AUSTIN FIREFIGHTERS RETIREMENT FUND

MINUTES
BOARD OF TRUSTEES MEETING
MONDAY NOVEMBER 18, 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
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
Leo Festino, Meketa
Aaron Lally, Meketa (virtual)
Colin Kowalski, Meketa (virtual)
Elizabeth Wiley, Cheiron (virtual)
Heath Merlak, Cheiron (virtual)

Community Members Present

Rene Vallejo
Donald Lowe
Tom Dodds
Ed Van Eenoo, City of Austin
Kate Alexander, City of Austin
Virtual attendees not listed

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

Public Comments:

Rene Vallejo introduced himself as the president of the Austin Retired Fire Fighters Association (ARFFA) and stated that he had attended almost every AFRF board meeting for the past four years. Mr. Vallejo explained that some Union members had recently made motions opposing the Working Group's voluntary Funding Soundness Restoration Plan (FSRP) and had questioned the board's rush to pursue pension reform. Mr. Vallejo voiced his approval of the FSRP and explained that the Working Group had been working on the plan for over a year and had considered multiple approaches throughout its development. He stated that the trustees desired to protect the pension and cautioned anyone opposed the voluntary FSRP that if action was not taken now, an eventual mandatory FSRP could be much worse than the currently proposed reforms. Mr. Vallejo urged Union members to vote against the motions of opposition.

I. Consent Agenda for the following:

a. Minutes of the regular meeting of October 25, 2024

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

Vice Chair Bass requested a moment of silence for the retired firefighter who had passed in October. Trustee Fowler made a motion to adopt both items on the consent agenda. Vice Chair Bass seconded the motion. The motion passed without objection.

II. Initiatives for 2025 Legislative Session, including the following:

a. Consider AFRF Working Group pension reform proposal for a Voluntary Funding Soundness Restoration Plan (FSRP)

Mayor Watson stated that he would address both items before entertaining any motion.

Anumeha Kumar provided an overview of the proposed benefit reforms contained within the proposal and explained that they had not been changed or updated since they were presented to the board in September. She stated that the Working Group had continued working with the City of Austin, but the numbers related to the legacy unfunded liability, the proposed normal cost reduction, or the years to payoff the unfunded liability have not changed. She reiterated that the increase to the unfunded liability would be a one-time increase and that the Working Group agreed with the City's proposal in relation to the actuarially determined funding model. Vice Chair Bass expressed his appreciation for Rene Vallejo's public comment and stated that it had been a long process in which the provisions had been carefully considered along with multiple alternatives. He voiced his opinion that the proposal met the goals of both the City and the Fire Department, lowered costs substantially over the long term, dealt with the current structural issue, and would provide long term resiliency to the plan. Trustee Fowler explained that the Working Group had taken a holistic approach for a long-term lasting solution. He stated that the Working Group had put their best proposal forward at the start of the process, and while the proposal had been tweaked a bit, it remained essentially the same. Trustee Fowler explained that both sides agreed on most points in the proposal, but the $90 million increase to the unfunded liability remained at issue. He remarked that the City of Austin Employees Retirement System (COAERS) had a $1.9 billion unfunded liability and Austin Police Retirement System (APRS) had an approximate $700 million unfunded liability that both had to be addressed. In comparison, he continued, AFRF had an estimated $300 million unfunded liability with an added $90 million due to the modest 1% deferred COLA proposed by the Working Group. Trustee Fowler reiterated that retirees of AFRF did not participate in Social Security like the other two systems and had experienced a significant loss in buying power due to inflation. Trustee Fowler explained that if Austin firefighters had participated in Social Security, the City would have paid an estimated $14 million this year alone, based on information obtained from the City's website, which would have far exceeded the annual cost to pay off the additional unfunded liability of the proposed COLA, if paid over 30-year period. Trustee Fowler concluded that some retirees still deal with scars and disabilities from their careers serving Austin and expressed that providing a modest COLA was not too much to ask for. Mayor Watson stated that he would allow Ed Van Eenoo to present the City's proposal before providing his response.

b. Requested presentation on City of Austin proposed pension reform for AFRF by Ed Van Eenoo, Chief Financial Officer, City of Austin

Ed Van Eenoo began his presentation by stating that AFRF needed to be reformed due to issues associated with funding. He expressed his opinion that the issues could be easily addressed by making modest reforms to the system and that waiting would widen the funding gap and make reform more difficult. Mr. Van Eenoo recapped a presentation that he had made to the board in January regarding pension reform principles and the reforms that had been accomplished with the two Austin peer systems. He summarized the City's framework for addressing the funding needs of AFRF, which had also been used with the police and civilian systems and highlighted key goals of honoring the benefit promises made to active and retired members and ensuring funding for future benefits. Mr. Van Eenoo explained that the method to

accomplishing those goals would be to establish a lower benefit tier with an approximate 6% reduction to the normal cost of the benefit through options such as adjustments to the multiplier, the age of retirement eligibility, final compensation, or the DROP program, and an increase to City contributions using an actuarially determined contribution (ADC) model. He further explained that within the ADC model, the City would increase contributions by nine to eleven percentage points, phased in across three years, and then allow for up to an additional 5% to keep the system fully funded and within the 30-year amortization limit during years in which the Fund underperformed assumptions. If the need exceeded the additional 5% from the City, he continued, the member contributions would then increase an additional 2% to maintain a cost-sharing component of ensuring the health of the Fund. Mr. Van Eenoo next addressed the COLA provision within the City's proposal, which would continue the system's current ah hoc COLA structure, subject to a financial threshold for adequate funding. He stated that the criteria for granting COLAs should be put into the statute and that the thresholds should increase periodically over time until the Fund reaches 100% funded. Regarding the board composition, Mr. Van Eenoo insisted that two community member seats should be added to the board requiring financial, investment or other expertise pertinent to the system, and that the Mayor and City Treasurer positions should allow delegation to different Council members. He concluded that the primary sticking point with the City was the $89 million increase to the unfunded liability in 2026 under the Working Group's proposal.

Mayor Watson thanked Mr. Van Eenoo for his presentation and asked Anumeha Kumar how the board should proceed regarding the impending vote among the Union membership to oppose legislative reform. Ms. Kumar clarified that Union members would vote whether they should support any legislation going through the 2025 legislative session, but that the current action item was only to consider the Working Group's proposal. Mayor Watson clarified that any motion would only be to move forward with the Working Group's plan, not to approve any specific legislation. Trustee Fowler made a motion to approve the AFRF Working Group's pension reform proposal for a Voluntary Funding Soundness Restoration plan as presented, subject to continuing negotiations and discussions with the City of Austin. Trustee Woolverton seconded the motion. Vice Chair Bass voiced his agreement with the motion and expressed his concern with the point in the City's proposal to remain with an ad hoc COLA structure, stating that it would invite complexity back into the system and create the same dynamic that had contributed to the situation the Fund was currently facing. He added that the City's COLA proposal would also create a scenario where there would be no inflation protection for a long stretch of time and emphasized the importance of moving away from the ad hoc structure. Trustee Weaver acknowledged and thanked the Working Group for their time and efforts. She expressed her holistic agreement with the initiatives laid out in their proposal but noted her concern with a few components. She stressed that the best chance for getting legislation passed would be for AFRF and the City to proceed with a joint proposal. Mayor Watson commended the efforts of the Working Group and the course of action to bring forth a voluntary FSRP to the legislature, stating that waiting for the Pension Review Board to mandate more drastic changes would not be in the best interest of the pension beneficiaries or the City of Austin. He emphasized that the shared fiduciary duty of the board was to prioritize funding soundness above anything else and stated that while he appreciated the service that the firefighters gave to the City and was cognizant of the need for purchasing power protection without Social Security, the COLA component of the Working Group's proposal would increase the unfunded liability and appear to make the funding soundness worse. He informed the board that he had historically served on the Senate committee that would hear their bill and expressed his deep concern that the increase to the unfunded liability would overshadow and

jeopardize the other important work they had accomplished. The motion passed with a 3-2 vote. Mayor Watson and Trustee Weaver voted in opposition to the motion.

Mayor Watson left the meeting at 9:09am. Quorum of four.

III. Meketa 3Q24 Investment Performance review, including the following:

a. Economic and Market Update

Leo Festino informed the board that the trend of positive performance over the last couple quarters had continued and almost all major asset classes had gone up, some of which had increased dramatically. He reported that the most important development had been the Federal Reserve interest rate cut, which prompted rate-sensitive areas such as smaller cap stocks to do especially well, while other areas like large cap stocks and growth stocks continued their past positive performance. He further explained that it had been a good year to be invested in a mix of stocks and bonds, that technology had flattened in Q3 after a strong first two quarters, and that the most significant overseas development had occurred in China, where the government had taken measures to prop up the equity market, leading to strong returns in China that moved emerging markets strategies. Fixed income, he continued, had been challenging in 2022 but had since reversed and was now generating high returns. Mr. Festino concluded that the decreasing inflation and stable unemployment rate which had prompted the Federal interest rate cut, had been common across many worldwide economies, except for Japan where inflation and interest rates had increased.

b. 3Q24 Investment Report

Leo Festino reported an overall positive quarter for the Fund with investment returns slightly behind benchmarks and peers. He explained that the Fund had complied with all policies, targets and allocations, and that asset allocation decisions had worked well in general for the third quarter, but the implementation and selection of the managers in some categories had not. Mr. Festino reported that the underweight position in real estate had been beneficial, as well as the overweight position in US equities. Actively managed strategies, he continued, had mixed performance with half beating their benchmarks and half lagging. Mr. Festino reported that over rolling 10-year periods, the Fund exceeded peer performance approximately 80% of the time. He reviewed the Fund's history with private equity investments, which had delivered strong absolute returns for a decade after inception, but more recently in 2023 and year to date 2024, returns had been flat and behind public equity markets. Trustee Fowler asked for clarification on the peer comparison, to which Mr. Festino explained that peers are comprised of public funds across the United States with at least $1 billion in assets. Trustee Fowler followed up to request a comparison against Texas-based peers in a separate category, to which Mr. Festino expressed concern about the perception of cherry-picking and Ms. Kumar stated that local peer comparisons could be provided from the Pension Review Board's website. Vice Chair Bass thanked Mr. Festino for focusing on long-term performance due to pension liabilities being long dated on average. Ms. Kumar asked a question regarding the lag in private assets coming out of 2022, which Mr. Festino attributed to a combination of market dynamics and performance reporting dynamics, including the impact of COVID and stimulus, and additional reporting lag from fund of fund investments. Aaron Lally added that private equity companies tend to be smaller than most companies in the stock market and had been more severely impacted by inflation and higher interest rates during that period as well. Mr. Festino revisited asset allocations, noting that Meketa would soon recommend increasing the real estate allocation closer to target as real estate performance improves. He informed the

board that Meketa would revisit the appropriateness of having additional active large cap exposure and would potentially provide a recommendation next year. Mr. Festino detailed the performance of a few individual managers and noted that Highclere had not produced the expected returns. He explained that Highclere invested in small international stocks, an area that was differentiated from the rest of the Fund's portfolio. Mr. Festino informed the board that Meketa had an upcoming meeting scheduled with Highclere and would eventually make a recommendation regarding the investment. Trustee Weaver noted that Highclere had the highest fees of any manager and consistently underperformed since inception. She questioned the course of action following Meketa's meeting with Highclere and questioned why the Fund continues with that investment. In response, Mr. Festino stated that in past meetings and review of their materials, he had not noted any factors such as employee turnover or fee changes that would have raised his concern, but discerned that it had been a challenging area to be invested in. He explained that the course of action would be for the Fund to determine whether to maintain exposure in that space, then determine if fees could be renegotiated with the same manager or if another manager could provide the same exposure more efficiently. Mr. Festino stated that he would follow up with a rationale for potential board action at the next meeting if Meketa deemed it necessary following the Highclere meeting. Ms. Kumar informed Mr. Festino that Highclere had recently sent a communique pertaining to a potential fee increase for investment research work, and questioned how long a consistently underperforming manager should be evaluated. Mr. Festino listed various factors that could be considered but settled on the fact that they were the most expensive manager within the public markets area and conceded that the issue should be addressed. He proceeded to the fixed income report, noting that the emerging markets were performing well. He next addressed private markets, noting that while performance had remained flat with no change to the committed amount since the last report, the performance of the program since inception had been positive and had roughly doubled the Fund's commitment.

c. Investment Practices and Performance Evaluation (IPPE) Responses

Leo Festino reviewed the recommendations that Callan had provided for board consideration as part of the IPPE process. Mr. Festino stated that Meketa had moved certain areas from the Operating Procedures into the Investment Policy Statement (IPS) in accordance with Callan's recommendations, such as the investable asset classes, policy targets, and ranges. He stated that the benchmark language had also been changed and would be reflected in the new IPS when reviewed by the board. Mr. Festino noted that the board had discussed performing an asset liability study in the coming years, which Meketa viewed as a positive outcome pertaining to Callan's recommendation to better incorporate liabilities into asset allocation decisions. Mr. Festino explained that Meketa had disagreed with Callan's recommendation to include language in the IPS relating to benchmarks for each individual manager, stating that it would be too granular for the purpose of the document. Anumeha Kumar added clarification that the packet contained both IPPE recommendations as well as some changes that the board had been working with Meketa on regarding their passive framework efforts from the past year. Ms. Kumar stated that any of Callan's recommendations that Meketa agreed with, and Jackson Walker approved from a legal standpoint, would be brought to the board to consider as part of the policy documents review in December. She stated that they were still working on some challenges pertaining to Callan's recommendation to merge the Operating Procedures and the IPS, due to certain statutory requirements related to the process of changing the IPS. Aaron Lally revisited the passive framework and noted that the summary included language addressing the fees and general philosophy of the approach. He explained that the next step for the passive framework would be to come up with a similar plan but with more flexibility, moving to a more qualitative structure in 2025. Mr. Lally further explained that Meketa had

been reworking the IPS for almost twelve months behind the scenes to incorporate the recommendations from Callan's report and that the redlined documents were a preview of the changes that the board would consider in December, most of which pertained to either Callan's report or to the work Meketa had done with Vice Chair Bass earlier in the year on adjustments to the reference benchmark. Mr. Lally described the reference benchmark as an opportunity cost that could be replicated with low-cost passive indices and would serve as a baseline to judge if active management implementation was additive. He stated that Meketa had performed regression analysis earlier in the year, which indicated that asset classes like real estate, high yield bonds, or private equity had similar equity risk to owning stocks over the long term, so the simple reference benchmark would be the best fit for the Fund and would replace the current policy benchmark. Mr. Lally added that Meketa had agreed with Callan's suggestion to better notate when the board made hiring and firing decisions, so they added some language addressing that process as well. He concluded that the board would initiate their three-meeting process of adopting changes to IPS at the next meeting. Vice Chair Bass thanked Mr. Lally for his explanation and rationale for the reference benchmark, which was the most appropriate performance measurement in terms of the data analysis they had done.

d. Investment Policy Statement and Operating Procedures Review

Leo Festino addressed this item in tandem with Item III.c.

e. Annual Fee Review for Public Markets

Leo Festino reported on the fee benchmarking and analysis that Meketa performed on an annual basis. Mr. Festino highlighted some of the Fund's actively managed strategies, indicating that Westwood had low fees and small assets, Westfield appeared high because they had been performing well with performance-based fees, Vaughan Nelson had a flat fee structure close to median, Ballie Gifford had a good fee relative to their performance, and Highclere had a high flat fee which Meketa would be discussing during their meeting with Highclere. Mr. Festino stated that the Fund's two complimentary emerging market strategies both had below average fees and that the fixed income managers had performed well. Overall, he concluded, the Fund's active managers had reasonable fees with most at the median or lower than average. Mr. Festino added that the move toward the passive framework over the past year had resulted in recurring savings of approximately $800K per year. He stated that Meketa would re-underwrite the equity book and would look for other areas in which to gain efficiency and potentially bring action items or topics for discussion on the theme to the board in February. Trustee Fowler and Vice Chair Bass thanked Mr. Festino for his presentation.

IV. Consider 2025 Cost of Living Adjustment (COLA)

Anumeha Kumar introduced Elizabeth Wiley, the Fund's actuary from Cheiron. Ms. Wiley provided a high-level overview of the COLA adjustment analysis as laid out in Fund Statute Section 9.04 and Fund Rules Sections VII and VIII. She stated that the first step had been to determine the actual change in the CPIU for the year, which was 2.44%, a decrease from recent years but higher than the prior decade's average. Next, Ms. Wiley described the financial stability tests required by Fund Statute and outlined in the Fund Rules, which look at future projections over a 10-year period. Ms. Wiley explained how Cheiron determined the return assumptions for the current and future years and stated that the two tests required all ten years of the projection to have an amortization period at or below 25 years and a funded ratio at or above 80% with the assumed COLA factored in. If either of those tests fail, she continued, a COLA could not be granted. Ms. Wiley provided a brief

reminder of the current pension funding dynamics, including the Fund's normal cost, unfunded liability, and tread water rate. Ms. Wiley next explained that given those dynamics and the amortization period of 48.6 years reported in the 2023 Valuation, both tests failed even without a COLA factored in. Ms. Kumar asked, given the current 0% COLA assumption, how COLAs would be valued in the future if the funding health of the plan improved and the ad hoc COLA structure remained in place despite concerns from the Pension Review Board (PRB) and the Actuarial Standards of Practice (ASOP). Ms. Wiley stated that Cheiron had determined a need for a COLA assumption based on the Fund Statute, history, and communications from the City of Austin. However, she continued, the Fund's current ad hoc structure subject to tests resulted in either granting the full CPIU or nothing, which made COLAs very challenging to value, and due to clear short term projections and conversations with the PRB regarding the intent to move away from the structure long term, Cheiron settled on 0% as the correct COLA assumption for the current time. Heath Merlak added that the ad hoc COLA structure functioned like a gain-sharing approach wherein positive asset experiences gave away gains that would have provided cushion during downtime, which added further challenge to the ad hoc structure. He stated that while Cheiron felt comfortable with the 0% COLA assumption at current time, they would recommend increasing the assumption if the Fund began to experience significant positive returns. Ms. Wiley expressed a concern regarding the all-or-nothing model for the ad hoc COLA and the Fund's inability to reduce the collective adjustment amount short of failing the test, noting that it added to the challenge of valuing COLAs. Vice Chair Bass stated that the discussion had illustrated why the ad hoc COLA structure was problematic and why the PRB no longer supported it. He added that all benefits come at a cost and having a prefunded COLA would recognize the cost rather than pushing it to a later date. Trustee Fowler made a motion to accept the 2025 Cost of Living Adjustment Report as presented by Cheiron, which concluded that no COLA could be granted for calendar year 2025, based on the Fund's financial stability test. Vice Chair Bass seconded the motion. The motion passed unanimously.

V. Update and possible board certification of 2024 Board of Trustees Election Results

Mayor Watson addressed item V following item III, prior to his departure. He explained that the election results memorandum from YesElections indicated that the Fund would need to hold a runoff election for candidates John Bass and AJ Padilla. Trustee Fowler made a motion to accept the results from YesElections and the call for a runoff election to be held from December 2 through December 16, 2024. Trustee Weaver seconded the motion. Vice Chair Bass recused himself from the vote. The motion passed without objection.

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

a. General comments

No general comments.

b. Draft internal financial statements, transactions, and Fund expense reports for month ending October 31, 2024

Anumeha Kumar informed the board that the October financials were presented in draft form due to the early meeting date, and that the final financial statements would be included in the December report along with a presentation of the proposed budget for 2025. Ms. Kumar pointed out one item in the draft statements, which was the purchase of a new combined printer, copier, and scanner, which she stated would have a reasonable ongoing cost for use.

VII. Roadmap for future meetings

Anumeha Kumar noted two items that would be included in the December board meeting, which had been rescheduled to December 20, 2024, to accommodate Meketa's virtual attendance. The first notable item, she explained, would be for the board to consider initiating the three-posting requirement for adopting the proposed changes to the Investment Policy Statement and Operating Procedures. The second item, she continued, would be for the board to consider bringing a motion to authorize staff to pursue any potential legislation regarding the board's legislative initiatives during the 2025 legislative session.

VIII. Call for future agenda items

No future agenda items were called for.

Hearing no objections, Vice Chair Bass adjourned the meeting at 10:30am.