



**MINUTES
BOARD OF TRUSTEES MEETING
FRIDAY MAY 23, 2025, 8:30AM**

Board Members Present

Mayor Kirk Watson, Chair
Belinda Weaver, Treasurer
John Bass, Trustee (virtual)
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 (virtual)
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 (virtual)

Community Members Present

Rene Vallejo
Jason Harvey
Rene Anandel
Virtual attendees not listed

Mayor Watson called the meeting to order at 8:30am.

Public Comments:

Rene Vallejo thanked Mayor Watson for his work toward the pension reform bill, since Mayor Watson had not been present at the last meeting to receive his prior expression of gratitude. Mayor Watson expressed appreciation for Mr. Vallejo's presence at the Capitol.

I. Consent Agenda for the following:

- a. Minutes of the regular meeting of April 25, 2025
- b. Service retirement benefits for new retirees, beneficiaries, and alternate payees

Trustee Fowler made a motion to approve the consent agenda. Trustee Weaver seconded the motion. The motion passed without objection.

II. Consideration of appeal of benefit determination

Alyca Garrison explained to the board that a benefit application had come to the Fund and was denied due to an invalid beneficiary designation form. Pursuant to Fund Rules, she continued, the board would consider the appeal of the benefit determination. Jason Harvey introduced himself as the legal representative of the applicant, Rene Anandel. He provided an overview of the appeal affidavit and pointed to aspects of their exhibited documents that he and his client considered to be evidence of a valid beneficiary designation. Mayor Watson thanked Mr. Harvey for his presentation and thanked Ms. Anandel for her father's service to the fire department. The board entered closed session at 8:36am pursuant to Government Code Section 551.071 to consult with

the Fund's attorney in relation to the agenda item. The board resumed open session at 8:40am with no action taken during the closed session. Trustee Fowler moved to approve the application of survivor benefits on appeal. Trustee Weaver seconded the motion. The motion passed without objection.

III. Meketa 1Q25 Investment Performance Review, including the following:

a. Recent Market Events – Tariffs

Aaron Lally addressed recent concerns regarding the impact of tariff increases on the market. He provided a chart illustrating tariff rates on US goods over the last 120 years and stated that tariffs could be either positive or negative depending on how they were applied and to what industries. Mr. Lally noted that the reason that tariffs had recently rattled the market so drastically was the widespread net and the degree of the tariff rate, which had been in the 30% range when announced. He added that the rate had since decreased and would continue to fluctuate. Mr. Lally reported that markets tended to decline on days when tariff rates were expected to be higher, but he reiterated that market volatility is normal. He noted that there had been countless occurrences throughout history when markets had significantly declined and then rebounded within the same year. Even within 2025, he continued, returns had rebounded from -19% back into positive territory. Mr. Lally emphasized the importance of remaining focused on long-term performance and potentially utilizing periods of volatility for buying opportunities. Mr. Lally reported that the bond market showed a strong relationship between the yield in investment grade bonds and the subsequent five-year return earned by owning those bonds, which indicated that bonds were now producing better returns than they had in the 2010s, closer to actuarial target rates, and put the Fund in a good forward-looking position. He concluded that the board had done a good job of maintaining a long-term view on their asset allocation rather than reacting to short-term swings in the market. He encouraged the board to rebalance only when there are opportunities to buy low. No motion necessary.

b. 1Q25 Investment Report

Aaron Lally reported that despite the negative headlines regarding the investment market, the Fund had produced a slightly positive return of 0.2%, which outperformed the new total fund benchmark that the board had developed over the prior year. He further reported that the Fund was slightly behind the median performing peer plan for the quarter, due in part to the allocation effect of being slightly overweight in US equity during a quarter in which US equity underperformed, as well as having active managers that underperformed relative to their individual benchmarks for the quarter. He reported that there were six active strategies that had outperformed since inception and four that had underperformed. He explained that while it would be ideal for fewer strategies to underperform, the degree of outperformance was more significant than the degree of underperformance. He reported that the active managers had added value to the plan over the long term but had been less successful in recent years. The trustees asked some clarifying questions regarding how the data was organized and made some clarifying statements regarding the impact of the percentage of assets held by each fund. Mr. Lally further detailed Fund performance versus peers, noting better performance long-term than in recent individual years, which he attributed to the recent flat performance of the Fund's private equity investments. He concluded that private equity had been a good investment for the Fund despite its short-term performance, having doubled the Fund's investment over fifteen years. In total, Mr. Lally stated that the Fund was valued at \$1.15 billion at the end of March. No motion necessary.

c. Updates on Manager Changes

Aaron Lally provided an update on the manager and strategy changes that had been approved by the board during their February meeting. He explained that Westwood Large Cap Value had been terminated, and the proceeds had been received with half reinvested into the S&P 500 and half into the cash account for benefit payment. He stated that Highclere had also been terminated, and the proceeds had been received and reinvested into the new strategy of Dimensional International Small Cap. Finally, Mr. Lally stated that contract negotiations were currently underway with State Street regarding the new lower fee schedule for index funds. No motion necessary.

d. Annual Asset Allocation Review

Aaron Lally explained that Meketa used numerous tools and modeling techniques each year to analyze whether the Fund's policy target weights were still appropriate to produce the desired returns with the lowest volatility moving forward. He further explained that Meketa built forecasts for each asset class based on long-term expected returns and volatility and how they correlated with other asset classes. He stated that last year, the future return expectation was 8.4% and this year it was 8.5%, with volatility remaining at 13%. Mr. Lally explained that these percentages indicated that in any given year, the Fund was expected to have a return of 8.5% plus or minus 13%. He stated that the model also predicted that the Fund would average one negative return year every four years, but indicated that the historical average had been one year out of five. Mr. Lally reported that the Fund had not adjusted their targets in many years and suggested that the current environment warranted making a few changes. Mr. Lally provided an overview of Meketa's proposed changes, including eliminating the target to natural resources due to low overall performance and adding the asset class of core infrastructure. He explained that core infrastructure included large assets such as toll roads, airports, pipelines and ports, that have built-in inflation protection and are less sensitive to the stock and bond markets. Mr. Lally recommended some additional minor allocation adjustments and stated that the proposed changes would not have a significant impact on the Fund's return expectation but, in aggregate, would substantially reduce expected volatility. He noted that if the board approved the new asset allocation, Meketa would work to start adjusting the exposure to meet the new targets, would provide the board with more education on core infrastructure, and would come back with strategies for board consideration followed by interviews. He noted that it would take at least a year to complete the investment process for core infrastructure. The trustees asked some clarifying questions. Mr. Lally asserted that the changes would be cost-saving and would produce a more efficient risk-adjusted portfolio going forward. Trustee Fowler made a motion to approve the changes to the asset allocation targets and the addition of a new asset class recommended by Meketa, including a decrease of 3% in private equity and an increase of 3% in public US equity, a decrease of 2% in emerging market debt and an increase of 2% in investment grade bonds, and a decrease of 3% in natural resources and an increase of 3% in core infrastructure. Trustee Weaver seconded the motion. The motion passed without objection.

Mr. Lally explained that it was customary to memorialize any asset allocation changes within the formal governing document, the Investment Policy Statement (IPS). Trustee Fowler made a motion to approve an amendment to the IPS to reflect the new asset allocation policy targets that the board had adopted, on first reading. Trustee Weaver seconded the motion. The motion passed without objection. Alyca Garrison noted that statute required three readings in total, and that the board would complete the second and third readings in June and July.

Anumeha Kumar stated that she would bring a circulate a redline copy of the amended policy for board consideration when available as well as include a copy in the June board packet.

e. Annual Private Equity Pricing Analysis

This item was not addressed during Meketa's report.

IV. Update on Texas Legislative Session 89(R), including status of the City of Austin and AFRF pension reform bills for a Voluntary Funding Soundness Restoration Plan (FSRP)

Anumeha Kumar reported that the joint pension reform bill had maintained forward momentum and passed through the Senate. She stated that there was one final stage to cross wherein the House, specifically Representative Bucy, would have to concur with the technical changes that were made in the Senate version of the bill, after which it would proceed to the Governor to be signed into law. Ms. Kumar restated her appreciation for Mayor Watson's role in the legislative process. Trustee Weaver asked if the Fund would hold additional member informational sessions regarding the bill. Ms. Kumar confirmed her intent to update the membership following the official passage of the bill. She further explained that the June and July board meetings would be used to discuss the timeline for implementing the legislation, including effective dates of each provision and the corresponding rule and policy-making that the board would need to engage in. No motion necessary.

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

a. General comments

Anumeha Kumar explained that staff had been busy with user acceptance testing for the final deliverable of the pension administration software and that following the anticipated passage of the pension reform bill, staff would need to immediately begin work on making applicable changes to the software to avoid incurring any significant additional project costs. She informed the membership that there may be times when staff are unavailable due to that testing and development, but she assured that all member service requests would be addressed within a reasonable timeframe.

b. Internal financial statements, transactions, and Fund expense reports for month ending April 30, 2025

Anumeha Kumar stated that there was nothing notable to report. The trustees had no questions regarding the April financial statements.

VI. Roadmap for future meetings

Anumeha Kumar anticipated that the initial actuarial valuation would be available for the board to consider at the June board meeting, including the risk sharing valuation that would be required under the new legislation. No motion necessary.

VII. Call for future agenda items

No future agenda items were called for.

Hearing no objections, Mayor Watson adjourned the meeting at 9:26am.

Board Members

Mayor Kirk Watson, Chair

Aaron Woolverton, Vice Chair

Belinda Weaver, Treasurer

John Bass, Trustee

Doug Fowler, Trustee