



Music royalties offer **sound** returns



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According to my Spotify, I spent an astonishing 51,000 minutes of 2022 listening to music. For those without a calculator handy that's a combined 35 days of listening to everything from ABBA to Zadok the Priest. Given all that time spent listening to music, you might think I'd have an idea about what it is that makes a good song.

Is it a catchy and memorable melody that lingers in my mind long after I've finished listening? Could it be profound and emotive lyrics that stir strong emotions within me? Or is a truly great song one that can generate steady cash flows through a variety of different income streams over several decades?

That last option might seem like an absurd way to characterise a song, but at the narrow intersection between investing and music, an asset class based on the revenues generated by the purchasing of music catalogues has emerged to potentially provide a fascinating opportunity for investors looking for something slightly different. But what does music investing actually involve and what makes a song a good investment?

As mentioned, investing in music royalties involves gaining exposure to the revenues generated by a song, which come from three main sources: performance royalties, which are paid (as the name suggests) when the song is performed. Whether it's being streamed, played over the radio, or just on in the pub, the purchase of a licence needed to play that song is a source of revenue. Mechanical royalties, which are paid when a physical copy of the music is bought in the form of a CD or vinyl. And finally synch royalties, which are paid when the song is used in another form of media, like an advert or a film's soundtrack.

So, now we have an asset class that is generating returns, as investors we want to know how to identify songs that will provide the best returns. Just like an equities investor might separate stocks into buckets of quality, growth, and value, a similar method can be applied to songs. Quality firms tend to be established and popular businesses with profits that stand the test of time, and likewise there are songs that have continued to produce royalties for decades. These

evergreen songs are a safe and predictable source of revenue. Alternatively, there are popular songs that might not have the long-term track record that classic songs do. These are songs that an investor believes have instantly become culturally influential, just as classic songs might have done decades ago. Finally, we have songs that are considered under-valued. These are songs that a manager believes may be well suited for an advert or film soundtrack and so have the potential to generate large, albeit unpredictable, synch returns. All three categories have the potential to provide good returns.

Here at MGIM, our conviction in the potential of music royalties to be a diverse source of returns has resulted in investments into two separate listed investment trusts that combine extensive experience in both the music industry and in investment management, to specialise in royalties investing. Hipgnosis Songs Fund with a catalogue of over 65,000 songs, and Round Hill Music with over 120,000 songs are both key investors in an asset class supported by the growth of the music industry following years of decline. The QR codes below will take you to playlists of the best songs in their catalogues, both of which I highly recommend.

The emergence of the internet, falling physical sales, and widespread piracy, saw music revenues drop steadily until 2014 when streaming services provided a legitimate way for fans to easily access music. Industry revenue is now dominated by streaming services, replacing physical sales. However, unlike physical sales, streaming revenues are far less cyclical

with relatively cheap subscriptions to services such as Spotify or Apple Music being treated more as utilities by consumers than discretionary purchases. The popularity of streaming is expected to continue rising with revenue from other platforms like TikTok also contributing to broader industry wide growth.

However, while secular trends are expected to boost returns for the funds, both Hipgnosis and Round Hill suffered from last year's aggressive rate hikes. Higher discount rates have dampened sentiment regarding the net asset values (NAVs) of both funds' catalogues to levels that we believe are overly pessimistic. With both funds trading at wide discounts to NAV and dividend yields at around 6-7%, our conviction regarding the asset class has only strengthened and we have added to our positions in the funds across several portfolios.¹

Investing in songs may seem somewhat strange, but the asset class offers exceptional opportunities to those who are best positioned. It also means that next time someone asks me what my favourite song is, I'll tell them that it's the one that generates the best return for investors. I'm sure that will go down really well.

All three categories of royalties have the potential to provide good returns.

Scan the QR Codes below to listen to the playlists of the best songs in the Hipgnosis Songs Fund and Round Hill Music catalogues:

Hipgnosis Top Songs:



Round Hill Music Royalty Fund: Top 50 earners 2022:



Sources: ¹Bloomberg Finance L.P.

With us, investing is personal



Market Focus - 17 July 2023

- » Global equities rose by 3.2% last week
- » President Zelensky criticised the failure of NATO members to commit fully to extending an invitation to Ukraine to join the organisation
- » Brent crude rose by 1.8% to \$79.87 per barrel
- » Gold rose by 1.6% to \$1955.21 per ounce

US

- » US equities rose 2.4% last week
- » Monthly headline Consumer Price Index came in at just 0.18% in June. That was beneath the consensus expectation for a 0.3% reading, and it took the year-on-year measure down to just 3.0%
- » Year-on-year core inflation also beat expectations coming in at 4.8% (vs. 5.0% expected), the weakest it has been since February 2021
- » A New York Federal Reserve survey on the mean perceived probability of losing one's job in the next year was up to 12.9%, the highest since November 2021
- » Credit conditions continue to tighten for small businesses, with the actual interest rate paid on short-term loans by borrowers up to 9.2%, which is its highest level since 2007

UK

- » UK equities rose 2.3% last week
- » UK labour market data showed stronger-than-expected wage growth once again, with average weekly earnings (excluding bonuses) up by 7.3% in the three months to May (vs 7.1% expected)
- » In a speech from Bank of England Governor Bailey, he acknowledged that the UK economy had "shown unexpected resilience" to external shocks

Europe

- » European equities returned 3.2% last week
- » In Germany, the latest ZEW survey for July saw expectations fall to a seven-month low of -14.7 (vs. -10.6 expected)
- » The ZEW current situation measure also fell to a seven-month low of -59.5 (vs. -62.0 expected)
- » Eurozone year-on-year industrial production fell -2.2% in May (vs. -0.9% expected)

Rest of the World/Asia

- » Global emerging market equities rose 4.9% last week
- » Japanese equities fell -0.7% last week
- » Producer prices in Japan unexpectedly contracted -0.2% month-on-month in June (vs. 0.2% expected), notching the slowest inflation rate since April 2021
- » In China Gross Domestic Product expanded 6.3% in Q2 from a year ago, falling short of 7.3% expectations (vs. 4.5% growth in Q1)
- » Retail sales in China grew 3.1% year-on-year in June (vs. 3.3% expected) a significant slowdown relative to May's 12.7% surge

Market Summary

Cumulative returns					
Asset Class / Region	Currency	Week ending 14 July	Month to date	YTD 2023	12 months
Developed Markets Equities					
United States	USD	2.4%	1.3%	18.1%	20.3%
United Kingdom	GBP	2.3%	-1.4%	1.2%	8.5%
Continental Europe	EUR	3.2%	0.0%	12.7%	19.3%
Japan	JPY	-0.7%	-2.2%	20.0%	21.5%
Asia Pacific (ex Japan)	USD	5.6%	4.3%	7.5%	7.8%
Australia	AUD	3.7%	1.4%	6.0%	14.9%
Global	USD	3.2%	1.8%	17.1%	21.8%
Emerging Markets Equities					
Emerging Europe	USD	6.4%	6.9%	20.8%	65.3%
Emerging Asia	USD	5.5%	4.6%	8.8%	6.5%
Emerging Latin America	USD	1.1%	1.3%	20.0%	40.3%
BRICs	USD	4.4%	3.8%	3.4%	2.0%
China	USD	6.3%	5.3%	-0.5%	-8.0%
MENA countries	USD	0.9%	2.4%	5.5%	0.8%
South Africa	USD	9.5%	7.5%	1.6%	13.6%
India	USD	1.9%	1.9%	9.5%	20.7%
Global emerging markets	USD	4.9%	4.3%	9.4%	9.6%
Bonds					
US Treasuries	USD	1.3%	0.2%	2.0%	-1.9%
US Treasuries (inflation protected)	USD	1.3%	0.0%	2.0%	-1.9%
US Corporate (investment grade)	USD	1.6%	0.3%	3.6%	1.5%
US High Yield	USD	1.7%	1.1%	6.6%	8.7%
UK Gilts	GBP	1.7%	-0.4%	-4.0%	-15.9%
UK Corporate (investment grade)	GBP	1.8%	0.7%	-0.3%	-6.9%
Euro Government Bonds	EUR	1.0%	-0.5%	2.1%	-6.4%
Euro Corporate (investment grade)	EUR	0.9%	0.4%	2.5%	-1.3%
Euro High Yield	EUR	0.7%	0.5%	4.9%	7.9%
Japanese Government	JPY	-0.7%	-0.9%	1.9%	-0.9%
Australian Government	AUD	1.6%	0.5%	1.8%	-0.2%
Global Government Bonds	USD	2.2%	1.5%	2.4%	-0.1%
Global Bonds	USD	2.3%	1.4%	3.6%	1.4%
Global Convertible Bonds	USD	2.4%	3.0%	8.0%	11.5%
Emerging Market Bonds	USD	2.8%	1.4%	4.8%	10.1%

Cumulative returns					
Asset Class / Region	Currency	Week ending 14 July	Month to date	YTD 2023	12 months
Property					
US Property Securities	USD	3.1%	3.2%	8.2%	3.2%
Australian Property Securities	AUD	5.1%	3.2%	4.9%	2.0%
Asia Property Securities	USD	3.2%	1.7%	-5.4%	-6.5%
Global Property Securities	USD	3.7%	3.8%	5.0%	1.7%
Currencies					
Euro	USD	2.4%	2.9%	4.9%	12.5%
UK Pound Sterling	USD	2.1%	3.1%	8.4%	11.3%
Japanese Yen	USD	2.5%	4.1%	-5.5%	0.2%
Australian Dollar	USD	2.2%	2.7%	0.4%	1.9%
South African Rand	USD	4.1%	3.9%	-5.8%	-5.1%
Swiss Franc	USD	3.1%	3.9%	7.0%	14.4%
Chinese Yuan	USD	1.2%	1.7%	-3.3%	-5.3%
Commodities & Alternatives					
Commodities	USD	2.6%	4.0%	-3.4%	0.5%
Agricultural Commodities	USD	2.4%	3.4%	3.9%	10.7%
Oil	USD	1.8%	6.6%	-7.0%	-19.4%
Gold	USD	1.6%	1.9%	7.2%	14.6%
Hedge funds	USD	0.5%	0.3%	0.9%	2.1%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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