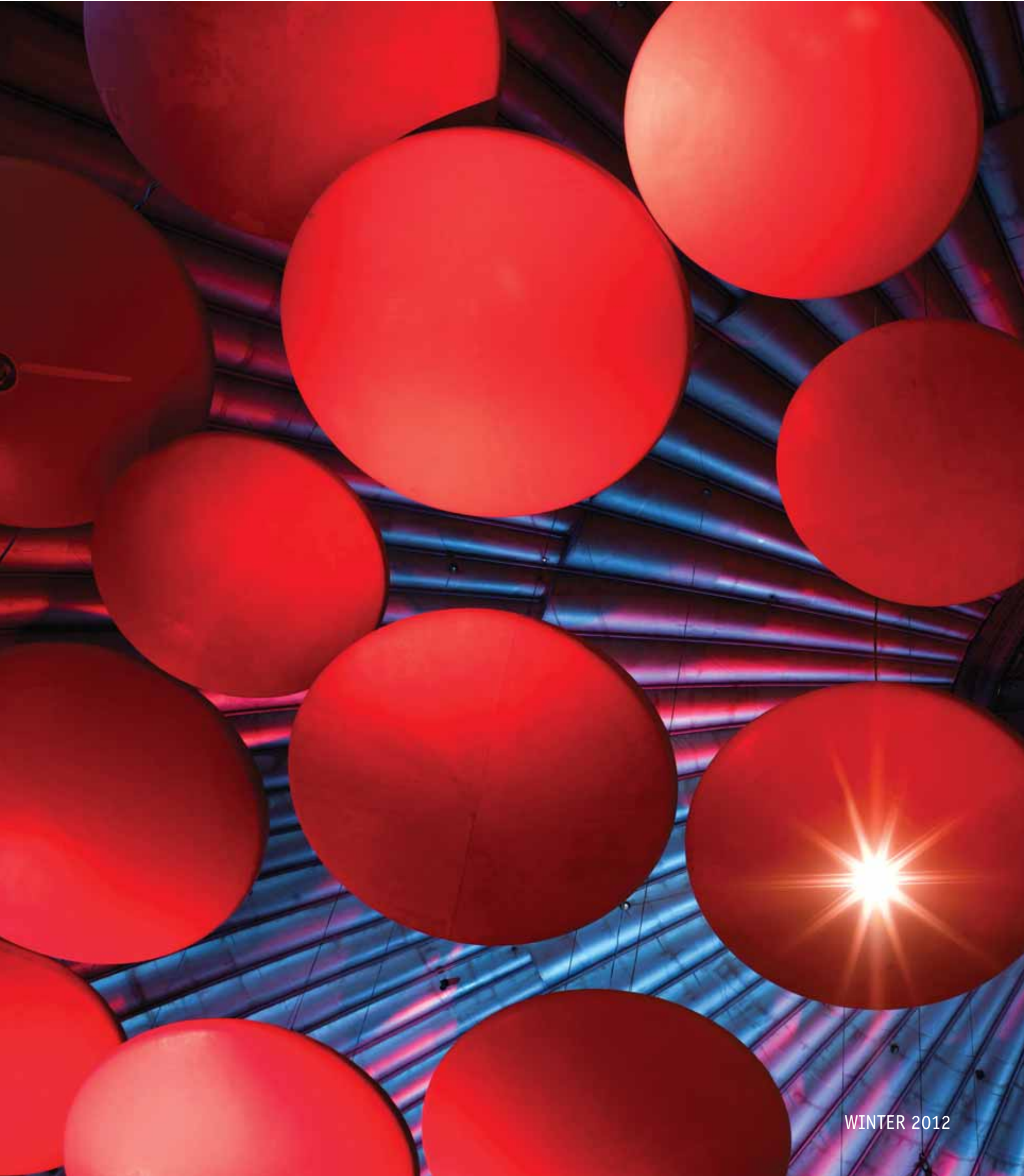
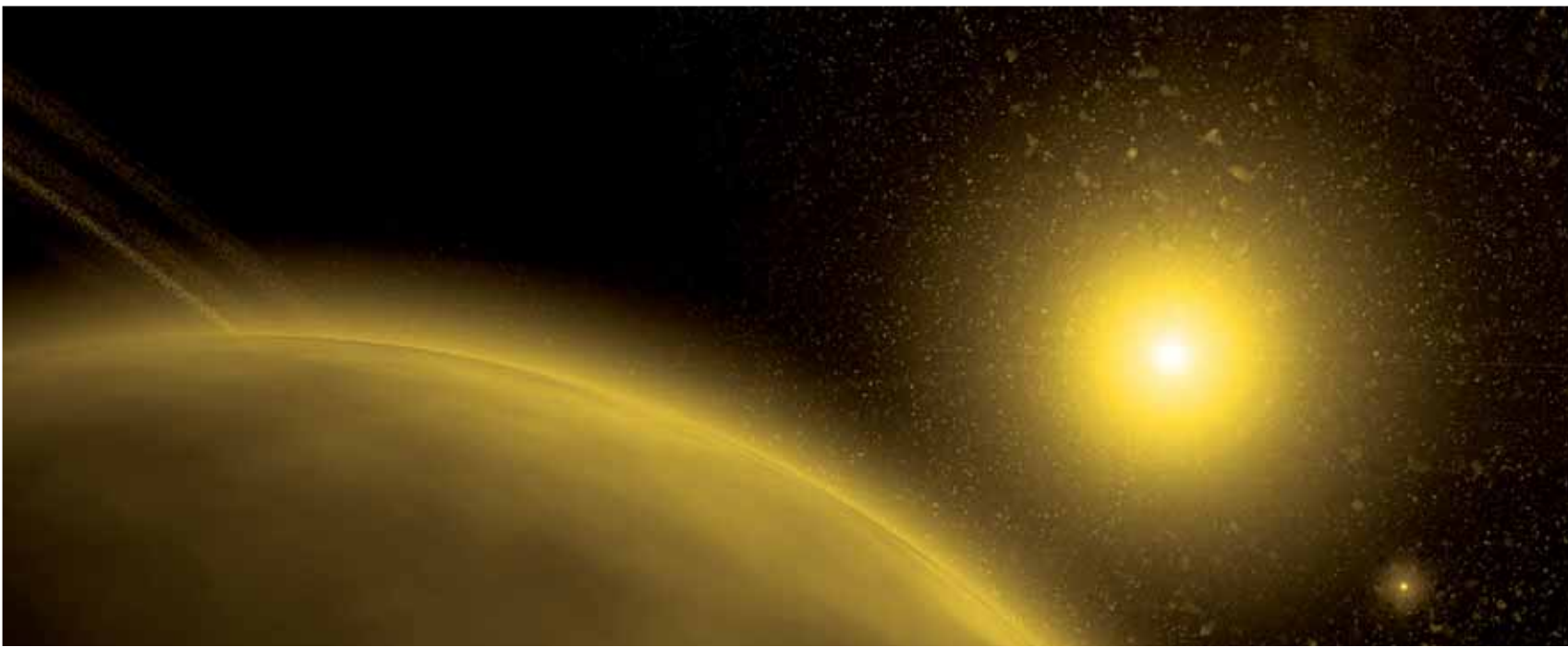


INGENIOUS

ISSUE TWO



WINTER 2012



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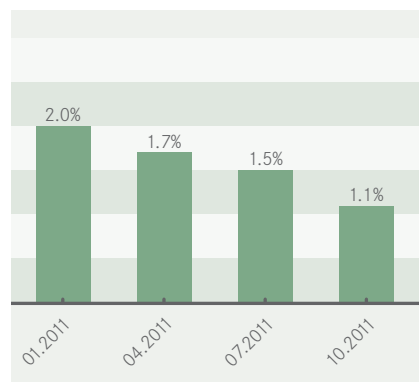
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WELCOME TO THE SECOND EDITION OF *INGENIOUS*

By Patrick McKenna

What a year 2011 turned out to be! Since I introduced the first edition of *Ingenious*, we have witnessed the terrifying Tohoku earthquake and tsunami in Japan, which led directly to meltdowns at three nuclear reactors at the Fukushima Power Plant. It was one of the five biggest earthquakes the world has seen in modern times and the World Bank estimates that it is the most expensive natural disaster on record.

Of course, such appalling disasters put all things into perspective. So too did the tenth anniversary of the terrorist attacks of 9/11, which was commemorated last September. Here was a reminder of a very different kind of catastrophe, one that has changed the world forever.

For investors, 2011 was a year of multiple shocks and unremittingly bad news, with gridlock in US politics and an ever deepening eurozone crisis forming the backcloth.

In early December the ratings agency Standard and Poor's put almost the whole eurozone, including Germany and France, on "credit watch" because of fears over the debt crisis. The fact that the ratings

agencies failed abysmally to predict the consequences of the US sub-prime binge that largely caused the current crisis, only added to the sense of investor unease.

Meanwhile, anyone who invested in the London stock market twelve years ago might now be forgiven for pondering the wisdom of that decision. Over this period the FTSE 100 has delivered a negative annualised real return. No wonder investors are scratching their heads!

Amidst all this gloom, not to mention the prospect of years of austerity to come, it is timely to focus on the theme of non-correlation (to the main markets) of alternative asset classes and, more broadly, on non-cyclical investment opportunities. In this edition of *Ingenious* I am delighted to be able to highlight a range of funds managed by our Asset Management, Investments and Ventures businesses whose performance commands attention and that fit these criteria.

We made our reputation as advisers and investors in media and entertainment. As you will find on pages 15 and 19 we are now



also bringing our expertise and experience to bear in entirely new fields, including clean energy, sport and leisure. We see many more opportunities ahead.

Despite the negative background mood music, we are in a confident and optimistic mood and look forward to an even more successful 2012.



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INVESTING IN BRITAIN'S SUCCESSFUL CREATIVE INDUSTRIES

There has never been a better time to invest in the creative industries. Ingenious's new Media Opportunities Fund provides investors with a specialist strategy for mitigating risk and accessing growth opportunities in this uniquely dynamic sector.



By Patrick Bradley

A continuing political theme since the credit bubble burst in 2007 has been the need to re-balance the economy and reduce the UK's reliance on revenues generated by "the City". What is not generally recognised is that what we now call "the creative industries", a diverse category of activities including television production, marketing services, film, music, games, design and fashion, already account collectively for a similar level of national earnings to those of the financial sector – some £59 billion, equivalent to 6.1% of the UK's gross domestic product.

It is widely acknowledged that the UK punches well above its weight in the creativity stakes. This global competitive strength is reflected equally in comparative economic data and international awards ceremonies.

The businesses comprising the creative sector range from the large "majors" with international reach, such as BSkyB, WPP,

Pearson and fashion retailers like Burberry, to some 180,000 micro businesses and SMEs which supply the majors with creative content for exploitation. Many businesses at this smaller end of the spectrum are, we believe, poised for significant growth, fuelled by a growing demand, domestically and internationally, for British sourced creative content, design and fashion.

What is driving growth? Above all, higher demand. New affluent consumers in the emerging markets, as well as in developed economies, are increasing their consumption of media and fashion, with a significant share imported from the UK.

More international viewers are watching British television programming and formats, such as *Strictly Come Dancing*, as well as traditional costume dramas like *Downton Abbey*. British theatre is riding a wave, with *Jerusalem* and *War Horse* transferring to huge success on Broadway. Meanwhile Adele tops the US music charts and British fashion is in enormous demand in the Far East.

How does one invest in these companies? Access is not easy. It requires specialist knowledge and the ability to identify and secure off-market opportunities. This is why Ingenious Ventures has introduced the Media Opportunities Fund, to give investors access to the sector but at the same time deploy specialist knowledge and a conservative capital preservation model to mitigate risk. This Fund, which utilises Enterprise Investment Scheme (EIS) relief, is seeking to deliver unlimited equity returns (tax free under EIS rules) from a portfolio of companies selected from Ingenious Ventures's deal flow pipeline, whilst seeking to ensure 80% capital cover.

The companies in which Ingenious plans to invest will all have a proven business model and strong management teams. They will be revenue generative and have the potential to export or exploit their businesses internationally, in order both to scale their values and to make them attractive acquisition targets.

This is a genuinely exciting investment arena. Continuing technological disruption and changes in consumer behaviour added to rising global demand for content on various platforms and devices, making the creative industries an attractive investment proposition for investors looking for equity returns over the medium term. Government support for the SME sector combined with attractive tax reliefs and the bespoke investment skills of Ingenious, make the Media Opportunities Fund a timely addition to the group's portfolio of funds.

INGENIOUS GROUP

FIRST LIGHT AWARDS

We are delighted to announce that Ingenious will sponsor the First Light Awards in March 2012. Driven by the inspirational Barbara Broccoli, co-owner of the James Bond franchise, First Light works every year with over 5000 young people aged 5-25 providing opportunities to learn the craft of

film-making from industry professionals.

The annual highlight is an awards ceremony for schools which takes place in the Odeon, Leicester Square. Young film-makers from across the country, many from disadvantaged backgrounds, gather for a day of glitz and glamour with the stars.

The judges in 2011 included big names like Daniel Craig, Paul Greengrass, Dougray Scott and Terry Gilliam. For more information about the 2012 awards see <http://www.firstlightonline.co.uk>



THE CASE FOR ALTERNATIVE INVESTMENTS

Despite the acres of press coverage devoted to the flow of depressing economic news over the past 12 months, one significant question remains unanswered.

By James Clayton

With the financial world knocked off its axis and conventional investments no longer performing, where can a rational investor find a sensible balance of risk and return? The ceaseless commentary from analysts on tumbling markets, anaemic growth, the US deficit, soaring bond yields, the eurozone crisis and so on has not produced a clear answer. What are the options? For Warren Buffett, the "Sage of Omaha" and possibly the most successful investor of all time, the

The current reality for many investors is a steady erosion of capital and a scarcity of attractive risk-adjusted returns.

answer was IBM stock, which yielded him an instant paper profit after he revealed his accumulated holding. Otherwise, sadly, traditional asset classes such as equities, bonds, commodities and property remain under considerable strain.

A safer option might be to sit on cash waiting for the right moment to move back into the markets, but who knows how long the volatility will continue? In the meantime, with interest rates at record lows and inflationary forces at work, there is a price to pay for the luxury of liquidity. The current reality for many investors is a steady erosion of capital and a scarcity of attractive risk-adjusted returns. As a consequence, investor focus is shifting to alternative asset classes.

Historically the term "alternative investments" has been open to a variety of interpretations, meaning different things to different people. For many it conjures up a world of esoteric, illiquid and opaque investments, available only to a well-connected elite.

At Ingenious, we are demystifying this label and bringing it into the mainstream through a new breed of "alternative" funds that target preservation of capital and minimum absolute returns above inflation.

In the current climate, these investments should be an integral part of any intelligently balanced portfolio, so we are making them as accessible as possible, with a minimum entry point in some funds of only £3,000.

But what, specifically, do we really mean by "alternative"? For us, an alternative investment starts with an off-market, proprietary opportunity in one of our specialist sectors. In investment jargon, it also means "low-correlated" (with financial markets).

Let's take film as an example. Box office receipts typically increase during downturns because a trip to the cinema offers a relatively cheap form of entertainment and a healthy dose of escapism. The same is broadly true of all premium entertainment content. Thanks to our extensive knowledge of the media landscape and unrivalled industry relationships, we are able to access blue chip opportunities across the sector, from film to video games and from television to live entertainment.

As Paul Bedford's article shows (page 8), live festivals provide another example of a counter-cyclical success story. This low-correlated, recession-resistant theme also extends to our funds in the leisure and clean energy sectors.

But there is another sense in which the Ingenious approach to investment may claim to be "alternative": we target direct access to the cash-flows generated by the assets we back. This differentiation is more significant than it might at first appear. Consider the difference for an investor seeking exposure to the media sector between an investment in a quoted media stock and an alternative investment in a portfolio of premium content. Amongst other things, the value of the stock is subject to the vagaries of market sentiment, wider market conditions and poor

judgement in company management and strategy. Equally, strong performance in one area of the company can be wiped out by under-performance elsewhere in the group.

Conversely, the risk and reward in the content portfolio is centred purely on the revenues generated. This kind of alternative proposition is not without risk of course, but our capital structures give investors the flexibility to pick their desired level of return and tailor their risk accordingly.

Once the commercial opportunity at the heart of an Ingenious alternative investment has passed muster, we apply our expertise to mitigate risk, preserve capital and embed minimum returns in excess of inflation together with further upside potential. We are also committed to aligning our interests with those of our investors: every Ingenious fund receives investment either from the company or our senior management.

So much for the theory. What about the track record?

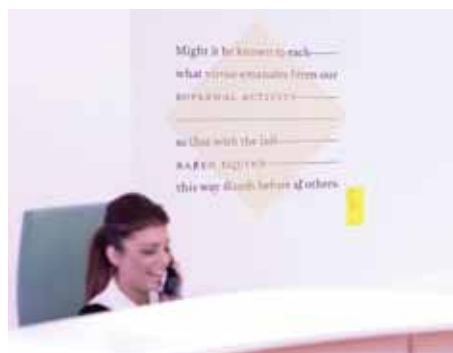
Ingenious Broadcasting (IB), our long-standing TV production fund, has now produced over 350 hours of prime time television for broadcasters such as BBC, ITV and Sky. Since its inception in 2005 it has achieved an average annual return of 5.6% pa free of tax, with capital returned to investors on average just over three years after investment. IB is currently targeting minimum tax free returns of 11% pa over three years.

Meanwhile its sister fund, Shelley Media Fund 5, which carries a similar risk profile, is targeting 13.7% pa over the same period, an exceptional return relative to the risk.

These are just two examples of what well-structured, specialist alternative investments can offer, and why they are in the vanguard of a new, more balanced style of investing that is now available to the many, not just the few.



GOLDSMITHS GRADUATE SHOW



Images (Clockwise from top): JL Murtaugh's "Psalm for Golden Square"; Choo Ly Tan's "Problems"; Bading Kagalakan's "Fall of the Persian Shah Villa" and Tony Law's "Wall #1".



By Martin Smith

During the autumn and winter of 2011-12 we were delighted to be able to collaborate with the Department of Art at Goldsmiths to host an exhibition of student art work. This comprised a show of recent work by thirteen artists selected from the university's BA and MFA Fine Art programmes.

As Richard Noble, Head of the Department

of Art, noted in his catalogue introduction:

"The title of the exhibition: *Out: Art from Goldsmiths* captures an important part of what we believe is valuable about this innovative collaboration, which is that it places work by current students and recent graduates in a context where it will be seen by large numbers of people working in the creative industries."

The artists were chosen by the Department on the basis of their excellent work at interim

and graduation exhibitions. The work covered a wide range of genres and materials: mixed media installation and conceptual sculpture; watercolours, digital print on cotton satin and photography; and sound video.

The show's opening reception was attended by the Warden of Goldsmiths, Pat Loughery, teaching staff and students from the College, as well as some three hundred Ingenious clients and friends.

TURNING POINTS HALF FULL OR HALF EMPTY?

During the first six months of 2011 opinion seemed equally divided on the future course of the world economy and its financial markets. The more optimistic investors were expecting economic growth to gain momentum following the vast fiscal and monetary stimulus injected into the system since the financial crisis broke.

By Guy Bowles

The less optimistic suggested that growth was unlikely to be robust enough to survive the winding down of quantitative easing programmes and a tightening of fiscal policy that is an inevitable consequence of ballooning sovereign debt.

Against this background equity markets were characterised by "risk on" and "risk off" days, rising sharply on good economic data and falling equally sharply on less encouraging numbers. To us, this unstable situation signalled a turning point for equity markets but, as ever, the key question was which way were they most likely headed?

Cautiously Pessimistic

We, of course, needed to make this decision within the framework of our investment philosophy. This is a considerable help in such an environment; since our investment philosophy has at its core capital preservation, it seemed clear this was a time to err on the side of caution.

While the economic situation sets the background for financial markets, in the final analysis a successful investor will be the one who concentrates on value, buying assets cheaply, thereby building in a margin for error, and selling when prices have risen. We could not find value across the equity markets as a whole although pockets did exist in some areas and sectors. This led us to adopt a "risk off" approach to asset allocation and stock selection and as a result we went through 2011 with the hatches pretty firmly battened down.

The Storm Breaks

It was just as well we did. In July equities (MSCI world index) fell by 1.9% as the storm clouds gathered. In August the storm finally broke sending equity markets down by another 7.3% only to be followed by a further battering in September when confidence seemed to drain from markets, which fell another 8.9%.

We fared well in Q3 as, in our view at least, markets reacted in a logical fashion selling down riskier assets and turning to those that looked to be a good store of value. In the currency markets our favoured Nordic

currencies and the Singapore dollar did well, as did gold. Index-linked bonds proved a safe haven and our favoured equity funds, full of good value higher yielding stock, proved very defensive.

As the economic situation unfolds in the months ahead we will experience yet more volatility in markets. In Europe the debt situation remains a major issue threatening the stability of the financial system and the Euro itself. The Federal Reserve and the Bank of England may well decide that growth prospects have fallen far enough to justify a further round of quantitative easing.

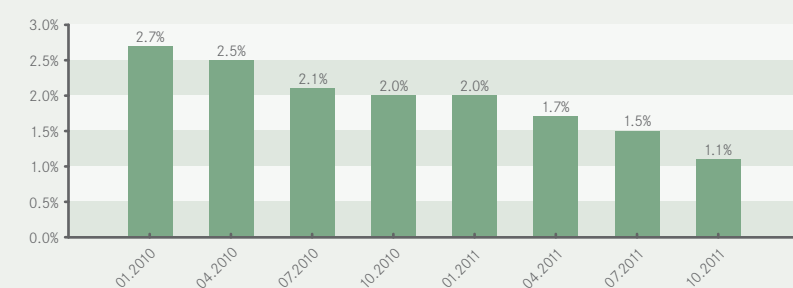
Portfolio Construction

So what changes are we intending to make to portfolios? Well, not many in the short run. We remain of the view that to emerge from the debt crisis we will need to experience a combination of economic growth, debt defaults and currency debasement. The recent strength of Sterling and the US Dollar will be,

we expect, temporary, and while likely to fall in 2012, could be a longer term problem. We can therefore see no reason to change our positioning in currencies and bonds.

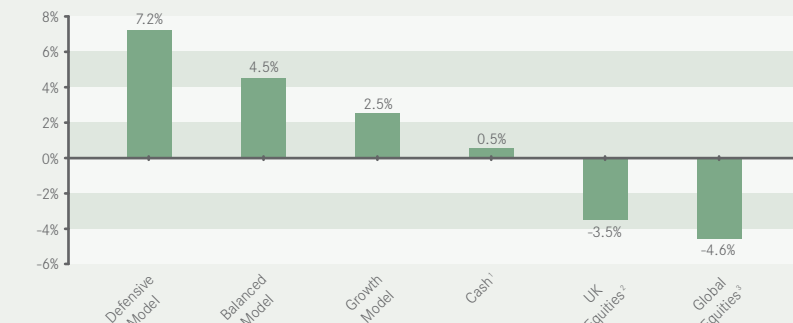
In equity markets we are open-minded and will increase exposure if we feel valuations as a whole or, more likely, in specific areas look compelling. However, we must remain aware that the possibility of a large negative shock is very real and that significant rises in equity prices are unlikely to prove sustainable without evidence of an improving trend in debt reduction especially in the United States. Any purchases are most likely to be with managers with proven track records of capital preservation in difficult conditions holding top quality companies on modest ratings and, where possible, backed by decent dividend yields. In this way we should build in a decent margin for error and enjoy a good income stream while we await uplift in capital values.

IMF Forecasts for UK GDP Growth in 2011



Source: International Monetary Fund

Performance in 2011



¹ Cash: Bank of England base rate
² UK Equities: FTSE 100 index total return
³ Global Equities: MSCI World Index (G) total return

LIVE CONQUERS ALL

Events sector continues to defy economic turmoil

By Paul Bedford

Having enjoyed another hugely successful live events season in 2011, this is an appropriate time to consider why live entertainment continues to deliver such strong and consistent commercial results in otherwise uncertain times. It is the consistency that has been so striking, fully vindicating our decision to enter the sector some five years ago.

As austerity bites, it is clear that personal discretionary spending is coming under increasing pressure in many households. No form of entertainment is entirely recession proof, but "live" has a unique capacity for generating uplifting and unforgettable experiences. This makes the business conducive to continuing growth provided there is an uncompromising focus on quality.

We have concentrated on investing in live properties that create the kind of shared experience that simply cannot be obtained online. But above all, our events give fantastic value for money.

These events fall into two main categories: music festivals and exhibitions. On the music side the story of summer 2011 was of three totally sold out events in three quite different formats and genres.

Our dance festival *Creamfields* has gone from strength to strength. Attendance has grown from 20,000 to 50,000 per day over the last three years and the event has sold out for three years in a row. *Creamfields* is now recognised as one of the leading festivals in the UK, having won the Best Dance Festival award for three consecutive years, and also the *Music Week* Best Festival award in 2010.

Rewind is a completely different kind of festival – one that has become a secular pilgrimage for aficionados of 1980s music.

So enthusiastic are the pilgrims that *Rewind* has been likened to one continuous giant karaoke session as the crowd sing along to their favourite artists, song by song and act by act.

The enjoyment and enthusiasm of the fans is borne out by the fact that it has taken only three seasons for the event's reputation to skyrocket, selling out last summer at 40,000 tickets across the weekend.

Last summer also saw *Rewind* expand into Scotland with the inauguration of *Rewind North* held at Scone Palace in Perth. This also was a huge success.

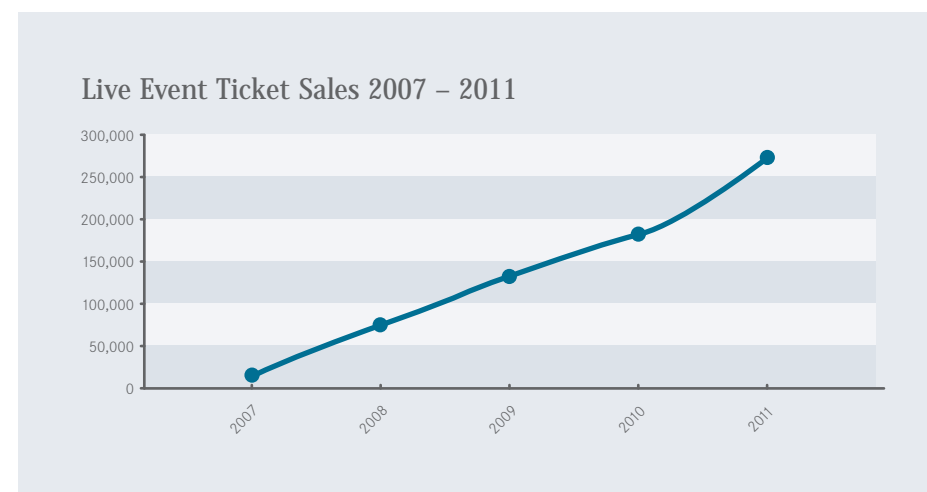
Field Day in Victoria Park in East London has established itself as the festival to attend if you are searching for the next "big thing" on the music scene. Florence and the Machine, Mumford and Sons and Tinnie Tempah are just some of the artists that have played the event before going on to achieve massive commercial success. 30,000 people were present in 2011 as *Field Day* completed our hat trick of sold out festivals.

Meanwhile our exhibitions, *Taste* and *Taste of Christmas*, continue to carry all before them. With *Taste* events being held in cities in South Africa, Australia, Italy,

the Netherlands, the United Arab Emirates and New Zealand, the *Taste* brand is now recognised globally as the biggest and best in class. Further worldwide expansion is planned. *Taste of Christmas* has begun a similar roll out with a second event now held in Dublin and more to come.

Golf Live was our first event to enter the "exhibition meets sport" sector and is poised to grow both its UK and worldwide presence. Colin Montgomerie is doing a splendid job as ambassador. The UK event, held annually at The London Club in Kent, has developed a unique model of entertainment and active participation. Once again Ingenious Events has demonstrated that it leads the field in market innovation and consumer enjoyment.

We are also delivering excellent returns to investors through our VCTs. The graph below shows the rapid expansion of ticket sales on which these returns are based. We are confident that there are many more opportunities for us to exploit, both by extending our current portfolio of events and through the exploration of new concepts and relationships.



Images (Clockwise from top): Fireworks at the Scarborough Open Air Festival; Heston Blumenthal at Taste of Christmas; King Charles performs at Field Day Festival in Victoria Park, London; James Thornton and Charlie Baker win Let's Dance for Comic Relief 2011 and guests enjoy a meal at Taste of London.



ANIMATION INDUSTRY AT THE CROSSROADS

The UK's £300m animation industry has an illustrious track record of creative and commercial success. Iconic programmes such as *Wallace and Gromit*, *Bob the Builder*, *Noddy*, *Peppa Pig* and *Thomas and Friends* were devised, developed and animated in the UK.



By Tom Broughton

According to a recent report by Tom Broughton and Rob Kenny of Perspective Associates, UK animation is in a perilous position with more than a quarter of firms having shut down or moved away from animation since 2008, whilst many companies made a loss or just broke even last year.

Although competition from lower cost markets, demand for animation skills from rival industries and reductions in domestic commissions are all having an effect, it is arguably the availability of tax breaks abroad that is most damaging.

In countries such as France, Ireland, Canada and South Africa, government support provides 20% or more of production budgets, and it is a well known fact that production shifts to regions where tax incentives are available. Indeed, three of the five iconic programmes mentioned (*Noddy*, *Bob the Builder* and *Thomas and Friends*) have already moved production outside the UK.

As skills and expertise flow abroad and rights to future revenue streams are shared with international co-production partners, so the UK's competitive advantage erodes. According to Oli Hyatt of Animation UK, the recently formed body that represents the UK animation industry:

"Our problem is that it seems everyone bar the UK has tax breaks for animation... We need a level playing field to compete properly."

On a more positive note, demand for animated content is at a historical high. The UK can become a genuine world leader in certain areas of production (particularly in 3D production, CGI and visual effects). The opportunities for rights exploitation are plentiful (for example *Peppa Pig* generates 150 times its original production budget in retail revenues each year and is estimated to be a "\$1bn franchise").

The UK animation industry therefore finds itself at a crossroads, where it can either accept that the industry's competitive position will continue to be eroded, or it can fight for government support to put the UK

on a "level playing field".

The industry is pushing for tax breaks similar to those available to film, but while the government recently confirmed that film tax breaks would continue to 2015, it has yet to show an inclination to extend these to animation. The campaign continues!

For further information on Animation UK, or to read the full report, visit www.animationuk.org

"Our problem is that it seems everyone bar the UK has tax breaks for animation... We need a level playing field to compete properly."

BUSINESS PROPERTY RELIEF: FILLING A GAP LEFT BY THE BANKS

By Jim Reeve

How do you combine one of the strongest investment track records in media and entertainment with an intelligent approach to estate planning?

The answer is Ingenious Estate Planning ("IEP"), a new fund which was launched late in 2011 which focuses on lending to entertainment industry businesses.

This opportunity for investors has arisen because the banks have largely withdrawn from lending to these businesses since the onset of the credit crunch. Consequently, there is an acute shortage of debt finance. This is inhibiting the growth prospects of some of the UK's brightest creative companies in an area of acknowledged UK competitive strength.

Ingenious conceived IEP to help plug this funding gap. IEP leverages Ingenious's many years of media investment experience and an unparalleled entertainment industry network to offer senior loans, secured against high quality collateral. It capitalises on Ingenious' TV industry and financing expertise to lend to production companies that can offer contracts from major

broadcasters as security.

These loans are typically short term – usually up to 12 months. The fund has a particular focus on the UK, US and Australian markets and offers an attractive margin over base rate. The loan book is actively managed by a specialist team in order to achieve IEP's primary aims, which are capital preservation, conservative and predictable returns and ready access to capital at all times.

An investment in IEP attracts Business Property Relief (BPR) and so offers mitigation against inheritance tax (IHT) as an additional benefit. There is no size limit on BPR and, unlike gifts or lifetime transfers which take seven years before qualifying for total IHT relief, IEP achieves this mitigation after just two years, delivering relief from what would otherwise be 40% tax payable on the amount of the investment.

IEP builds on our well-established track record, with over £350 million in BPR qualifying investments in the film and TV trades raised and managed over the last six years. Given that there is little prospect of any easing of IHT thresholds or rates for years to come, prudent estate planning is likely

to become much more commonplace.

An astonishing four million people in the UK face the prospect of paying IHT, and on most estimates IHT will bite more and more deeply into the assets of UK taxpayers and their families during the next few years.

It is no surprise therefore that IEP is proving a hit. The fund's first deal was a six month loan to the producers of *Scott & Bailey* to help finance the second series of the popular ITV detective show set in Manchester. This is likely to be the model for future loans.

Consequently, there is an acute shortage of debt finance. This is inhibiting the growth prospects of some of the UK's brightest creative companies in an area of acknowledged UK competitive strength.

COCKPIT ARTS

A unique creative business incubator for designer-makers and crafts entrepreneurs

Ingenious has formed a partnership with Cockpit Arts, an award winning social enterprise and the UK's only creative business incubator for designer-makers. Ingenious will underwrite Cockpit's loan book and provide investment expertise.

Cockpit has been supporting designer-makers for over 25 years and has achieved remarkable success on several levels. It houses up to 165 creative businesses in two London incubators, one in Camden and one in Deptford, producing unique works in craft and design.

In the past seven years Cockpit has doubled

in size. On average its client businesses' profits have increased by 25% above the rate of inflation every year since 2005.

Cockpit also works with hundreds more creative businesses through its workshop and seminar programme. It offers a unique entry route to a career in crafts for the young unemployed through its Creative Careers Programme, in partnership with The Prince's Trust.

Ingenious is delighted to support this small but trail-blazing organisation that punches well above its weight in the UK's creative economy.





THE RISE OF PLANET OF THE APES

WWW.FACEBOOK.COM/APESWILLRISEUK
#APESWILLRISE

A YEAR IN FILM AND TELEVISION

For the film and television business at Ingenious, 2010 was always going to be a hard year to follow after our biggest film production to date, *Avatar*, made it into the record books as the highest-grossing movie of all time. Despite that daunting challenge, 2011 was another record-breaking year for us, with plenty to get excited about – not least the abundance of British talent to be admired in a series of successful productions.



By Nik Bower

We started the year with the UK debut of *127 Hours*, the true story of mountain hiker Aaron Ralston's extraordinary battle to survive becoming trapped in a remote Utah canyon with a half-ton boulder crushing his arm. Only *Slumdog Millionaire* director Danny Boyle could turn this gut-wrenching tale of mental and physical endurance into a 90-minute edge-of-the-seat rollercoaster packed with humour, excitement, suspense and sublime pathos. By turns exhilarating and heart-breaking, if you haven't yet seen the film I would urge you to buy it now.

A less gruelling confection followed in April when our turn-of-the-century romantic drama *Water for Elephants* took just shy of \$120 million on a budget a fraction of the size. *Twilight* heart-throb Robert Pattinson stars opposite Oscar-winning Best Actress Reese Witherspoon as an orphaned veterinary student who accidentally joins the circus and finds love, life and mortal danger beneath the Big Top. Pattinson, whose latest *Twilight* outing is set to be the biggest yet, also stars in our adaptation of Maupassant's *Bel Ami*, which is now scheduled to premiere at the Berlin Film Festival in February.

Back to last summer, and we built on our early success with the release of *X-Men: First Class* to rapturous reviews and a blockbuster \$350 million box office haul around the world. Another British triumph, this film was directed by local star Matthew Vaughn, the film-maker behind *Layer Cake*, *Stardust* and

last year's unique comedy super-hero romp *Kick Ass*, written by his regular collaborator Jane Goldman (also known as Mrs Jonathan Ross). Together they revived an endangered franchise and gave it a cool, fresh new look, as well as bringing Scottish action hero James McAvoy and Ireland's hottest export Michael Fassbender into the mutant fold.

Nor were our triumphs at an end, for *Rise of the Planet of the Apes* was still to come. Both the director (Rupert Wyatt) and the star (Andy Serkis, better known as Gollum in *Lord of the Rings* and possibly even as Ian Dury with his Blockheads) hail from Blighty. Between them, they contrived to make *Apes* the surprise hit of the summer, and deservedly so. Based on a pulp '70s B-movie, this beautifully realised remake transcends genre and defeats expectation to deliver a profound and gripping meditation on what it means to be human (as well as a spectacular, full-on war between monkeys and men of course). With box-office revenues to date of \$480 million at cinemas worldwide, it's proved to be a big hit with primates male and female around the globe.

Finally for 2011, a film that has had the festival circuit on its feet for one standing ovation after another – from Toronto to New York to the Mayor's Gala Screening at the London Film Festival. *The Descendants* is directed by the critics' darling Alexander Payne, who won a BAFTA and an Oscar for his wine-themed crowd-pleaser *Sideways*, and stars George Clooney as an Hawaiian heir struggling to manage his two wayward daughters, when an accident turns his life upside down and shakes out a host of surprises. It will have you laughing one minute and crying the next. Don't miss it when it comes to the UK in January.

On the small screen, 2011 has all been about crime. Detective dramas *Scott & Bailey*, *Case Sensitive*, *The Suspicions of Mr Whicher* and *Case Histories* aired last year, as did crime dramas *The Reckoning*, *Injustice* and *Law and Order: UK* – all

backed by our flagship television fund, Ingenious Broadcasting. Other notable productions to play in living rooms around the country included *Monroe* (starring James Nesbitt), *Doc Martin* (starring Martin Clunes) and *Young Leonardo* (starring Alastair McGowan), as well as Bob Hoskins and Keira Knightley's Peter Pan prequel, *Neverland*. Not to mention kids' shows *The Spartan Mystery* and the intriguingly named *Fleabag Monkeyface*.

With the launch of a new fund, Ingenious Estate Planning (page 11), we expect to be even more prolific. So tune in and look for our logo at the end of your favourite shows!

With box-office revenues to date of \$480 million at cinemas worldwide, it's proved to be a big hit with primates male and female around the globe.



X-Men: First Class

MID-MARKET LIGHTS STILL BURNING BRIGHTLY!

Corporate activity in the developed world will continue to face considerable economic headwinds as governments, banks and consumers attempt to pay down debt and financial markets remain fragile in the face of ongoing uncertainty. The mid-market will offer a degree of insulation from the cold winds blowing through financial markets, while the continuing digital disruption of conventional business models will ensure that media remains a relatively active sector.



By Nick Harvey and Chris Graves

Towards the end of 2011 the European Commission cut its 2012 GDP growth forecast for the Euro area to 0.5%. In November the Bank of England lowered its 2012 growth forecast for the UK to 1%. Earlier industry forecasts for Europe of ad spend growth of 3-5% now look wildly optimistic.

In this unsettling economic climate, there is always a risk that prospective buyers of businesses become excessively risk averse and sellers unwilling to rebase their valuation expectations to reflect a low growth context. Private equity players are less able to leverage their investments and large corporates are inhibited by the low valuation of their own equity.

The IPO market remains effectively closed. Those that braved a flotation last year were often heavily punished for trading weaknesses. Overall, corporate activity in 2012 looks set to remain at the same relatively depressed levels of 2010-11.

Against this generally gloomy background, we believe that media will remain a relative bright spot during the coming year. There are a number of reasons for this.

First, digital and increasingly, mobile technologies continue to disrupt traditional business models. Those companies that

most benefit from this disruption can build scale and profitability very rapidly. This feature of the market was illustrated by Moonpig's £120m merger with Photobox in 2011, on which ICF advised. We continue to work with a variety of exciting, fast growing digital businesses some of which are looking to raise capital, acquire or be acquired.

Second, as distribution channels proliferate, content becomes ever more valuable. Companies that create innovative content with the potential for exploitation across a range of territories and platforms are at a premium, and the UK leads the world in the production of creative content. These two propositions were in evidence in two of the deals we handled last year. ICF advised Shed Media on its £120m sale to Warner Bros. and Bwark Productions on its sale to Zodiak.

Third, the older more traditional media groups know they have to "adapt or die". Such groups have a limited window in which to transform their businesses to meet changing customer demands. They are often highly cash generative and have a clear incentive to buy in digital and new media expertise. By way of example, to date ICF has advised St. Ives on three acquisitions of companies in the data and analytics space. We will continue to work closely with traditional

media groups seeking to accelerate the digitisation of their business models.

The mid-market faces fewer headwinds than the market for larger cap M&A. Smaller deals generally require less aggressive financing, while corporates are more likely to execute strategic bolt-ons than transformative acquisitions when times are uncertain. Mid-market private equity houses are generally less encumbered by problem portfolios and have a lot more dry powder to deploy than the larger buy-out groups.

The attractiveness of mid-market media does mean that we face increasing competition from the large investment banks, which tend to chase smaller deals during cyclical down years. However, we remain confident that our deep sector knowledge, strong brand and unique track record will continue to distinguish us from both the generalist banks and our more traditional mid-market competitors.

INGENIOUS GROUP

MeWe 360

Ingenious is to support a new creative social enterprise called MeWe 360, the brainchild of entrepreneur Kevin Osborne.

Kevin ran an award winning enterprise called *Tribal Tree* in north London from 2000-07. This provided music courses and skills classes and, most important, a safe and supportive playing and learning environment for over 9,000 participants over seven years. It also helped artists Plan B and N-Dubz to launch their careers and make number one hit records!

MeWe 360 aims to build on the success of *Tribal Tree* by creating a new fee-paying membership club with graded benefit levels. The objective is to identify untapped creative talent and prospective entrepreneurs, help them to develop their skills and, ultimately, start their own businesses.

CLEAN ENERGY KEEPING THE LIGHTS ON

Energy policy makers around the globe have been set the task of delivering three core objectives: security of supply; consumer affordability; and reduced carbon emissions. Resolving this "trilemma" will only be possible through private investment, given current and anticipated levels of public debt.

By Sebastian Speight

The capital expenditure required to deliver these objectives is very substantial. The balance sheets of the utilities are insufficiently robust to shoulder all the heavy lifting. Similarly, the banks' ability to provide long term finance has remained severely constrained since the onset of the credit crunch in 2007. Private capital therefore has an opportunity to drive the transformation of the supply, distribution and consumption of energy in the 21st century.

The two key challenges are, first, to identify the optimal mix of energy sources required to supply our needs and, second, to build out the infrastructure necessary to deliver it. This mix must comply with the demands of the "trilemma" as to security, affordability and carbon emissions.

We will need to invest significantly in grid infrastructure and the electrification of transport systems. We will also have to develop our capacity for energy storage because a broader mix of generation will bring with it increased challenges in the continuity of supply. Finally, we will need to address the ever rising demand for electricity by investing heavily in energy efficiency.

Energy markets are heavily regulated.

Consequently governments have a major role to play in establishing policy frameworks. However, the role of the public sector is likely in future to be largely confined to stimulating the development of the supply chain and playing the lead role in bringing in private investors. This will only be achieved by incentivising investors with the prospect of solid and dependable returns.

The incentivisation of private investors will require the development of business models that do not rely on long term government subsidy. The good news is that we are already seeing substantial cost reductions in the supply chain. There is a growing consensus amongst expert commentators that such reductions combined with incremental technology gains and reform of the electricity market will deliver highly investible models within the next few years. We are confident that this will enable our investors to access attractive low risk real returns from investment in energy infrastructure.

With the energy efficiency agenda rapidly rising to the top of everyone's list of priorities, as reflected in the government's "Green Deal" for domestic households, the financing opportunities for Ingenious Clean Energy are plentiful. That is why we have launched the Ingenious Energy Efficiency EIS fund (described by sector insiders as

a "private Green Deal").

In renewable generation, we think that the profiles of biomass and waste will be raised over the next two years or so. Solar and wind as established technologies will continue to play a significant role as costs continue to come down, although issues of scale and geography will require ever more sensitive planning.

Energy storage, including localised "micro-storage" options, remains an interesting longer term investment proposition. There is a significant UK policy interest in developing marine energy generation, both wave and tidal, given our natural resources. New designs are coming through. Investors are likely, however, to wait until these technologies have been commercialised before committing.

In addressing a sector undergoing significant economic transformation in terms of new technologies, regulation and consumer attitudes, Ingenious is doing what it does best – investing in change. Our success comes from being able to respond knowledgeably to the emergence of new economic models by developing strong commercial networks in the sector and, most importantly, by placing the protection of our investors' capital at the forefront of our priorities. We are confident that we can replicate this success in the clean energy sector.



INVESTMENT PRIORITIES:

- Build significant additional capacity in sustainable electricity generation
- Enhance capacity for storing electricity when we have lulls in generation
- Build a smarter grid to distribute electricity more efficiently
- Reduce demand for energy consumption

THE NEW MODEL ENTERPRISE INVESTMENT SCHEME

The outcome of HM Treasury's consultations on *Tax-advantaged Venture Capital Schemes* will alter the landscape for EIS investment in the new financial year. But Ingenious is well prepared for the new regime, thanks in part to an ongoing dialogue on the draft legislation with HM Treasury and other industry players.



By Martin Smith

Overall, the outlook has never been brighter for EIS investment. The first good news came in the 2011 Budget Statement. The Chancellor announced major changes to the Enterprise Investment Scheme (EIS) including a higher level of tax relief, increased from 20% to 30%, and the raising of investment limits. These changes were widely welcomed.

Not surprisingly, HM Treasury wished to ensure that this more valuable relief is properly focussed, so three months later it published its promised consultation document on *Tax-advantaged Venture Capital Schemes*. A major objective of this consultation was to identify ways of targeting fiscal reliefs at "genuine risk capital investments" as a *quid pro quo* for more generous relief. The consultation document contained detailed suggestions as to how eligibility criteria might be tightened based on approved business models, not least in relation to sub-contracting.

As we and others argued in submissions to government, the almost certain consequence of these suggestions, had they been implemented, would have been to disqualify most creative enterprises from EIS relief. Why so? Because for the overwhelming majority of

these companies the use of sub-contracting arrangements reflects a deliberate approach to commercial risk mitigation.

Much joy in the creative sector then, when on 6th December HM Treasury published its draft clauses for the Finance Bill 2012 from which it was clear that government had abandoned its earlier proposals to prescribe "acceptable" business models. The draft clauses also included a proposal to introduce a new "purpose test" designed to "sharpen the focus" of reliefs.

HM Treasury is currently conducting a second round of consultation, which will be followed in the Spring by debates and line-by-line scrutiny of the Bill in Parliament. In order to avert the possibility of the legislation giving rise to unintended negative consequences for the creative economy, Ingenious is continuing to engage with HM Treasury to ensure an informed representation of how the creative sector works and why it operates in the way that it does.

In this process we are emphasising three key points. First, there is a direct relationship between the risk profile of content businesses, the great majority of which are micro businesses, and their high level of dependence on project financing and out-sourcing to sub-contractors.

Second, risk finance is an essential and integral part of content creation. These businesses need to attract finance to bring their ideas to life. In their ecosystem, finance is as indispensable as the ideas themselves. The idea, the end product and its financing are interdependent.

Ingenious is continuing to engage with HM Treasury to ensure an informed representation of how the creative sector works and why it operates in the way that it does.

Third, there is implicit risk in the economic models of *all* content businesses due to the dynamics of the industry - every piece of content is an original prototype seeking an audience. The managers of these businesses, like all commercial entrepreneurs, seek wherever possible to reduce the level of risk to which they are exposed. They should not be discriminated against for doing so, or compelled to take on unnecessary additional risk as the price for accessing EIS relief.

NOW ARRIVING AT THE NEXT PLATFORM

By Guy Bowles

Platforms are the next big thing, and, no, I'm not talking about trains or shoes! I'm referring to a new generation of investment platforms that are transforming the way smaller, perhaps less sophisticated investors can access the very best discretionary investment management expertise.

Although this development is potentially revolutionary for investors, intermediaries and fund managers alike, like most "new big things" it is really an "old" thing updated and given a new twist. As with almost everything else in our lives, it is being driven by technology.

The idea was a breath of fresh air for clients and financial advisers alike. For clients they make it possible for more or less anyone - not just the super-rich and the super-connected - to obtain access to top drawer, bespoke and highly specialised sources of investment intelligence. For advisers they allow consolidated access to all aspects of their clients' investment portfolios. Buying, selling and associated

reporting needs can be wrapped up into a single structure allowing a substantial saving in time and money.

Over the past couple of years several versions have popped up, and many more are being prepared for launch. Some platforms, like Fidelity Funds Network, are household names, whilst boutique offerings, such as Ascentric and Nucleus, offer serious competition to keep the big providers honest.

The new and potentially transformational twist in the latest generation of platforms is that they enable bridges to be built architecturally and by design between IFAs and discretionary asset managers like Ingenious. These bridges are providing a route for smaller clients to obtain access, for the first time, to specialist investment management skills. It is one of those rare situations in which everybody wins: in this case the client, the IFA and the portfolio manager.

Why are we so keen on these new platforms at Ingenious? Because we believe that they will provide a much bigger market for the model portfolios that bear the

hallmark of our investing "style", and thus deliver far more business opportunities. Embedded in this "style" is our view that investors are loss averse rather than

PLATFORM BENEFITS TO IFAs:

- A central source of reporting and administration: one log-in for all client information
- Highly cost effective compared to traditional modes of data reporting
- Potential for own branding

PLATFORM BENEFITS TO CLIENTS:

- Easy online access
- All personal investment records in one place
- Potentially cheaper to buy and sell than buying directly from investment houses
- Access to specialist portfolio managers
- Potential home for personal tax solutions, for example on pensions, VCTs and ISAs



INGENIOUS GROUP

NATIONAL FILM AND TELEVISION SCHOOL

Ingenious is to sponsor the UK's first practitioner-based course in how to run a creative business in partnership with the National Film and Television School (NFTS).

The Executive Producer and Creative Industries Diploma (EPCID) will be offered by the NFTS from October 2012. The course will be based on a three part thematic structure: the landscape of media economics;

business skills; and entrepreneurship.

Former film journalist and executive producer Chris Auty will be course leader. Much of the teaching will be done by visiting producers, investors, entrepreneurs, business economists, lawyers and accountants. Patrick McKenna will lead a team of participating lecturers from Ingenious.

necessarily being risk averse. Our solution for investing via platforms is, by providing access to our model portfolios, to offer straightforward investment solutions focused on limiting losses and generating real returns over the required timeframe. We do this by grading degrees of risk to investors across five risk-rated portfolios, ranging from "Defensive" to "Adventurous". This allows financial advisers to match the appropriate risk-rated portfolio with any given client's attitude to making losses - all done with the help of risk modelling tools provided by Ingenious.

In short, a win, win, win solution!

NIGHTMARE ON THE HIGH STREET

DIGITALISATION, DISRUPTION AND THE RETAIL SECTOR

For some traditional business models the digital revolution has brought increasing misery, and for others varying degrees of disruption and enhancement. Nowhere are these trends more apparent than in retailing.

By Chris Graves and Alex Cartwright

2011 was definitively the year in which the march of digital into the very heartland of traditional retailing became something of a rout. Companies with exclusively digital business models were the source of some of the most highly valued transactions last year.

Internet advertising spend overtook TV spend during the first half of the year, making it the leading category of spend in the UK. The trade body for e-tailers expects that total online retail spend will have grown by 18% last year, whilst traditional retailers like HMV endured a run of high profile bad news stories and store closures.

In the retail context digital technology offers convenience, a more satisfying consumer experience driven by ever evolving functionality and, crucially in these straitened times, significant discounts over traditional pricing models. It follows that those sectors in which digital can offer the clearest enhancements in utility and user experience, and in which users/consumers are most price sensitive, are where digital is making the most inroads.

According to Interactive Media in Retail Group (IMRG), last Christmas 98% of UK

consumers were expected to shop online, with 58% expecting to do half or more of their shopping online. By contrast, mid-tier high street retailers saw like-for-like sales dip 1.7% in November 2011, according to business services consultants BDO, with the expectation of little or no growth in December.

This digital swing has driven some high profile deals within the broad e-commerce sector over the last couple of years: the merger of Moonpig.com and Photobox (on which ICF acted), the Amazon buy-out of Lovefilm and the flotation of Ocado were three of the most prominent.

There were also clear signs in 2011 that the impact of mobile technology is likely to be as profound as that of digital. Data technology specialists ComTech estimate that 42% of UK adults now own a smartphone, while the CEO of Omnicom's brand and digital advertising agency RAPP estimates that mobile internet use is "ramping up 300% faster than desktop internet access did".

The Centre for Retail Research estimates that 12% of online spend in the UK last Christmas was through a mobile device. This progressive migration to mobile shopping is driven not just by convenience, with

consumers accessing information and making purchases on the move, but also by utility. Mobile devices, particularly tablets, offer an intuitive, uncluttered user experience that means they are increasingly used as often in the home as they are on the move, and often simultaneously with the consumption of traditional media through the main television set.

With few exceptions, traditional businesses do not appear to be adapting any faster to mobile than they did to digital. There is a huge market opportunity for market entrants that place digital, and now also mobile, communication at the centre of their business strategies.

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IN VINO VERITAS

A MODERN DAY TRUTH ABOUT WINE

This is a challenging environment for investors. Financial markets remain volatile and hard to predict, while low interest rates and inflationary pressures are challenging the ability of managers to preserve capital through traditional defensive investment techniques. In this climate alternative investment opportunities could not be more relevant.



By Dylan Jones

Against this backdrop, Ingenious marked its new Sport and Leisure division in 2011 with the launch of Vindemia, a unique EIS fund targeting the fine wine market and its compelling investment dynamics – a low correlation to economic trends (providing a valuable hedge against financial market volatility), strong fundamentals and positive growth indicators. Target performance is a post-tax annual return over three years of 22.7% per annum.

For centuries, fine wine has conformed to the economic model of growth driven by limited supply and increasing demand. A perishable commodity, each vintage is unique, irreplaceable and produced in limited numbers.

In the ten years to November 2011, the Liv-ex 500 index of the world's 500 most popular fine wines grew at an annual compounded rate of 11.56%, exceeding its pre-financial crisis high by 44.3%. Recent months have seen a correction to the very top of the Bordeaux market but the core fundamentals of the fine wine sector are unchanged and the steady increase in worldwide demand is expected to continue, fuelled in part by the expansion of the global middle class and increased interest from the Far East, India and Russia. The gap between supply and demand for fine wines continues to widen.

Vindemia offers investors a dynamic alternative to the traditional "buy and hold" investment strategy. It invests in specialist wine trading companies established to

deliver steady growth through regular turnover of mature, globally recognised wines with an established secondary market value, avoiding those wines that are most at risk of over-pricing and correction. This active trading strategy is designed to enable these companies to adapt quickly to market movements and consumer trends and to deliver strong and consistent profitability for investors, supported by the return enhancement and significant downside protection offered by the Enterprise Investment Scheme.

After another year of economic woe and with the prevailing gloom set to last for some time to come, Vindemia is providing investors with an altogether different kind of solace in fine wine.

INGENIOUS GROUP

WITH THE BRITISH COUNCIL IN NIGERIA

Ingenious special adviser Martin Smith was a speaker at a three day Creative Industries Expo held between 5th and 7th December 2011 in Lagos. The event, the largest of its kind ever held in Nigeria, was organised by the Nigerian government in partnership with the British Council.

Martin spoke on three conference panels: *Opportunities and Challenges in the Creative Industries; Policy Frameworks for the Creative Economy; and Mapping the Creative Business Sector.*

The Expo attracted more than 700 delegates and 80 exhibitors – mainly from the film, TV, music and fashion industries.

The status of "Nollywood", an industry that has grown from nowhere to produce some 1200 commercial videos a year, popular

throughout Africa and in the Nigerian diaspora community but largely unrecognised in the international movie world because of generally low production values, was a focus of especially animated discussion.

Some industry representatives called for government assistance to help raise technical standards and skills levels so that Nigerian films could in future gain international recognition and compete globally on a level playing field.

George Clooney

The Descendants

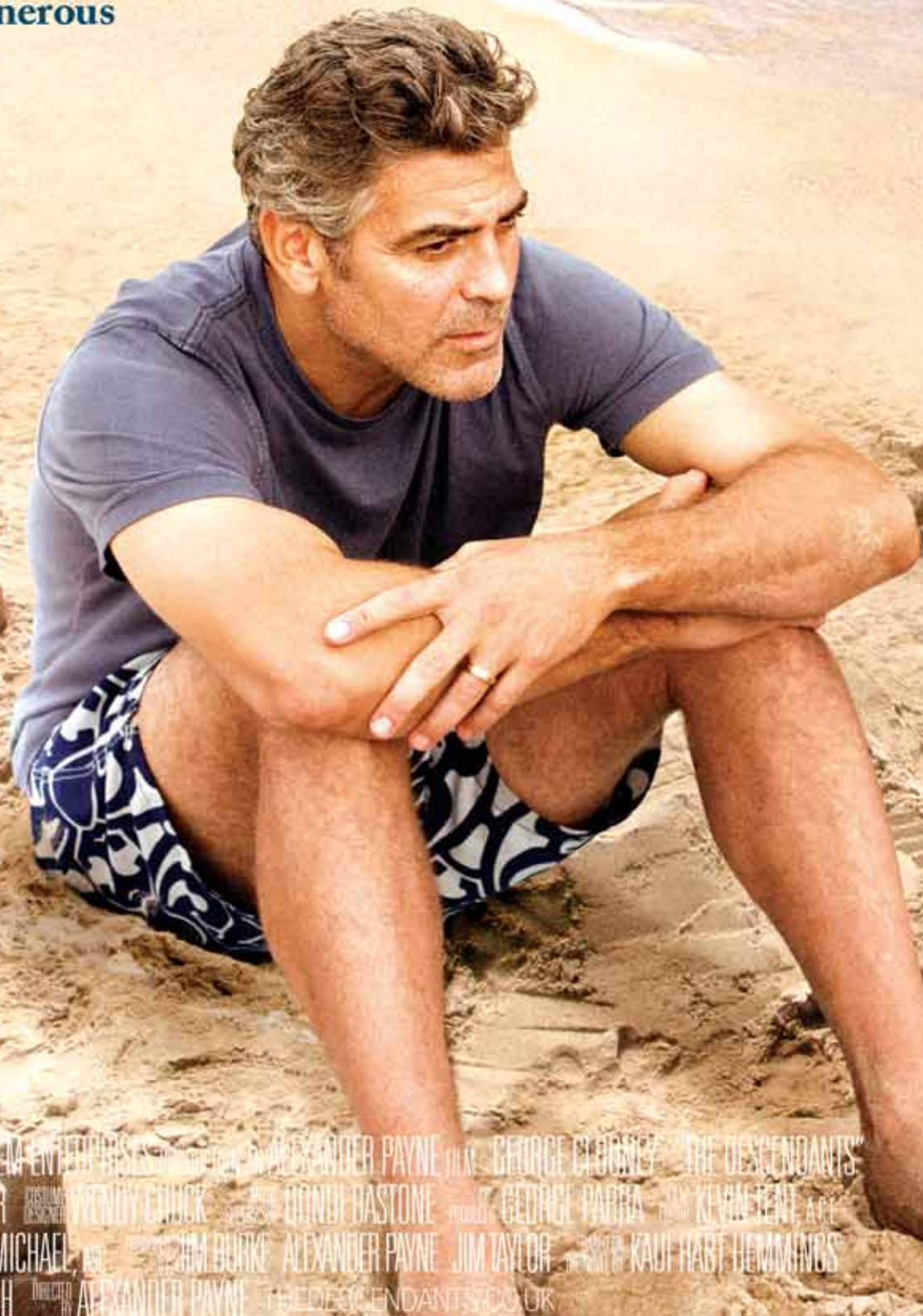
From the Director of ABOUT SCHMIDT & SIDEWAYS

“The film is a beautifully chiseled gem - sharp, funny, generous and moving.”

Entertainment Weekly

“Clooney gives the performance of his career.”

Empire



FOX SEARCHLIGHT PICTURES PRESENTS A FILM BY ALEXANDER PAYNE "THE DESCENDANTS" STARRING GEORGE CLOONEY SHAILENE WOODLEY BENJAMIN MCKAY JUDY GREER COSTUME DESIGNER WENDY CHUCK EXECUTIVE PRODUCERS GONDI BASTONE PRODUCED BY GEORGE PARRA AND KEVIN TANT ANDREW AUSTIN EXECUTIVE PRODUCERS JANE-ANN STEWART PRODUCED BY PHILIP PAPAMICHAEL AND JIM BURKE ALEXANDER PAYNE JIM TAYLOR AND KATHY HART HEMMINGWAY SCREENPLAY BY ALEXANDER PAYNE AND NAT FAXON AND JIM RASH DIRECTED BY ALEXANDER PAYNE THEDESCENDANTS.CO.UK

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