



**ASX Announcement
18 October 2021**

Update on the SEEK Growth Fund

On 11 August 2021, SEEK Limited (“SEEK”) announced the completion of its strategic review of options aimed at providing a greater degree of independence and focus for SEEK’s Asia Pacific & Americas (“AP&A”) and SEEK Investments businesses. The strategic review concluded that the structural separation of SEEK Investments, through the formation of a new independent unit trust known as the SEEK Growth Fund (“the Fund”), was in the best interests of all SEEK investors.

The Fund is to be seeded with SEEK’s holdings in Online Education Services (“OES”) and 14 early stage ventures (“ESVs”), together with new capital raised to support ongoing growth and investment. The review also recommended that the manager of the Fund should be engaged to manage certain other assets that will remain directly owned by SEEK.

This announcement provides an update on the status of the Fund, as well as additional background on the review process and Fund structure.

The following progress has been made:

- The Fund has been formed as a new unit trust.
- The Trustee of the Fund (“the Trustee”) has been established and its Directors have been appointed.
- The new independent management company (“the Manager”), led by Andrew Bassat, has been established.
- SEEK and the Fund have commenced the process of obtaining necessary third party consents for the transfer of the seeded assets. SEEK is working towards transferring all of the assets to the Fund by the end of the 2021 calendar year.
- The Fund has completed its initial capital raise (the “First Capital Raise”), having received commitments totalling A\$460m to fund future investments, consisting of a further A\$200m investment by SEEK and A\$260m from other investors. Andrew Bassat and the other members of the management team of the Manager have committed cA\$80m as part of the First Capital Raise. The Fund has not yet drawn down committed funds from the First Capital Raise.
- All required agreements between SEEK, the Manager, the Trustee and the investors that participated in the First Capital Raise have been finalised and executed.
- SEEK is already realising the benefits of the new structure and much tighter focus. It has finalised and communicated to the market a new growth strategy focused on the significant opportunities in its core employment businesses.
- SEEK Investments is already realising the benefits of the new structure, with OES and the ESVs receiving the Manager’s support to invest and scale more aggressively than would have been the case under the prior structure. In addition, SEEK Investments is seeing a strong deal pipeline and has signed follow-on transactions and new investments with a combined value of cA\$200m in the last three months. In the absence of the changes SEEK would not have supported such a high level of investment in such a short period. These investments will be funded via the proceeds from the First Capital Raise once capital calls are made.

As no funds have yet been drawn down from the First Capital Raise, SEEK currently owns 100% of the Fund. It is expected that the Fund will cease to be “controlled” by SEEK for the purposes of relevant accounting standards once funds have been fully drawn down. At that time SEEK is expected to own 84.5%¹ of the Fund.

Key details relating to the Fund and its formation were announced on 11 August 2021. Further background details and rationale for the Fund are provided in the appendix to this release for information purposes.

SEEK will provide a further update to the market on the Fund’s progress at the upcoming Annual General Meeting on 17 November 2021.

Authorised for release by the Board of Directors of SEEK

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Appendix A – Additional background and rationale for the Fund

Strategic Review Process

The strategic review was overseen by an Independent Board Committee (“IBC”) comprising Graham Goldsmith (Non-Executive Director and Chairman), Michael Wachtel (Non-Executive Director and Chair of the Audit and Risk Management Committee), and Vanessa Wallace (Non-Executive Director). Andrew Bassat was not part of the IBC. The IBC also appointed an independent financial adviser and external legal counsel to support the strategic review.

Implementation

SEEK shareholder approval was not required given the nature of the proposed transaction, the nature and size of OES and the ESVs (in the context of SEEK as a whole), and the nature and quantum of participation by related parties in the transaction. The IBC consulted with the ASX. The IBC also obtained external legal and commercial advice.

At the time of SEEK’s announcement on 11 August 2021, the value of the seeded assets in the Fund represented c11% of SEEK’s market capitalisation². After transfer of the seeded assets and once all capital is fully drawn, SEEK’s ownership in the Fund will be 84.5%¹. Despite the dilution of ownership in the Fund through the First Capital Raise, SEEK retains full exposure to the value of the seeded assets (A\$1,215m) and has committed a further A\$200m of capital to the Fund via the First Capital Raise.

¹ Based on A\$1,215m portfolio valuation of the SEEK seeded assets and completion of the transfer of those assets + A\$200m SEEK capital divided by A\$1,215m portfolio valuation + A\$200m SEEK capital + A\$260m external capital. Ownership interest of c84.5% assumes all committed capital is fully drawn.

² Based on A\$1,215m portfolio valuation of the SEEK seeded assets divided by SEEK’s market capitalisation of A\$10.6 billion. SEEK’s market capitalisation is based on SEEK’s closing share price of A\$30.00 on 10 August 2021.

Rationale for SEEK and SEEK Investments

As previously announced, the SEEK Board believes that SEEK (primarily comprising the AP&A businesses) and SEEK Investments will benefit from a greater degree of independence and focus. In particular:

For SEEK

SEEK will focus on capturing the significant growth opportunities in its core online employment businesses. With no further requirement to commit capital to SEEK Investments, the strong cash flows generated by these businesses will enable ongoing reinvestment to strengthen competitive capability whilst allowing for payment of dividends. Above all, SEEK will continue to focus on strengthening a culture of customer-focused innovation and commitment to its purpose. Whilst AP&A's financial performance will be the cornerstone of SEEK's results, at the same time shareholders will continue to have exposure to the growth potential of SEEK Investments and Zhaopin.

For SEEK Investments

For SEEK Investments to build large businesses it needs substantial additional capital and a willingness to support further sustained periods of larger losses. An independent SEEK Investments will be better placed to make aggressive long-term investment decisions and access external capital. OES stands to benefit from ongoing investment and a close cooperation with the ESV education portfolio to continue to deliver a world-class experience for partners and students.

The seeded assets are already realising the benefits of the new structure. Greater independence and focus have led to the seeded assets adopting more aggressive re-investment strategies that were harder to implement under the prior operating model. With greater access to capital, SEEK Investments has signed follow-on transactions and new investments with a combined value of cA\$200m in the last three months. The SEEK Investments team is currently assessing a large and attractive pipeline of high growth investment opportunities for the Fund.

For both businesses

Given the importance of talented people to both businesses, the strategic review also included an assessment of the people implications of various strategic options. This included examining alternative models in the market and holding discussions with SEEK Investments management. The review concluded that the governance and remuneration structures at SEEK were unusual for management of high-growth early-stage ventures and would soon undermine SEEK's ability to attract and retain the entrepreneurial talent required to maximise the long-term value of those investments, including key members of the current SEEK Investments team.

Accordingly, it was considered that the status quo of managing the ESVs within SEEK would soon no longer be a viable option. A fund structure is a common vehicle for housing investments of this nature, providing management with flexibility to make more aggressive investment decisions and a better ability to align the interests of investment professionals with the Fund, by exposing them to more risk and reward. Given the track record of SEEK Investments management, and their close relationships with the founders and leaders of OES and the relevant ESVs, the Board had a strong preference to retain and appropriately motivate the existing SEEK Investments management team to continue to maximise the long-term value of the investment portfolio.

The strategic review also considered alternate options for SEEK Investments including an outright sale of the portfolio or having the portfolio managed by an external manager. The IBC concluded that by far the best outcome for SEEK shareholders was for the existing team to manage the portfolio in a new highly aligned structure.

Governance arrangements of the Trustee, Fund and Manager

The Trustee is a special purpose vehicle which is responsible for overall governance and oversight of the Fund. As long as SEEK has a 30% or greater economic interest in the Fund, it will have the right to appoint two of up to six directors of the Trustee. SEEK's initial appointees to the board of the Trustee are Graham Goldsmith and Ian Narev. The other initial directors on the Trustee board are Andrew Bassat, Raphael Geminder (representing the new investor group) and Adam Lindell.

As is usual, the Trustee has delegated the responsibility for day-to-day management of the Fund to the Manager, subject to the Trustee retaining decision-making power on key decisions impacting the Fund (such as raising capital, acquiring or disposing of assets above threshold values and the ability to terminate the management agreement for cause). The Trustee board's approval of key decisions impacting the Fund requires at least one of SEEK's two Trustee board members to vote in favour of the resolution.

Identification of assets transferred to the Fund and determination of value

SEEK has retained ownership of the investments which it believes have the greatest strategic alignment with its core operations (e.g. Zhaopin and JobAdder).

Each asset that will be transferred to the Fund meets three criteria:

1. It is not directly related to SEEK's core operating businesses;
2. It requires significant capital to achieve its long-term growth potential; and
3. Its founders and/or senior executives have strong relationships with the SEEK Investments team.

In addition, SEEK has a pre-emptive right in the event the Fund seeks to sell down its interest in Sidekicker, one of the seeded assets.

The Board considers OES better placed for longer-term growth if held in the Fund. This will allow for continuity of management and oversight from the SEEK Investments management team. OES will also benefit from synergies with the other education assets within the Fund.

As previously disclosed, SEEK's interests in OES and the ESVs are being transferred at an independently assessed fair value. The independent assessment was based on market and external benchmarks (including previous funding rounds for ESVs). The valuation methodology adopted was consistent with SEEK's previous ESV valuation approach (as outlined on page 122 of SEEK's FY20 Annual Report).

Reflecting the inherent challenges in valuing high growth businesses, SEEK can benefit from a value protection mechanism. If the Fund raises new capital at a higher implied valuation for the initial seeded assets (A\$1,215m) within 12 months of the commencement date of the Fund (subject to certain thresholds), SEEK will receive additional units in the Fund. There is no corresponding mechanism for SEEK to compensate the Fund if the value of the seeded assets falls.

Certain other assets that meet some, but not all, of the above criteria ("the Separately Managed Assets") will remain owned by SEEK, and be managed by the Manager on SEEK's behalf, and subject to SEEK's overall strategic direction. The Separately Managed Assets, which comprise primarily SEEK's holdings in Zhaopin and JobAdder, are subject to a different management fee structure (see below).

Management and performance fees

The fees that SEEK will pay to the Manager are split into management fees and performance fees and are different as between the Fund assets and the Separately Managed Assets.

SEEK as the foundation investor has (for the units in the Fund relating to the seeded assets) secured terms that are more favourable than observable industry benchmarks and the terms offered to the external investors, in a structure highly aligned with the interests of SEEK shareholders.

As a market reference, observable industry benchmarks for alternative asset management fees are approximately 2% base management fee and a 20% performance fee (carried interest) with an 8% hurdle rate.

Fee arrangements are summarised below.

| Relevant assets | Base management fees payable | Performance fees payable |
|---|--|---|
| Assets seeded by SEEK into the Fund and the Separately Managed Assets | Aggregate of A\$20m (equivalent to c1.1% of assets under management). Flat annual fees for first 5 years with no adjustment for CPI. However, in the event that Zhaopin is sold down within the first 5 years, the base management fees for the Separately Managed Assets will be renegotiated by SEEK and SEEK Investments and potentially adjusted down. | <u>Seeded Assets</u> European waterfall structure ³ 8% hurdle rate 15% performance fee ⁴ (carried interest) <u>Separately Managed Assets</u> Varying fee structures dependent on the asset. Zhaopin is the most material asset, with a variable fee capped at A\$25m if valuation is doubled (calculated at disposal or at year 5). |
| New capital (SEEK and new investors) | 1.6% of capital commitments per annum fixed annual for first 5 years. | European waterfall structure ³ 8% hurdle rate 17.5% performance fee ⁴ (carried interest) |

Base management fee

Base management fees payable by SEEK to the Manager have been set to reflect the direct and indirect costs of running the Fund, with no additional profit element. Further, the base management fees of A\$20m payable for (1) managing the assets seeded by SEEK into the Fund, and (2) managing the Separately Managed Assets, are in aggregate less than the previous cost to SEEK of managing these assets within SEEK.

³ Under a European waterfall structure, performance fees are calculated at an aggregate fund level and not payable on individual asset performance.

⁴ Management fees are taken into account when assessing the hurdle for the performance fees. No performance fee is payable below the 8% hurdle. The performance fee includes a 'catch-up' mechanism, which entitles the Manager to 50% of the incremental returns above the hurdle until it reaches the point at which the ratio of overall returns is split: (1) in the case of the seeded assets: SEEK 85%, Manager 15%; (2) in the case of the new capital: SEEK 82.5%, Manager 17.5%.

Fund performance fees

Performance fees are generally payable at the five-year anniversary of the Fund.

For performance fees to be payable at the five-year anniversary:

- Unitholders (including SEEK) who have been issued units for cash must have any requests for redemption of those units fulfilled; and
- SEEK must have had a reasonable opportunity to redeem units issued to it in respect of the seeded assets.

Performance fees are only payable after the 8% hurdle rate is exceeded, with calculation including the valuation at the time of transfer into the Fund plus all management fees paid. This mechanism ensures that unitholders recover the value of management fees before performance fees are paid.

Manager and unitholder alignment

The Manager's fee structure creates direct alignment with SEEK shareholders and unitholders in the Fund. If the management team of the Manager performs well and creates significant capital value for unitholders, it will be rewarded well. If the assets do not meet performance thresholds, the management team will earn significantly less than under the terms of their previous SEEK remuneration arrangements. To reinforce this alignment, members of the management team are also material unitholders in the Fund, owning in aggregate c5%⁵ of the units, making them (as a group) the second largest unitholder behind SEEK.

The Investment Management Agreement contains key person clauses to ensure Andrew Bassat's ongoing full-time involvement in the Manager.

Manager arrangements

The Manager is owned and managed independently from SEEK. This structure was put in place to ensure greater independence from SEEK, to provide the managerial autonomy needed for the Fund, and to enable the de-consolidation from SEEK of the Fund's loss-making businesses.

The constitution of the Manager states that the Manager intends to pay out all its income to employees and to meet other costs of running the Fund. The Fund documents also include the following provisions:

- Management fees payable by SEEK to the Manager on the seeded assets and the Separately Managed Assets reflect the actual cost of running the Fund and are not set at a level where the Manager will make a profit.
- The Manager cannot change its core business of providing management services to the Fund and SEEK, or raise significant amounts of additional capital, without the approval of the Trustee board (including at least one of SEEK's two Trustee board members).
- Until the five year anniversary of the Fund (the time at which redemption opportunities are provided), approval of the Trustee board (including at least one of SEEK's two Trustee board members) will be required for a sale of shares in, or the operations of, the Manager to a party unrelated to the Manager or its employees, or for the Manager to make distributions to its shareholders.

⁵ Based on Andrew Bassat and the SEEK Investments management team's investment (cA\$80m) in the First Capital Raise divided by A\$1,215m portfolio valuation + A\$200m SEEK capital + A\$260m external capital. Ownership interest of c5% assumes all committed capital is fully drawn.

Liquidity in the Fund

There are two main ways that SEEK can achieve liquidity in its units in the Fund:

1. SEEK has the right to transfer any of its units in the Fund to a third party (subject to customary pre-emptive rights given to other unitholders, and certain other customary terms) at any time; and
2. At or around the five year anniversary of the Fund, SEEK will have the ability to request cash redemption at an independently determined fair value of:
 - 25% of the units it will be issued in relation to the seeded assets; and
 - Up to 100% of the units it will be issued in the First Capital Raise.

The Fund must use reasonable endeavours to satisfy any such request by seeking replacement capital for the Fund.

As noted previously, for performance fees to be payable at the five-year anniversary:

- Unitholders (including SEEK) who have been issued units for cash must have any requests for redemption of those units fulfilled; and
- SEEK must have had a reasonable opportunity to redeem units issued to it in respect of the seeded assets.

Accounting and reporting considerations

The Fund will operate independently of SEEK. Once the Fund draws down all of the capital committed in the First Capital Raise, SEEK is expected to own c84.5%⁶ of the Fund.

It is expected that the Fund will cease to be “controlled” by SEEK for the purposes of relevant accounting standards at some point in the near future. From that time, it will no longer be consolidated by SEEK. SEEK will thereafter account for the Fund as an “associate” and will recognise “fair value” movements in its income statement to reflect revaluations of the Fund’s investments every six months.

Until such time as SEEK ceases to “control” the Fund, SEEK will only recognise relevant profits and losses as a single line through the SEEK consolidated income statement, with further detail provided in the segment disclosures of the statutory accounts. This treatment is in line with the “discontinued operations” accounting treatment.

In subsequent reporting periods, SEEK will continue to provide operating and financial data to help SEEK’s shareholders assess the performance of the Fund.

⁶ Based on A\$1,215m portfolio valuation of the SEEK seeded assets and completion of the transfer of those assets + A\$200m SEEK capital divided by A\$1,215m portfolio valuation + A\$200m SEEK capital + A\$260m external capital. Ownership interest of c84.5% assumes all committed capital is fully drawn.