AUSTIN FIREFIGHTERS RETIREMENT FUND

MINUTES
BOARD OF TRUSTEES MEETING
FRIDAY AUGUST 23, 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 (virtual)
Shira Herbert, AFRF Accounting & QC Specialist
Amy Thibaudeau, AFRF Benefits Specialist
Alyca Garrison, Jackson Walker
Leo Festino, Meketa
Aaron Lally, Meketa
Colin Kowalski, Meketa (virtual)

Community Members Present
Rene Vallejo
Jan Wesson
Greg Pope
AJ Padilla
Virtual attendees not listed

Vice Chair Bass called the meeting to order at 9:04am.

Public Comments:

No public comments.

I. Consent Agenda for the following:

a. Minutes of the regular meeting of July 29, 2024
b. Service retirement benefits for new retirees, beneficiaries, and alternate payees

Vice Chair Bass called for a moment of silence to honor the three firefighters who had passed in June and July. Trustee Fowler made a motion to approve both items on the consent agenda. Trustee Woolverton seconded the motion. The motion passed unanimously.

II. Meketa 2Q24 Investment Performance Review, including the following:

a. Economic and Market Update

Leo Festino advised that the material in the report went through June 30, 2024, but the market had since changed and there had been more volatility over the last six weeks than there had been over the prior six months. Mr. Festino stated that there had been a strong start to the year, primarily for investments heavily indexed to the S&P 500, while active management in other areas, including allocation to bonds, tended to be flat. Mr. Festino reported that the Magnificent Seven had excelled for the first half of the year with technology-oriented investments being the greatest performers. Mr. Festino also reported that US stock prices were exceeding historical averages, which implied that future returns could be somewhat lower.

Fixed income, he continued, had been flat for both the quarter and the year. Mr. Festino explained that interest rates had decreased dramatically since July and were forecasted to be cut by the Federal Reserve in the coming weeks in response to a slowing economy marked by both decreasing inflation and gradually increasing unemployment rates.

b. 2Q24 Investment Report

Aaron Lally provided a high-level overview of the Fund's second quarter performance. Mr. Lally indicated that it had not been the best quarter relative to experience over time. He addressed what hurt performance in the recent one-to-two-year term, and what worked well for the Fund over a longer five-to-ten-year term, noting that private equity and manager performance fell into both categories. Mr. Lally identified low US-equity exposure, small cap bias, and overweight fixed income as additional contributing factors to recent short-term underperformance relative to policy benchmark. Mr. Lally asserted that allocation changes were unnecessary in response to the short-term underperformance because of the tendency for trends to reverse over time. He explained that the trends of the first six months of 2024 had already begun to reverse over the past six weeks, with smaller value companies performing better than the Magnificent Seven in the start of 3Q24. Mr. Lally reiterated that performance moved in cycles and suggested that the overweight fixed income that had hurt performance over the past three years could help the Fund moving forward. Vice Chair Bass emphasized that maintaining allocations over the long term is more impactful for pension systems than reacting to short term market movements. Mr. Lally confirmed his point and advised against making any reactionary changes.

c. Private Equity Peer Performance Benchmarking

Aaron Lally reminded the board that Meketa performs an annual analysis of private equity performance at both a high-level and at a granular lever in terms of each investment peer. He reported that private equity, on an annualized basis, produced a strong return of 16% for the Fund over both the 5-year and 10-year periods. Based on the 10-year private equity composite peer groups, Mr. Lally indicated that the funds the board had invested in outperformed the other funds that they could have selected. He noted that the Fund also outperformed by being invested in the global stock market. Next, Mr. Lally provided the granular analysis of each investment relative to the other options that were available in the same vintage year. He stated that the Fund had made good selections with more investments performing in the top two quartiles than the bottom two. He provided an overview of the revenue that was generated for the Fund by investments in each of the four performance quartiles with a total of $250 million in investment appreciation across the entire private equity class.

d. Private Equity Program Structure

Leo Festino introduced the agenda item as a continuation of past meeting dialogues, noting that their intention was to provide more specific information to help the board understand the differences between four options, including the advantages and disadvantages of each option. Mr. Festino started with the difference between a fund of funds and a fund of one, explaining that the Fund's current fund of fund approach involved an unlimited number of investors with no direct control, whereas a fund of one would involve full ownership of the vehicle with the ability to dictate terms of how the fund is run. Mr. Festino next explained two options for custom accounts, either managed by a third-party investment manager hired by the Fund, or internally directed with the support of a consultant. He specified that with a custom account run by an investment manager, the Fund would delegate the hired firm to manage the program

on the Fund's behalf and the board would only be tasked with monitoring their performance, whereas with the internally directed account, the firm would serve in a purely advisory role and the board would be in charge of voting on each individual investment, negotiating terms, and submitting all necessary documentation. Mr. Festino further detailed each of the four methods according to the number of decisions the board would need to make per year, the number of line items on the quarterly report, the associated costs, the number of portfolio companies, the designation of legal responsibilities and capital calls, the ownership of underlying fund commitments, the reporting responsibilities, the access to high quality investments and exposure control, and the concerns associated with the Freedom of Information Act (FOIA). Some of Mr. Festino's main points included that the fund of funds approach was the most expensive with the most underlying portfolio companies, that all methods provided access to high quality investments, and that taking the internally directed approach could potentially lead to missed opportunities due to time constraints associated with the board approval process for each individual investment. Trustee Weaver noted that there were many similarities between the fund of funds and the fund of one and asked if there was an advantage to one over the other. Mr. Festino replied that the fund of one would give the board more control as the sole owner of the vehicle. Aaron Lally added that a fund of one leans more on the selection skills of the firm. Trustee Fowler requested clarification on the FOIA concerns, to which Aaron Lally indicated that most requests come from database providers and some firms prefer not to deal with those requests. Alyca Garrison added that under the Texas Public Information Act, there are protections for private investments, but there is a process to follow for requesting an opinion from the Attorney General. Trustee Woolverton questioned whether Meketa considered one option to be superior to the others. Mr. Festino replied that the internally directed approach would be the least advantageous to the Fund due to the enormous time commitment, but any of the other three options would make sense for the Fund. Trustee Woolverton followed up to clarify whether the fund of funds offered the best diversification, to which Mr. Festino provided an explanation of how the alternative approaches could become just as diversified. He stated that he had no concern with concentration in either alternate approach. Vice Chair Bass reiterated that the purpose of the discussion was to determine how to continue access to private markets with a better fee structure. He requested clarification on the transition process if the Fund were to select an alternate method, to which Mr. Festino indicated that the Fund would have a mix of two strategies until the fund of funds fully matured and liquidated. Vice Chair Bass followed up with an additional question regarding the role of the board in a managed custom account, to which Mr. Festino explained that the investment manager would have full control under the contractual guidelines established by the board; he clarified that the board could change providers or amend the contract if they were discontent with performance. At the request of Anumeha Kumar, Mr. Festino presented a list of private equity program structures from comparable peer systems in Texas as sourced from public websites and annual reports. After reviewing the list, he and Mr. Lally concluded that the variety of selections indicated no clear universal best approach. Ms. Kumar explained that the two biggest potential advantages in considering a change to private equity program structure would be performance fee savings and manager fee savings; she then asked Meketa if the fee savings would be enough to justify making a change to the structure. In response, Mr. Festino emphasized that past returns cannot guarantee future returns, but stated that with models where there is no carry or sharing of performance, the Fund could potentially save a significant amount of money. Ms. Kumar and the trustees asked some additional follow-up questions regarding investment staff, the current interest rate environment, and the process for exiting funds in unfavorable market conditions. They thanked Meketa for providing detailed information about the private equity options for their consideration.

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

a. General comments

Anumeha Kumar explained that the software conversion process elicited deeper analysis of the administration of the program which, in tandem with the development of internal controls for business continuity, led to the identification of some administrative procedures in need of refinement to better align with the pension statute. The most recent identification, she continued, was an administrative procedure related to contribution crediting for the DROP program according to DROP entry date. Ms. Kumar further explained that statute contemplates that member contributions are credited to the DROP account as of the DROP entry date, however contributions for the full month were currently being credited, therefore the refinement would be to credit contributions for the appropriate pay period of the DROP entry date rather than for the full month. Ms. Kumar stated that this procedural change would take effect as of January 1, 2025, on a moving forward basis to align with statute.

b. Update on Voluntary Funding Soundness Restoration Plan (FSRP)

Anumeha Kumar informed the board that the Working Group did not yet have a proposal to present to the full board but aimed to have one ready in September. She explained that they would also be presenting an update to the Pension Review Board (PRB) at the PRB meeting on September 25. Trustee Woolverton asked if the PRB presentation was a requirement, to which Ms. Kumar clarified that while the presentation is not a statutory requirement, a typical part of the FSRP process is to keep the PRB updated and informed of potential changes. She further explained that the FSRP is monitored and overseen by the PRB and if the Fund were to go through the legislative process next year, the PRB would play a key role in providing an actuarial impact statement to evaluate plan provision changes and the associated costs.

c. Board of Trustees Election Update

Anumeha Kumar notified the board that the communique regarding the annual Board of Trustees Election had been distributed to the membership via mail and email and had been posted to the Fund's website. She stated that the nomination period would again run from September 1 through September 15 and that the same outside vendor, Yes Elections, would host the election, again offering both paper and electronic ballots. Trustee Weaver asked a question regarding the method of distribution for the nomination information, to which Ms. Kumar clarified that the communique was provided to all members by mail along with a prepaid return envelope, even if they had a valid email address on file. Trustee Weaver recommended that the Fund consider making a cost-saving change in the future to determine each member's preferred method of communication and tailor the distribution accordingly.

d. Pension Administration System (PAS) Implementation Update

Anumeha Kumar informed the board that staff had been very busy working with the software vendor, LRS, to ensure that the PAS implementation remained on track with the established timeline for completion. She reported that staff had completed the first of three deliverable phases, which entailed reviewing the designs to ensure fulfillment of the requirements, providing feedback to LRS, testing the software, requesting changes from LRS, then retesting

the modified software. She stated that staff had started the cycle for the second deliverable and were currently closing out the design review phase in preparation for testing.

e. Update on Summer Newsletter

Anumeha Kumar stated that the newsletter was on track for distribution by the end of August or early September.

f. Update on Depository Bank Transition

Anumeha Kumar reported that the Fund was still going through the process of finalizing the necessary contracts with Frost Bank. She voiced her anticipation for the transition to be in progress by the September board meeting.

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

Anumeha Kumar stated that the budget was on track, aside from professional services related to the Voluntary FSRP. She informed the board that staff would be looking to purchase a new copier for the office due to the current copier reaching end-of-life.

IV. Roadmap for future meetings

The trustees had no questions or requests regarding the roadmap.

V. Call for future agenda items

No future agenda items were called for.

Hearing no objections, Vice Chair Bass adjourned the meeting at 10:49am.