



HIPGNOSIS SONGS FUND

**Assessment of value (AoV)**

**2023 financial year fair value  
assessment for the purpose of UK  
Consumer Duty**

**31 July 2023**

# Hipgnosis Songs Fund Limited – Assessment of value 2023

## Introduction

Neither Hipgnosis Songs Fund Limited (the “Company”) nor its investment adviser, Hipgnosis Song Management Limited (“Hipgnosis”) is authorised or regulated by the UK Financial Conduct Authority (“FCA”). As such, neither entity is subject to the FCA’s Consumer Duty Regulations.

The Consumer Duty regulations require the manufacturer of a financial product to ensure that it offers a fair price and value, evidenced by an assessment that includes the distribution arrangements and channels involved. While the Company does not have a UK manufacturer for the purposes of the regulations, the Board and Hipgnosis recognise a voluntary duty to ensure that the Company’s shares provide fair value to its target market.

## Overview of the Company

The Company is a self-managed, Guernsey domiciled closed-ended fund. It is UK tax resident and is classified as an ‘investment trust’ by HMRC. It has a wholly independent board of directors (the ‘Board’).

The Company’s stated investment 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.

The only way for investors to access the returns of the Company is through the purchase of ordinary shares in the Company, which are listed on the Premium Listing Segment of the London Stock Exchange. The only way for retail investors to access the specific combination of the assets held within the music royalties sector that the Company invests in is through the Company’s ordinary shares.

The Company’s shares are listed on the premium segment of the Official List of the UK Listing Authority and are admitted to trading on the main market of the London Stock Exchange (‘LSE’). With a market capitalisation of ca. £960 million (as at 31/7/2023) the Company is a member of the FTSE 250 Index (which comprises the 101<sup>st</sup> to the 350<sup>th</sup> largest companies listed on the LSE).

The Company is subject to the provisions of its Articles of Association, the Listing Rules of the UKLA, the Disclosure and Transparency Rules of the FCA, the AIC Code of Corporate Governance and applicable Guernsey companies law and regulations.

## The ‘target market’ for the Company’s shares

As stated in the Company’s Key Information Document, *“investors in the Company are expected to be retail investors and investors who meet the criteria of professional clients and eligible counterparties who understand, or who have been advised of, the potential risks from investing in the Company including: that the price of the Ordinary Shares may decline and investors could lose all or part of their investment; the Ordinary Shares offer no guaranteed income and no*

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*capital protection; and an investment in the Ordinary Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom."*

The Company's shares are considered by the Board to be appropriate for both professional and retail investors who are interested in exposure to a diversified portfolio of music royalty assets investments over the long term. Retail investors could, for example, be saving for retirement, school fees planning or other forms of long-term saving. The shares are eligible to be held in UK tax efficient ISA, JISA and SIPP investment accounts.

### **How investors may deal in the Company's shares**

Since the Company is closed-ended neither the Company nor Hipgnosis facilitates the issue or redemption of shares in the Company from day to day. Instead, shareholders may buy or sell their shares from one another on any LSE business day through regulated third-party stockbrokers and other market participants.

The price at which shareholders are able to buy or sell shares in the open market tends to differ from the underlying estimated Net Asset Value ('NAV') of those shares. The discount (or premium) to NAV (reflecting the balance of supply and demand for shares on the LSE) is influenced by many factors, some of which are outside of the Board's control.

The Board pays close attention to discount-related issues. In recent years the Company has made use of share buybacks, when the Company's shares have stood at a significant discount, and the Board has also been prepared in the past to issue shares at a premium to NAV to meet demand from investors. Both actions are accretive to the NAV per share of continuing shareholders, provide liquidity in the market and help to moderate discount volatility.

It remains a key objective for the Board to create sustainable liquidity in the Company's shares on the London Stock Exchange. Action taken to buy back shares is evidence of this continuing commitment.

The Company's shares may be traded through any regulated UK stockbroker, most share dealing services and on-line platforms, as well as through Link Asset Services, the Company's Registrars. Advisers who wish to purchase shares for their clients can do so via a number of adviser platforms. Further details are set out on the Company's website at [www.hipgnosissongs.com](http://www.hipgnosissongs.com).

### **The Company's investment portfolio**

The Company's shares derive their value from the underlying NAV of the Company's investment portfolio. The Company was created to give the investment community access to extraordinarily successful hit Songs by culturally important artists. The Songs in the portfolio comprise (as at 30 June 2023):

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- 97 of 419 of Spotify's Billions Club – Songs which have been played more than a billion times on the service;
- Over 10% of Rolling Stone's The 500 Greatest Songs of All Time (52/500);
- Almost half of YouTube's Most Viewed Music Videos of all time (13/30); and
- Songs on 16 out of the Top 40 UK best-selling albums of the first six months of 2023.

The composition of the Company's investment portfolio is expected to be the principal driver of performance. The Board and Hipgnosis (based on their knowledge and understanding of the asset class) believe that the Company is likely to continue to generate an attractive return net of costs for the foreseeable future, based on the prevailing market conditions at the date of this assessment.

### **Gearing**

The Company also employs gearing to help it adapt to different market conditions and to take advantage of investment opportunities. The use of gearing in investment can amplify returns (both positively and negatively). Over the long-term gearing is considered by the Board to have been a material benefit to the Company's NAV total return.

The Company may incur indebtedness of up to a maximum of 30% of its Operative Net Asset Value, calculated at the time of drawdown. Net debt as a percentage of Operative NAV stood at 24.3% as at 31 March 2023. The use of gearing does not preclude the promotion of the Company to retail investors.

### **Key performance indicators for the Company**

The Board has adopted a number of key performance indicators ('KPIs') which are monitored as significant measures of longer-term success for the Company. These include:

- Share price total return;
- NAV total return per share;
- The discount/premium of the share price to NAV;
- The Ongoing Charges Figure ('OCF'); and
- The level of investment management fees.

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These may be summarised as follows, as at 31/3/2023:

	1 year	Last 3 years	Last 5 years <sup>1</sup>
<b>NAV per Share Total Return over period</b>	6.99%	40.08%	69.01%
<b>Management fees, annualised % of NAV</b>	0.55%	0.71%	0.70%
<b>Performance fees, annualised % of NAV</b>	0.00%	0.01%	0.02%
<b>Other ongoing charges, annualised % of NAV</b>	0.66%	0.83%	0.89%
<b>Total impact of costs, annualised % of NAV, excluding loan interest costs</b>	1.21%	1.55%	1.58%
<b>Total dividends per Share / GBP pence</b>	5.25	15.63	21.63

These KPIs are included in the annual and interim reports of the Company which are published at: [www.hipgnosissongs.com](http://www.hipgnosissongs.com), alongside other information that the Board and Hipgnosis consider may be useful to shareholders. Up to date information is also accessible from a number of independent data providers such as:

- [Morningstar](#)
- [The AIC](#); and
- [Trustnet](#)

### Overview of costs

Neither the Company nor Hipgnosis charge entry fees or exit fees to investors; nor do they impose minimum or maximum investment amounts or holding periods; nor do they charge cash costs directly to the investor.

The Company pays a number of costs, including to Hipgnosis and other third parties. The costs that are largely within the Company's control include:

- investment advisory fees paid to Hipgnosis;
- performance fees paid to Hipgnosis; and
- other ongoing charges (including administration, company secretarial and registrar fees, board expenses and finance expenses).

Details of the exact charges are disclosed in the annual reports and accounts of the Company each year.

The Company is relatively unusual amongst UK listed investment trusts in that the investment advisory fee and the performance fee payable by the Company to Hipgnosis are linked to

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<sup>1</sup> The Company was launched on 11 July 2018.

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share price performance, rather than NAV, and these fees therefore more closely reflect the value shareholders are able to realise for their investment in the short term (as compared with fees linked to NAV which is ultimately realisable only where market conditions permit). The value of the Company's NAV is expected to increase over time, but the cost of the investment in the Company's shares to the investors would only increase to the extent that the share price keeps pace with NAV growth.

The investment advisory fee is currently 1.0% of market capitalisation up to £250m, 0.9% of market capitalisation between £250m-£500m, 0.8% of market capitalisation above £500m. This is lower than the fee levied by the Company's closest peer, Round Hill Music Royalty Fund Limited, who set their tiers at 1.0% of market capitalisation up to \$400m, 0.9% of market capitalisation between \$400m-\$700m and 0.8% of market capitalisation above \$700m, with a 10% administration fee levied on all revenues received.

Hipgnosis, as investment adviser to the Company, considers its primary incentive to be the opportunity to achieve a performance fee, which is underwater at the Company's current share price. The tiered levels of the investment advisory fee were set at launch at a lower level than many alternative investment trusts that do not charge a performance fee in order to reflect the value of that opportunity.

The Company's investment performance (the NAV total return per share) is reported after all costs. Therefore, although the question of the costs of managing the Company is relevant for the Board, these costs are not paid directly by individual shareholders and are instead accounted for within the NAV total return on the shares. Investment company shares have no entry charges, although third party brokers may charge commissions on transactions undertaken. These costs are external to the Company and not within the Board's control.

### **Share price returns**

In assessing whether the Company represents fair value for its target market, the Board considers the returns of the Company at portfolio level, the costs incurred by the Company in generating those returns, and therefore the notional return enjoyed by investors in the Company. In line with FCA Publication FG22/5 paragraph 7.21, we "*consider the value of the charges [we] control, including any ongoing charges, within the context of the net asset value*". The Board does not, therefore, factor the share price performance of the Company's ordinary shares into this fair value assessment.

In the recent past it is nevertheless regrettable that the Company's share price has underperformed its NAV total return. The reasons for this are considered in detail in the Company's annual and interim reports and accounts.

The Company has a predictable revenue stream from its investment portfolio which has enabled it to deliver a consistent, attractive level of quarterly dividend and strong underlying NAV growth since launch. The Board and Hipgnosis believe that the fundamental value and opportunity of the Company fails to be reflected in the current share price. Following consultation with Shareholders, the Board and Hipgnosis are working on a number of options to enhance Shareholder value.

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### **The Company's peer group**

The Board reviews the Company's performance and costs relative to its only closed-ended peer, Round Hill Music Royalty Fund Limited, and also in relation to other alternative investment trusts with comparable yield profiles. Peer group data, which is independently sourced from third-party providers such as Morningstar, includes details of market capitalisation, dividend yield, dividend growth over time, gearing, discount or premium to NAV, costs and NAV performance. This information allows the Board and Hipgnosis to assess how the Company compares with other comparable investment trusts available to investors, including its immediate peer.

The Board has concluded that: the Company's overall costs do not materially diverge from its peers; and the Company's NAV performance is not materially worse than its peers.

### **Assessment of value**

The Board and Hipgnosis each believe that the Company's shares provide fair value to its target market.

**Merck Mercuriadis**

CEO, Hipgnosis Song Management Limited

**Andrew Sutch**

Chair, Hipgnosis Songs Fund Limited

### **Appendix - The relationships between the Board and shareholders**

The Board (which consists solely of independent, non-executive directors) is responsible in company law for ensuring value for shareholders, ensuring that there is effective communication with the shareholders and always acting in their best interests.

There is an ongoing programme of engagement with institutional investors and with private client stockbrokers and advisers representing smaller investors in the Company. There is regular Board liaison with both Hipgnosis and the Company's stockbrokers, Singer Capital Markets Advisory LLP, J.P. Morgan Securities plc and RBC Europe Limited, in relation to shareholder engagement. In addition to Hipgnosis and the brokers, the Chair is always available to meet the Company's shareholders. The Chair of the Remuneration Committee is also available to discuss Board remuneration matters.

The Board is conscious that it is not always easy to communicate directly with retail shareholders, many of whom own shares via third party on-line platforms (such as Hargreaves Lansdown, Interactive Investor and AJ Bell). The Company therefore dedicates considerable resources to enable such shareholders to engage with the Company where they wish to do so. In recent years, Hipgnosis has presented at numerous meetings with shareholders, produced videos hosted on its own and third-party websites and it publishes regular written communications about the Company via email and its social media channels.

The Board encourages attendance at the Company's Annual General Meeting ('AGM') as a forum for direct communication with individual shareholders. The Notice of the AGM and related papers are sent to shareholders at least 20 working days before the meeting. The full Board, the Company's brokers and Hipgnosis all expect to be present at the AGM and to answer questions from shareholders as appropriate. In addition, arrangements are put in place for shareholders to put questions to the Board if they cannot attend the AGM in person.

Details of the proxy votes received in respect of each resolution put to the AGM are made available on the Company's website. In the event of a significant (defined as 20% or more) vote against any resolution proposed at the AGM, the Board would consult shareholders in order to understand the reasons for this and consider appropriate action to be taken, reporting to shareholders within six months accordingly.

While the Board expects to lead on preparing and effecting communications with investors, all major corporate issues are put to the Board or, if time is of the essence, to a duly convened committee thereof. The Board receives specialist advice on regulatory compliance issues and, as required, legal, investment consulting, financial and tax advice on the Company's behalf.

Copies of the Annual Report and the Half Year Report are circulated to shareholders and, where possible, to investors through other providers' products (such as retail investment platforms), through data portals (such as [www.morningstar.com](http://www.morningstar.com) and the AIC's website at [www.theaic.co.uk](http://www.theaic.co.uk)) and the nominee companies of institutional investors. All of this information is also readily accessible on the Company's website at [www.hipgnosissongs.com](http://www.hipgnosissongs.com).

A Key Information Document ('KID') and the European Mifid Template version 4.1 (the 'EMT',



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a standardised dataset of key financial information) are prepared in accordance with both the EU and the UK version of EU rules and are also published on the Company's website.

### Glossary

**Gearing:** The difference between shareholders' funds and the total market value of the investments (including the face value of futures positions) expressed as a percentage of shareholders' funds. Investment trusts can borrow money to make additional investments on top of shareholders' funds (gearing). If the value of these investments falls gearing will magnify the negative impact on performance. If an investment trust incorporates a large amount of gearing the value of its shares may be subject to sudden and large falls in value and you could get back nothing at all.

**Net asset value and net asset value per share:** Net asset value is the value of total assets less all liabilities of the Company. The operative Net Asset Value, or NAV, per ordinary share is calculated by dividing this amount by the total number of ordinary shares in issue (excluding those shares held in treasury).

**Net asset value total return:** Total return on operative net asset value ('NAV'), on a debt at fair value to debt at fair value basis, assuming that all dividends paid out by the Company were readded back at the time the shares were quoted ex-dividend.

**Ongoing charge:** The ongoing charge reflects those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue as a collective fund, excluding the costs of acquisition and disposal, finance costs and gains or losses arising on investments.

**Premium/discount:** The amount by which the market price per share is either higher (premium) or lower (discount) than the net asset value per share expressed as a percentage of the net asset value per share.

**Share price total return:** on a last traded price to last traded price basis, assuming that all dividends received were reinvested, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend.

### Important Notice

Further information on the UK Consumer Duty Rules may be found on the FCA's website at: <https://www.fca.org.uk/firms/consumer-duty> and on the AIC's website at [www.theaic.co.uk](http://www.theaic.co.uk).

The analysis set out in this document is not intended to constitute a 'financial promotion' by either Hipgnosis or the Company.

These statements represent the Board's opinion on the history of the Company as at the date of publication of this document. Previous patterns of market returns and the relative performance of the Company may not be replicated in future. Investors should be mindful of this when assessing the merits of an investment in the Company and, if uncertain of the risks

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of such an investment, should seek independent financial advice.