

MUSIC COPYRIGHTS

Investing in “music copyrights” as an asset class



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“It is this type of long-term, cash generative asset that should be increasingly looked at by institutional investors. It is an ideal liability match”.

The long term nature Charlie (Charlie Metcalfe, CEO, First State Investments) referred to are the underlying copyrights, which can for example, be valid for as long as 70 years post death of a surviving author in the UK and up to 90 years in other jurisdictions. This longevity of underlying copyright, within a catalogue of musical works, provides investors such as pension funds an ideal match for their long term liabilities.

How can music copyright holdings be managed so that they provide a steady and dependable source of returns? Elaborate.

The copyright owner has different options to actively manage a copyright catalogue. Management is two fold – firstly, financial management, ie making sure the copyrights are registered and the royalties are being collected and secondly, exploiting the copyrights on an economic basis. Our fund will focus on actively generating income growth via direct promotion of assets and harnessing of all possible revenue streams.

Music copyrights generate worldwide incomes from a range of sources:

- Performance (radio, TV, theatrical performance)
- Synchronisation (use in adverts, films, TV, mobile ring tones)
- Mechanicals (sales of DVDs, CDs, digital media)
- Print (printed lyrics, musical scripts)

The different sources of income, and its global nature, result in a diversified income stream that exhibits a steady, proven growth rate over the long term.

Isn't it a diminishing return game? How can one create additional value?

No. Income from the music publishing industry has been steadily increasing as it does not suffer the volatility of the record production industry. The assets we have acquired are valued, based on their historical cash flows, which indicate steady, reliable global streams of income. Performance income in particular is increasing with TV and Radio contributions.

To enhance the income growth of its music copyright assets, First State Media Group has acquired a global platform of established copyright administration companies to undertake the direct collection of royalties. With this, First State Media Group have the specialist capability to directly monitor and administer the worldwide payment of royalties - considerably improving the speed, transparency and accuracy of cash flows to investors. It also provides First State Media with a global team of professionals who can enhance the income being produced by such assets, through 'on the ground' and active promotions in many major markets. These entities have been re-branded under the 'State One Music' brand.

What annual net returns is the fund aiming to generate and over what time frame?

Drawing on our experience in managing music and film copyright assets, we believe we will generate attractive returns on both a yield and IRR basis over the long term (30+ years).

What are the risks associated with such investments and how can they be managed?

There are always risks associated with certain artists, fashion trends and in certain territories. We manage those risks by maintaining a spread of music genres; good, global coverage and a repertoire that covers several decades.

Do the direct /digital down loading of music, piracy, alienation.... pose a threat?

Digital downloading is a source of income - and currently contributes a small proportion of total income within music publishing (3-4%). This is expected to increase in the future and represents an opportunity to generate additional income. Assets are valued based on their historical cash flows - which means, the income that is lost through piracy is not valued and represents a potential upside with the continued worldwide crack-down on copyright and intellectual property infringements.

How competitive is this investment space?

Currently music publishing is dominated by the major music companies. Incidentally, they too are experiencing significant developments. There are also a few private equity and high net worth families that have benefited from investing in music catalogues in the US. I believe, First State Media is the first integrated fund manager that has the global capability to perform royalty administration and actively manage the assets to enhance the returns to investors.