



AFRF
AUSTIN FIREFIGHTERS
RETIREMENT FUND

**MINUTES
BOARD OF TRUSTEES MEETING
FRIDAY FEBRUARY 23, 2024, 9:00AM**

Board Members Present

John Bass, Vice Chair
Belinda Weaver, Treasurer
Doug Fowler, Trustee

Staff and Consultants Present

Anumeha Kumar, AFRF Executive Director
John Perryman, AFRF CFO
Debbie Hammond, AFRF Benefits Manager
Gina Gleason, AFRF Board & Operations Specialist
Shira Herbert, AFRF Accounting & QC Specialist
Amy Thibaudeau, AFRF Benefits Specialist
Chuck Campbell, Jackson Walker
Alyca Garrison, Jackson Walker
Aaron Lally, Meketa
Colin Kowalski, Meketa
Elizabeth Wiley, Cheiron (virtual)
Health Merlak, Cheiron (virtual)
Coralie Taylor, Cheiron (virtual)

Community Members Present

Virtual attendees not listed

Vice Chair Bass called the meeting to order at 9:00am.

Mayor Watson and Trustee Woolverton were not in attendance, quorum of three.

Public Comments:

No public comments.

- I. Consent Agenda for the following:
 - a. Minutes of the regular meeting of January 29, 2023
 - b. Service retirement benefits for new retirees, beneficiaries, and alternate payees

Vice Chair Bass requested a moment of silence for the retired firefighter who had passed. Trustee Fowler motioned to approve the consent agenda. Trustee Weaver seconded the motion. The motion passed unanimously.

- II. Meketa 4Q23 Investment Performance review, including the following:
 - a. Economic and Market Update

This item was moved to the end of Meketa's report. Aaron Lally explained that the market commentary included in the report could be reviewed by the trustees on their own. The trustees had no questions regarding the markets. No motion necessary.

b. 4Q23 Investment Report

Aaron Lally indicated that 4Q23 was a great quarter for all investors; the Fund generated a return of over 6% for the quarter, which equated to about \$70 million in unrealized gains for the Fund, and closed the calendar year with an annual return of 8.4% and \$1.16 billion in total market value of assets. Mr. Lally further explained that the investment performance for 4Q23 outpaced the two Fund benchmarks but fell slightly behind their peers. He stated that all asset allocations were within the Investment Policy ranges, then further detailed the investment performance within each asset class. Mr. Lally explained Sharpe ratio as a measure of returns relative to assumed risk and noted that it is one of the most important indicators of success for a public pension, next to funded status. He stated that AFRF had a very healthy Sharpe ratio in the top quadrant relative to peers, which indicated less volatility incurred for returns achieved, and resulted in strong downside protection. Mr. Lally provided additional long-term projections and highlighted the performance of a few individual managers. Vice Chair Bass noted his key takeaway of long-term performance being significantly more important to a pension plan than short-term performance. No motion necessary.

c. Asset Allocation Review: 2024 Asset Study vs. 2023 Asset Study

Colin Kowalski described the purpose of the annual asset allocation review, wherein Meketa studied each individual asset class and forecasted the risk and return statistics over a 20-year period to determine if the policy would still be reasonable moving forward. Mr. Kowalski clarified that they are unable to predict returns over the short term but have found their long-term return predictions to be accurate. He stated that the total anticipated 20-year return for the Fund was currently 8.4%, down slightly from the previous year, but with improved risk assumption. He reported that the current asset allocation included 57% growth components in public and private equity, 30% risk-mitigating assets in fixed income, and 13% diversifying assets in real estate and natural resources. Mr. Kowalski stated that Meketa remained comfortable with the current asset allocation policy and made no recommendations for adjustment. No motion necessary.

d. Passive Investment Framework Review and Update

Colin Kowalski provided a brief progress report on the passive framework that had been implemented over the course of the past year. He reported that \$134 million had been moved from active funds into their respective passive index, which exceeded the planned \$120 million due to the liquidation of the Sanderson International Value Fund, from which the proceeds were also reinvested into the passive framework. Mr. Kowalski further explained that the funds had been moved with a degree of opportunism from a total of eight equity funds and three bond funds, resulting in 35% of the Fund's total investments in the passive index at the end of 2023, a 10% increase from the prior year. Aaron Lally added that as a result, the Fund would benefit from an approximate \$800,000 decrease in annual management fees moving forward. Mr. Kowalski stated that Meketa was happy with the progress and recommended the board now pause the strategy for reevaluation. Vice Chair Bass revisited the rationale for the passive framework strategy and stated that finance theory supported the unlikelihood of active managers beating their respective passive benchmarks over the long term. He further explained that the passive framework sought to utilize the advantages the Fund had in different parts of its portfolio by reducing waste on the competitive and efficient public side and remaining in active management on the private side. He recommended that portfolio performance be judged in entirety, rather than placing focus on short-term performance of individual active managers. Mr. Lally agreed with Vice Chair Bass and stated that 90% of returns come from asset allocation decisions rather than from specific managers, and gains are accumulated by remaining invested long-term. No motion necessary.

e. Proposed updates to the Investment Policy Statement (IPS) and Operating Procedures

Aaron Lally explained that the goal of updating the IPS was to reflect the investment beliefs and performance objectives of the board in the context of additional passive allocations and to provide clear background information within the policy benchmark language for any new board members or constituents who review the documents. Mr. Lally further explained that Meketa had completed regression analysis and included their proposed changes within the documents, then clarified that there would be no board action until the IPPE study and the proposed PRB IPS guidance were completed and considered. Anumeha Kumar provided a reminder that these proposed updates had been drafted at the direction of the board and that the updates would be informed by the results of the IPPE and reviewed by Jackson Walker. Trustee Weaver asked if investment philosophy was common to include in an IPS and how concise the philosophy should be. Mr. Lally replied that while it was not common, Meketa did see investment philosophy more often in well-functioning pensions that had thoughtful chief investment officers who aimed to improve the document rather than to simply fulfill its requirement. He stated that the verbiage should offer succinct and theory-based guidance rather than any prescriptive requirements. No motion necessary.

f. Roadmap

This item was not included in Meketa's report.

III. Update on 2024 Experience Study, including discussion of economic assumptions

Elizabeth Wiley introduced herself and the Cheiron team and provided context for her educational presentation, which served as a starting point for the experience study to update the Fund model for the next valuation. Ms. Wiley explained that the process would take approximately four to five months and the first area of focus would be economic assumptions. She explained that their goal was to refine the model to align it as closely to reality as possible and offered a reminder that assumptions impact the timing of costs and not the actual plan cost, which is the promised benefits of the plan. Ms. Wiley provided a historic overview of the Fund's previous experience studies, noting that the board had decided to conduct the current study one year in advance of the requirement. Ms. Wiley described the process and timing of the actuarial valuation, which would include preliminary results in June and final board adoption of the valuation in July. Ms. Wiley explained that the adopted revised assumptions would be informed by existing assumptions, recent experience, and future insights in regard to the impact of inflation, future COLAs, investment returns, and administrative expenses. In her educational overview, she further detailed each topic and highlighted her key points, which included that COLAs were not currently reflected in Fund assumptions, the Fund's return assumption now exceeded the national median due to a downward trend in the industry, and administrative expenses were not explicitly forecasted. She added that most systems pay admin expenses as a percentage of payroll, which is added to the normal cost in determining contributions, and noted that the expenses for AFRF were low compared to peers. Trustee Weaver asked some follow up questions regarding wage inflation and administrative expenses. The trustees thanked Ms. Wiley for her presentation. No motion necessary.

IV. Executive Director Report, including the following (Discussion Only)

a. General comments

No general comments.

b. Report on member comments to proposed changes to Personnel Policy

Anumeha Kumar stated that the proposed changes had been posted to the Fund's website for member commentary in accordance with the Fund Rules. She reported that no comments had been received and that she would report back in March, prior to board adoption of the policy.

c. Update on City of Austin Actuarial Audit

Anumeha Kumar provided a reminder of the statutory and legal requirements surrounding the City of Austin's Actuarial Audit. She informed the board that the Fund had provided a response to the draft audit by the February deadline, which addressed Athena's significant "finding" regarding the Fund's 35.7-year amortization period. The response, she continued, highlighted the board's awareness and proactivity regarding the high amortization period, and disagreed with it being labeled as a "finding" due to the actions already taken by the board. Ms. Kumar praised Cheiron's work on the response, noting that it also included acknowledgement and consideration of Athena's lesser findings. Ms. Kumar explained that the draft audit would next be presented to the City Council's Audit and Finance Committee in April, adopted in May, and then submitted to the Pension Review Board. Trustee Weaver added that the response to the audit would be included in the final report provided to the City in March.

d. Update on internal administrative procedures, including staff response time

Anumeha Kumar addressed a recent staff concern regarding benefit estimates produced by the current version of the pension software. Ms. Kumar explained that staff had identified some issues with the estimates produced by the software in relation to contributions and other factors that, in some cases, required further research with the fire department. Between the additional auditing and the large number of estimates requested by some members, Ms. Kumar set an expectation of a longer 5-day turnaround period opposed to the 1-2 days that some members had grown accustomed to. Ms. Kumar reported that the DROP procedures had been going well and thanked the board and membership for establishing and adhering to those procedures. She offered a reminder to the membership that DROP distribution payments are not immediate and should be expected around the same time as the monthly annuity payment. Ms. Kumar welcomed members to reach out with payment concerns following that date.

e. Winter Newsletter

Anumeha Kumar informed the board that the newsletter had been circulated earlier in the month and that staff had received some good feedback from the membership, which they use to continually improve its contents. She thanked Gina Gleason for the great amount of work that went into assembling the newsletter.

f. 2024 Board Meeting Dates

Anumeha Kumar requested that the trustees inform staff of any potential scheduling conflicts to ensure that quorum requirements are met for all 2024 meeting dates.

g. Internal financial statements, transactions, and Fund expense reports for month ending January 31, 2024

Anumeha Kumar stated that there was nothing notable to report for January. The trustees had no questions regarding the financial reports.

Trustee Weaver took the opportunity to revisit the item on administrative procedures and thanked Ms. Kumar and her staff for putting controls in place to eliminate discrepancies from the past. Ms. Kumar thanked Trustee Weaver for her remarks and stated that the full-year audit indicated zero mistakes in benefits administration for 2023. Vice Chair Bass emphasized the importance of that achievement and also thanked Gina Gleason for the newsletter. Trustee Fowler reiterated the importance of zero errors, noting that while the errors that occurred before Ms. Kumar assumed the role of Executive Director were not reflected in any expense matrixes, they had cost the Fund both in credibility and in incidental expenses. Trustee Fowler thanked Ms. Kumar and her staff for their hard work.

V. Roadmap for future meetings

The trustees had no questions or requests regarding the roadmap.

VI. Call for future agenda items

No future agenda items were called for.

Hearing no objections, Vice Chair Bass adjourned the meeting at 11:32am.

Board Members

Mayor Kirk Watson, Chair
John Bass, Vice Chair
Belinda Weaver, Treasurer
Doug Fowler, Trustee
Aaron Woolverton, Trustee