

## SENIOR TRUST MANAGEMENT LIMITED

### OUTSOURCING POLICY

#### **Outsourcing - Definition**

Outsourcing means the transfer of core day to day business operations, that we might otherwise reasonably undertake, to an external service provider. All outsourcing decisions are also governed by the same rules and guidelines that apply to procurement.

Examples of outsourcing are transaction processing, Fund accounting and Registry and the management of our IT infrastructure by an external provider.

We recognise that we retain ownership of the risks although the activity is transferred, and all outsourced activities must be compliant with any legislative and regulatory requirements and any requirements of our MIS Licence and NZX listing.

#### **Reporting**

We will report to the Board business cases for procurement and outsourcing of new major contracts and services or when significant changes to existing contracts takes place. Additionally, an annual update to the Board will take place on all outsourced arrangements at the beginning of each calendar year.

#### **Outsourcing Framework**

An outsourcing relationship is similar to a partnership. Regular arms-length transactions with vendors or contractors for day to day purchases of goods or services are not considered outsourcing relationships and are not covered by this framework. Whether a relationship is an outsourcing relationship is a matter of judgement. Consideration to the following matters will inform the decision to outsource:

- Capability of an external party to perform the outsourced process
- Cost benefit analysis
- Risks around outsourcing the process
- Efficiency of outsourcing the process
- Is outsourcing the process consistent with best practice?

Any outsourcing decision that involves expenditure on the outsourced service must be approved by the Board. Outsourcing relationships selection criteria should also consider the suppliers' abilities in the following areas:

- Specialisation
- Reputation;
- Support of the industry;
- Internal controls;
- Information delivery;
- Environmental track record;
- Level of insurance cover and
- Culture.

### **Risk and Relationship Management**

We retain ownership of any risk even if a business process has been outsourced. Consideration should be given to any risk arising from the concentration of services with one supplier. Appropriate due diligence must be carried out on the outsourced provider including a site visit and reference checking. A checklist for outsourcing agreements which covers many of these items is attached as appendix B. A schedule of current outsourcing arrangements is attached as appendix A

### **Board Approval of Policy**

Version 1 approved 6/12/2016

Version 2 approved 26/1/2018

**Appendix A**

**Schedule of Outsourced activities by Senior Trust**

<u>Supplier</u>	<u>Outsourced Activity</u>	<u>Owner</u>	<u>Comment</u>

Note: This schedule is for illustrative purposes only.

## APPENDIX B

### CHECKLIST FOR OUTSOURCING AGREEMENTS

---

This checklist will help ensure that all relevant clauses in an outsourcing agreement are included or considered. Please ask your lawyer to review any agreement or contract before signing it.

#### Definition of the relationship, goals and objectives of both parties

- Exclusive of other vendors
- Protect market position of customer

#### Scope of services to be provided

- Define services and deliverables to be provided to customer by vendor
- Define services excluded
- Define service levels (i.e., performance standards) and remedies
- Provide for modification of service levels from initial levels upon execution after conversion to vendor operations
- Provide for milestones and project schedules (time phased, person loaded)
- Scope of vendor's authority

#### Term of agreement

- Renewal periods

Automatic renewal

#### Personnel

- Staffing requirements
  - On customer site/off customer site
  - Vendor right to change personnel
  - Customer right to approve personnel

- Specific obligations of vendor regarding vendor personnel
  - Confidentiality
  - Non-compete
  - Guaranteed service period for certain personnel
  - Succession planning
  - Mix of staff levels
- Vendor to offer employment to customer's work force
  - Define employees to be transitioned
  - Parameters for offers of employment
- Employee transition plan

#### **Use of customer facilities**

- Vendor to provide services from customer premises until specified date for conversion to other facilities
- List of equipment and services at facilities available for vendor use
- List of facilities square footage and rate to be paid, if any for use by vendor
- Vendor access to customer facilities
- 24 hour/normal vendor working hours
- Security issues
- Relocation of vendor

#### **Customer owned equipment**

- Purchase of equipment owned by customer used to perform the services
- List of equipment/depreciated value
- Disposition of equipment subject to capital leases
- Obligation of customer to provide or acquire certain equipment

#### **Customer leased equipment**

- Vendor permitted to use equipment leased by customer to perform the services
- Customer to terminate or assign leases for the leased equipment
- Customer to exercise option to purchase equipment under terminated lease and sell to vendor at cost

### **Data Processing services**

- For customer owned intellectual property
  - Customer grants vendor license to use customer owned intellectual property for term of the agreement or until conversion of services using other intellectual property, if contemplated by parties
  - Assignment to vendor of licenses for non-customer owned intellectual property to be used to provide services
  - Termination of licenses for intellectual property not required by vendor to perform services
  - Obligation for integration, new products
  - Cost of correction of processing errors

### **Vendor intellectual property**

- License to use/included as part of services
- License with respect to termination
  - Bankruptcy issues
  - Substantive license issues (scope of use, updates, warranties, etc.)

### **Third party services**

- Customer to assign agreements for third party services to vendor
- Vendor responsible for cost of third party services
- Vendor to have the right to replace third party services with its own services or services of a third party of its choice

## **Management of projects and other services**

- Appointment of project managers by vendor and customer to be principal liaisons between parties
- Respective roles of parties (e.g., establishing priorities)
- Management planning
- Acceptance testing of vendor deliverables

## **Customer responsibilities**

- Establish priorities
- Delivery of data
- Training
- Forms/documents/supplies/consumables

## **Confidentiality obligations**

- Customer business information/data
- Vendor business information
- Intellectual property of either party or its licensor

## **Customer data**

- Security
- Right of customer to obtain data at any time
- Back-up procedures

## **Procedures to change scope of services**

- Customer right to change priority or scope of vendor's services/effect on rights and obligations of both parties
- Procedures for requesting changes to vendor's services
- Different performance standards for changes

### **Conversion services**

- Development of a plan to convert from customer's procedures to vendor's procedures to provide services
- Rights and obligations related to performance standards
- Software or processing modifications
  - Scope
  - Approval by customer
  - Vendor obligations for updates, legal and regulatory changes

### **Training**

- Training for customer personnel
  - Full training/"train the trainer"
  - Daily/hourly

### **Fee structure**

- Fixed time/time based fee/volume based fee
- Basis of calculation
- Credits/reimbursements to customer
- Expenses
- Cost of living adjustment
- Fee schedule based on milestones
- Late fees/payment and billing/disputed amounts

### **Liability issues**

- Limitation of liability
- Warranties regarding services/products/personnel



- Disclaimer of warranties
- Indemnities

### **Termination**

- Specific rights
- Right to extend for limited time upon termination
- Termination assistance
- Transitional rights and obligations
  - Offers to personnel
  - Acquisition of equipment/software

### **Sharing of computer resources**

- Use of resources other than customer purposes
- Use by customer (if less than a full outsourcing)

### **Dispute resolution**

### **Assignment**

### **Insurance requirements**

### **Independent contractor status**

### **Restriction on hiring of other party's personnel**

### **Taxes**

### **Disaster Recovery/Force Majeure**

### **Audit issues**