addition to those of being a premium listed main market constituent member of the FTSE 250 Index since March 2020.

During 2023, the Committee completed its triennial review of Director remuneration with the assistance of independent consultants Nurole. Having given consideration to the time, skill and effort required of Directors in fulfilling their duties to the Company, which is discussed in further detail below, as well as the fact that remuneration has not increased in nominal terms over the last three years despite high inflation, the Committee has recommended that

Directors' remuneration should increase by 10%, a recommendation supported by Nurole.

As disclosed on page 83 in recognition of the reduced time available to Ms Vania Schlogel to devote to the Company, Ms Schlogel has waived her Director's remuneration for the period post year-end from 1 April 2023 to her effective resignation date of 30 April 2023.

Purpose and Aim

Our terms of reference, which are reviewed annually, are set out on the Company's website: <https://www.hipgnosissongs.com/governance/>. We are 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 we deem necessary, including the recommendations of the AIC Code.

We are also responsible for the review of any workforce remuneration and related policies and the alignment of incentives and rewards with culture and consider these when setting the policy for executive director remuneration. At the moment this involves oversight of the arrangements for the employees of HSG, managed by Hipgnosis Song Management Limited. As at the year ended 31 March 2023 although the Company has employees within HSG, none of the employees are classified as Senior Executives as they do not report directly to the Board of Hipgnosis Songs Fund Limited. At the time of the acquisition of HSG, the Board clarified certain elements of both the Investment Advisory Agreement and the Financial Position and Prospects Procedures in order to delegate full responsibility for the operations of HSG to the Investment Adviser. Accordingly, the Investment Adviser is responsible for HSG's operations, including its executive remuneration, budgeting and performance management.

Membership and Meetings

As at 31 March 2023, the Committee comprised:

Mr Simon Holden (Chair of the Committee)
Mr Paul Burger
Ms Sylvia Coleman
Ms Vania Schlogel (resigned 30 April 2023)
Mr Andrew Sutch
Mr Andrew Wilkinson

Due to the current size of the Board it is deemed appropriate and efficient that each Director is

a member of the committee, this ensures that individual directors are not working in silos and that each Director has knowledge of the deliberations of the committee.

We meet at least once a year pursuant to our terms of reference. During the year we met on one occasion, on 7 December 2022. Attendance is disclosed on page 82. A quorum is two members. Members of the Committee are not involved in matters affecting their individual position.

Increase in Directors' Remuneration

Each Director receives a fixed fee per annum based on their roles and responsibility within the Company and the effective time commitment required. For the last three years, since 1 April 2020 the Chair has been entitled to annual remuneration of £85,000, the chairs of the Audit and Risk Management Committee and the Portfolio Committee have been entitled to annual remuneration of £81,500, and the other Directors have been entitled to annual remuneration of £75,000.

In preparation of the triennial remuneration review, the Committee Chair asked Directors to track the hours they spent between Q4 2022 and Q1 2023 on detailed work, discharging what are often day-to-day responsibilities for the oversight and management of the Company and its many related projects. Taken as an average, Directors are giving 50 days full-time equivalent per annum to their role, the vast majority of which are strategic workstreams, monthly internal performance reporting and advisory discussions. None of these constitute formal Board Meetings that are otherwise captured in the Directors' individual attendance record.

Directors' remuneration was last calibrated in 2020, three years ago. Since then:

- the Company's board remuneration has remained fixed in nominal terms
- Generally, compound inflation in the period February 2020 to February 2023 has been 23.9%¹
- Specifically, a respected survey amongst Guernsey investment companies with assets under management of >£1bn shows board remuneration over the same period has increased by a compound 16.1%, or 5.1% p.a.²
- Had Directors' fees simply tracked pre-Pandemic RPI inflation of 2.4%, they would be 7.5% higher in nominal terms as of March 2023.

Triangulating between these two data points, the Committee concluded that a 10% increase in Directors' remuneration was appropriate (effective from 1 April 2023), such conclusion having been supported by independent scrutiny provided by Nurole. The Committee is mindful of the priority to evidence Board remuneration as a source of Shareholder value and therefore draws Shareholders' attention to the fact that after this uplift, your Board's fees are now:

- 13% lower in real terms over the three-year period
- 6% lower against the index of equivalent board remuneration levels over the same period; and
- Continuing to reflect a sustained and justifiable level of time commitment that remains at the very upper end of what is expected of directors in the closed end alternative fund sector.

Therefore, from 1 April 2023, the Chair has been entitled to annual remuneration of £93,500, the chairs of the Audit and Risk Management Committee and the Portfolio Committee have been entitled to annual remuneration of £89,650, and the other Directors have been entitled to annual remuneration of £82,500.

The schedule of the Directors' attendance in the year under review as disclosed on page 82 evidences the breadth and depth of investment, strategy and other project work we have supported or led during the year. In addition to the formally convened meetings during the year, despite a lower deal flow, we have continued to have a high and sustained workload and have dealt with a number of matters that required fresh thinking and consideration in assisting the Investment Adviser in the management of the Company. In particular we were heavily involved in the refinancing of the Company's debt facility, attended regular and frequent meetings with the Investment Adviser to discuss operational performance and active portfolio management, increased engagement and consultation with the Company's professional advisers and Shareholders, and considered appropriate actions to take with a view to reducing the Company's share price discount to NAV, whilst addressing a fast-developing macro-economic environment.

1. Office of National Statistics RPI time series MM23 (www.gov.uk)

2. Source: Trust Associates "Investment Company Non-Executive Directors' Fees Review" 2020, 2021, 2022

All Directors are non-executive. The Directors' remuneration, excluding disbursements, for the year ended 31 March 2023 amounted to £473,000/\$576,355, with no outstanding fees due to the Directors at 31 March 2023 (31 March 2022: £458,360/\$613,720 with outstanding fees of £18,750/\$24,745 due at 31 March 2022). There were no supplementary fees paid to Directors in the year ended 31 March 2023. Directors are reimbursed for out-of-pocket expenses incurred in fulfilling their roles, including costs of travel and accommodation (as required).

In accordance with the AIC Code, we consider the level of the Directors' fees at least annually.

During the year ended 31 March 2023 the Directors' remuneration was as shown in the table below.

The Company's investment proposition of acquiring, integrating and overseeing the active management of a diverse portfolio of song copyrights necessarily requires a more operational mandate of its Board than typical investment trusts. Albeit that all Directors are non-executive, distinguishing responsibilities of our Board include oversight and consideration of:

- the status of both contractual and registration rights that require resolving as part of the ongoing optimisation of current and past acquisitions;
- the Investment Adviser's function in the tracking and collection of royalty and licence obligations from a complex supply chain of global revenue sources;

- the disclosure and measurement of performance relative to the Investment Adviser's initial business case for each acquisition (by income type, catalogue and at a portfolio level);
- the business case for value enhancement from internalising certain functions (such as copyright administration via HSG and digital administration via Sacem)
- ensuring that assets are securely under the Company's custody within reasonable timeframes post-acquisition; and
- an efficient capitalisation and credit strategy for the Company to enhance and safeguard returns on investment for Shareholders.

The remuneration of employees in the Company's subsidiary, HSG, which undertakes administration and Song management activities in the United States, is delegated to the Investment Adviser under the terms of the Investment Advisory Agreement.

Remuneration Policy

The Company's remuneration policy, as published on the Company's website (<https://www.hipgnosisongs.com/governance/> alongside the terms of reference for the Remuneration Committee), is put to a vote by Shareholders every three years and was ratified by Ordinary Resolution at the Annual General Meeting of the Company on 21 September 2022.

	Fixed Element FY2023 £	31 March 2023 Total £	31 March 2023 Total \$	Fixed Element FY2022 £	31 March 2022 Total £	31 March 2022 Total \$
Andrew Sutch	85,000	85,000	103,573	85,000	85,000	113,811
Paul Burger	81,500	81,500	99,309	81,500	81,500	109,124
Andrew Wilkinson	81,500	81,500	99,309	81,500	81,500	109,124
Simon Holden	75,000	75,000	91,388	75,000	75,000	100,421
Sylvia Coleman	75,000	75,000	91,388	75,000	75,000	100,421
Vania Schlogel	75,000	75,000	91,388	60,360	60,360	80,819

2024 Objectives

It is our intention to continue to oversee the remuneration arrangements in a manner which is aligned with the delivery of key operational goals and continued positive strategic outcome for our Shareholders and stakeholders.

Our proposed activities for the year ahead are:

- review the Terms of Reference of the Committee to ensure they reflect best practice under the Code;
- revert to an annual, more gradual, cycle of reviewing factors that influence Director remuneration; this is more typical across the closed-ended funds sector and would also be fairer to the Board who have historically only recalibrated their fees after performing their roles in steering the Company towards its current steady-state scale and operational performance;
- engage with Shareholders on any future review of the remuneration policy.

On behalf of the Remuneration Committee,

Simon Holden

Chair of the Remuneration Committee

12 July 2023