



AFRF
AUSTIN FIREFIGHTERS
RETIREMENT FUND

**MINUTES
BOARD OF TRUSTEES MEETING
FRIDAY NOVEMBER 17, 2023, 9:00AM**

Board Members Present

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

Staff and Consultants Present

Anumeha Kumar, AFRF Executive Director
John Perryman, AFRF CFO
Debbie Hammond, AFRF Benefits Manager
Shira Herbert, AFRF Accounting & QC Specialist
Amy Thibaudeau, AFRF Benefits Specialist
Chuck Campbell, Jackson Walker
Alyca Garrison, Jackson Walker
Leo Festino, Meketa
Elizabeth Wiley, Cheiron
Coralie Taylor, Cheiron (virtual)
Tim Asselin, Constitution Capital Partners
Dan Cahill, Constitution Capital Partners
Rob Hatch, Constitution Capital Partners

Community Members Present

Rene Vallejo
Virtual attendees not listed

Vice Chair Fowler called the meeting to order at 9:10am.

Trustee Weaver was not in attendance when the meeting was called to order, quorum of 3.

Public Comments:

No public comments.

- I. Consent Agenda for the following:
 - a. Minutes of the regular meeting of October 30, 2023
 - b. Service retirement benefits for new retirees, beneficiaries, and alternate payees

Vice Chair Fowler requested a moment of silence to honor the Austin police officer who had recently died in the line of duty; he extended the sentiment to all first responders and military members who had died in the line of duty. Trustee Bass made a motion to approve the consent agenda. Trustee Woolverton seconded the motion. The motion passed unanimously.

II. Meketa 3Q23 Investment Performance review, including the following:

a. Economic and Market Update

Leo Festino provided an overview of market performance as of September 30, 2023, noting that while markets had been rising through July, most asset classes fell by 2-4% in the subsequent months while interest rates increased. The only exception, he explained, was energy due to the increase in energy prices during the quarter. Mr. Festino described further that loss in international investments, due in part to currency conversion and fluctuating exchange rates, and encouraged the board to invest in dollar currency when possible. For the year to date, he explained, most public markets were up, with US Equities up by 13%, led by developed market equities such as Google, Apple, Microsoft and other big names focused on technology, communication services and artificial intelligence. Mr. Festino noted that inflation continued to be a topic of interest as a contributing factor to the fluctuating interest rates that led to volatility in the equity and fixed income markets. Mr. Festino described Meketa's focus on monitoring the impact of higher interest rates on the consumer-driven economy, noting that high interest rates on revolving credit card balances in combination with the resumption of student loan repayments had led to a decrease in consumer capital for goods and services, which could eventually trickle down into the economy. Mr. Festino explained that Meketa would continue to monitor the impact of interest rates in the coming quarters but reassured the board that the economy had remained strong and had been quite resilient despite prior concerns about potential recession. No motion necessary.

b. 3Q23 Investment Report

Leo Festino explained that it had been a difficult quarter with a 2.4% loss for the Fund, noting that the loss aligned with the performance of peer institutions. Mr. Festino informed the board that there was a lag in some proceedings that had not yet been marked, then reviewed the impact of lag on reporting since 1Q22. While private equity had been a drag on performance over the past two quarters, he explained, the historical performance beyond three years had been a true positive for the Fund. Mr. Festino informed the board that the Fund positions were all close to target, with a slight overweight in liquids and US equities, and a slight underweight in fixed income and international equities, with no deviations exceeding 2% from the targeted range. Mr. Festino further described Fund performance versus benchmarks, with stronger performance over the long term than the short term, relative to peer systems. Trustee Bass thanked Mr. Festino for the analysis and emphasized the importance of focusing on long-term performance over short-term performance. Trustee Bass made an additional comment regarding the 60/40 exposure split shown on the return summary graph in Meketa's report being different from the Fund's actual split, which is closer to 70/30. He stated that someone could mistakenly attribute the difference to alpha instead of beta and if the red bar was a 70/30 split, those differences might be less extreme than what's shown in the graph. Mr. Festino noted that Trustee Bass brought up a good point and that they would add additional figures in the next quarterly report to illustrate the impact of 70/30 and 80/20 splits. Mr. Festino provided more information on Fund allocation versus peers, explaining that the Fund was in the upper quartile for private equity but had a well-diversified portfolio overall to provide yields and protect against inflation. Mr. Festino overviewed the performance of a few specific managers, highlighting positive long-term performers and noting any correlations of

performance to investment in the Chinese markets, which had struggled during pandemic market closure. He then explained that the Total Value to Paid-In capital (TVPI) for liquid assets was currently 2.0x for the Fund, meaning the value created had been double the Fund's initial commitments. Mr. Festino then pointed out one specific partnership, Constitutional Capital Partners, in which the Fund had made a \$15Million commitment in 2014 to Ironsides III. Mr. Festino explained that Ironsides III had performed well and was reaching maturity after creating \$26Million in revenue for the Fund on top of their initial commitment, which translated to a 2.3x multiple. After reminding the Board about the lifecycle of the commitments, Mr. Festino segued into the Constitution Capital Partners interview that had been requested by the board during the previous meeting with Meketa. No motion necessary.

Trustee Weaver joined the meeting at 9:27am, quorum of four.

c. Passive Framework Progress Report

Leo Festino addressed passive framework following the Constitution Capital Partners Interview (Item II.d). Mr. Festino offered a reminder that the framework had begun earlier this year, noting that of the Fund's eleven public market strategies, they had essentially drawn forward one from each, apart from Sanderson which had been drawn forward twice, and with the addition of \$10Million from Westwood in November. Historically, he explained, they have tried to keep the investments within the same asset class, but due to the current overweight in domestic equities, Meketa may tactically pull from that class in December to reinvest in international equities or fixed income to rebalance the portfolio. No motion necessary.

d. Constitution Capital Partners Interview (Private Equity Fund of Funds)

Tim Asselin introduced himself, Dan Cahill, and Rob Hatch of Constitution Capital Partners. Mr. Asselin expressed his appreciation for the Fund's prior commitment to Ironsides III and informed the board that Constitution Capital Partners was now in the process of raising funds for Ironside VII. Dan Cahill provided an overview of the history of the firm. He explained their partnership investment strategy, wherein they invest in other private equity funds in the United States primarily focused on mid-market buyout, and their equity call investment strategy, wherein they invest directly in the companies alongside the private equity funds that they commit capital to. Mr. Cahill provided information about their goal of generating low to mid-twenties net internal rate of return (IRR), emphasizing the consistency of returns achieved by the previous Ironsides funds. Rob Hatch listed their core focus areas as consumer health care, business services and consumer products. He further noted their preference for low-volatility investments, their selectivity, and the close relationships they maintain with their fund managers as hands-on value-add partners. Mr. Cahill described the 20-year relationship that Constitution Capital Partners has maintained with Meketa and described the fee-break they offer to Meketa's clients as one of the lowest in the industry. Mr. Cahill concluded his presentation with a breakdown of the term sheet. Trustee Weaver questioned their focus on consumer healthcare and industrial business services, to which Mr. Cahill explained their experience and comfort in those sectors over new technologies, which tend to carry more risk. Trustee Bass expressed appreciation for the fee schedule and noted the importance of managing expectations and closely considering the features of net IRRs. Mr. Cahill agreed and noted that the IRR can be somewhat inflated in the early stages of a fund. Trustee Bass asked an additional question regarding term extension of unsold portfolio companies, to which Mr. Cahill explained that when that situation had occurred with Ironsides II, they sold that portion

of the portfolio into the secondary market and returned the money to their investors. Leo Festino informed the AFRF board and staff that the Ironsides III investment in 2014 had been two investments: one in the partnership fund and one in the co-investment fund, but Capital Partners now offered a third vehicle, a 50/50 split, which the Fund could invest in as a single line-item. Mr. Festino engaged in conversation with the representatives of Constitution Capital Partners regarding any lag in reporting to be expected with their firm. Trustee Weaver voiced her support for moving forward with Meketa's recommendation of investing in Ironsides VII due to the proven track record of the company and their attractive fee structure. Trustee Bass echoed her sentiment. Trustee Weaver made a formal motion to invest \$25Million, as recommended by Meketa, to the Constitutional Capital Partners Ironside VII fund. Trustee Woolverton seconded the motion. The motion passed unanimously.

e. Memos and Roadmap

Anumeha Kumar asked Leo Festino if he would be able to present a passive framework impact report in February, to quantify for the board the positive or negative effect the strategy had on returns at the one-year mark following implementation. Mr. Festino confirmed that he would be able to quantify the fee-savings captured during the year and prospectively into the future, but noted that performance is trickier to quantify, due to constant fluctuations in the market. He stated that he would provide updated capital market projections as usual in February. No motion necessary.

III. Discuss and Consider 2024 Cost of Living Adjustment (COLA)

Elizabeth Wiley explained that the purpose of the COLA Analysis is to ensure that changes made to the Fund's benefits preserve the Fund in terms of financial stability and actuarial soundness, while considering the impact of inflation on member purchasing power. Ms. Wiley provided an overview of the steps involved in the process. She explained that the first step of determining benefit adjustments based on inflation is purely formulaic, based on the Fund Rules and Statute and the change in CPIU, without any discretion or decision by the board, actuary, or staff. Vice Chair Fowler asked if the 9/30 Consumer Price Index (CPIU) covers a full 12-month period rather than just January through September, to which Ms. Wiley confirmed that he was correct and further clarified that the Fund's COLA Adjustment Policy is also specific to that timing. Ms. Wiley then described the next step in the COLA Analysis, which was to look at the financial stability of the Fund. She noted that looking at the most recent Valuation and projecting the impact of a granted COLA on Fund stability over the 10-year time-period as set by Fund policy is also formulaic, with a degree of professional judgment in the assumption recommended by the actuary and adopted by the board. Ms. Wiley described the two tests conducted for each year of that 10-year period, which determine the impact on the Fund's amortization period and the funded ratio. She noted that failure to meet the requirements for financial stability in any year of either test would result in an inability to grant a COLA. Ms. Wiley broke down the specifics of the COLA Analysis, noting the 3.7% CPIU exceeded the historical average. She explained that granting a COLA of the same percentage would increase Fund liability by approximately \$31Million and would further increase the amortization period, which was at 35 years as of the 2022 Valuation. Even with zero COLA granted, she concluded, the amortization period exceeded the 25-year limit for the financial stability test, indicating that no COLA could be granted for 2024 or the near-term future under the Fund's COLA Policy.

Ms. Wiley described some alternate options, which included the Fund's provision for a de minimus COLA, though she noted that the Fund's undefined projected amortization period could not meet the <0.2 year increase requirement for the de minimus COLA, and the possibility of issuing a 13th

check, which would require full funding by the plan sponsor. Vice Chair Fowler expressed his disappointment in the board's inability to grant a 2024 COLA but thanked Ms. Wiley for putting the information into perspective. He mentioned that he would further discuss the topic with the membership at the informational session scheduled for the next day at Union Hall. Then he asked Ms. Wiley how the Fund's COLA test compared to peer funds, to which Ms. Wiley replied that the Fund's benefit policy is much better developed than most public pensions and that the tests are strong without being overly rigorous. The only area for potential improvement, she continued, would be to reexamine the de minimus COLA policy. Trustee Bass thanked Ms. Wiley for the educational presentation and noted that while the results were disappointing, they aided the board in making the best decisions for the long-term health of the Fund. Without objection, Vice Chair Fowler stated that the board accepted the report, understanding that a COLA could not be granted for 2024. No motion necessary.

IV. Update and Possible Board Certification of 2023 Board of Trustees Election Results

Anumeha Kumar informed the Board that the outside election vendor, Yes Elections, had provided staff with the election results in accordance with the election timeline, and staff had posted the results to the Fund website. Ms. Kumar stated that Vice Chair Fowler had been reelected, and the Fund's statute required the board to certify the results. Trustee Weaver made a motion to approve and certify the trustee election results as presented by Yes Elections. Trustee Bass seconded the motion. The motion passed unanimously.

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

a. General comments

Anumeha Kumar reiterated the information that Vice Chair Fowler had shared regarding the member informational session scheduled for the following day at Union Hall. Ms. Kumar provided a recap of the Funding Soundness Restoration Plan (FSRP) "At-Risk" letter that the Fund had received from the Pension Review Board (PRB) and the action the Fund had taken to form a working group to obtain additional projections and analysis from Cheiron to address potential future concerns. The point of the informational session, Ms. Kumar explained, was to keep the membership apprised of the situation, to help the membership to understand the current financial health of the plan, and to solicit feedback as the working group moves forward with any ideas. Ms. Kumar noted her intention to schedule additional informational sessions as the working group progresses toward a solution.

b. Winter Fund Newsletter Update

Anumeha Kumar provided a brief update that the next edition of the newsletter was currently in progress and would be published in late January or early February.

Internal financial statements, transactions and Fund expense reports for month ending October 31, 2023

Anumeha Kumar informed the Board that the internal financial statements were provided in draft form, as the Fund's custodian bank had not finalized the financials for the month. Ms. Kumar noted that the operating budget was current, but the financials relating to the investment managers would be presented at the December board meeting along with the final end-of-year budget. The trustees had no questions regarding the draft financial statements.

VI. Roadmap for future meetings

The trustees had no comments or questions regarding the roadmap for future meetings.

VII. Call for future agenda items

No future agenda items were requested.

Hearing no objections, Vice Chair Fowler adjourned the meeting at 11:02am.

Board Members

Mayor Kirk Watson, Chair

Doug Fowler, Vice Chair

Belinda Weaver, Treasurer

John Bass, Trustee

Aaron Woolverton, Trustee