

Revised ~~May 2022~~ [February 2025]

Investment Policy Operating Procedures

for

Austin ~~Fire Fighters Relief and~~ Firefighters Retirement Fund

~~Austin Fire Fighters Relief and Retirement Fund~~
~~Operating Procedures~~

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Operating Procedures Revised May 2022

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I. Available Asset Classes

In accordance with Section VI of the Statement of Investment Policies and Objectives (the “Policy”) for the Austin Fire Fighters Relief and Retirement Fund (the “Fund”), the Board of Trustees of the Fund (the “Board”), with advice from the investment consultant, has determined the following asset classes will be available for investment by the Fund:

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Public Domestic Equity.....

Public Foreign Equity

~~Emerging Market Equity
Frontier Market Equity
Private Equity
Private Debt
Real Estate~~

~~Investment Grade Bonds~~

TIPS

~~High Yield Bonds
Bank Loans
Developed Market Bonds
Emerging Market Bonds

Natural Resources

Infrastructure
Commodities
Hedge Funds
Cash~~

I. II. Market Assumptions

In accordance with Section ~~VH~~VIII of the Fund’s Investment Policy Statement (the “Policy”), the Board has adopted the following market assumptions for use in determining the asset allocation plan for the Fund; ~~including the various asset class targets set forth in these Operating Procedures.~~ These expected return and standard deviation assumptions are based on a twenty-year forecast for broad asset classes and sub-asset classes from Meketa Investment Group’s ~~2022~~2024 Annual Asset Study. Expected returns are annualized compounded returns.

<u>Asset Class</u>	<u>Annualized Average Return Asset Class (%)</u>	<u>Annualized Standard Deviation (%)</u>
Fixed Income		
Cash Equivalents	1.72 <u>1.5</u>	1.0
Investment Grade Bonds	2.44 <u>2.8</u>	4.0
Long-term Government Bonds	2.85 <u>3.0</u>	12.0
TIPS	2.44 <u>2.7</u>	7.0
High Yield Bonds	4.46 <u>4.8</u>	11.0
Bank Loans	4.06 <u>4.6</u>	10.0
Emerging Market Bonds (local; unhedged)	4.66 <u>4.2</u>	13.0 <u>12.0</u>
Emerging Market Bonds (major)	4.26 <u>4.8</u>	12.0
Mezzanine <u>Private</u> Debt	7.29 <u>7.2</u>	16.0 <u>15.0</u>
Distressed Debt	7.7	21.0
Equities		
Public U.S. Equity	6.88 <u>6.5</u>	18.0 <u>17.0</u>
Public Developed Market Equity	7.58 <u>7.9</u>	19.0 <u>18.0</u>
Public Emerging Market Equity	8.48 <u>8.9</u>	24.0 <u>22.0</u>
Public Frontier Market Equity	8.7 <u>10.0</u>	21.0 <u>20.0</u>
Private Equity	10.0 <u>11.2</u>	28.0 <u>25.0</u>
Private Equity Fund of Funds	8.69 <u>9.9</u>	24.0 <u>26.0</u>
Long-Short Hedge Funds	4.15 <u>3</u>	10.0
Real Assets		
Core Private Real Estate	6.16 <u>6.9</u>	12.0
Value Added Real Estate	8.19 <u>9.0</u>	20.0
Opportunistic Real Estate	9.6 <u>10.3</u>	26.0
Natural Resources (Private)	8.59 <u>9.3</u>	24.0 <u>22.0</u>
Commodities	4.65 <u>5.3</u>	17.0
Infrastructure (Core)	7.38 <u>8.0</u>	14.0
Infrastructure (Non-Core)	9.3 <u>10.0</u>	22.0
Other		
Hedge Funds	4.45 <u>4.8</u>	7.0
Hedge Fund of Funds	3.65 <u>5.0</u>	7.0

~~III. Asset Allocation Targets~~

~~In accordance with Section VI of the Policy, the Board has established its strategic asset allocation mix so as to achieve its long-term investment goal of accumulating reserves necessary to provide the established benefits to the participants and their beneficiaries.~~

~~Market movements may cause a portfolio to differ from this strategic mix. The desire to maintain this constant strategic mix must be balanced with the real cost of portfolio rebalancing. Therefore, a range has been set for the actual asset allocation of the Fund's assets to allow for the fluctuations that are inherent in marketable securities.~~

~~The target allocations and rebalancing trigger percentages are:~~

Broad Asset Classes	Low-	Tar	High-
Equities	30%	42	55%
Fixed Income	20%	30	40%
Alternatives*	10%	28	40%

~~*(Including Private Equity, Real Estate, and Natural Resources)~~

~~It is the responsibility of the custodian to calculate market values and report these to staff and consultant monthly.~~

IV. ~~Asset Class Diversification: Sub-Asset Class Targets~~

~~Within the broad definition of equities and fixed income for allocation purposes, the Trustees, with advice from the consultant, believe it is prudent to diversify within asset classes. The sub-asset class categories, as well as the asset allocation among such sub-asset classes, are set forth below. The Policy Benchmarks set forth below are used to determine the composite Policy Index described in Section VII of these Operating Procedures.~~

	Target	Range	Policy Benchmark
	(%)	(%)	
Public Domestic Equity	20	13-27	Russell 3000
Public Foreign Equity	22	15-29	MSCI ACWI (ex. U.S.)
Private Equity	15	5-25	MSCI ACWI +2% on a 3 Month Lag
Investment Grade Bonds	13	10-20	Bloomberg Barclays Aggregate
TIPS	5	0-10	Bloomberg Barclays U.S. TIPS
High Yield/Bank Loans	5	0-10	50% Merrill Lynch High Yield
Emerging Market Debt	7	0-10	Custom EMD Benchmark [†]
Core Real Estate	5	0-10	NCREIF ODCE Equal Weighted (net)
Value Add Real Estate	5	0-10	NCREIF Property NPI
Private Natural Resources	3	0-5	S&P North American NR
Cash	0	0-5	

[†] Custom EMD Benchmark is 50% JPMorgan EMBI Global Diversified, 25% JPMorgan GBI-EM Global Diversified (unhedged), and 25% JPMorgan CEMBI Broad.

II. ~~V.~~ Investment Manager Selection and Termination

When hiring or terminating investment managers, the Fund Staff, in consultation with the ~~investment consultant~~ Investment Consultant, will summarize in the Board meeting minutes, the key factors that led to the decision.

For new hires, typically the Investment Consultant will prepare a “search document” when the Board is considering hiring a new manager. The search document will include a mix of qualitative and quantitative characteristics on high conviction strategies that should help guide the Board in understanding the potential risks and opportunities across different investment options. The Board may (but is not required to) interview candidates prior to hire.

For terminations, the Investment Consultant will typically prepare a memo or analysis explaining its recommendation for termination. Termination could result from any of the following (non-exhaustive) reasons:

- Failure to deliver on performance expectations
- Asset allocation changes
- Strategy style drift
- Investment staff departures at the investment manager
- Firm instability or change in ownership at the investment manager

III. ~~VI.~~ Investment Manager Invoice Fee Reconciliation and Payment

The majority of investment manager fees are paid indirectly through each investment’s fund vehicle (i.e. debited from performance).

For the investment strategies that invoice the Fund directly, Fund Staff is primarily responsible for reconciliation and payment of all invoiced investment manager fees. ~~Independently a pre-identified Trustee shall verify each requested manager fee payment.~~

If ~~either party identifies~~ a discrepancy ~~relative to the invoice~~ is identified, Fund Staff shall request additional explanation from the investment manager prior to payment. If an error is found, Fund Staff must request a correction from the investment manager prior to payment.

~~VII. Performance Objectives~~

~~In accordance with Section II.C. of the Policy, the overall performance objective of the Fund is to achieve a high likelihood of outperforming the total return of an index composed of a mix of asset class benchmarks over a market cycle. This composite “Policy Index” will be calculated using the sub-asset class target percentages and the Policy Benchmarks set forth in Section IV of these Operating Procedures. The investment consultant will set forth the composition of the Policy Index in its quarterly reports to analyze the overall performance of the Fund.~~

~~With respect to investment manager performance, over a market cycle or five years, whichever is shorter, the performance objective for each manager is to add value after fees to a specified benchmark representing a particular investment style, net of fees. These specific style benchmarks for investment managers are set forth in Appendix~~

~~A. Short term examination of each manager's performance will also focus on style adherence and peer comparisons.~~

~~Passive investment products are expected to match the return of their respective benchmark, gross of fees.~~

IV. ~~VIII.~~ Asset Class Guidelines

In accordance with Section VI of the Policy, set forth below are the investment guidelines applicable to each broad asset class available for investment by the Fund. Additional investment guidelines are contained within each agreement between the Fund and individual investment managers (for separately managed accounts).

A. ~~A.~~ Public Equities

1. ~~1.~~ Eligible holdings:
The portfolios will be invested in publicly traded marketable securities.
~~Restricted or letter stock are not permitted.~~
2. ~~2.~~ Style Adherence:
Managers are expected to not deviate from the particular style they were selected to manage. Quarterly, fundamental portfolio characteristics and style benchmarks comparisons will be monitored for adherence to a manager's identified style. The capitalization of each stock in an equity manager's portfolio shall be within the cap range of the above identified style benchmark when purchased. Managers are expected to stay within the cap range of their dedicated strategy and are instructed to provide notification of any material changes to strategy. Currency management is at the discretion of active international managers.

B. ~~B.~~ Public Fixed Income

1. ~~1.~~ Eligible holdings:
The portfolios shall be invested in ~~publically~~publicly traded marketable securities. Private placement bonds are not permitted. 144(a) fixed income securities are allowable.
2. ~~2.~~ Portfolio Quality – Core:
Dedicated core fixed income products should be predominantly invested in investment grade securities, as defined by market ratings agencies (e.g. Moody's, Standard & Poor's). Money market instruments shall have a minimum quality rating comparable to an A3 (Moody's) or A (standard & Poor's) bond rating and commercial paper shall be rated A1/P1 unless held in a diversified short term commingled fund.

C. ~~C.~~ Closed End Alternatives (Private Equity, Real Estate, Natural Resources)

1. ~~1.~~ Management:
Investments in closed end vehicles shall be made only through professionally managed, institutional limited partnerships or limited liability corporate vehicles.

2. ~~2.~~ Diversification:

The closed end alternatives portfolio will be prudently diversified. Further, the private equity portfolio in aggregate shall be diversified by: industry groups, company, number of transactions, stage of company maturity, form of investment, geography and vintage year. Investment in non-U.S. limited partnerships is permitted. The long-term nature of private equity investments and vintage year diversification shall be emphasized so that the Fund, as a long-term investor, may properly take advantage of the private negotiation of transactions and the liquidity premium associated with private markets investments.

3. ~~3.~~ Over-commitment:

The implementation of a private markets program by the Fund shall be made over time so as to increase vintage year diversification. The timing of new commitments shall be spread out so as to avoid undue concentration of commitments in any one-year. The Board recognizes that it will be necessary to make capital commitments in excess of the target allocation for private markets investments in order to achieve the target allocation and subsequently maintain it. The Investment Consultant shall monitor the amount of capital committed, drawn, invested and distributed and make recommendations to the Board ~~of Trustees~~ as needed.

4. ~~4.~~ Monitoring:

The Fund Staff, Board and Investment Consultant will collectively monitor and administer the underlying limited partnership investments in a prudent manner, in part, by:

- (a) ~~1.~~ administering capital calls and distributions,
- (b) ~~2.~~ employing financial monitoring and reporting systems,
- (c) ~~3.~~ maintaining an understanding of the limited partnership's holdings and activities, including periodic discussions with the general partners and attending partnership investor meetings as appropriate,
- (d) ~~4.~~ attending to partnership amendments or other matters related to the underlying partnerships in the best interest of the Fund, and
- (e) ~~5.~~ liquidating stock distributions.

D. ~~Passive Investment Products~~

Passive investment products are expected to match the return of their respective benchmark, gross of fees.

V. ~~IX.~~ Securities Litigation / Class Action Lawsuit Policy

From time to time, the Board may determine, with the advice and assistance of the Fund's Outside Counsel (if requested), that it is in the best interest of the Fund's participants and beneficiaries to participate in securities class action lawsuits where the Fund has been harmed due to securities fraud or other violations that negatively impact the value of securities held by the Fund.

A. ~~A.~~ Monitoring Securities Litigation Matters

It shall be the Fund custodian's primary responsibility to (1) monitor all securities class action litigation matters on behalf of the Fund, ~~to~~ (2) manage the timely and effective filing of proofs of claim in securities class action litigation matters that have already reached settlement in respect of investments held by the Fund, and ~~to~~ (3) report to the ~~Fund Administrator~~ Executive Director as necessary. In addition, the ~~Fund Administrator~~ Executive Director shall notify the investment manager(s) who manage the affected securities of any potential or pending legal action.

However, in those securities class action lawsuits or other securities litigation matters in which the Fund has retained a law firm to represent the Fund as lead plaintiff or class representative or to actively monitor the progress of the case in accordance with Section D, then the law firm shall be responsible for the timely and effective filing of proofs of claim in such lawsuits on behalf of the Fund and will notify, in writing, the ~~Fund Administrator~~ Executive Director, the Fund's custodian and any applicable investment manager(s) of the proofs of claim that have been filed on behalf of the Fund.

B. ~~B.~~ Active Involvement in Securities Litigation Cases

In addition to the routine filing of proofs of claim as described above, the Fund at its sole discretion may consider and assess whether and under what circumstances it may choose to become more actively involved in securities class action litigation or other securities litigation matters from time to time.

To this end, the Fund may at its discretion retain one or more law firms experienced in securities litigation matters to review and monitor potential and filed securities class action lawsuits and/or other securities litigation lawsuits and to bring to the attention of the Fund meritorious cases that the law firm concludes are worthy of further monitoring or involvement by the Fund and for which the Fund has suffered losses on its investment.

Generally, the Fund will not seek lead plaintiff status, opting instead for filing a proof of claim when appropriate, unless after consultation with the Fund's Outside Counsel ~~and any law firm retained by the Fund to monitor and report securities litigation to the~~

Fund, the Board believes that serving as lead plaintiff would be in the best interest of the Fund. ~~It~~ Except as expressly provided herein, it is within the sole discretion of the Board to determine if and when it would be in the best interest of the Fund to seek lead plaintiff status or to become more actively involved in a securities litigation case.

~~Operating Procedures~~ ~~Revised May 2022~~

If one of the Fund's retained law firms believes that a securities litigation case has merit and the Fund would be a good candidate to serve as the lead plaintiff in the case, the law firm shall present its recommendations in writing to the ~~Fund Administrator~~ Executive Director, including a statement as to whether the law firm would recommend that the Fund actively monitor the case, seek lead plaintiff status or class representative status, or take some other course of action with respect to the particular securities class action lawsuit or other securities litigation lawsuit.

The ~~Fund Administrator~~ Executive Director, in consultation with the Fund's Outside Counsel, will review all such recommendations and will evaluate the case and the law firm's recommendation considering the factors listed below. After such review and further consultation with the securities litigation law firm, ~~the Fund Administrator (as needed), the Executive Director~~ will present, or may request that the law firm present, to the Board a recommendation regarding the Fund's involvement in the case if the securities litigation firm continues to recommend active involvement after consultation with the ~~Fund Administrator~~ Executive Director.

After receiving the presentation described above, the Board shall have sole authority and discretion to decide whether the Fund should actively monitor the case, seek lead plaintiff status or class representative status, or take some other course of action. The Board may seek the advice of its Outside Counsel on such matters. Notwithstanding the above, if a decision regarding the Fund's involvement in a securities litigation lawsuit is required prior to the date of the next regularly scheduled Board meeting, the Executive Director may make a decision regarding the Fund's level of involvement without a presentation to the full Board after consultation with the Chair or Vice-Chair of the Board and the Fund's Outside Counsel.

In evaluating any securities litigation case, the Board (or Executive Director) shall consider all relevant factors related to the Fund's participation in such lawsuit, including, without limitation, the following:

1. ~~1.~~ Strength of the merits of the claims and defenses involved in the case;
2. ~~2.~~ Alleged losses or damages to the Fund equal or exceed a minimum of ~~\$250,000~~ 500,000, unless there are unique or special circumstances about the Fund's interest in the case or the losses sustained by the Fund that may support the Fund's involvement at a lesser threshold;
3. ~~3.~~ Facts unique to the Fund that make it well-suited to serve as lead plaintiff, including the Fund's standing to represent a broad class of claimants or investors;
4. ~~4.~~ The estimated time and expense required of Fund staff and the Fund's Outside Counsel in order for the Fund to serve as lead plaintiff (i.e., certification of the class, assistance with discovery, review of pleadings and court filings, monitoring litigation and outside securities litigation counsel,

settlement negotiations, etc.) and the ability to recover such costs through a favorable judgment or otherwise;

5. ~~5.~~ Estimated court costs;
6. ~~6.~~ Venue of litigation;
7. ~~7.~~ Reasonable potential for monetary recovery under a judgment (i.e., available resources of defendants, insurance coverage, possibility of bankruptcy, other suitable lead plaintiffs, etc.);

8. ~~8.~~ Whether the Fund is involved in other litigation; and
9. ~~9.~~ Qualifications of the law firm (or firms) bringing the recommendation based on the factors set forth in Section D below.

C. ~~C.~~ **Securities Litigation Matters in Foreign Jurisdictions**

The Fund may consider participating in securities litigation lawsuits that are brought or filed in foreign jurisdictions. The Fund will follow the same process set forth in Section B above in evaluating an international case and its involvement in such case.

In addition to the factors set forth in Section B above, the Board shall also consider all applicable foreign laws and regulatory requirements and the related risks that may apply to securities litigation claims brought in the particular jurisdiction, including without limitation, any unique jurisdictional requirements to prove the claim, the level of participation required by the Fund pursuant to foreign law, and the identity and qualifications of foreign counsel, if any, and their experience in pursuing litigation of this nature.

D. ~~D.~~ **Selection of Securities Litigation Law Firm to Actively Represent the Fund**

If the Board decides to seek lead plaintiff status or become actively involved in a case, the Board may hire one of the Fund's retained securities litigation law firms or another law firm experienced in securities litigation matters to advise and represent the Fund as lead plaintiff or otherwise in the case.

Generally, the Board will select the law firm (or one of the law firms) that brought the case to its attention to actively represent the Fund in the case. In the event more than one law firm recommends that the Fund actively seek participation in a case, the Board will select the firm that the Board believes will best represent the interests of the Fund in such case after considering all relevant factors, including, without limitation, the firm's:

1. ~~1.~~ Prior experience and demonstrated success in similar cases;
2. ~~2.~~ Experience and prior appearances in the particular venue of the case;
3. ~~3.~~ Quality of the analysis and presentation of the case to the Board,

including the analysis of the factors relevant to the Fund's participation in the case as set forth in Section B above; and

4. ~~4.~~ Willingness and financial security of the firm to fund the cost of the litigation on a contingent fee arrangement (i.e., availability and timing of reimbursements for Fund staff time and expense and/or Outside Counsel involvement, specific terms of fee or reimbursement arrangement, sufficient level of malpractice insurance, etc.).

Appendix A: Style Benchmarks

Asset Class and Style	Index Benchmark
Core Fixed Income	Bloomberg Barclays Aggregate Bond Index
Core Plus Fixed Income	Bloomberg Barclays Aggregate Bond Index
TIPS	Bloomberg Barclays U.S. Treasury TIPS Index
Emerging Market Debt	JPM EMBI Global Diversified or Custom Benchmark
High Yield	Merrill Lynch High Yield
Bank Loans	Credit Suisse Leveraged Loan Index
Large Cap Core	S&P 500 or Russell 1000
Large Cap Value	Russell 1000 Value
Large Cap Growth	Russell 1000 Growth
Mid Cap Core	Russell Mid Cap
Mid Cap Value	Russell Mid Cap Value
Mid Cap Growth	Russell Mid Cap Growth
Smid Cap Core	Russell 2500
Smid Cap Value	Russell 2500 Value
Smid Cap Growth	Russell 2500 Growth
Small Cap Core	Russell 2000
Small Cap Value	Russell 2000 Value
Small Cap Growth	Russell 2000 Growth
Micro Cap	Russell Micro Cap
International Developed	MSCI EAFE
International Developed w/ EM exposure	MSCI ACWI ex-US
International Developed Small Cap	MSCI EAFE Small Cap
Emerging Market Equity	MSCI Emerging Markets
Real Estate	NCREIF ODCE Equal Weighted (net) or NCREIF Property NPI
Private Equity	MSCI ACWI +2% on a Three Month Lag

Natural Resources	S&P North American NR
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Table moves from	0
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AFRF
AUSTIN FIREFIGHTERS
RETIREMENT FUND

**MINUTES
BOARD OF TRUSTEES MEETING
FRIDAY DECEMBER 20, 2024, 9:00AM**

Board Members Present

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
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
Denise Rose, Jackson Walker
Aaron Lally, Meketa (virtual)
Brad Schlueter, Schlueter Group

Community Members Present

Rene Vallejo
Kate Alexander, City of Austin (virtual)
Virtual attendees not listed

Vice Chair Bass 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 November 18, 2024
 - b. Service retirement benefits for new retirees, beneficiaries, and alternate payees

Vice Chair Bass requested a moment of silence for the active firefighter who had passed in November. Trustee Fowler made a motion to adopt both items on the consent agenda. Trustee Woolverton seconded the motion. The motion passed unanimously.

- II. Consider Initiatives for 2025 Texas Legislative Session 89(R), including granting authorization to Executive Director with respect to legislative initiatives

Anumeha Kumar stated that the board had approved the voluntary Funding Soundness Restoration Plan (FSRP) pension reform proposal at the November board meeting. She explained that the sole intent of this item was for the board to determine whether to grant authorization to the Executive Director to proceed with legal counsel to draft and file a bill. Trustee Fowler moved to approved granting authorization to the Executive Director with respect to legislative initiatives. Trustee Woolverton seconded the motion. Trustee Fowler questioned the status with the City of Austin, to which Ms. Kumar confirmed that the City was still at impasse with the Fund regarding the increase to the legacy unfunded liability and intended to file a competing bill during the legislative session.

She explained that the Fund would continue to reach out to the City in an attempt to work toward an agreed solution and would continue to work with Cheiron to consider options regarding the legacy unfunded liability. Trustee Fowler questioned whether refraining from filing a bill would put the Fund at a disadvantage, to which Ms. Kumar confirmed that it would put the Fund in a difficult strategic position due to the City filing a bill. Regardless of the impasse, she continued, the consensus between both parties was that the issue should be addressed as soon as possible to put the Fund back on sound financial footing. Trustee Fowler stated that due to the impasse with the City and the need to defend the Fund's position against their competing bill, Ms. Kumar should have the authority to do whatever is necessary to help protect the Fund. Ms. Kumar thanked Trustee Fowler and clarified that the bill would be reflective of the pension reform proposal approved by the Board at its November meeting with the only major difference being an 18.7% member contribution rate for both Group A and Group B. Trustee Weaver voiced her support for taking legislative action to improve the financial health of the Fund, but noted that she would not be able to support the motion due to the components that remained at issue from the initial reform proposal. She expressed her continued hope that the Fund and the City would come together with a joint legislative proposal. Trustee Woolverton echoed that hope and noted his skepticism regarding the success of either proposal if the two remained significantly different. Vice Chair Bass thanked the trustees for their perspectives and voiced his agreement with granting Ms. Kumar the authority to move forward with the bill. The motion passed with a 3-1 vote. Trustee Weaver voted in opposition to the motion.

III. Consider contract approval for Fund Lobbyist

Anumeha Kumar explained that passing a reform package through the legislative session would be a difficult process, and while the Schlueter Group would continue to provide general guidance, staff was recommending that the board hire a legislative consultant for this session, who would partner with the Schlueter Group from January through June. Ms. Kumar introduced Denise Rose and stated that she was uniquely positioned for the role due to her extensive experience working with the legislature as well as her position as a partner at Jackson Walker, which would allow her to work closely with Chuck Campbell and Alyca Garrison as they draft the bill. Ms. Rose introduced herself and provided the board with an overview of her qualifications. Trustee Weaver asked if the contract would only involve the legislative initiative or if it would also involve legislative monitoring of pension-related bills, to which Ms. Kumar confirmed that it would be all-encompassing for the upcoming legislative session. Trustee Fowler asked about the expectations for Fund members to be present at the Capitol to testify or support the Fund's position, to which Ms. Rose replied that presence would be important to show the Fund's investment in the bill, but many aspects still needed to be determined, such as the Speaker of the House and the members sponsoring the legislation. She stated that she would continually monitor the process and would inform the board in advance regarding that timing. Trustee Weaver noted that moving forward, the Fund should also consider a lobbyist contract, separate from the Schlueter Group, that would be specific to pension-related matters and not stray into firefighter issues outside of the Fund. Trustee Woolverton voiced his agreement. Trustee Fowler moved to approve the Fund lobbyist contract. Trustee Woolverton seconded the motion. The motion passed unanimously.

IV. Investment Policy Statement (IPS) and Operating Procedures Review

Anumeha Kumar explained that staff had worked with Jackson Walker to make sure that the two critical governing documents, the Investment Policy Statement (IPS) and Operating Procedures, went through a robust legal review when implementing the changes recommended by Callan and Meketa. Ms. Kumar further explained that, at a high level, the proposed changes pertained to three main categories: recommendations from Callan through the Investment Practices and

Performance Evaluation (IPPE), the passive investment approach that the board had engaged in over the past couple years with Meketa, and cleanup related changes for consistency between the documents, which also included a revision to the securities litigation policy. Ms. Kumar noted that the Pension Review Board (PRB) IPS Guidelines recommended that current practices be reflected in the IPS for future board members and that the benchmark used to evaluate Fund performance be fully investible and consistent with the Fund's actual asset allocation. Regarding the securities litigation policy, Ms. Kumar explained that the changes reflected an increase to the loss threshold from \$250K to \$500K, in relation to the Fund's asset size, and permission for the Executive Director to determine the level of Fund involvement if the deadline to pursue lead plaintiff status were to precede the regular board meeting date. Ms. Kumar introduced the Fund's investment consultant, Aaron Lally, to provide further details on the changes that were made to the documents. Mr. Lally stated that the changes were all consistent with the discussion from the prior meeting and with other board discussions that had taken place over the past year and a half. He explained that many of the redline edits pertained to cleanup changes within the text, but noted that an important one was the benchmarking approach. Mr. Lally explained that Meketa's recommended benchmarking approach was two-fold, with one benchmark that is long-term and another that is short-term. He explained that the total Fund performance benchmark was fully investable and consisted of three index funds that the Fund could easily invest in at a low cost, which would serve as a measurement to discern whether added complexity equated to added value for the portfolio. Mr. Lally further explained that regression analysis had determined that the simple benchmark, which consisted of stock and bond securities, did a good job replicating the Fund's return pattern over the long term. Over a shorter period, he continued, the Fund would refer to the dynamic benchmark that was already included in Meketa's quarterly performance reports but was now formally memorialized in policy. Mr. Lally reported that active management had been a historical default for pension plans due to past affordability and availability of index funds, but passive was now a better baseline and low-cost starting point to which more complexity could be added through active management when warranted. Mr. Lally added that there was some additional cleanup language under the proxy-voting section to ensure proxy-voting was only used in the best interest of the Fund and its beneficiaries. The trustees had no questions regarding the changes to the IPS. Mr. Lally explained that the Operation Procedures had become more streamlined as a result of key elements being moved to the IPS. He highlighted some new language under "Investment Manager Selection and Termination" that reflected a recommendation from Callan to formally document the Fund's processes. He added that Ms. Kumar had already addressed the changes to the securities litigation policy. Vice Chair Bass thanked Mr. Lally for his explanation and rationale. He reiterated that the changes to the total Fund benchmark were considered gold standard per many entities, such as the PRB, Meketa, and the CFA Institute, and emphasized that the benchmark was statistically representative of the Fund. He thanked both Meketa and Jackson Walker for all the work they had done behind the scenes to amend those two documents. Ms. Kumar explained that approving the changes to the IPS would statutorily require three readings with board approval at each juncture, with the second reading occurring in January and the final approval considered in February. Chuck Campell added that no commentary period would be required for the IPS review. Trustee Weaver requested a modification to the securities litigation section to include a required notification to the Chair or Vice Chair before the Executive Director can make a decision regarding the Fund's level of involvement in a case. Ms. Kumar confirmed that language could be added to reflect Trustee Weaver's request and clarified that the situation would only arise if there was no regularly scheduled board meeting prior to the deadline. Alyca Garrison stated that Jackson Walker would make the requested revision to the securities litigation policy language prior to the second reading. Trustee Fowler made a motion to adopt the Investment Policy Statement and Operating Procedures review with modifications on first reading. Trustee Woolverton seconded the motion. The motion passed unanimously.

V. Annual Performance Evaluation of the Executive Director (Closed Session)

The board entered closed session at 9:39am pursuant to Texas Government Code Section 551.074 to discuss personnel matters related to agenda item V. The board resumed open session at 10:13am with no action taken during the closed session. Trustee Fowler moved to approve the Executive Director's salary, effective as of January 1, 2025, as discussed. Trustee Weaver seconded the motion. Trustee Fowler emphasized that there had been an enormous amount of change-over in the pension office over the last three years, which included rebuilding the office staff, moving into an updated and higher-performing pension software, and dealing with the current legislative process and Funding Soundness Restoration Plan. Trustee Fowler acknowledged the difficulty of those changes and expressed his appreciation for Anumeha Kumar's performance throughout each step. Vice Chair Bass reiterated Trustee Fowler's sentiments and added that Ms. Kumar was relentless in her work. He thanked both Ms. Kumar and the staff for their hard work behind the scenes, noting that few people fully understand the amount of time, energy, and effort that goes into the work that they do. Vice Chair Bass explained that the Executive Director compensation adjustment was reflective of what was agreed upon during the prior year's review, which had been implemented over the course of the year and put into effect now. The motion passed unanimously.

VI. Consider approval of the proposed 2025 Budget

Anumeha Kumar presented the proposed operating budget for 2025 and explained that the increase in total expense from 2024 was predominately reflective of additional expenses that the Fund expected to incur in association with the legislative session work, including actuarial, legal, and legislative consulting. She described some additional increases, which included retiree payroll, the inbuilt annual increases for regular contracts such as for the financial consultant, legal counsel, and IT consultant, and increased condo association fees for the office building that the Fund owns. Ms. Kumar informed the board that she had negotiated with Cheiron to define a scope of actuarial work for the legislative session which would include a fee cap. She explained that the insurances that had been in place since she started with the Fund had also increased, and that she would evaluate whether the insurances continued to meet Fund needs after concluding the legislative process and software implementation. Regarding administrative expenses, Ms. Kumar requested a lump sum of \$20K-\$25K to use for merit-based adjustments to staff salaries, which would translate to a potential 3-4% raise for each staff member, if earned. She recommended that the board reevaluate total staff compensation in 2026 based on the Logic Compensation study findings from the prior year. Vice Chair Bass made a motion to approve the proposed 2025 budget as presented with the adjustments for merit pay in addition compensation of \$20K-\$25K for staff, as well as the compensation adjustment for the Executive Director. Trustee Fowler seconded the motion. The motion passed unanimously.

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

a. General comments

No general comments.

b. Securities Litigation update

Alyca Garrison provided a brief report on a case that had been brought to the Fund by one of the securities monitoring firms with a recommendation to consider pursuing a lead plaintiff status. Ms. Garrison explained that the lead plaintiff filing deadline had passed prior to the board meeting, but Jackson Walker had still gone through the process of evaluating their recommendation in accordance with Fund policy. She stated that after full consideration and a discussion with the monitoring firm, Jackson Walker determined that it was not in the best interest of the Fund to pursue lead plaintiff status at that time. Ms. Garrison added that the situation had illustrated a reason for the recommendation to change the securities litigation policy, as discussed in item IV. The trustees had no questions and declined the option to enter closed session for further discussion about the case.

c. Pension Administration System (PAS) software implementation update

Anumeha Kumar thanked the staff for their hard work throughout the software implementation process. She informed the board that while Provaliant had been approved to provide implementation oversight, staff had decided to take on the additional workload themselves and the Provaliant expense had been removed from the proposed 2025 budget. Ms. Kumar explained that the software implementation process consisted of three main deliverables, of which the first and second had been completed and the third had been recently initiated. She described the process for each deliverable, which included documenting every step that the staff follows for all possible internal processes; then the vendor, LRS, would come back with designs related to each of those steps for the staff to review, answer questions, and provide additional feedback on to inform the development of the software. Then, she continued, the staff would be tasked with running hundreds of lengthy test cases through the software to identify any potential errors. Ms. Kumar emphasized that the design review process had been cumbersome and time-consuming, and that staff had been doing the groundwork as well as managing and monitoring the process without Provaliant, on top of performing all the other daily tasks for the Fund, such as processing payroll, responding to member inquiries, generating retirement estimates, and handling member visits and consultations. She reiterated that she could not thank staff enough for their hard work. Ms. Kumar also thanked Jackson Walker for their role in answering the critical questions from the staff week to ensure that proper precedents were set for the future. She informed the trustees that additional changes would need to be made to the software if the reform package passes through legislation, and that she would provide an update accordingly. Trustee Weaver thanked the staff and noted her personal experience with arduous system implementations.

d. Board Meeting Dates for 2025

Anumeha Kumar advised the trustees to add the proposed board meeting dates to their calendars. Trustee Fowler noted that he would be available for all dates except for the date in May. Ms. Kumar stated that staff would consider alternate dates for May and would bring another schedule to the board once all dates were confirmed.

e. Final internal financial statements, transactions, and Fund expense reports for month ending October 30, 2024

Anumeha Kumar stated that there was nothing additional to report in the final version of the

October financial reports. The trustees had no questions regarding the financial reports.

- f. Internal financial statements, transactions, and Fund expense reports for month ending November 30, 2024

Anumeha Kumar stated that there was nothing notable to report for November. She informed the board that the final end-of-year financial reports would be presented at the January meeting and that the only over-budget items were those associated with the Funding Soundness Restoration Plan, as previously discussed. Trustee Weaver asked about staff experience with the transition to Frost Bank, to which John Perryman replied that the transition had been a very positive experience, and that Frost provided outstanding customer service in comparison to the prior bank. He noted that the Frost savings account also participated in a money market, so the interest earned from that account was superior to that of the prior bank.

- VIII. Roadmap for future meetings

The trustees had no questions or requests regarding the roadmap.

- IX. Call for future agenda items

Trustee Fowler requested that a discussion on the number of allowed DROP distributions be added to a future agenda, based on some discussions that had taken place on the retiree Facebook page. He also requested that staff provide some background information regarding the process that the board underwent when the number of allowed DROP distributions was last increased from 8 to 12, and some information regarding the impact of an increase on staff workload, including the consideration of hiring an additional staff member at a future date. Anumeha Kumar confirmed that the item could be added to the January agenda and that staff would come prepared with the requested information.

Hearing no objections, Vice Chair Bass adjourned the meeting at 10:41am.

Board Members

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