MINUTES
BOARD OF TRUSTEES MEETING
FRIDAY FEBRUARY 28, 2025, 9:00AM

Board Members Present
Aaron Woolverton, Vice 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
Shira Herbert, AFRF Accounting & QC Specialist
Chuck Campbell, Jackson Walker
Alyca Garrison, Jackson Walker
Aaron Lally, Meketa

Community Members Present
Rene Vallejo
Donald Lowe
Tom Dodds
Kate Alexander, City of Austin (virtual)
Virtual attendees not listed

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

Public Comments:

No public comments.

I. Consent Agenda for the following:

a. Minutes of the regular meeting of January 24, 2025

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

Trustee Fowler made a motion to approve both items on the consent agenda. Trustee Weaver seconded the motion. The motion passed unanimously. Vice Chair Woolverton concluded with a moment of silence for the retired firefighters who had passed in January.

II. Meketa 4Q24 Investment Performance review, including the following:

Aaron Lally started with agenda item II.c., then resumed the agenda order.

a. Economic and Market Update

Aaron Lally identified big themes in the recent market were those of public equity versus private equity and short term versus long term performance. He explained that while the news had reported 2024 as a great year for markets, in actuality, it was a concentrated environment that featured outperformance by US large cap stocks, such as the Dow, S&P 500, and Nasdaq, which averaged 25% returns for the calendar year. He further explained that individual investors tended to be heavily weighted in that part of the market, which could skew their perspective on pension returns. He explained that pensions had access to a much broader

portfolio, which was often beneficial, but resulted in a lesser 5% annual return for the Fund in 2024. He suggested that the 5% return would be inconsequential in a long-term view of AFRF performance and emphasized that it was important to avoid extrapolating recent performance into perpetuity when making investment decisions. Mr. Lally explained that over thirty years, private equity consistently outperformed public equity, but over the last two years, it had underperformed relative to the stock market, which in turn had a bigger impact on well-diversified pension plans like AFRF. Mr. Lally pointed to the 10-year trailing returns of the Fund compared against a 70/30 benchmark. He described it as one of the best charts to judge the health of the Fund and stated that the chart indicated that the Fund's complexity had consistently produced better returns than the 70/30 benchmark mix. He added that the Fund had more consistently exceeded its 7.3% actuarial target on a 10-year lookback since 2018 than it had during the prior twenty years. Trustee Bass thanked Mr. Lally for his comments and contended that performance should be judged over an even longer period, since the average pension liabilities duration is longer than ten years. He also emphasized the importance of considering returns in a total portfolio context and on a risk-adjusted basis, rather than making unrealistic comparisons against volatile stocks that were not appropriate for a diversified pension fund. No motion necessary.

b. 4Q24 Investment Report

Aaron Lally stated that performance for 4Q24 has been mixed, with areas of both outperformance and underperformance. He explained that the Fund had performed well relative to national peers over long-term periods but had underperformed over one-year periods for the past two years. Mr. Lally emphasized that it was important for the board not to allow peers to dictate their investment decisions. He informed the board that their allocations complied with their policy and that Meketa would guide them through an annual evaluation of their allocation targets in May. He applauded the board and the boards prior for adopting a plan and sticking to it and explained that consistent exposure has compounded to produce strong long-term outperformance. Mr. Lally reported that the Fund ended 2024 with $1.16 billion in assets. No motion necessary.

c. Texas Peer Analysis

Aaron Lally noted that the agenda item was based on a prior suggestion from Trustee Fowler. He stated that the Texas Pension Review Board (PRB) had great data online, including a pension plan comparison tool, which Meketa used as a starting point for their analysis. He detailed the municipal peer group that Meketa had selected, which consisted of general employee, police, and fire plans in large Texas cities with over approximately $1 billion in assets. He noted that AFRF was among the smaller sized plans relative to that peer group, with the three Houston plans being the largest. Mr. Lally reported that with an 86% funding status, AFRF was one of the best funded plans out of the Texas peer group, exceeded only by two of the Houston plans, and ranked high relative to national peers as well. Regarding actuarial assumptions, Mr. Lally stated that all plans had a similar goal with nothing notable to report. Regarding the 10-year annualized return, Mr. Lally stated that the Fund also performed near the top of the municipal peer group at 7.6%, with the three Houston plans showing slightly better results. Trustee Weaver asked why a ten-year horizon had been used for the return comparison, to which Mr. Lally stated that long-term returns were more meaningful from the perspective of an infinite-life pension plan and also encompassed the shorter-term returns. Mr. Lally followed up with a second peer group, with data through 9/30/2024, over a mix of trailing short and long-term periods, which illustrated how some of the best performing Houston plans appeared to underperform when viewed from a short-term perspective. He concluded that over short-term

periods, such as the past couple years, the movement of public and private markets produced performance metrics that did not always accurately reflect the overall long-term performance of a pension plan. He stated that focus should not be placed on any one bad year, but rather on long-term accumulation and consistently producing strong results without prolonged negative streaks. Trustee Fowler expressed his appreciation for the comparisons, noting their importance during a period of change. Mr. Lally stated that Meketa would consider repeating the exercise every couple of years. No motion necessary.

d. Manager Recommendations

Aaron Lally presented his first recommendation. He informed the board that the Fund had a small weight of 1% invested in Westwood Large Cap Value, which included US stocks in large companies with a value tilt. He explained that Westwood had performed well and had beaten their benchmark over the long term, but as AFRF continued the path of implementing the passive framework and simplifying their portfolio, Meketa recommended liquidating the strategy and moving approximately $10 million into the S&P 500 to benefit from similar exposure at a lower cost. Trustee Fowler made a motion to terminate Westwood and reallocate the proceeds of approximately $10 million into the SSGA S&P 500 index. Trustee Weaver seconded the motion. The motion passed unanimously.

Aaron Lally presented his second recommendation. He explained that Highclere was an active manager that invested in stocks of smaller companies in non-US developed nations, and that while nothing was inherently wrong with the manager, their fees were high, and their results had been consistently subpar over the years that Meketa had been monitoring them. Mr. Lally identified three options for board consideration, which included replacing the strategy with a passive index fund, replacing the strategy with an enhanced index fund, or remaining with Highclere and seeking a significant fee discount. Mr. Lally reported that Meketa's attempts to seek a discount from Highclere had been unsuccessful so far. He emphasized the importance of remaining invested in the small cap asset class over the long term instead of terminating the strategy at a low. Mr. Lally further explained that a passive index fund would be the cheapest option for maintaining exposure in the asset class, while the enhanced index fund would be more expensive, but significantly less than the active manager. He stated that the enhanced index would be Dimensional, a large mutual fund asset manager, with whom the Fund already has exposure in emerging markets. Mr. Lally reported that Dimensional had a history of outperformance and would be easy for the Fund to implement. Trustee Weaver explained that she had been monitoring Highclere for a long time and that due to their consistent underperformance, the board should not consider keeping Highclere. She stated that her preference between the two suitable options would be to reallocate proceeds to Dimensional. Trustee Bass expressed confidence that the asset class would eventually rebound but noted that there was no guarantee that Highclere would. He explained that while it was not advantageous to trade out at a loss, if the manager failed to rebound or potentially closed, it would be best for the Fund to have made that decision as early as possible. He agreed with Trustee Weaver that either replacement strategy would be suitable, but voiced his preference for the purely passive option. Vice Chair Woolverton agreed with terminating Highclere and noted his preference for reallocating to Dimensional. Trustee Fowler made a motion to terminate Highclere and reallocate the proceeds to Dimensional. Trustee Weaver seconded the motion. The motion passed unanimously.

e. Passive Framework

Aaron Lally explained that "Passive 2.0" would be the second phase of the passive investment

initiative that had been executed by the board and Meketa during the prior year. He stated that while there were different perspectives regarding the benefits of active versus passive management, Meketa gravitated toward being selective and actively investing only where the fees were justified by performance. Mr. Lally revisited the original passive framework, executed in 2023 and 2024, which moved 10% of the plan from actively managed strategies to existing passive indices within the plan. He stated that the move had resulted in fee savings of approximately $800,000 annually. Mr. Lally further explained that the process had been very formulaic, with both quantitative and qualitative considerations, and had moved $10 million each month from well-performing active managers into the passive framework. He asked the board to consider whether they would like to continue to increase passive exposure through the Passive 2.0 framework, which would feature the same goal and fee savings, but with a more subjective approach to avoid being solely invested in the biggest base index funds (like the SP500 or MSCI EAFE). He explained that instead of moving $10 million each month, Meketa would occasionally recommend a full termination or movement of larger amounts, such as the board had done with the termination and reallocation of Highclere to Dimensional. Mr. Lally also asked the board to consider whether they would like to count enhanced index funds, such as Dimensional, as part of the passive strategy. He reiterated that asset classes are more important than individual managers in long-term investments, and therefore passive investment provided the most efficient long-term exposure to the market. Trustee Fowler made a motion to approve the Passive 2.0 Framework as presented. Trustee Weaver seconded the motion. The motion passed unanimously. Trustee Bass added that only purely passive strategies should be counted toward the passive framework for simplicity and to avoid any subjectivity on the matter. Mr. Lally voiced his support for that decision and informed the board that their index fund provider, State Street Global Advisors (SSGA), had provided a new fee schedule which would result in an immediate $50,000 annual fee saving for the Fund on their index products.

III. Consider third reading and adoption of proposed changes to the Investment Policy Statement (IPS)

Vice Chair Woolverton offered a reminder that Fund statute required the board to approve the IPS at three consecutive meetings, and that the board had granted first approval at the December 2024 meeting, second approval at the January 2025 meeting, and would presently consider the final adoption of the IPS. Trustee Fowler made a motion to approve the IPS on third reading as it was presented in December 2024. Trustee Weaver seconded the motion. The motion passed unanimously.

IV. Consider adoption of proposed changes to the Investment Policy Operating Procedures

Vice Chair Woolverton explained that the Investment Policy Operating Procedures was a separate but related document to the IPS, which did not require three readings, but did follow a member comment process as set forth in the Fund Rules. He stated that the policy was first approved at the December 2024 meeting for member comments and had been posted to the Fund's website accordingly. Anumeha Kumar stated that staff had received comments from one member, which were shared with the board in accordance with the policy. Vice Chair Woolverton confirmed that he had received the comments. Trustee Fowler made a motion to approve the Investment Policy Operating Procedures as presented. Trustee Weaver seconded the motion. The motion passed unanimously.

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

Anumeha Kumar provided the board with a bill tracking report from the Pension Review Board (PRB) for Texas Legislative Session 89(R), which was currently in session, and reported that the House Pensions Committee had been announced and the committee has posted for its first organizational hearing the following week. Ms. Kumar noted that the PRB report included several statewide retirement system bills and several cost-of-living adjustment (COLA) related bills. At a local level, Ms. Kumar explained that among the bills filed for municipal systems, Representative Bucy had filed House Bill 2802 (HB 2802) on behalf of the City of Austin with proposed pension reforms for the Fund. Ms. Kumar highlighted several components of the City's bill and noted that while some were anticipated, others were new to the Fund. She explained that HB 2802 proposed an increase to the board size from five to seven, which the Fund agreed with, but would also change the structure of the board to replace the Mayor with a City Council member as presiding officer, replace the City Treasurer with the Chief Financial Officer, and would add two citizen members, one of which would be appointed by City Council and the other appointed by the board. Ms. Kumar emphasized that the proposed change to the board structure would not include an additional firefighter position, which the Fund disagreed with. Regarding the COLA provision, Ms. Kumar explained that HB 2802 proposed continuing the current ad hoc COLA structure, but with a new escalating threshold test to be set in statute, and with City Council approval to be required for the COLA to be granted. Ms. Kumar added that HB 2802 proposed a 25-year amortization period for the actuarially determined employer contribution (ADEC) funding policy, with a 5% corridor up and down, and a potential member contribution increase of up to 2% if the corridor was breached. Trustee Fowler asked for confirmation of his understanding that the financial stability test for the ad hoc COLA provision would essentially "move the goalpost" by becoming increasingly strenuous over time. Ms. Kumar confirmed that the test would become more strenuous every five years as laid out in the bill. She added that the COLA provision would not resolve the structural issue that had been identified by the Working Group, in which COLAs were funded entirely by investment gains. Ms. Kumar stated that the Fund was still actively working to get their own bill filed. No motion necessary.

VI. Consider Securities Litigation Matter

Alyca Garrison explained that one of the Fund's securities litigation monitoring firms had brought a case to the Fund for consideration, but in the time since the agenda was posted, the facts of that case had changed such that their recommendation was no longer to seek lead plaintiff status. Ms. Garrison reported that they had gone through the process as set forth in policy and had spoken with the firm, but there was no recommendation for the board at that time. No motion necessary.

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

a. General comments

No general comments.

Pension Administration System (PAS) software update, including changes to retiree payroll processing

Anumeha Kumar informed the board that staff had entered the final stage of the software development process and were on track to complete the upgrade by the end of the year. She explained that the software would be implemented in 2026 after a period of parallel processing with the legacy system and would be followed by a phased-in release of the MemberDirect portal. Ms. Kumar described the current procedures for retiree payroll processing, which

required duplication of work in two systems of record between the PAS software and the external portal for State Street, which would then complete the payroll processing for the Fund. Ms. Kumar explained that the new PAS software would be more sophisticated and secure and would provide staff with the capability of processing payroll entirely in-house, which would be more efficient and allow for a uniform and interactive interface between the PAS software, the electronic document management system (EDMS), and the member portal. She further explained that while State Street would continue to serve as the Fund's custodian bank, having State Street process payroll incurred additional fees and would lead to additional expenses and challenges with the software development, both in terms of customizing the software to interact with State Street and in terms of making important documents, such as 1099s, available to members through the MemberDirect portal. Ms. Kumar stated that bringing payroll in-house would require additional work from staff, but staff had been willing to take on the additional workload to ensure proper payroll processing, to make the process more efficient within one system of record, and to reduce costs for the Fund. Ms. Kumar informed the board that the retiree payroll processing change would take effect in January 2026. Vice Chair Woolverton requested a fee-savings estimate, to which John Perryman reported approximately $8,000 per quarter. Ms. Kumar clarified that it would cumulate to approximately $34,000 annually. Trustee Weaver voiced her support for the decision both from an internal controls perspective and from a cost-savings perspective.

b. Newsletter Update

Anumeha Kumar reported that the February newsletter had been published the day prior and was available to members on the Fund's website.

c. Internal financial statements, transactions, and Fund expense reports for month ending January 31, 2025

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

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, Vice Chair Woolverton adjourned the meeting at 10:19am.