



Mechanical Licensing Collective Investment Policy Statement

OVERVIEW

The Mechanical Licensing Collective (“The MLC”) is a nonprofit trade organization designated by the U.S. Register of Copyrights pursuant to the Music Modernization Act of 2018 (“MMA”). The MLC is tasked with administering the MMA’s blanket license for the use of musical works in certain streaming and download music services (“Blanket License”), including the collection and distribution of royalties payable pursuant to the license. The Blanket License became available on January 1, 2021 to eligible digital music providers (“DSPs”) in the United States.

This investment policy statement covers The MLC’s investment of Unmatched Royalty Funds. As used in this statement, “Unmatched Royalty Funds” includes royalties associated with a musical work (or a share thereof) for which a copyright owner of such work (or share thereof) has not been identified or located. (See 17 U.S.C. § 115(e)(35)). The MMA requires that The MLC maintain accrued royalties for unmatched works (and shares thereof) in an interest-bearing account that earns monthly interest at the Federal short term rate (the “Statutory Interest Rate”) for the benefit of copyright owners entitled to payment of such accrued royalties. (See 17 U.S.C. § 115(d)(3)(H)(ii)(I)). For clarity, Unmatched Royalty Funds include royalties that within the music industry are commonly considered to fall into three different categories: (1) unmatched royalties (i.e., royalties for sound recording uses that have not yet been matched to an underlying musical work); (2) unclaimed royalties (i.e., royalties for sound recording uses that have been matched to an underlying musical work, but for shares of that work where the identity and/or sufficient payment instructions for the copyright owner are not yet known); and (3) royalties on hold/suspense (i.e., royalties that have been matched, and where one or more copyright owner claims have been made, but where royalties are not yet payable, including due to ownership disputes, reviews over eligibility for payment, regulatory guidance or legal claims).

This investment policy outlines procedures that The MLC will follow in order to satisfy the requirements set forth in the MMA, as well as fulfill the objectives established by The MLC's Board of Directors (the “Board”) as follows:

- To establish an investment policy with the highest likelihood of meeting the MMA’s requirement to earn interest at the Statutory Interest Rate while minimizing risk to the maximum extent possible through diversification and asset allocation;
- To clearly and explicitly establish the parameters that govern the investment of The MLC’s Unmatched Royalty Funds consistent with the requirements of the MMA;

- To limit investment costs;
- To clarify and ensure that Unmatched Royalty Funds shall not be commingled with The MLC’s operational funds; and
- To protect the interests of The MLC’s stakeholders through the implementation of a stable investment policy.

Material revisions to this statement may be made only with the approval of the Board.

INVESTMENT ADVISORS

The MLC may retain one or more fee-based investment advisors or consultants (“Advisors”). Advisors must be independent, institutional investment advisors paid fixed fees instead of commissions. Paying Advisors based on a fixed fee means that such Advisors have no financial interest in investment strategies or decisions. Advisors may also help The MLC to:

1. Advise and assist The MLC in the execution of its duties and responsibilities under the MMA;
2. Develop and maintain investment strategies, as applicable, asset allocation strategies, and appropriate investment management structures;
3. Select, monitor, and evaluate investment advisors and/or investment entities;
4. Provide and/or review performance measurement reports and assist The MLC in interpreting the results;
5. Determine suitable investment products for the Unmatched Royalty Funds and evaluate a broad universe of fixed income strategies; and
6. Execute such other duties as may be mutually agreed.

When evaluating investment strategies, The MLC and its Advisors are to consider the above objectives for the Unmatched Royalty Funds, and recommend appropriate investment strategies and investment vehicles in alignment with the requirements of the MMA and those objectives.

When evaluating investment decisions, Advisors must determine the required rate of return and always consider, at a minimum, exposure to the following three types of risk: credit risk; duration risk; and liquidity risk. Every investment involves some level of risk in one or more of these categories, and Advisors are to consider all of these risks.

For the avoidance of doubt, Unmatched Royalty Funds should not be placed in investments that would be classified as having heightened or high risk. The MLC may retain independent custodians, administrators, or other investment service providers to ensure the proper management of the Unmatched Royalty Funds.

INVESTMENT PRINCIPLES AND PRACTICES

The MLC's investment of Unmatched Royalty Funds shall follow principles and practices to safeguard the integrity of the funds, including but not limited to:

Anti-Commingling of Funds: Unmatched Royalty Funds shall not be commingled with The MLC's own operational funds. Royalty accounts must be maintained separately to ensure clear separation and transparency in financial reporting and auditing processes.

Independent Investment Decisions: All investment decisions shall be guided solely by the objectives above, and shall not be influenced by the personal interests of any insider, including board members, officers, committee members, or employees ("Insiders"). At all times, Insiders shall adhere to The MLC's Conflict of Interest policy, and The MLC shall maintain procedures and practices to prevent any undue influence that could affect the impartiality and independence of investment decisions.

Gifts and Inducements: Insiders shall not accept benefits of material value, including gifts, cash, or any other forms of inducement from entities or individuals engaged in investment-related activities with The MLC or seeking to influence investment decisions. This principle is in place to ensure investment decisions are independent, merit-based and not influenced by external incentives or rewards.

INVESTMENT STRATEGY

Investment strategy shall be designed to ensure the prudent investment of Unmatched Royalty Funds in a manner that fulfills the investment return requirements set forth in the MMA while seeking to protect the value of the assets from volatility or risk of loss. For Unmatched Royalty Funds, The MLC is required to generate a return sufficient to pay its members interest at a rate equal to the Statutory Interest Rate. Producing a rate of return that matches or exceeds this required amount over all time periods is not a simple task, in part because the Statutory Interest Rate is always positive, while most investment assets may decline in value. Also, the Statutory Interest Rate does not represent an investible asset class and is therefore a challenge to match or exceed over time. Instead, the Statutory Interest Rate typically exceeds the return on money market investments and prevailing interest rates available from banking institutions, limiting options further. Market risk impacts are unpredictable over short-term periods.

In light of the above factors, and in accordance with the recommendations by the Advisors, The MLC will adhere to investment strategies that provides for The MLC to invest Unmatched Royalty Funds in (1) exceptionally diversified, high quality, short-term, fixed income and cash equivalent strategies via short-term fixed income funds and money market funds managed by reputable and experienced institutional investment firms that have been diligently vetted and/or (2) FDIC insured bank deposit accounts with reasonable levels of insurance for the funds placed. These investments have investment return objectives that are most likely to consistently attain the Statutory Interest Rate over the long term and across as many time periods as possible.

ONGOING ASSESSMENT AND REPORTING

The MLC shall meet regularly with its Advisors to review all aspects of The MLC's investments of Unmatched Royalty Funds. Reviews shall include manager and investment entity performance, anticipated additions to or withdrawals from funds, potential future investment strategies, and other relevant or applicable matters. The MLC shall regularly monitor investment strategy and performance of investments to ensure they continue to align with this investment policy. The MLC will regularly update the Board on the status of investments.