



AFRF
AUSTIN FIREFIGHTERS
RETIREMENT FUND

**MINUTES
BOARD OF TRUSTEES MEETING
FRIDAY MAY 24, 2024, 8:30AM**

Board Members Present

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

Staff and Consultants Present

Anumeha Kumar, AFRF Executive Director
John Perryman, AFRF CFO
Gina Gleason, AFRF Board & Operations Specialist
Shira Herbert, AFRF Accounting & QC Specialist
Amy Thibaudeau, AFRF Benefits Specialist
Alyca Garrison, Jackson Walker
Chuck Campbell, Jackson Walker
Laurel Malone, Jackson Walker
Leo Festino, Meketa
Colin Kowalski, Meketa
Craig Chaikin, Callan (virtual)
Gwen Lohmann, Callan (virtual)
Ryan Meyer, Frost (virtual)
Sybil Daniels, Frost (virtual)

Community Members Present

Kate Alexander, City of Austin (virtual)
Mark Littlefield, City of Austin
Rene Vallejo
Bob Nicks
Greg Pope
Christine Jones
Virtual attendees not listed

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

Public Comments:

No public comments.

I. Consent Agenda for the following:

a. Minutes of the regular meeting of April 26, 2024

Trustee Fowler made a motion to approve the minutes of the regular meeting on April 26, 2024. Vice Chair Bass seconded the motion. The motion passed without objection.

b. Service retirement benefits for new retirees, beneficiaries, and alternate payees

Trustee Fowler made a motion to approve the service retirement benefits for new retirees, beneficiaries, and alternate payees. Vice Chair Bass seconded the motion. The motion passed without objection.

II. Presentation from Callan on final report for the Investment Practices and Performance Evaluation (IPPE), including Fund Response

Craig Chaikin reviewed the information he had presented at the April 2024 board meeting for the

preliminary IPPE. He reiterated that all the Fund processes, procedures, and documents were sufficient and consistent with industry best practices, and that the Fund was performing well from a governance perspective. He noted that the only substantive addition to the final IPPE was the inclusion of the Fund response, which was also consistent with Callan's expectations. Anumeha Kumar thanked Callan for their report and stated that she was pleased with the affirmative results. Ms. Kumar explained that the next step, pending Trustee acceptance, would be to submit the IPPE to the Pension Review Board. The trustees had no object to proceeding with the submission. No motion necessary.

III. Meketa 1Q24 Investment Report

a. Economic and Market Update

Leo Festino and Colin Kowalski introduced themselves as the Fund's investment consultants from Meketa. Mr. Kowalski provided an overview of the economic and market landscape for 1Q24, in which he indicated that most major indexes were up strongly in 2023 led by US equities, which had carried over into 2024, especially with risk assets. He explained the impact that excitement over Artificial Intelligence (AI) had on pushing tech companies to outperform and lead the market in 2023, and how the market returns had broadened out in 2024 to other segments, such as utilities and the industrial sector, which have benefitted from the AI boom. Mr. Kowalski explained that foreign equity returns had been positive but more muted than US equities, which could be attributed in part to the current strength of the US dollar. Mr. Kowalski stated that emerging markets had stalled relative to their developed peers, largely due to struggles in China's property sector and their management of reopening post COVID. Regarding fixed income categories, Mr. Kowalski explained that the returns were more muted or negative at the start of 2024 due to inflation, economics, and the response of the Federal Reserve. He further explained that the economy has remained strong overall with lowering inflation and a strong employment market, but the yield curve had remained inverted for two years, which typically precedes a recession. Mr. Kowalski noted that Meketa would continue to monitor that situation, along with other potential risks regarding inflation and global tensions. He concluded that Meketa was optimistic overall in terms of the economic and market conditions. Trustee Weaver asked a question regarding commercial real estate and the impact on the Fund's real estate portfolio, to which Mr. Festino explained that there had been a greatly reduced demand for office space due to higher interest rates and the shift to remote work following COVID. He explained that AFRF does have real estate holdings through Clarion, but they've been underweighted in office space and are targeting a further decrease from 14% to 10%. No motion necessary.

b. 1Q24 Investment Report

Leo Festino stated that the total fund performance for 1Q24 was positive and earned 3% net of fees, which would equate to over 12% annualized and exceed the Fund's actuarial investment return assumption. He explained that the return translated to approximately \$35 million in net investment earnings and fell slightly behind peers and benchmarks, due in part to a lag in private market reporting. Mr. Festino asserted that the public markets managers had performed well, exposures were within policy ranges, and Meketa was pleased with the overall investment performance. He explained that the main driver for performance had been private equity reporting and that short term lag is reasonable so long as long term performance remains positive. Trustee Bass thanked Mr. Festino for addressing lag and reiterated that seesaw periods in public markets with significant variations in performance can make lag more noticeable within the total fund performance. Mr. Festino followed up to note that

investments in fund of funds add further delay to the reporting. Mr. Festino next described the impact that choice of benchmark can have on relative performance. He explained that the Fund uses public stocks as a benchmark, which are more volatile than private equity because they are marked daily rather than quarterly, so when stocks are performing especially well the lag impact on private equity performance can be more pronounced in terms of meeting the benchmark. Overall, he continued, the asset allocations were all very close to their targets, were within the Investment Policy Statement ranges, and both the overweighted US equity and underweighted real estate had a beneficial impact. Mr. Festino stated that the Fund continued to perform well on a risk adjusted basis with low volatility. He highlighted the changes in performance of some individual managers, including the impact of exposure to China through Baillie Gifford. Mr. Festino concluded the report with an overview of the fund of fund commitments, in which he explained that while each fund has its own net internal rate of return (IRR), the overall performance has done well with a 1.9 multiple, meaning that the Fund has nearly doubled its initial investment over the past decade. No motion necessary.

c. Private Equity: Annual Pacing History Review

Colin Kowalski provided an overview of the annual private equity review, in which Meketa assessed the pacing and evolution of capital calls and distributions over time to plan for the program going forward. Mr. Kowalski stated that the program had started in 2009 with many initial capital calls and had since begun to mature and realize investments around 2019. Leo Festino clarified that maturity means that the program had become self-sustaining and that distributions from the program are enough to fund future capital calls. Mr. Kowalski added that at the current point of maturity, the Fund is also receiving \$9 million per quarter, on average, to help pay benefits and other expenses. He concluded with an explanation of Net Asset Value (NAV) and reminded the board that they had made a new commitment to Constitution Capital in 2023. No motion necessary.

d. Private Equity Approach: Fund of Funds vs. Specialty Consultant

Leo Festino explained that the intent of the agenda item was to compare options for deploying capital into private assets from a fee-savings perspective, due to the high expenses associated with private equity fund of funds (FOF) investments. He clarified that the presentation would be better considered a comparison between FOFs and primary funds. Mr. Festino explained the advantages and disadvantages of remaining invested in FOFs versus investing directly in primary funds. He listed control over allocations, lack of contractual obligations, and a lower cost structure without profit sharing as the main advantages of direct primary investments. He listed a higher administrative burden and greater need for oversight as potential disadvantages. Mr. Festino followed up to explain that a way to mitigate those disadvantages would be to outsource the responsibilities to a manager like Meketa who would run that part of the investment program. Mr. Festino also explained how reporting would be impacted from a budgetary standpoint, as FOF expenses and profit shares are not reported in the financial statements but payments to a manager would be, which could negatively impact perception of expenses despite achieving lower overall costs. Trustee Fowler asked how large the Fund would need to be to consider primary investment and how many people it would take to manage. Mr. Festino confirmed that the Fund already had enough assets to do so but suggested that the best option for the Fund would be to outsource the work rather than hire additional staff. The trustees engaged in further conversation regarding discretionary versus non-discretionary and the liabilities associated with hiring an expert to make private equity investment decisions.

Anumeha Kumar clarified that the agenda item was for informational purposes only, and no decision would be needed until next year. No motion necessary.

- IV. Discuss and consider Request for Information (RFI) for Depository Bank, including presentation from a responsive bank

Anumeha Kumar reviewed the RFI process that the board had initiated in 2023 to evaluate the current depository bank, Sunflower Bank, but had decided to pause due to lack of satisfactory responses. She informed the board that one of the original respondents, Frost Bank, had followed up to inform the Fund that they were now able to offer the collateralized deposits required by the original RFI. Ms. Kumar explained that in addition to collateralized deposits, the Fund also compared the earning credit rate and service charges to those of Sunflower Bank. Ms. Kumar informed the trustees that a document in their board packet compared the offerings of Sunflower Bank and Frost Bank. She highlighted that Frost offered collateralized deposits that exceeded 100%, Frost offered a higher earnings credit rate than Sunflower, and Frost had lower service charges than Sunflower. Ms. Kumar made a recommendation for the board to approve the selection of Frost as the Fund's new depository bank. She explained that if approved, the transition from Sunflower would take two to three months. Ryan Meyer and Sybil Daniels introduced themselves as representatives of Frost Bank and provided a brief overview of the offerings of Frost Bank. In their presentation, they focused on their high level of customer service, technology on par with larger banks, and their ability to match the services requested in the RFI. Mayor Watson called for a motion to approve the agenda item as recommended. Trustee Woolverton made the motion to hire Frost Bank. Trustee Fowler seconded the motion. Mayor Watson added that Frost should be briefed in the day-to-day operations of the Fund. The motion passed without objection.

- V. Update on City of Austin Actuarial Audit

Anumeha Kumar revisited the actuarial audit that had been performed by the City of Austin for all three pension systems as part of a statutory requirement. She explained that the audit had been presented to the Audit and Finance Committee of the City Council on May 10, 2024, and will be subject to final approval by the full Council before it is submitted to the Pension Review Board (PRB) along with the Fund's written response. Ms. Kumar informed the board that an article written by the *Austin Monitor* following the Audit and Finance Committee meeting had raised some concerns among the Fund's membership. Ms. Kumar noted that the Fund had followed up to provide clarification to the article, which emphasized that the Fund was not in a state of crisis, delineated that the Voluntary Funding Soundness Restoration Plan (FSRP) had been a proactive board decision and not a triggered requirement, and explained why the Fund did not consider the amortization period to be a "finding" made by the City's actuarial firm performing the audit. Additionally, Ms. Kumar explained that the plan changes referenced in the article were applicable to the City of Austin Employees Retirement System (COAERS) and Austin Police Retirement System (APRS) and were likely included for the sake of comparison but did not apply to AFRF. Ms. Kumar described the Fund's robust policy regarding cost-of-living adjustments (COLAs) which involves an actuarial determination of affordability as a prerequisite to granting a COLA. She noted that the Fund had not granted COLAs in the past two years and that the actuary had yet to make their determination for the current year. Ms. Kumar stated that the board and the City of Austin will move forward with considering potential changes to ensure the Fund remains on a path of financial stability. No motion necessary.

- VI. Update on Funding Soundness Restoration Plan (FSRP) progress

Anumeha Kumar reviewed the action taken by the Fund to complete an Actuarial Experience Study

one year in advance of the state requirement as a proactive measure in conjunction with the development of the Voluntary FSRP. Ms. Kumar informed the Board that the Working Group had progressed to the next step of developing a proposal for the Voluntary FSRP and planned to present their draft proposal to the membership at their next informational session, tentatively scheduled for June 13, 2024. No motion necessary.

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

a. General comments

No general comments.

b. Update on development of Administrative Policies and Procedures, including internal controls

Anumeha Kumar provided an overview of the progress staff had made on developing administrative policies and procedures, noting that there had been no procedures or internal controls in place when she and the current Fund staff came onboard. Ms. Kumar explained the importance of procedural documentation both from a day-to-day and from a business continuity standpoint. Ms. Kumar described the staff's implementation of project management software to track customer service requests and explained the separation of duties involved in financial management tasks, all of which were being documented in written format, both for auditing purposes and to ensure the Fund continues to operate in the most efficient fashion. Trustee Weaver voiced support for the effort and asked if the policies and procedures would be integrated into the development of the new Pension Administration System (PAS) software to ensure separation of duties. Ms. Kumar explained that while not all functions could be integrated into the software from a cost standpoint, she confirmed that the major financial functions, such as payroll, retirement processing, and refunds would have workflows in the software that involved checks and balances and quality control.

c. Internal financial statements, transactions, and Fund expense reports for month ending April 30, 2024

Anumeha Kumar noted that the cost for actuarial work exceeded the original approved budget due to the work the actuary had performed regarding the development of the Voluntary FSRP. She indicated that there were no other significant items to report.

VIII. Roadmap for future meetings

The trustees had no questions or requests regarding the roadmap.

IX. Call for future agenda items

No future agenda items were called for.

Hearing no objections, Mayor Watson adjourned the meeting at 10:18am.

Board Members

Mayor Kirk Watson, Chair

John Bass, Vice Chair

Belinda Weaver, Treasurer

Doug Fowler, Trustee

Aaron Woolverton, Trustee