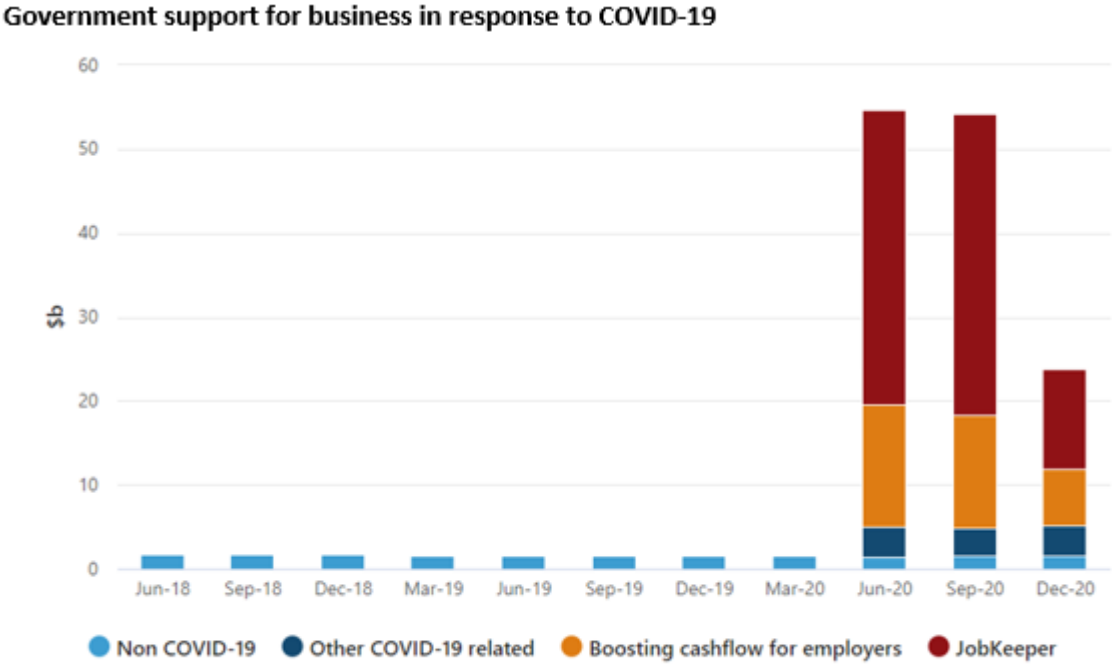
Wavestone ESG Activity Report - 2021

ESG activity – March quarter 2021

A key recurring theme during the February 2021 reporting season was how Australian listed companies handled JobKeeper payments received from the Australian Federal Government. Given our approach to corporate governance and social factors, we have scrutinised the behaviour of our investee companies, as well as the broader universe.

The JobKeeper initiative has fulfilled its intended economic purpose in response to COVID-19. The scheme has resulted in most Australians keeping their jobs and improved business confidence and working capital for corporates. According to the ABS, ~$83bn of JobKeeper payments were paid in the 9 months to 31 December 2020, with industries such as Arts & Recreation services and Accommodation & Food services receiving higher JobKeeper payments relative to compensation of employees. This is not surprising given these industries have been hit hardest by the pandemic.



Source: ABS

We applaud the corporates that chose to hand back the JobKeeper payments to the Australian government – some of which come to mind includes **DMP**, **SUL, JBH, COH, QUB** and **CKF**. The latter three companies are held within the Funds. Nick Scali (**NCK**) initially intended to keep the JobKeeper payments despite delivering 100% underlying net profit growth, until intense media scrutiny saw the company change their stance and $3.6m of wage subsidies were paid back to the Federal Government.

Some companies were not as forthcoming as those listed above, choosing to keep the payments despite posting record levels of profits; this includes some names such as **APE, HVN** and **PMV**. None of these companies are held in the Funds. On top of this, record levels of dividends were paid out to shareholders in some cases.

In terms of our holdings, **LOV**, **IEL** and **SYD** received JobKeeper payments that were not returned to the Federal Government. We discussed this with each respective management team during their results roadshow and came to the conclusion that unlike the companies mentioned above, these companies relied on JobKeeper to keep their staff employed and were arguably the intended recipients of the wage subsidy given their profitability fell sharply during the period.

In **LOV's** case, parts of their retail store network were closed throughout the year as lockdowns impacted their ability to trade and the business did not have a substantial online business to offset the large fall in sales. **IEL** only received ~$5.8m in government wage subsidies representing less than 8% of their total labour costs during the period, mainly due to the fact that **IEL** is a global business and has staff in multiple jurisdictions.

We believe that the scrutiny applied on the treatment of the JobKeeper payments gave us further insight into the corporate DNA of our investee companies.