**Methodology**

OpenDirector ranks directors based how the company shares performed while that director was a board member of company.  Caution is advised when interpreting the information as ranking a director using any method is subjective.  A low ranking of a director based on share performance does not mean the director has been a poor director.  Many other considerations should be taken into consideration to before reaching a judgement of a director. OpenDirector should be viewed a piece of the jigsaw puzzle, not the picture,

The ranking of a director or share performance can be calculated in various ways.  This is the reason OpenDirector offers three different methodologies, one of which is our preferred method.

OpenDirector creates a number of indices against which it compares and ranks a director's company(ies) performance.  OpenDirector's indices are "equal weighted total return indices".  Each company has the same percentage weight in the index, and total returns include dividend reinvestments and capital reconstructions.

**Removing Index Bias**

OpenDirector aims to remove index bias that distort the ranking outcomes.  OpenDirector's preferred ranking methodology aims to remove:

- Large cap bias
- Dividend paying versus non dividend paying bias
- Sector bias

OpenDirector prefers to avoid using common major indices, like the S&P ASX 200.  These popular indices have four important weaknesses.  Their returns are disproportionally dominated by the larger companies (large cap bias), many fail to include dividend payments, and almost all fail to take into consideration wealth generating (or destroying events) in their capital from asset splits. Finally, many indices are too broad in their composition, whereas directors must deal primarily with the issues most influencing their industry sector.

***OpenDirector removes the "large cap" bias by giving every company an equal weighting in the index.***

Many of the popular indices are also not total return indices.  The value of a company is not just the change in share price.  OpenDirector also takes into consideration the value of dividends and any capital reconstructions (capital issues, divestments etc) that impact the value from owning that companies share.

***OpenDirector's indices assume that dividends are reinvested tax free on the ex-dividend date.***

OpenDirector also aims to remove the sector bias when ranking a director.  Sectors within the economy perform better or worse of different time periods.  Directors have limited influence on the economic impacts.  OpenDirector prefers to company a company's performance with other companies in a sector. For example, OpenDirector would prefer to see how a company in the minerals sector performs against all companies in the mineral sector. OpenDirector prefers not to penalise or enhanced a director's performance because the minerals sector outperformed or underperformed the wider share market. Directors on companies in the retail sector should be compared with directors in the retail sector. Directors in the minerals sector should be compared to directors in the minerals sector.

**OpenDirector's looks at director's company's performance compared to the industry sector of the company (GIC – General Industry Classification)**

**Directors on Multiple Boards**

About 230 directors are on more than one board. Furthermore, many directors have been on different boards at different times. OpenDirector's ranking methodology takes these factors into consideration.

Directors on multiple boards have their company return's weighted at the start and then allowed to accumulate. For example, a director on two companies starts off with a 50% weight allocation to each company. Each company's return is allowed to accumulate. At the end of the period the two returns are summed. The returns are not rebalanced during the period.

The cumulative positive or negative returns are rebalanced when a director joins or leaves a company board. For example, imagine a director on two boards who then joins a third board. At the time the director joins the third board, the returns of the other two boards are summed, and then divided by three to allocate to the three companies the director is now on.

OpenDirector appreciates that there are alternative views on rebalancing, including monthly or daily rebalancing. OpenDirector believes any rebalancing methodology has its strengths and weaknesses. OpenDirector will create additional ranking methods if clients prefer a different methodology.

**Comparison Indices**

OpenDirector creates many indices it uses as a comparison for directors' performance. These indices are all total return equal weighted indices and include:

- Top 200 companies
- Sector returns
- All male or female directors
- All CEOs, independent directors, executive directors, chairs, multiple board directors,
- All directors on the same board or same sector

All these returns are equal weighted and by necessity rebalanced monthly.