

Outsourcing Policy

Version 3

17 March 2016

Status: Final

Contents

Outsourcing Policy	3
1. Introduction.....	3
2. Definitions.....	3
3. Application	4
4. Context.....	5
5. Objectives of Policy.....	5
6. STC must outsource investment, custody and administration	6
7. STC remains responsible.....	7
8. Roles and Responsibilities of the Board and General Managers.....	7
9. Decision to outsource	8
10. Selection of service providers	9
11. Due diligence and approval of potential service providers	10
12. Risk assessment and audit.....	11
13. Final approval	12
14. Material Outsourcing Agreement.....	12
15. Monitoring and review of service providers.....	13
16. Reporting	14
17. Emergency service provider appointments.....	15
18. Compliance Audits	15
19. Review and update of this Policy.....	15

Outsourcing Policy

1. INTRODUCTION

This document sets out SAS Trustee Corporation's policy in relation to the outsourcing of its Material Business Activities. Generally, this policy is to be adhered to. The Chief Executive Officer or the Board may approve **non-material** deviations from this Policy, provided always that:

- (a) the APRA content requirements for a material outsourcing agreement; and
- (b) the requirements of the *Superannuation Administration Act 1996* (NSW), the *Public Authorities (Financial Arrangements) Act 1987* (NSW) and any approvals granted pursuant to those Acts;

are met.

2 DEFINITIONS

The following terms are defined as follows:

"Board" means the board of STC.

"CEO" means the Chief Executive Officer of STC or their delegate empowered to perform a function on their behalf.

"Committee" means the committees created by the Board.

"General Manager(s)" means the direct reports of the CEO as recorded in STC's organisational chart from time to time.

"Material Business Activity" means a business activity that has the potential to, if disrupted, have a significant impact on STC's business operations (including all activities of STC), its ability to manage risks effectively, its ability to protect the interests, or meet the reasonable expectations, of beneficiaries, or its ability to protect the financial position of STC or the STC funds, having regard to such factors as:

- a) the financial and operational impact and impact on reputation of a failure of the service provider to perform over a given period of time;
- b) the cost of the outsourcing arrangements as a share of total costs;
- c) the degree of difficulty, including the time taken, in finding an alternative service provider or bringing the business activity in-house;

- d) the ability of STC to meet regulatory requirements if there are problems with the service provider;
- e) potential losses to beneficiaries and other affected parties in the event of a service provider failure; and
- f) affiliation or other relationship between STC and the service provider.

“**SA Act**” means Superannuation Administration Act 1996 (NSW).

“**SIS Act**” means Superannuation Industry (Supervision) Act 1993 (Cth).

“**STC**” means SAS Trustee Corporation.

“**Superannuation Investment Management Services**” includes (but are not limited to) the following:

- (a) managing investments for any superannuation fund or funds or part of any such fund,
- (b) advising on investments and investment strategies and other related strategies for any superannuation fund or funds or part of any such fund,
- (c) providing services in relation to the custody of the assets and securities of any superannuation fund or funds or part of any such fund.

3 APPLICATION

- (a) This Policy applies to the outsourcing of Material Business Activities. Material Business Activities for STC have been assessed as:
 - (i) investment management;
 - (ii) custody;
 - (iii) scheme administration; and
 - (iv) internal audit.
- (b) This policy needs to be considered together with the NSW Government rules in relation to public sector procurement.
- (c) This policy **does not apply** to:
 - (i) the outsourcing of non-Material Business Activities, however the NSW government rules in relation to public sector procurement continue to apply;

- (ii) any Mandated Investment Manager appointments; and
- (iii) any appointments made pursuant to an Order of the Treasurer relating to Superannuation Investment Management Services (e.g. an investment manager engaged by a Mandated Investment Manager to provide investment management services to STC).

4 CONTEXT

4.1 Obligations for RSE licensees

A RSE licensee is required to comply with Prudential Standard SPS 231 Outsourcing (**SPS 231**) when outsourcing Material Business Activities.

4.2 STC compliance context

- (a) STC was established under section 48 of the SA Act as a statutory body representing the Crown of New South Wales.
- (b) STC is exempt¹ from the RSE licensing regime as the STC schemes are exempt public sector superannuation schemes and are not regulated superannuation funds under the SIS Act.
- (c) Notwithstanding this exemption, STC is required to have regard to the Heads of Government Agreement² (**HOGA**). Accordingly, STC will conform, on a best endeavours basis, to the principles of the Commonwealth's retirement incomes policy as reflected in the Heads of Agreement, including SPS 231.

5 OBJECTIVES OF POLICY

The objectives of this Policy are to document STC's:

- (a) compliance with its HOGA commitments;
- (b) compliance with the SA Act;
- (c) approach to outsourcing Material Business Activities; and
- (d) performance management framework, review and reporting of all Material Business Activities and their service providers.

¹ Section 10 of the SIS Act defines a registrable superannuation entity as including a regulated superannuation fund. A regulated fund, as defined in section 19(7)(c) of the SIS Act, does not include a public sector superannuation scheme. As STC is the trustee of public sector superannuation schemes that are not regulated superannuation funds, STC is not required to apply for an RSE licence.

² The latest HOGA was signed in 2014.

6 **STC MUST OUTSOURCE INVESTMENT, CUSTODY AND ADMINISTRATION**

The principal functions of STC in the SA Act include the functions to administer the STC schemes, to invest and manage the STC funds, and to provide for the custody of STC scheme assets and securities. The SA Act prohibits STC from conducting the administration of the STC schemes itself or conducting any superannuation investment management services (which includes custody). The SA Act requires STC to contract with third parties to undertake these principal functions³.

6.1 **Investment function and the custodian function**

- (a) Under section 50(1)(b) of the SA Act, STC is required to invest and manage the STC funds. Under section 50(1)(c) of the SA Act, STC is required to provide for the custody of the assets and securities of the STC schemes.
- (b) In exercising its function of investing and managing all or part of a STC fund, STC must enter into a contract or an arrangement with an investment manager or managers who undertake to provide superannuation investment management services (which include services relating to the custody of the assets and securities of the STC schemes) to STC.
- (c) Section 54 of the SA Act ⁴ requires ministerial consent of the relevant Minister **before** STC can enter into a new investment management agreement or arrangement.
- (d) The Treasurer (with the approval of the relevant Minister) can order STC to contract with an investment manager approved by the Treasurer (referred to as a Mandated Investment Manager), as set out above. In such cases, this Policy will not apply⁵.

6.2 **Administration function**

- (a) Under section 50(1)(a) of the SA Act, STC is required to administer the STC schemes.
- (b) Under section 64 of the SA Act, STC may exercise its function of administering a STC scheme only by entering into a contract or an arrangement with a third party organisation who undertakes to

³ See sections 59, and 64 of the SA Act

⁴ STC is also exempted from section 25 of the Public Authorities (Financial Arrangements) Act 1987 (NSW) which requires the consent of the Treasurer before STC can enter into a new investment management agreement or arrangement and this exemption has not been withdrawn.

⁵ Section 60 of the SA Act

provide superannuation scheme administration services on behalf of STC.

- (c) Section 54(1) of the SA Act requires the consent of the Minister before STC can enter into an administration agreement or a new arrangement.
- (d) STC considers that the outsourcing of administration to an administrator constitutes the outsourcing of a Material Business Activity.

7 STC REMAINS RESPONSIBLE

The Board recognises that where a Material Business Activity is outsourced, STC remains responsible to members and beneficiaries of the STC schemes for the outsourced Material Business Activity.

8 ROLES AND RESPONSIBILITIES OF THE BOARD AND GENERAL MANAGERS

8.1 Responsibilities of the Board

The key responsibilities of the Board in relation to outsourcing of a Material Business Activity are:

- (a) establishing this Policy and requiring that the Policy is regularly reviewed and changes made where necessary;
- (b) monitoring compliance with this Policy;
- (c) establishing an appropriate delegation framework or otherwise approving the selection and appointment of third party service providers for Material Business Activities; and
- (d) monitoring the activities of service providers through receiving, either directly or through a relevant Committee, regular reports of their activities.

8.2 Responsibilities of General Managers

The key responsibilities of General Managers in relation to outsourcing a Material Business Activity are:

- (a) implementing the Board's delegation framework for the approval of the selection and appointment of third party service providers;
- (b) establishing, implementing and maintaining a control framework to assist the Board (where relevant) in approving the selection and appointment of third party service providers (by making a recommendation to the Board);

- (c) conducting regular reviews of this Policy to be satisfied it reflects the decisions of the Board and reporting to the Board or a relevant Committee on those reviews;
- (d) obtaining any necessary external approval for the appointment of a service provider, i.e. Ministerial approval for the appointment of a new administrator or custodian; and
- (e) monitoring and reviewing the services and the reports provided by service providers to determine whether the service providers are meeting their contractual obligations to STC and continue to have sufficient resources to meet current and future operational demands and provide timely reporting to the Board or a relevant Committee.

9 DECISION TO OUTSOURCE

- (a) Pursuant to the SA Act, STC must outsource its investment, custodian and administrative functions⁶. Accordingly, a business case does not need to be prepared on whether or not to outsource these Material Business Activities.
- (b) For all other Material Business Activities, the relevant General Manager will assess their outsourcing options by preparing a business case for outsourcing the Material Business Activity, including deciding firstly whether the activity should be outsourced at all, which will be submitted for Board approval.
- (c) The business case must address:
 - (i) both the financial and reputational impact of poor performance by a service provider or the failure of the service provider to perform the relevant activity over a given period;
 - (ii) the potential cost of the outsourcing arrangement as a share of total costs;
 - (iii) the degree of difficulty (including the time taken and resources needed) to find an alternative service provider or to bring the activity in-house;
 - (iv) the potential impact on STC to meet its regulatory, risk and compliance obligations if any problems arise with a service provider;
 - (v) any additional benefit or risk to members arising from outsourcing;

⁶ See section 59 and 64 of the SA Act

- (vi) consistency with STC's strategic and corporate plans;
 - (vii) cost impact arising from outsourcing;
 - (viii) how and to what extent outsourcing of the Material Business Activity will assist STC in meeting the adequacy of resources requirements, and how these requirements will be monitored on an ongoing basis;
 - (ix) the assessment of any material changes to the risk profile of the outsourced activity and how this is addressed in STC's risk management framework; and
 - (x) the preferred process of selection of the service provider, together with reasons.
- (d) For the avoidance of doubt, if a Material Business Activity is already outsourced and STC is considering appointing a replacement service provider, then STC is not required (but it may choose to do so) to assess whether the Material Business Activity is to be outsourced.

10 SELECTION OF SERVICE PROVIDERS

10.1 Selection of service providers for Superannuation Investment Management Services

The Defined Benefit Pool

STC has appointed NSW Treasury Corporation (TCorp) to provide Superannuation Investment Management Services in relation to the Defined Benefit Pool. The methodology that TCorp uses to recommend investment managers is outside the scope of this Policy.

The Defined Contribution Pool and the Universities options

STC conducts the selection of investment managers in accordance with documented procedures. Formal tenders are not routinely conducted to select investment managers. An investment manager may be selected following a recommendation by STC's asset consultant of the investment manager or as a result of the attractiveness of the investment opportunity. Before an investment manager is appointed STC will undertake its due diligence process.

10.2 Selection of other service providers

- (a) The first step in the selection of a new service provider (other than an investment manager) is to determine the method for selecting the service provider. This may or may not involve a tender process and consideration of and compliance with the applicable NSW procurement rules.

- (b) The applicable General Manager will assess:
 - (i) the relevant NSW procurement rules and determine their application; and
 - (ii) whether a tender process should be undertaken and make a recommendation to the Board or Committee or CEO.
- (c) If a tender process is recommended, the recommendation should include an assessment of whether third party expertise is required for any proposed tender.

10.3 Outsourcing to an associated entity

- (a) This Policy applies to the appointment of an associated entity in the same manner as it applies to the appointment of an independent third party. If a Material Business Activity is to be outsourced to an associate of STC, the Board must ensure that the arrangement is conducted on an arm's length basis and in the best interests of beneficiaries.
- (b) Relevant issues arising from the appointment of an associate should be considered, such as the identification and assessment of relevant risks arising from the proposed arrangement and the impact of the associate's expectations on STC and how their interests will be managed when considering STC's duties and obligations.
- (c) STC's Conflicts Management Policy applies in the identification, monitoring, management and mitigation of all conflicts, real and potential.

11 DUE DILIGENCE AND APPROVAL OF POTENTIAL SERVICE PROVIDERS

- (a) Due diligence of any preferred service provider should always be undertaken prior to any final decision as to whether to outsource a Material Business Activity to that preferred service provider. The relevant General Manager must obtain all requisite information to provide comfort to the Board or a delegate of the Board⁷ in relation to the factors listed in clause 11(b) below.
- (b) The assessment should consider the following (as a minimum):
 - (i) whether the service provider has the financial and technical resources, and the human resources and relevant expertise to deliver the services on an ongoing basis;

⁷ Delegates include the CEO or a Board Committee.

- (ii) the service provider's compliance plan and procedures;
 - (iii) the service provider's internal control framework (including risk management, performance standards, policies, procedures, compliance reporting and monitoring processes);
 - (iv) the adequacy of the service provider's business continuity plan and whether there are any dependencies between the service provider's and STC's business continuity plan;
 - (v) where possible, any past issues faced by the service provider in providing similar services, and how these have been addressed, including fraud history;
 - (vii) an assessment of the anti-money laundering and counter-terrorist financing risks of the service provider.
- (c) The assessment process should also consider whether there are potential problems, including potential conflicts where the service provider has similar arrangements with other superannuation fund providers. If there is no third party expert assistance being used to select a service provider (such as an asset consultant), appropriate references should be checked.
- (d) All Board Members and staff must consider and comply with the Code of Conduct and Ethics and STC's Conflicts Management Policy when considering outsourcing a Material Business Activity.

12 RISK ASSESSMENT AND AUDIT

12.1 Risk assessment, including offshoring

- (a) Before entering into any Material Business Activity agreement, STC's Chief Risk Officer must undertake and document a risk assessment of the proposed outsourcing arrangement.
- (b) The risk assessment must at least:
 - (i) take into account whether the risk profile of the business activity has changed as a result of the outsourcing arrangement and consider how this changed risk profile is addressed with STC's risk management framework; and
 - (ii) identify key risks involved with the outsourcing arrangement, including any offshoring risks, and the risk mitigation strategies put in place to address the risks.
 - (iii) identify any explicit risk issues where an associated entity is being considered for appointment.

12.2 Audit of proposed outsourcing arrangement

- (a) STC's Chief Audit Executive will arrange for an internal audit to be commissioned to review and report **on any proposed** outsourcing of a Material Business Activity. The appointed auditor must prepare a report in relation to its assessment which should cover areas such as information technology systems, data security and quality, internal control frameworks and business continuity plans.
- (b) For the avoidance of doubt, an individual appointment of an investment manager does not need to be audited as the investment management process has been mandated to be outsourced. Internal Audit will review the due diligence checklist on a regular basis to ensure that this key control remains appropriate.
- (c) The Chief Risk Officer will periodically review and report to the Board on compliance with this Outsourcing Policy and may engage external audit expertise to review STC's compliance with this Outsourcing Policy.

13 FINAL APPROVAL

- (a) The Board has the power to select a service provider to provide Material Business Activities on behalf of STC.
- (b) However, the Board may delegate this power, either generally or in relation to a specific appointment, to the CEO, or a Committee that is comprised of members of the Board, as it determines from time to time.

14 MATERIAL OUTSOURCING AGREEMENT

14.1 Contractual agreement

All Material Business Activity arrangements must be in writing and must state the commencement and end date of the agreement. The agreement must document the components of the outsourcing arrangement between STC and the service provider. STC management may have recourse to legal advisors in assisting to negotiate outsourcing agreements and obtain legal advice on the final version of the agreement.

14.2 Terms of outsourcing agreement

Material Business Activity agreements should comply with the requirements of SPS 231, having regard to APRA's comments in Prudential Practice Guide SPG 231.

14.3 Execution of agreements

The agreement must be executed by all the parties to it before the Material Business Activity arrangement commences.

14.4 Transition Requirements

All Material Business Activity agreements include a requirement for transition arrangements in carrying out the outsourced material business activity in the event of a termination of the agreement. These arrangements will be reviewed by STC management for appropriateness as required.

15 MONITORING AND REVIEW OF SERVICE PROVIDERS

15.1 Review of service provider

- (a) Custody and administration arrangements must be reviewed at least every five years.
- (b) Investment management arrangements and other Material Business Activity arrangements with no fixed term must be reviewed at least every two years.
- (c) Circumstances which may give rise to a review by STC of a service provider outside the above time periods include:
 - (i) inadequate performance by the service provider, including quality or timeliness of services being delivered;
 - (ii) changes in key staff of the service provider;
 - (iii) changes to the ownership of the service provider's business which may result in a different focus or philosophy being pursued;
 - (iv) legislative changes which require a review, e.g. additional or different licensing or regulatory requirements;
 - (v) strategic change of direction by STC or the service provider; and
 - (vi) a review of provisions of renewable fixed term agreement where a tender process may not be practical.

15.2 Monitoring of outsourced activity

- (a) STC has procedures to monitor the performance of Material Business Activity service providers. The actual reporting framework to the Board (or relevant Committee) and General Manager will vary with each Material Business Activity arrangement reflecting the size and nature of the arrangements.

- (b) Monitoring is conducted by the relevant General Manager and overseen by at least one Committee to ensure there is continued focus on the respective Material Business Activity arrangement.
- (c) The procedures for monitoring performance must include, at a minimum:
 - (i) maintaining appropriate levels of regular contact with the service provider. This will range from daily operational contact to General Manager involvement;
 - (ii) a procedure for the regular monitoring of the performance of the service provider against the Material Business Activity arrangement and in particular include monitoring against the service levels agreed between the service provider and STC;
 - (iii) a procedure for the regular monitoring of any other performance aspects of the service provider not covered under sub-paragraph (ii) above deemed to be appropriate by STC; and
 - (vi) where applicable, procedures for the carriage of STC site visits to the service provider.

16 REPORTING

16.1 General

- (a) The Committees, Board and General Managers receive regular reports from service providers on the outsourced activities.
- (b) Service providers must report on the performance of the Material Business Activity arrangement on (at least) a quarterly basis.
- (c) Notwithstanding reporting arrangements, any material problems with Material Business Activity arrangements will be brought immediately to the attention of the relevant General Manager. The relevant General Manager will assess the matter and report the matter to the applicable Committee (and Board).
- (d) The Risk and Compliance Team will provide the latest version of this Policy to all relevant stakeholders.

16.2 Breach reporting

- (a) Material Service Providers must report any breaches in accordance with the terms of their agreement with STC.
- (b) Breaches and potential breaches by a service provider are dealt with in accordance with the STC Compliance Program.

- (c) If an employee of STC or member of the Board becomes aware of a breach or potential breach committed by a service provider, the breach must be reported immediately to the relevant General Manager or directly to the Risk and Compliance team.
- (d) All STC employees, the CEO and Board members are made aware of this reporting requirement through the accessibility of STC policies which are available to all staff. New employees are provided with an overview of those policies deemed necessary as part of the induction process, which STC staff must adhere to for compliance purposes.

16.3 Annual reporting obligations by all material service providers

STC requires each service provider to provide it with the information and documents on an annual basis regarding performance and capacity / resources.

17 EMERGENCY SERVICE PROVIDER APPOINTMENTS

Where STC enters into Material Business Activity agreement as a result of an unexpected extreme event that results in:

- (a) STC invoking its Business Continuity Plan; or
- (b) the sudden financial or operational failure of an existing service provider,

this Policy need only be complied with to the extent that is reasonably possible having regard to the nature of the extreme event.

18 COMPLIANCE AUDITS

The Chief Audit Executive must review compliance with the Policy and report its findings to the Risk, Audit and Compliance Committee at least once every three years.

19 REVIEW AND UPDATE OF THIS POLICY

19.1 Internal review of document

The General Counsel is responsible for:

- (a) updating this Policy, and any related documents to reflect changes considered necessary, or changes in the law or when otherwise appropriate but at least once in every three years; and
- (b) submitting the results of the review and any changes to the Policy to the Risk, Audit and Compliance Committee and seeking Board approval to any changes.

19.2 External review of document

The General Counsel is responsible for arranging for an external review of the Policy every five years. Such a review should verify that appropriate governance procedures are in place, address best practice and industry standards and make recommendations to STC as to how they could be improved.

APPENDIX 1 - SNAPSHOT

VERSION	EFFECTIVE DATE	STATUS	AMENDMENT	NEXT REVIEW DATE	TYPE OF POLICY
1	27 March 2013	APPROVED: 27 March 2013 Board Meeting	APRA requirements	27 March 2016	APRA
2	March 2016	APPROVED: 24 February 2016 Meeting	Organisation Chart	March 2019	APRA