

## **SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM**

### **SECURITIES LITIGATION POLICY**

#### **I. PURPOSE**

The purpose of this Securities Litigation Policy is to provide procedures and guidelines for SBCERS' monitoring and participation in litigation pertaining to securities investments. As an institutional investor, SBCERS may, from time to time, suffer losses caused by alleged violations of federal, state and foreign securities laws relating to fraud, disclosure obligations and/or breaches of fiduciary and other duties. In cases where litigation is filed to recover damages for violations of securities and other laws, SBCERS may have the opportunity to participate in the litigation, through passive or active involvement. This policy provides guidelines for monitoring such litigation and for determining the appropriate level of participation by SBCERS.

#### **II. OBJECTIVES**

1. To fulfill the duty of SBCERS as a public pension plan to act diligently in seeking recovery of damages resulting from alleged wrongful acts or omissions of others.
2. To provide SBCERS staff with direction as to a process for monitoring litigation and making recommendations for SBCERS' participation in litigation where appropriate.

#### **III. POLICY GUIDELINES—DOMESTIC LITIGATION**

1. SBCERS staff shall retain outside consultants to assist in monitoring securities litigation cases in order to (i) identify those cases that potentially involve SBCERS' assets, (ii) assess SBCERS' potential losses where such cases appear meritorious, and (iii) evaluate the potential value to SBCERS of taking an active role in the litigation.
2. Because of the costs and staff time associated with assuming an active role in litigation, SBCERS will generally not consider active participation in domestic securities litigation unless its potential losses in such litigation exceed \$1 million.
3. Where potential losses exceed \$1 million, or in otherwise exceptional circumstances, SBCERS staff, in consultation with retained consultants and SBCERS' general counsel, may recommend to the Board that SBCERS participate in such litigation as a lead plaintiff or class representative, or to pursue an individual claim separate from class litigation, based on an assessment of the following factors:

- A. The size of the loss incurred by SBCERS;
  - B. The merits of the underlying action;
  - C. Whether SBCERS has a superior legal basis for serving as lead plaintiff compared to other large institutional holders;
  - D. Whether the benefit from assuming lead plaintiff status, or pursuing a separate legal action, is likely to materially outweigh the benefit of participating as a passive member of the class and adequately compensate SBCERS for the risks and costs incurred;
  - E. The location of the litigation and feasibility of participation;
  - F. The absence of other institutional investors prepared to represent the class;
  - G. The extent to which active participation may detrimentally impact the workload of staff and divert staff resources from other critical duties.
4. Where a determination is made not to recommend active participation, either due to the threshold amount of potential losses or due to an assessment of the factors set forth in paragraph 3 above, staff, in consultation with SBCERS' custodian and retained consultants, shall continue to monitor the matter to insure that SBCERS becomes a member of the affected class and that its custodian files appropriate paperwork to establish a claim.
5. In instances where staff recommends active participation in litigation as a lead plaintiff, or in pursuing claims independently of class litigation, staff shall promptly bring the matter to the Board for consideration and action. In the event the Board elects active participation, the Board shall retain special counsel to represent SBCERS with respect to the matter.
6. Nothing in this policy shall relieve the custodian of SBCERS of the primary responsibility to monitor all domestic class actions and complete the necessary paperwork to ensure participation by SBCERS in matters where SBCERS has a valid claim.

#### **IV. POLICY GUIDELINES—FOREIGN LITIGATION**

1. In 2010, the United States Supreme Court in *Morrison v. National Australia Bank* held that certain investor losses stemming from corporate wrongdoing cannot be pursued under U.S. securities laws. Specifically, the Supreme Court held that investors cannot bring or participate in a U.S. securities class action if their claims are based on securities they purchased outside of the United States. As a result, investors must now identify and evaluate foreign securities actions in order to fully protect their interests, including the right to participate in such actions and share in recovery.

2. Although SBCERS' custodian sometimes receives and forwards notice of foreign litigation pertaining to investment of SBCERS assets, it does not assume a responsibility to elect participation by SBCERS in such litigation or to file claims on behalf of SBCERS in such litigation. Accordingly, with respect to foreign litigation, SBCERS must rely on its own resources and on information provided by third party monitoring services and/or securities litigation firms in order to assess the risks and benefits of participation in such litigation.
3. Due to the nature of foreign securities litigation, SBCERS is less likely to recover damages as a passive class member in such litigation in the same manner as in domestic litigation filed in the United States. An active election to participate in such litigation is frequently required as a condition for recovery.
4. SBCERS staff shall work with its general counsel and with outside consultants to assess foreign litigation opportunities pursuant to the criteria set forth below.
5. In evaluating whether to be an active participant in foreign securities litigation, the following standards shall be considered, in addition to those set forth in section III.3 above:
  - A. Will rights to recover damages be lost if not pursued.
  - B. Will pursuit of a claim result in potential risk for SBCERS to incur of out-of-pocket expenses, such as litigation costs or payment of legal fees and costs incurred by a defendant if the action is not successful;
  - C. Will participation result in extraordinary administrative burden, such as burdens imposed by litigation discovery;
  - D. Does the amount of potential recovery, and the merits of the case, outweigh potential burdens of pursuing the claim and/or risks associated with an adverse result.
6. Where evaluation of the above factors results in an assessment of little or no risk, and the potential for substantial recovery from meritorious claims, the CEO, in consultation with the System's general counsel and outside consultants, is authorized to take action to pursue potential claims, and to retain counsel to pursue such claims, with a report to the Board of action taken.
7. Where evaluation of the above factors results in assessment of significant burdens or risks outweighing potential recovery, the lack of potential for substantial recovery and/or the lack of meritorious claims, the CEO, in consultation with the System's general counsel and consultants, is authorized to refrain from initiating action by SBCERS to pursue potential claims.
8. Where evaluation of the above factors results in assessment of significant burdens or risk, but where the action is deemed meritorious and likely to result in

substantial recovery, the CEO shall bring the matter to the Board for approval prior to the assertion of a claim.

**V. PROCESS REVIEW**

The Retirement Board shall review this Policy at least every five years to ensure that it remains relevant and appropriate.

**VI. AMENDMENT HISTORY**

This policy was adopted by the Retirement Board on May 23, 2012; reviewed on July 22, 2015; and revised on August 23, 2017, June 25, 2020, and \_\_\_\_\_, 2023.