

BOARD MEMBER HANDBOOK



A perspective on the role of a high-performing board and its members for prospective portfolio non-executive directors and current directors.



Introduction

One of the greatest lessons we have learned over our investing careers is the power of a high-functioning and aligned board. We believe it is a critical and necessary component in great business outcomes. A strong, positive culture starts with the leaders of an organisation. The board serves a key leadership function.

Historically we have sat on the boards of about one third of our portfolio companies at any point in time. Currently, we sit on one public board and five private boards, all of different sizes and stages in the growth cycle. We take the job very seriously. We revel in the opportunity to roll up our sleeves and have a real impact. We may also be offered board observer seats, which we approach with a similar rigour even though these seats do not have formal voting rights.

Each director on a board brings a unique set of experiences, perspectives and skill sets to their role. That said, we believe that the most effective boards and board members share some common attributes.

The purpose of this memo is to outline TDM's perspective on the role of the board, how we think about ideal board composition, and best practices for non-executive directors ('NEDs').



Role of the Board

It is one of our deepest and longest-held beliefs that a board's job is to enable the business to grow the right way. This involves two complementary perspectives: (1) Understanding and operating within best practice governance principles; and (2) Acting in the best interest of all shareholders by ensuring a focus on maximising earnings growth over the long term.

Ultimately the positive power of the board is determined by the individuals who sit on it. We have been lucky enough to work with many wonderful directors over the years. Witnessing the great ones in action has only deepened our belief in their positive power — like watching a professional sportsperson at close quarters, it is very quickly obvious how much better they are than the average amateur or aspiring athlete.

The most effective boards play three critical roles:

1. **Drive alignment:** The most foundational role of a board is to ensure alignment with and between the key stakeholder groups. This includes alignment between the company and its shareholders, alignment between the board and management team, alignment within the board and alignment within the management team. Each of these groups needs to be aligned around mission, values, strategy, priorities, resourcing and incentives. This does not mean shying away from rigorous debate and discussion. Rather, it means the board is accountable to ensure clarity in decision making. Misalignment creates unnecessary distractions for the board, CEO and management team. It impairs the ability of the company to execute. In extreme cases of misalignment, we have had to play a role in replacing several board members at one time and even founders.
2. **Back the right CEO:** Alongside driving alignment, ensuring the company has the right CEO is the most critical role of a board. We often say 'having the right CEO solves 90% of the problems'. However, we believe getting this right is the minimum impact bar. What becomes more important, once committed to this person, is the obligation of board members to dedicate time to their development and to support them to the best of their ability. Our modus operandi is to be 'all in' on supporting



the CEO until they are no longer in the job. We have a role to play challenging and offering different perspectives, but we believe it is critical to empower the CEO, and to 'align and commit' on contentious issues. We have hard conversations with our CEOs and they always know exactly where we stand.

3. **CEO and executive 'sounding board'**: Effective boards act as a sounding board and resource on a wide range of issues to the CEO. This is not a 'forced' relationship but one that is driven by the CEO as their trust and the demonstrated value of each board member builds. Ideally, boards will have a breadth of skills, prior experiences, and traits that are valuable to the broader executive team as well. Often being one step removed from the operations, mixed with these broader experiences can allow for valuable input and advice, particularly when it comes to making the hard decisions and tradeoffs. These conversations are usually on a one-to-one basis outside of the usual board meeting cadence.

Pairing NEDs with senior leaders as 'sounding boards' based on domain expertise can amplify the impact of the board. Most importantly, the board has to create an environment of psychological safety. The CEO and management team must feel comfortable proactively and transparently raising issues, concerns or questions.

Board Composition

We think of the board as a team. We care about the chemistry, cohesion and level of trust within the board team. We look to thoughtfully combine a diversity of skills, backgrounds, styles, gender and other attributes required to best serve the company. In our experience, the following is critical when thinking about overall board composition:

- It is vital to have an effective Chair or lead director. This is a time-intensive role, especially in more challenging times for the business. In most cases, we prefer this to be a director who is not currently in an executive role such that they have sufficient time to dedicate consistently, week in and week out, and to flex up when required. A director who has other executive responsibilities – for example, is the CEO or CFO of another business – may also be an effective chair, but needs to be very mindful of the



time commitment required to fulfil the chair role and ideally has relevant domain expertise to the business.

- Board members who care deeply enough to make a difference and have sufficient time to invest in the organisation (i.e. at least 1-2 days/month) can be more effective than more experienced directors who are time-poor and/or who don't take an ownership mentality.
- The diversity of the board is critical. As with any team, the key is the right combination of individuals and actively refining how they work together to achieve great outcomes.
 - In terms of gender, 50:50 should be the goal, but at a minimum we expect to see at least two female directors on a board.
 - We believe both investors and operators have valuable roles to play on a board.
 - Investors with focus, time and resources will add to a board mix. Put simply, in the investor community you will find people to whom the company's success means so much that every day, they will think about the business and how they can help. This is a scarce feature in most boards. In addition, having investors on the board with the capital to support the business can be especially valuable in tough times.
 - Past or current operators bring deep and practical experience to the board. These board members bring an understanding of the challenges and constraints in scaling a business. While they often have specific domain expertise that is relevant, much of their value comes from leadership lessons they learned first-hand in building their own organisations and having a greater ability to see around corners.
- We have found that most boards are very skills matrix oriented, but sometimes overlook the other attributes which lead to a great board (see more detail below). In our experience, these other attributes can be harder to assess than specific skillsets because you can't simply gauge them by looking at a CV.



- In terms of board size, we typically suggest a total of six to eight directors (including the CEO if they are a director) as the right number to ensure sufficient diversity around the board table without being too big that discussion and debate are cumbersome to manage. Nine directors is the absolute maximum number where a board can function appropriately.

Attributes of an Effective Director

Why skills matrixes don't give you the full picture

The most common method of determining the value of a director on any board is via the application of a skills matrix – what specific skills the potential or current NED can bring to the board. The hope is always that across the entirety of the board, there will be enough diversity of expertise and experience to ensure strong coverage across the entire matrix.

An example of a standard skills matrix is attached in the appendix.

However, when the focus is on a skills matrix alone, it can in many respects become a 'box-ticking exercise' and overlook other important aspects of board composition. For example, we are of the belief there is a need to establish a hierarchy of the importance between skills, and also some account for the cohesion of these skills that in certain individuals can create outstanding leaders.

Perhaps unsurprisingly then is that we much prefer to think the most effective directors have a rare combination of **attributes** – be it skills, character traits or mindset – that allows them to positively impact the outcomes around the board table.

Below are specific attributes that are important for successful growth company NEDs which, in aggregate, are not easy to find. **The hardest (and most important) attribute to find is to have a NED think like an owner** and for them to deploy the significant time, energy and mindshare that allows them to align this mentality with their actions.



Core Attributes	Comments	Minimum # of Directors
Ownership mentality	Will have an owner's mentality – will they think about the business on the weekend? Own at least 5x their director's fees in shares.	All
Passion for the mission	Cares deeply about the impact the company is trying to have on the world. Is motivated beyond financial outcomes to see the business succeed. Has a deep empathy for the customer and is able to stand in their shoes.	All
Acute commercial judgement & acumen	Able to contribute to sound commercial decisions regardless of domain expertise.	Most
Knows their lane and when to stick to it (and when not to)	Knows the areas where they have an ability to provide differentiated value. Sufficiently confident to express vulnerability in the boardroom.	Most
Independent thinker	Independent in thought, and from management, but not from shareholders. Has the willingness to have the courage to make the tough decisions and have the tough conversations.	Most
Great team player on high-performing team	Has a strong track record of being involved in high-performing teams. Has the skill to ask the right question, the right way, at the right time, and then be willing to listen to the response.	Most
Available to devote sufficient time	For most board members, this is at least 1 day per month. For the chair or lead NED, this may be up to 1 day per week. The board can accommodate some people with less time availability but there must be offsetting high-impact value-add.	All
Experience at scale	Has played or is playing a significant role in an organisation that has successfully scaled and is relevant to the business.	Most



We believe **all** directors must have an owner's mentality, a passion for the mission and be great team players. The other attributes need to be well-covered by the board in aggregate, but they are not requirements for every director. For example, a board may accommodate an outstanding but time-poor female domain expert. However, it would be an issue if 100% of the board is time-constrained.

Operating as a High-Performance Board Team

There are three key components to operating as a high-performance board team:

- 1. Leadership:** A high-performance board needs a non-executive leader playing the role of team captain. This can come in the form of a lead independent (LI) or Chair. The board leadership role is the primary liaison between the board and the CEO and primary support to the CEO. As such, they should meet with the CEO weekly or fortnightly. The Chair or LI is also responsible for setting and managing the agenda of meetings, as well as the meeting cadence. They are also primarily responsible for managing the quality of discussion in board meetings, ensuring all participants have the opportunity to share their views and questions.
- 2. Relationships, understanding and trust:** Where possible, we encourage our portfolio companies to hold in-person board meetings. While the ability to meet virtually is useful at times, we believe it is important for board members to invest time meeting face-to-face with their fellow directors and the management team. We also encourage our boards to spend time together outside of board meetings to build relationships, understanding and trust. This can be built in board meetings, but we have found less formal interactions and shared experiences accelerate relationship and trust building. We recommend that non-executive directors meet regularly as a group prior to every board meeting to discuss the key issues and priorities, as well as building in NED-only 'in camera sessions' at the end of each board meeting to reflect and discuss potential next steps. In addition to formal communication channels, informal channels, like board or board and management team WhatsApp



groups, facilitate friendly banter between board meetings and can be used to celebrate wins like landing an important new customer or a major product release.

- 3. High-quality discussions:** High-quality board discussions are essential. We want management teams to look forward to board meetings. We want them to feel psychologically safe but also that the board challenges them to perform at their best, and that they derive significant value through their interactions with the board. The non-executives on the board are, for the most part, responsible for the quality of board discussions through the questions they ask the CEO, management team and each other. We find the best discussions almost always occur when the board is together in person.

Roles on the Board

We set out below an indicative split of time for a high-functioning board. Importantly these time allocations are never the same month-to-month and there are large spikes in effort depending on requirements in the business.

The table is designed to show 1) the huge aggregate effort that effective boards deploy and 2) the fact that a lot of the work is ad hoc and responsive to situations in the business - current CEO needs for instance. We also find that many boards underestimate the 'hygiene' workload associated with making sure executive remuneration is run properly and the basics of governance are done.

Note, the times specified refer to aggregate board time commitment, which is sometimes a multi-director shared workload and sometimes a single contributor.



Minimum Aggregate Board Time Commitment By Function

Key Function	Estimated Average Time per Month	Chair or NED Fulfilled?
Board meeting leadership (including pre-work to drive effecting outcomes)	2 hours	Chair
Ensuring alignment between board and CEO	2 hours	Chair
CEO development	2 hours+	All (but chair to lead)
Audit committee function	1 hour	NED
Remuneration committee function	1 hour	NED
Board recruitment	1 hour+	NED
Executive recruitment	1 hour+	NED
Ad hoc assistance to CEO and other executives – projects, etc	1 hour+	NED
Monitoring the business on behalf of all shareholders (discharging fiduciary duty)	5 hours+	All



How TDM Can Help

When we recommend someone to be placed on a board either alongside or to represent TDM, we endeavour to set up the right communication channels and cadences such that the appointment is successful, and the nominee director can tap into the full resources of TDM.

While each situation is specific, a typical arrangement may look like the following:

- **Director & CEO relationship:** we encourage directors to agree on a regular cadence to engage with the CEO outside of board meetings. We recommend speaking at least monthly.
- **Director & TDM relationship:** we will establish a regular touch point between the director and the TDM portfolio company team leader on a regular basis. This may be fortnightly or monthly as required.
- **TDM portfolio company team membership:** we will invite the director to join the portfolio company team Slack channel and to participate in weekly standups, as appropriate.

TDM is a hands-on investor and seeks to provide support to our portfolio companies where possible. This assistance and support is always at the discretion of the CEO and Chair, with the intention of having better discussions at a board and management level, and ultimately attempts to fast-track better outcomes for all stakeholders. We commonly provide support in the following areas:

- **Maturation of board practices:** We often help with the uplift of board materials as well as the agenda and structure of the board meetings. We provide detailed feedback on the quality of board packs and ensure that the requisite roles on the



board are being fulfilled. We may propose changes to some of these roles, including the Chair role, if necessary.

- **Recruitment of NEDs and senior executives:** We assist by identifying and introducing potential candidates and by participating in the interview process. In some cases, we have led search processes.
- **Remuneration:** We provide advice on the structure and composition of executive team compensation and alignment of incentive structures. This may include compensation benchmarking, and the design of short and long-term incentive plans.
- **Financial reporting uplift:** We assist the CFO in improving the structure in which financial and operating metrics are presented to the board. This may include the definition of key business metrics and leading indicators.
- **Governance:** We provide guidance in establishing or restructuring committees (e.g. audit & risk, remuneration, etc.) to ensure that the appropriate governance structures are in place. We may help the company establish risk management processes and registers and appoint new auditors.
- **Strategic planning:** We assist the business in establishing appropriate strategic planning cadences. This may include facilitating strategic planning workshops, building long-term financial plans, and implementing strategic frameworks. We also produce 'Good, Better, Best' frameworks for our portfolio. These are long-term, multi-month deep-dive projects that TDM undertakes to deeply understand what great looks like particular to portfolio business.
- **Public to private transition:** We support the business to prepare for an IPO when the time is right for that business. This may include financial reporting and modelling, investor communication and presentations, pricing/valuation considerations,



preparatory projects, risk frameworks, project planning/timing considerations, and the appointment of advisors.


- **Global best practice:** Our experience investing in both public and private companies positions us uniquely to assist and improve decision making with insights and data gathered from our global perspective. TDM also leverages our global networks and portfolio to improve business outcomes, including the identification and facilitation of best-of-breed technology partnerships.
- **Special projects:** We provide support on a wide range of projects including strategy development; Vision, Mission, Values development; M&A; capital raisings; the selection and implementation of business-critical systems; considerations in relation to launching new products or markets; and the engagement of consultants for specific operational projects.

As part of our regular dialogue, we can align on how TDM can best deploy its resources to support the business.



APPENDIX:

Standard Skills Matrix Example

Skills and Experience	Description
 <p>Customer focus</p>	Experience in developing and overseeing the embedding of a strong customer-focused culture in large and complex organisations, and a demonstrable commitment to achieving customer outcomes
 <p>Strategy</p>	An ability to define strategic objectives, constructively question business plans, oversee the implementation of strategy using commercial judgement and bring a global perspective to bear
 <p>Financial acumen</p>	Highly proficient in accounting or related financial management and reporting for businesses of significant size
 <p>Risk</p>	Experience in anticipating, recognising and managing risks, including financial, non-financial and emerging risks, and monitoring risk management frameworks and controls
 <p>Technology, digital and data</p>	Experience in developing and overseeing the application of technology in large and complex business, with particular reference to technology-innovation, disruptive technologies, data, cyber-security, digital transformation and customer experience
 <p>Governance</p>	Experience as a Director of a listed entity, with detailed knowledge of governance issues, with particular reference to the legal, compliance, regulatory and voluntary frameworks applicable to listed entities and highly regulated industries





Environment and social

Experience in understanding and identifying potential risks and opportunities arising from environmental and social issues, including the transition to a climate resilient future, management of biodiversity, and addressing human rights and modern slavery within supply chains



People and culture

Experience in people matters including workplace health and safety, cultures, morale, inclusion and diversity, management development, succession, remuneration and talent retention initiatives



Executive leadership

Having held a CEO or a similar senior leadership role in a large complex organisation, and having experience in that position in managing the business through periods of significant change and delivering desired business outcomes

Core Attributes of an Effective Director

Ownership Mentality

We have publicly stated our belief in the importance of skin in the game for directors, with a rough heuristic being that they own 5x their fees in shares in the business. This alignment with shareholders in our view is immensely powerful — and a wonderful signal that they are deeply incentivised to maximise shareholder value through long-term earnings growth.

As a director, if you own shares and have a long-term perspective, you will experience greater rewards from the company's long-term success. Conversely, you will experience greater pain from the company's failures. That is a great alignment of interests and a motivator to work tirelessly to build world class businesses.

The great, high-performing non-executive directors, regardless of their quantum of direct ownership, frame all their thinking through this ownership mentality. Their lens for decision making and adding to board discussions is with a genuine interest in growing the business. They have a deep desire to help produce better outcomes across the business.



Directors with a strong ownership mentality commonly also demonstrate a bias for action. These directors often play a valuable role in driving the board and the CEO towards making impactful decisions, even in times of uncertainty. Where this attribute is scarce, boards can be prone to procrastination or flip-flopping in relation to difficult or sensitive issues. The lack of clarity that flows from delaying, or not making, important decisions can be demoralising for the executive team and exacerbate issues. The most effective directors will push towards making decisions and taking action.

It is this ownership mentality that enables the best directors to allocate energy to the business every day, not just 24 hours in advance of the board meeting. Because of this commitment of mental capital, the great NEDs come to meetings prepared, ready and willing to engage, ensuring meetings are of the highest quality that they can be. Sometimes this may limit the number of boards that these NEDs are willing to commit to, as they are always mindful that they don't want to spread themselves too thinly, leaving them unable to drive the outcomes that they and the business want to achieve.

Passion for the Mission

Related to ownership mentality, the most effective NEDs care deeply about the purpose of the company and the impact the business seeks to have on the world. These directors go above and beyond the minimum requirements and expend significant discretionary effort to understand the systems and communities in which the business operates. TDM believes in 'one mission, one platform' which is an idea that truly great category leaders have one very clear mission to achieve and one purpose-built platform to achieve it. The best directors not only ensure the company mission is crystal clear, but also that there is complete strategic alignment in achieving this mission.

In addition, the great NEDs spend time understanding the culture of the organisation and the senior leadership team to ensure that it is in alignment with the mission of the company. These NEDs invest time getting to know key leaders and individuals in the organisation, and will spend time participating in key company events. They care about the employees of the organisation and promote investment in people and culture initiatives that support the experience and growth of the employees.



Customer Empathy

The best businesses have customers at their core. This means they consider how their decisions and actions will impact the experience of their customers. For board members, it is critical to be able to step into the shoes of customers to understand how they will be impacted by, and feel about, strategic decisions made by the board. In the life of every company, there will be times when the board will have to make difficult decisions that impact different stakeholders of the business. The best NEDs will ensure that the voice and perspectives of the customer are represented in these moments. And in doing so, the right course of action often becomes very clear to the rest of the board and management.

Acute Commercial Judgement and Acumen

The great NEDs, regardless of background and domain expertise, all have clear commercial acumen and judgement. Often this may mean they are current or past operators. We have seen current operators, undoubtedly time-poor, choose to intertwine themselves into the fabric of the business, and their impact is felt well beyond the board room. This is only possible because of the fact that their business acumen transcends industry, and quickly allows them to be a part of sound decision making.

Knows Their Lane and When to Stick to It (and When Not to)

High-impact NEDs are self-aware and know the areas in which they can add the most value. They will ensure their domain expertise is utilised and leaned upon at the right times. Importantly, this focus creates a purposefulness to the deployment of mental capital, and high-impact NEDs do not waste valuable intellectual resource (and time) on areas they are not an expert in.

Where the conversation is deep into a domain in which they are not an expert, a great NED will listen openly and deliberately pick the time to share a view only if it is value-additive to the conversation. A great NED is willing to show vulnerability and ask the 'stupid question' which may in fact expose an issue that has been missed.



Respect for other people's 'lane' is key to a high-functioning board. This is often why we love high-achieving current operators on our boards — because they are time-poor, they direct their input and mental energy into where they can, in fact, make a difference.

Independent Thinker

Great NEDs in a high-functioning board are independent thinkers, not followers. They are acutely aware of the duality of this independence — that is, they must be independent in thought, and from management, but not from shareholders. Great NEDs are crystal clear in their role to represent shareholders and ensure that earnings grow over time. To do this, they will think and act like an owner of the business.

Great Team Player on a High-Performing Team

Like all great teams, the whole needs to be much greater than the sum of the parts. The best NEDs will create value through their interactions with the Chair, other directors and the senior management team. When it comes to boardroom synergies, often it comes down to the quality of the questioning and the skill of directors to ask the right question, the right way, at the right time, and a willingness to listen to the response. Great NEDs ask thoughtful follow-up questions which are helpful in providing clarity for others around the table.

A NED should be encouraged to play devil's advocate and look for blind spots in strategy, risks or management reporting. This must always be done in a constructive manner. You can't underestimate the positive impact a NED can have with constructive disagreement, with the caveat in our minds that they are willing to help find a solution. A great NED won't 'fire bullets' unless they are also willing to get in, get dirty and clean up the mess, with a general willingness to assist management as required to ensure that things get back on track. It comes down again to being invested (mentally and financially) to ensure the right outcomes for the business are achieved.

In our experience, the best board members are good or great in the good times, but even better in the tough times. It is in times of crisis or adversity that strong directors really show their value. They lean in to support the CEO and management team and encourage the board to make decisions to provide stability and clarity for the organisation. We have seen many of



the most vocal directors in the good times shy away into the shadows when things get difficult. In contrast, the best directors step forward at these times.

