

Callan

February 19, 2026



Alaska Mental Health Trust Authority

Fiduciary Education

Steve Center, CFA
Fund Sponsor Consulting

Important Disclosures regarding the use of this document are included at the end of this document. These disclosures are an integral part of this document and should be considered by the user.

Introduction

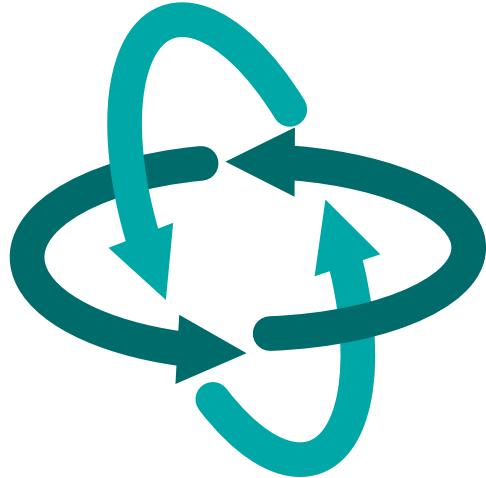
Presenters



Steve Center, CFA

- 16th year with Callan, 27th Year in the industry
- Senior Vice President, West Coast Consulting Team
- Callan Shareholder
- Manager Search Committee Member
- MBA, University of Washington
- BA, University of California, Irvine

Today's Agenda



The Role of the Fiduciary

- Historical Review
- UPIA and UPMIFA
- Who is a Fiduciary?
- Central Duties of a Fiduciary
- Recommendations for Fiduciary Conduct

The Role of a Fiduciary

What is a Fiduciary?

Generally, a fiduciary is...

- Someone entrusted with money or property who is charged with an obligation to **act in the interests of another party**;
- Determined by either legal designation OR their actions;
- Acting "...with the care, skill, prudence, and diligence, that a prudent person acting in like capacity and familiar with such matters would use";
- Largely **determined by actions** as much as by job **title or designation**; and
- Dedicated to a process, evaluating its outcomes and making successive changes to improve.



"Don't worry about doing the right thing. There'll be plenty of time for that when you're fired, retired, or reincarnated."

Historical Review

1830 Prudent Man Rule – Harvard College vs. Amory

1952 Harry Markowitz, Modern Portfolio Theory

1963 Studebaker bankruptcy and pension default

1972 Uniform Management of Institutional Funds Act

1974 ERISA (Employee Retirement Income Security Act)

1992 Prudent Investor Rule

1997 Uniform Management of Public Employee Retirement Systems Act

2006 Uniform Prudent Management of Institutional Funds Act
(revised the 1972 Uniform Management of Institutional Funds Act)

Alaska Mental Health Trust: Governed by the State of Alaska

The Alaska Mental Health Trust is governed by the State of Alaska, and as such must operate under the rules of the Uniform Prudent Investor Act (“UPIA”) and the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). Both have been adopted by the State of Alaska and serve as the foundation for the fiduciary standards that the Board of Trustees must follow.

Uniform Prudent Investor Act - UPIA

Federally established in 1992

Updates the Prudent Man Rule (1830/1959) by including the concepts of modern portfolio theory (“MPT”) and the total portfolio context

Provides guidelines for prudent investment with a focus on portfolio strategy, diversification, and Trustee responsibility

Permits fiduciaries to include “risky” investments, including derivatives, commodities, and futures, if they align with portfolio goals and overall diversification

Allows fiduciaries to delegate investment functions to qualified third parties

Focus is on overall objectives, minimizing risk, and maximizing returns

Uniform Prudent Management of Institutional Funds Act - UPMIFA

Federally established in 2006

Updates the Uniform Management of Institutional Funds Act (1972)

Applies to endowments, foundations, and trusts held for charitable purposes

Investment obligations tie directly back to UPIA, but UPMIFA also addresses prudent expenditure of funds

Outlines rules for prudent expenditure of appreciation and income, removes language around a historic dollar value beneath which an asset pool cannot be spent

Limits ability to alter the charitable purpose of a fund

Adopted in 49 states (Pennsylvania is the lone holdout)

Both UPIA and UPMIFA are designed to protect Trust assets from misuse and loss.

Key Components of the Uniform Prudent Management of Institutional Funds Act

Prudent Management and Diversification

UPMIFA requires funds be prudently managed. The overall purpose, spending requirements, and other circumstances of the Trust must be considered. Funds should be invested in a diversified manner provided investments are prudent and in accordance with the Trust's investment policies.

Investment Policies

Written investment policies must be adopted and adhered to. Policies must include a risk management strategy, monitoring procedures, and a periodic review process.

Financial Reporting

UPMIFA includes provisions for financial reporting by nonprofit organizations, including an annual financial reporting requirement.

Annual Independent Audit

An independent audit must be conducted on an annual basis.

Spending Policies

UPMIFA permits a broad range of spending policies but does require the establishment of a clear spending policy that is periodically reviewed and updated.

Ongoing Training

Both Trustees and staff should receive periodic training regarding UPMIFA

Who is a Fiduciary?

A fiduciary is any person to the extent they:

- 1** Exercise any discretionary authority or control respecting the **Trust's management** or exercises any authority or control over the **management or disposition of the Trust's assets**;
- 2** **Render investment advice for a fee** or other compensation, directly or indirectly, with respect to moneys or other property of a trust, or has any authority or responsibility to do so; or
- 3** Have any **discretionary authority or** discretionary **responsibility** in the **administration** of the trust.

Typical tasks include:

- Appointing fiduciaries and delegating fiduciary and other trust-related duties and responsibilities (board / board-level committee)
- Selecting / replacing service providers (committee)
- Determining investment policy and documenting decisions and their rationale (committee or board / board-level committee)
- Selecting / managing / replacing trust investments (committee or trust staff / administrators)
- Providing investment advisory services for a fee (investment adviser)
- Approving payment of fees and expenses from trust assets (committee)
- Interpreting / construing trust provisions (trust staff / administrators)

Who Are the Fiduciaries?

The Test of Determining Fiduciary Status

The test for determining fiduciary status is a functional one.

To the extent a person or entity has, or may exercise, any of the functions described earlier, the person or entity will be deemed to be a fiduciary.

The courts may differ as to whether certain actions constitute fiduciary duties—e.g., calculating pension benefits was considered a fiduciary duty in one court case, but not in another.

A party may be a fiduciary regardless of who appointed them to serve in the role (i.e. APFC and DNR were appointed by statute, not the Board).

Board of Trustees	Yes, even if it appoints third-party fiduciaries
Underlying Subcommittees	Yes
Investment Managers (DOR/APFC)	Yes
Land/Natural Resource Managers (DNR/TLO)	Yes
Staff / Officers / Employees	Maybe
Investment Consultants	Probably
Attorneys	Probably not
Auditors	Probably not
Custodian Banks	Yes (in some instances)

**Who decides who is a fiduciary and who is not?
Likely a judge or regulator.**

Four Central Duties of a Fiduciary under UPMIFA

Duty of Loyalty

Fiduciaries are to act solely in the interest of Trust beneficiaries (both current and future) for the exclusive purpose of:

- Providing benefits for participants and their beneficiaries
- Defraying reasonable expenses of administering the Trust

Fiduciaries shall avoid conflicts of interest and ensure personal or professional interests do not compromise decision-making

Duty of Care

Fiduciaries must act with “*the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of a like enterprise with like aims.*”

1) Give “appropriate consideration” to facts and circumstances known at that time, including the role of the investment in the total portfolio, and (2) act accordingly.

Prudence requires that a process is followed and documented.

Duty to Follow Trust Documents

The fiduciary must discharge her / his duties

“In making a determination to appropriate or accumulate, the institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances...”

The investment policy statement should outline both an investment program and an expenditure model that takes into account the overall purpose of the Trust, general economic conditions, the possible impact of inflation, the expected return of investments, and other resources of the institution

Duty to Obedience

Fiduciaries must ensure the organization adheres to its mission and complies with all applicable laws and regulations, including donor intent and spending rules

Recommendations for Fiduciary Conduct

- 1 Prepare and periodically review written investment policies
- 2 Diversify portfolio assets with regards to the specific risk/return objectives
- 3 Use qualified professional managers (prudent experts) to make investment decisions
- 4 Control and account for all investment fees and expenses
- 5 Monitor the activities of all money managers and service providers
- 6 Document the process used to derive investment decisions
- 7 Engage expert legal counsel

Recommendations for Fiduciary Conduct

The Essentials	Annually	Quarterly	Every 2-5 Years or Event-driven
<ul style="list-style-type: none">Strong governance structure: people, processes and monitoringGovernance documents and policy statementsDocumented proceduresConfirm appropriate service providers and any related indemnifications	<ul style="list-style-type: none">Provider review meetingsFinancial strategy execution and budgeting; funding strategy updatesReview of policies and procedures	<ul style="list-style-type: none">Committee meetings (finance, resource management, etc.)Trend and legislative updates (potentially more frequently)Monitor / measure investment and administrative performance if applicable	<ul style="list-style-type: none">Fiduciary trainingInvestment management fee reviewAsset/spending or asset allocation Study



- Fiduciaries are entrusted with acting in the interests of the trust or Trust's beneficiaries, which can feel like a big responsibility
- In general, **process is the friend of fiduciaries** and the establishment of sound, documented processes to follow helps ensure all duties are properly fulfilled
- The adoption of a clear spending policy, preparation of annual financial reports, and an annual financial audit are all important fiduciary steps
- Regulations change, so stay informed to ensure fiduciaries are fulfilling their obligations and adhering to practices that protect the organization from potential litigation – seek legal advice and update documents as necessary

Important Disclosures

Information contained in this document may include confidential, trade secret and/or proprietary information of Callan and the client. It is incumbent upon the user to maintain such information in strict confidence. Neither this document nor any specific information contained herein is to be used other than by the intended recipient for its intended purpose.

The content of this document is particular to the client and should not be relied upon by any other individual or entity. There can be no assurance that the performance of any account or investment will be comparable to the performance information presented in this document.

Certain information herein has been compiled by Callan from a variety of sources believed to be reliable but for which Callan has not necessarily verified for accuracy or completeness. Information contained herein may not be current. Callan has no obligation to bring current the information contained herein.

Callan's performance, market value, and, if applicable, liability calculations are inherently estimates based on data available at the time each calculation is performed and may later be determined to be incorrect or require subsequent material adjustment due to many variables including, but not limited to, reliance on third party data, differences in calculation methodology, presence of illiquid assets, the timing and magnitude of unrecognized cash flows, and other data/assumptions needed to prepare such estimated calculations. In no event should the performance measurement and reporting services provided by Callan be used in the calculation, deliberation, policy determination, or any other action of the client as it pertains to determining amounts, timing or activity of contribution levels or funding amounts, rebalancing activity, benefit payments, distribution amounts, and/or performance-based fee amounts, unless the client understands and accepts the inherent limitations of Callan's estimated performance, market value, and liability calculations.

Callan's performance measurement service reports estimated returns for a portfolio and compares them against relevant benchmarks and peer groups, as appropriate; such service may also report on historical portfolio holdings, comparing them to holdings of relevant benchmarks and peer groups, as appropriate ("portfolio holdings analysis"). To the extent that Callan's reports include a portfolio holdings analysis, Callan relies entirely on holdings, pricing, characteristics, and risk data provided by third parties including custodian banks, record keepers, pricing services, index providers, and investment managers. Callan reports the performance and holdings data as received and does not attempt to audit or verify the holdings data. Callan is not responsible for the accuracy or completeness of the performance or holdings data received from third parties and such data may not have been verified for accuracy or completeness.

Callan's performance measurement service may report on illiquid asset classes, including, but not limited to, private real estate, private equity, private credit, hedge funds and infrastructure. The final valuation reports, which Callan receives from third parties, for these types of asset classes may not be available at the time a Callan performance report is issued. As a result, the estimated returns and market values reported for these illiquid asset classes, as well as for any composites including these illiquid asset classes, including any total fund composite prepared, may not reflect final data, and therefore may be subject to revision in future quarters.

The content of this document may consist of statements of opinion, which are made as of the date they are expressed and are not statements of fact. The opinions expressed herein may change based upon changes in economic, market, financial and political conditions and other factors. Callan has no obligation to bring current the opinions expressed herein.

The information contained herein may include forward-looking statements regarding future results. The forward-looking statements herein: (i) are best estimations consistent with the information available as of the date hereof and (ii) involve known and unknown risks and uncertainties. Actual results may vary, perhaps materially, from the future results projected in this document. Undue reliance should not be placed on forward-looking statements.

Callan is not responsible for reviewing the risks of individual securities or the compliance/non-compliance of individual security holdings with a client's investment policy guidelines.

This document should not be construed as legal or tax advice on any matter. You should consult with legal and tax advisers before applying any of this information to your particular situation.

Reference to, or inclusion in this document of, any product, service or entity should not necessarily be construed as recommendation, approval, or endorsement of such product, service or entity by Callan. This document is provided in connection with Callan's consulting services and should not be viewed as an advertisement of Callan, or of the strategies or products discussed or referenced herein.

Important Disclosures (continued)

The issues considered and risks highlighted herein are not comprehensive and other risks may exist that the user of this document may deem material regarding the enclosed information. Please see any applicable full performance report or annual communication for other important disclosures.

Unless Callan has been specifically engaged to do so, Callan does not conduct background checks or in-depth due diligence of the operations of any investment manager search candidate or investment vehicle, as may be typically performed in an operational due diligence evaluation assignment and in no event does Callan conduct due diligence beyond what is described in its report to the client.

Any decision made on the basis of this document is sole responsibility of the client, as the intended recipient, and it is incumbent upon the client to make an independent determination of the suitability and consequences of such a decision.

Callan undertakes no obligation to update the information contained herein except as specifically requested by the client.

Past performance is no guarantee of future results.

About Callan

Callan was founded as an employee-owned investment consulting firm in 1973. Ever since, we have empowered institutional investor with creative, customized investment solutions backed by proprietary research, exclusive data, and ongoing education. Today, Callan provides advisory services to institutional investor clients with more than \$3 trillion in total assets, which makes it among the largest independently owned investment consulting firms in the U.S. Callan uses a client-focused consulting model to serve pension and defined contribution plan sponsors, endowments, foundations, independent investment advisers, investment managers, and other asset owners. Callan has six offices throughout the U.S. For more information, please visit www.callan.com.

Callan

Corporate Headquarters

One Bush Street
Suite 700
San Francisco, CA 94104

www.callan.com

Regional Offices

Atlanta
Chicago
Denver
New Jersey
Portland

