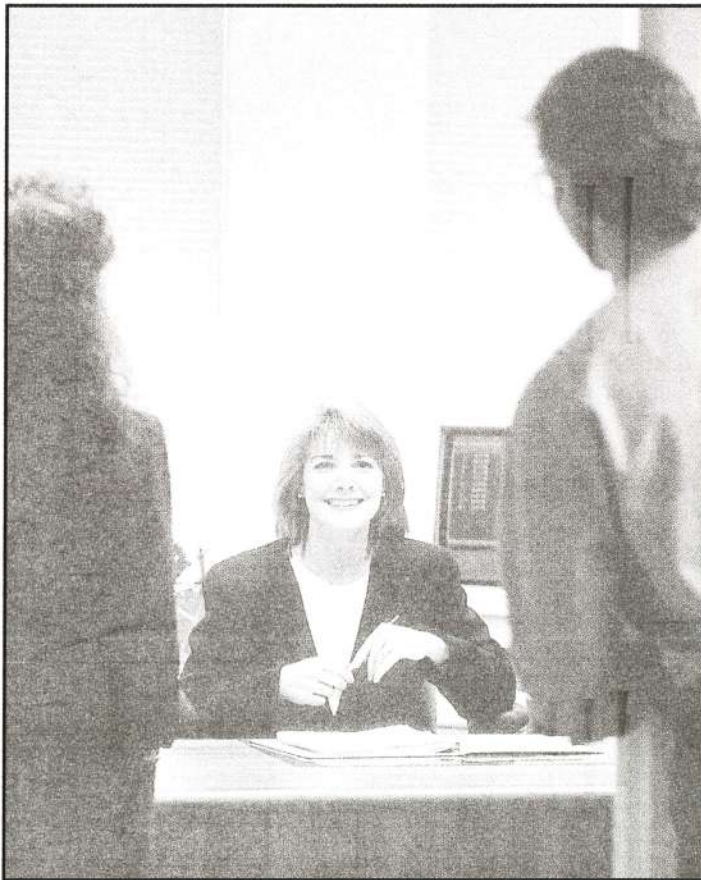


ALASKA PERMANENT FUND CORPORATION

1996 ANNUAL REPORT



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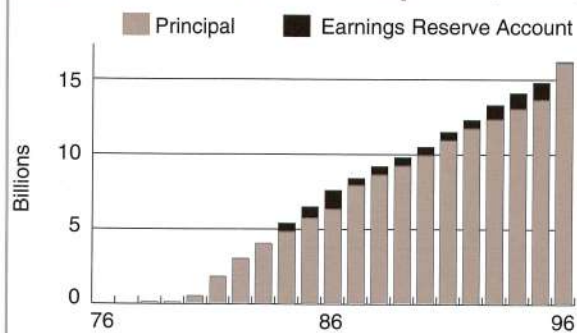
About this annual report

As Alaskans prepare to celebrate the 20th anniversary of the Permanent Fund's creation and enjoy the benefits of this remarkable year, we wish to introduce some of the members of the Fund's management team who work hard to implement and protect the Constitutional mandate Alaskans gave us when they created this unique public trust on Election Day, November 2, 1976. Throughout the following pages, you will meet our staff who handle the day-to-day administration of the Fund's \$19 billion in assets – the folks whose job it is to achieve excellent performance with below-average operational costs – and you will meet the Trustees who set the Fund's asset allocation and its investment goals. We begin with Michael Bell, Assistant Investment Officer, featured on the cover, and Lori Yorba, who is the Corporation's Executive Secretary, above.

A Public Trust Investing for Alaska's Future

The Alaska Permanent Fund is a savings account that belongs to the people of Alaska. It was created in 1976 by a voter-approved amendment to the Alaska Constitution. The Fund is established as an inviolate trust. This means that the principal of the Fund is to be invested in perpetuity. The beneficiaries of the trust are all present and future generations of Alaskans. ■■

Growth of Fund Since Inception (at cost)



Average Annual Total Returns

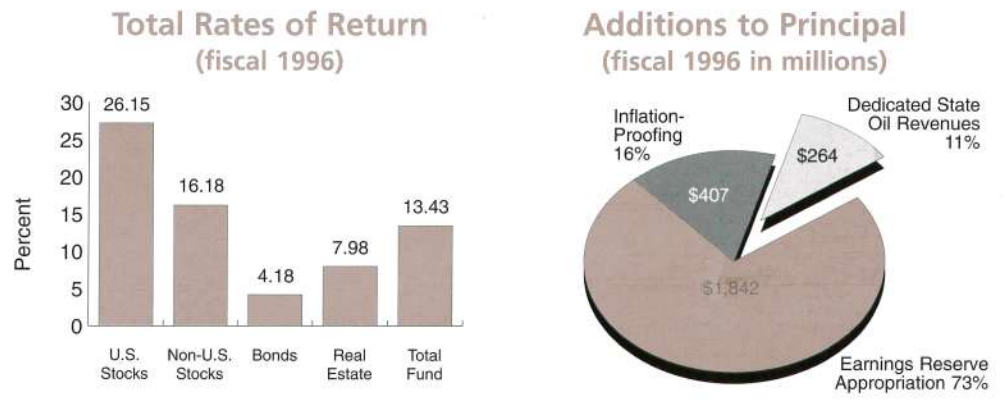
	Total Fund	U.S. Stocks	Non-U.S. Stocks	Fixed Income	Real Estate
1-Year	13.43%	26.15%	16.18%	4.18%	7.98%
3-Years	9.64	17.24	13.14	4.89	5.50
5-Years	10.61	16.01	10.51	8.33	2.07
12.5-Years	11.50	15.57	—	10.23	8.05

The Permanent Fund is made up of two parts: principal and income. The principal is invested permanently and cannot be spent without a vote of the people. Fund income, however, can be spent, and decisions about its use are made each year by the people's elected representatives — the legislature and the Governor. ■■ The Fund is managed by the Alaska Permanent Fund Corporation.



After 20 years of steadily building Alaska's trust, the Alaska Permanent Fund put in a record performance in fiscal 1996. ■ ■ Through a combination of very favorable market conditions, professional management and a conservative but diversified investment strategy, the Fund earned \$1.814 billion of realized income during the year. With the inflow of Constitutionally-dedicated revenues, special legislative additions to the Fund's principal and significant appreciation in the stock portfolio, the Fund's market value at year end reached \$19 billion – \$2 billion above cost. ■ ■ This was an exceptional year for Fund income, and it was also an historic year because, for the first time, the Permanent Fund earned more investment income than the State's General Fund received in oil revenues. This crossing of the line of Fund income and State oil rev-

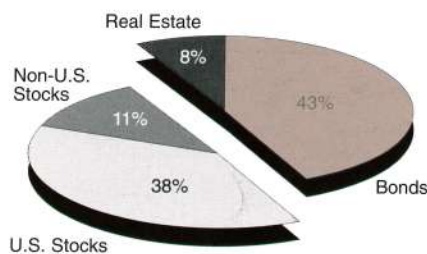
Report to Alaskans



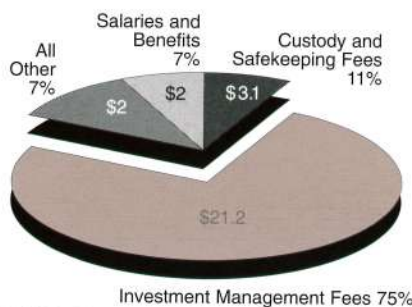
enues is not expected to recur for the next few years, but it is a harbinger of things to come. Perhaps in recognition of that fact, the legislature and the Governor added \$1.8 billion in special appropriations to bulk up the Fund's principal. ■ ■ In terms of investments, fiscal 1996 was an excellent year for domestic equities, a good year for international equities, a recovery period for real estate, and a below-average year for bonds. For U.S. stocks, fiscal 1996 brought booming growth not seen since the Eisenhower era, and Fund Trustees capitalized on this bull market by deciding in December to realize one-third of the gains in the Fund's S&P 500 indexed portfolio. This profit-taking, which added more than \$320 million to the Fund's bottom line, struck a balance by leaving part of the long-term appreciation to benefit future generations and realizing part of the capital gains to benefit the current generation. In sum, the

Fund's U.S. stock portfolio essentially matched the S&P 500, returning 26.15%. ■ ■ On the international side, the Fund's non-U.S. equity managers earned a 16.18% return on the year, outperforming the MSCI-EAFE Free Index return of 13.3%. ■ ■ The Fund's in-house, fixed-income investment staff earned a total rate of return of 4.18%, which was below its benchmark index. The under-performance was due to the Fund's low mortgage exposure, high-quality orientation and, most significantly, the Fund's slightly greater-than-market duration in a rising interest rate environment. ■ ■ The Fund's real estate advisors turned in their best year since 1990, producing a total return of 7.98% and exceeding the 6.67% median for Callan's total real estate fund database. ■ ■ The Fund's total rate of return was 13.43%, well ahead of the long-term

Permanent Fund's Asset Allocation



Corporation Expenses (in millions)



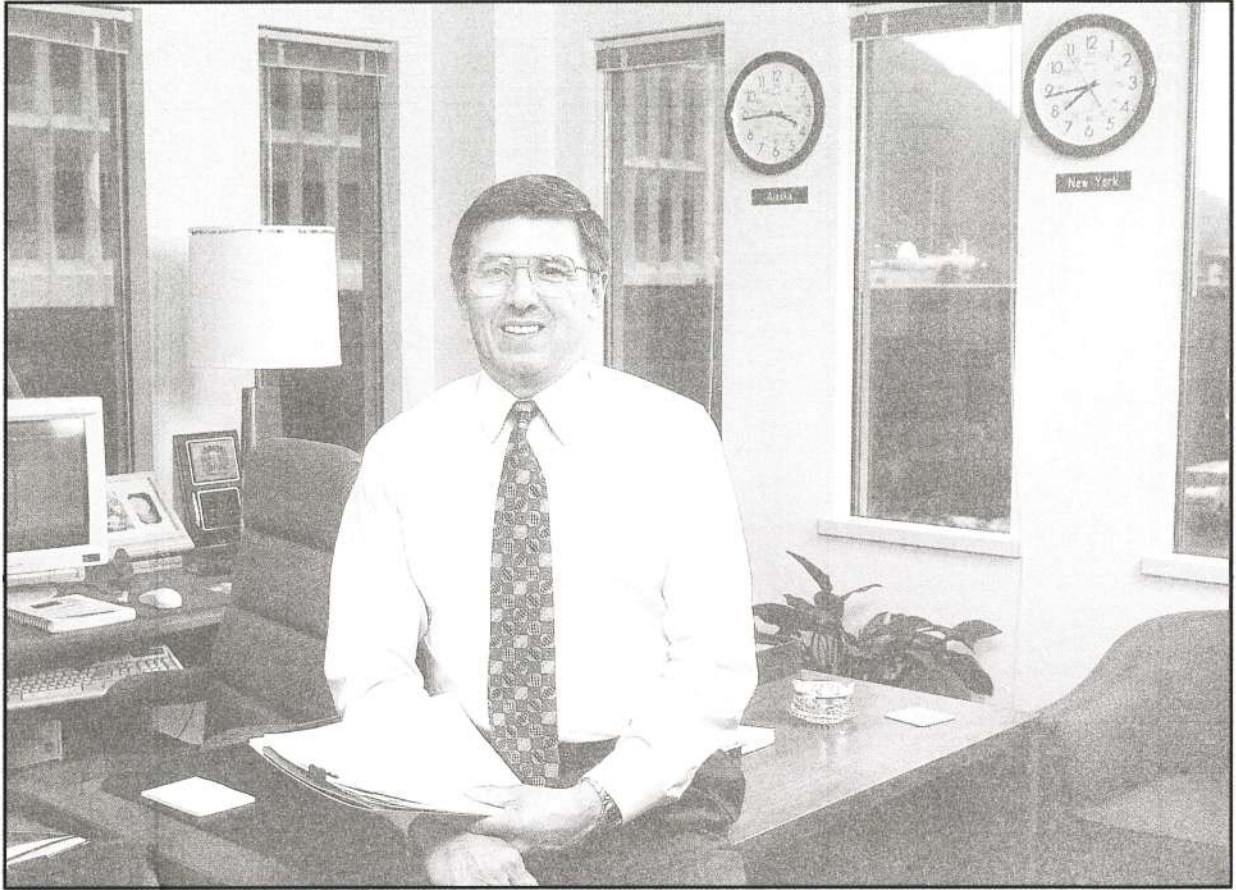
Expense Ratio (per \$100 of Fund income)



average of 11.50% and the three-year average of 9.64%. ■ ■ In terms of new initiatives, the Board of Trustees and management took several major steps this year to raise the Fund's performance standard, increase income for the long term, improve investment controls and lower costs. ■ ■ First, the Trustees increased the Fund's investment target from a 3% inflation-adjusted total rate of return to 4%. Second, we successfully sought legislative investment authorization to permit purchase of stock up to 50% of Fund assets and acquisition of investment-grade bonds rated Baa/BBB or better. ■ ■ Third, the Trustees adopted a new asset allocation plan that included restructuring the Fund's equity portfolio by reducing the number of active managers, initiating external management for a portion of the fixed-income portfolio, and adopting a real estate strategic plan that moves the Fund away from commingled funds

ALASKA
PERMANENT
FUND
CORPORATION





and minority co-investments and into majority co-investments and wholly-owned properties. Fourth, we negotiated reduced fees with a majority of our equity managers. ■ ■ These actions were all taken to grow and protect Alaska's largest financial asset as Alaskans begin to discuss and attempt to decide an appropriate role for the Fund to play in the State's fiscal and economic future. This debate, which comes as Alaskans celebrate the 20th anniversary of the Fund's establishment, will likely weigh the needs of today against those of tomorrow. As custodians of your Constitutional trust, the APFC stands ready to facilitate this discussion, and to offer what assistance we can to help Alaskans reach consensus on this important public policy issue. However, as Fund Trustees, we cannot advocate one plan over another. That decision rests with

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Permanent Fund Realized Income and Total Return by Asset Class

<u>Asset Class</u>	<u>Allocation at June 30</u>	<u>Realized Income</u>	<u>% of Realized Income</u>	<u>Total Return</u>	<u>% of Total Return</u>
Bonds	43%	\$ 645,308,000	35%	\$ 359,591,000	16%
U.S. Stocks	38	1,021,164,000	55	1,523,663,000	66
Non-U.S. Stocks	11	146,168,000	8	309,548,000	13
Real Estate	8	45,314,000	2	109,926,000	5
TOTAL	100%	\$ 1,857,954,000	100%	\$ 2,302,728,000	100%

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you. ■ ■ Alaska faces a formidable task as we seek to strike equilibrium between our State's short-term and long-term needs. But your Board of Trustees and the Fund management team believe Alaskans will once again rise to the challenge – and strike the proper balance. ■ ■ In the meantime, we invite all Alaskans to join us in celebrating 20 years of vision and success. ■ ■ Thank you, and happy 20th birthday, Permanent Fund.

Grace Berg Schaible

Grace Berg Schaible
Chair, Board of Trustees

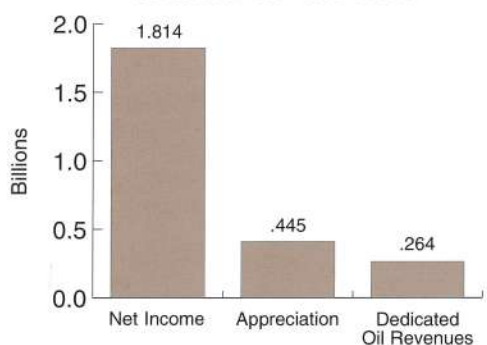
Byron I. Mallott

Byron I. Mallott
Executive Director

Riding the wave of extremely favorable equity markets, the Permanent Fund earned net income averaging \$150 million per month in fiscal 1996 — \$5 million per day. In earning this income, the Fund enjoyed better-than-market performance in domestic and international equities, poorer-than-market performance in its bond portfolio, and better-than-average, while lower-than-market, performance in real estate. ■ ■ Fiscal 1996 got off to a vigorous start with Fund earnings of \$359 million during the first quarter. The Fund also benefited from a \$500 million addition to its principal on July 1, 1995. ■ ■ During the second quarter, the Trustees made the decision to take one-third of the profits in the Fund's S&P 500 indexed portfolio, adding more than \$320 million to the Fund's bottom line. This program was undertaken, not in an effort to time the

Year in Review

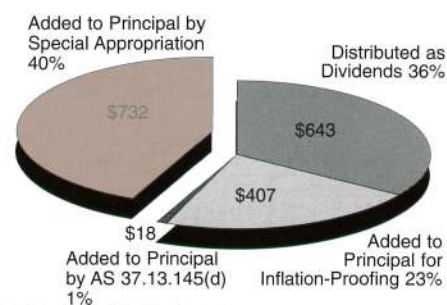
Sources of Growth



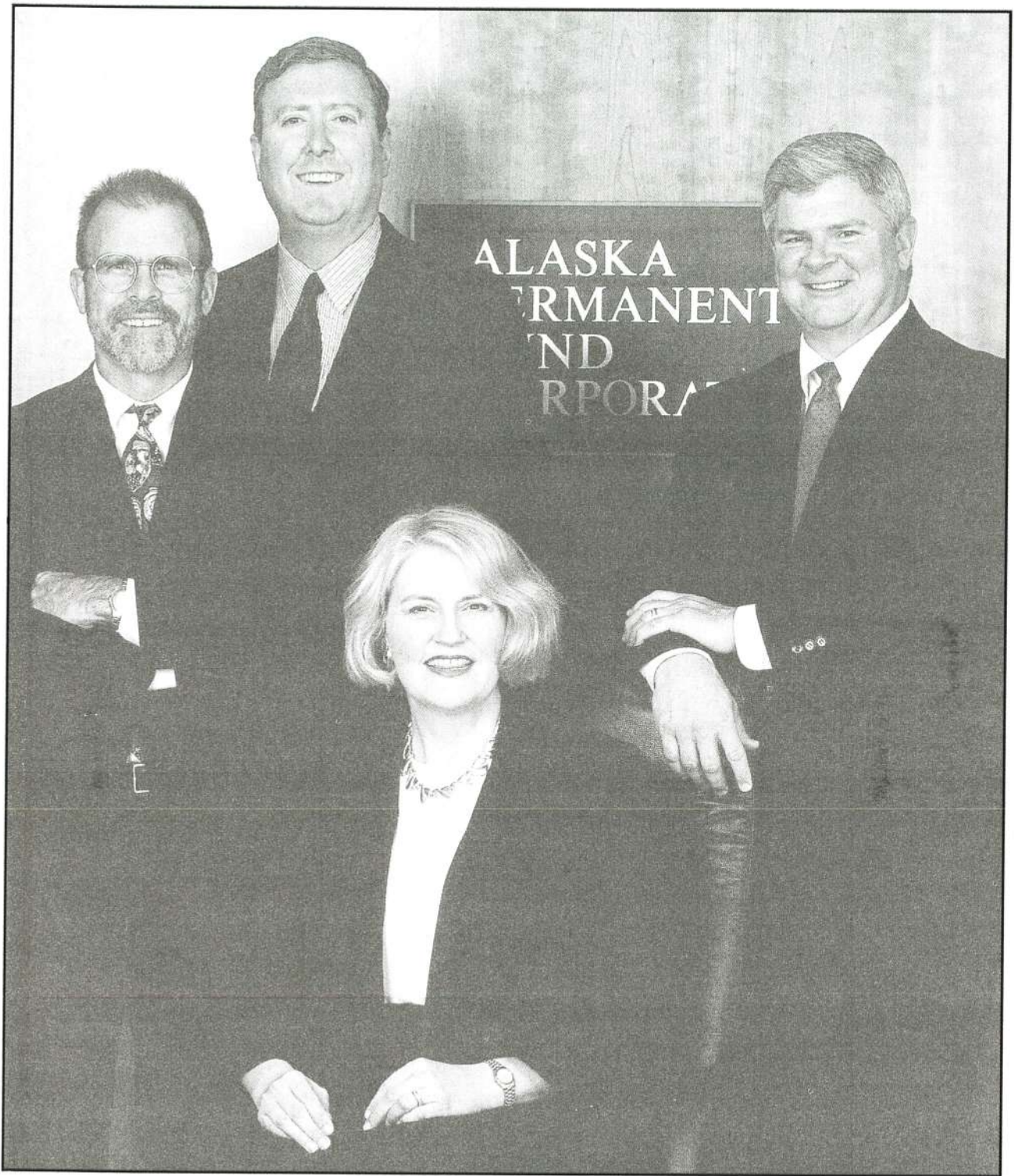
Sources of Income (in millions)

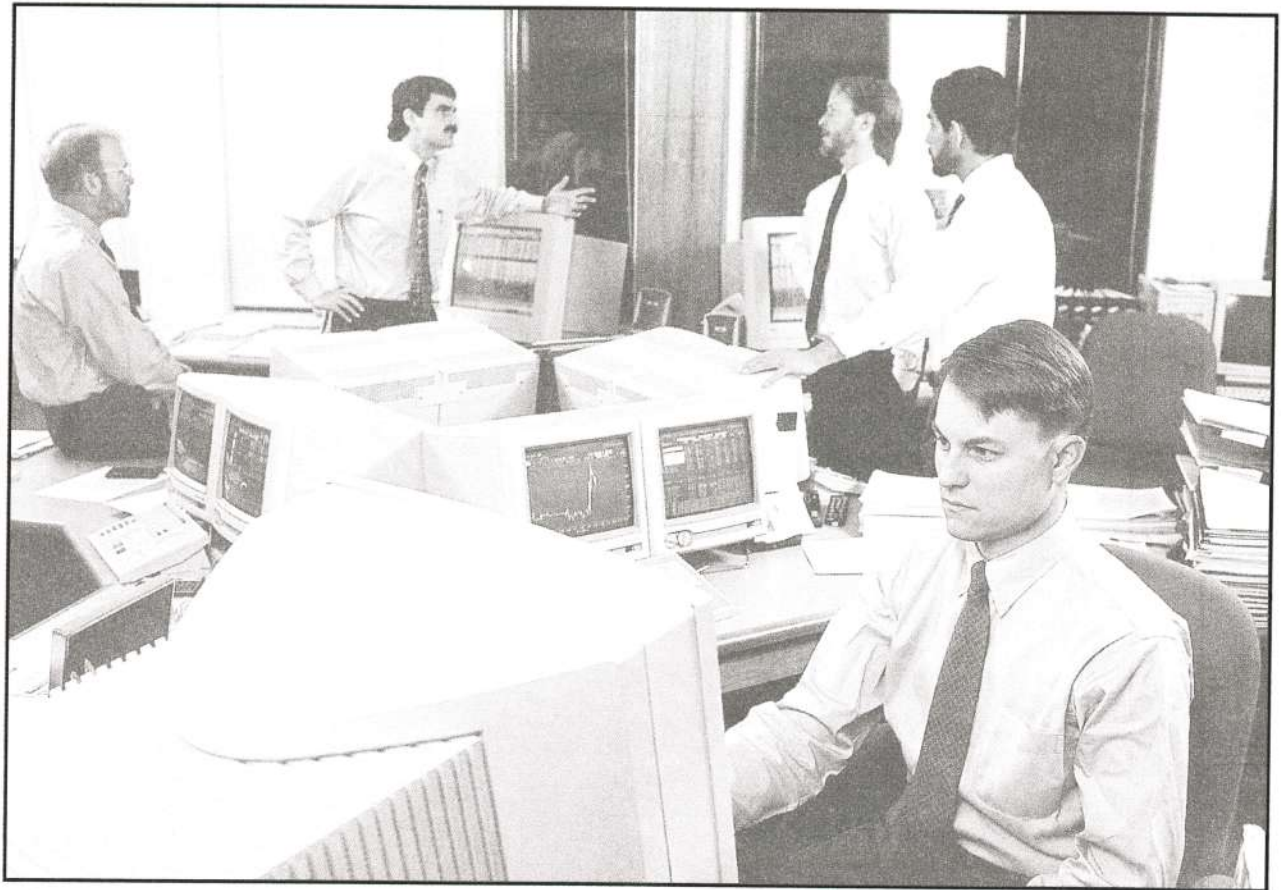


Uses of Net Income (in millions)



market, but rather to ensure inter-generational equity. ■ ■ The third quarter saw introduction of a new piece of legislation at the Trustees' request to expand the Fund's investment powers; this bill was subsequently enacted into law. The U.S. stock market continued its strong growth and the Fund ended the quarter with earnings of \$512 million. ■ ■ In the fourth quarter, the Trustees approved a restructuring of the Fund's diversification and equity portfolio that will result in reduced manager fees in the future, and increases the Fund's diversification and commitment to stocks. In addition, the legislature passed, and the Governor signed into law, another special appropriation which transferred an additional \$1.3 billion from the earnings reserve account to the Fund's principal. ■ ■ At year's-end, the Fund had earned \$1.814 billion of net income, and \$445 million of appreciation, and received \$264 million in dedicated oil revenues.



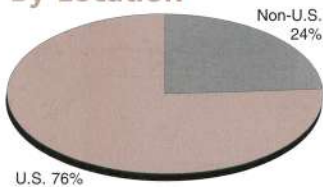


Fiscal 1996 saw sustained growth in both U.S. and foreign stocks, and a strong performance for the APFC's global equity portfolio. Fund managers slightly surpassed the S&P 500 benchmark, with a total domestic equities performance of 26.15%. The Fund's international equities portfolio experienced strong increases as well, turning in a 16.18% performance. ■ ■ Gains realized on the sale of Permanent Fund stocks totaled \$981 million in fiscal 1996, the most ever in a single year, and dividends totaled \$162 million. At June 30, 1996, the Fund had invested \$7.1 billion in domestic and foreign stocks, with a market value of \$9.2 billion. ■ ■ During the 12 months ended June 30, 1996, most world equity markets thrived and provided investors with exceptional rates of return. A combination of lower inflation, lower interest rates and a stronger U.S.

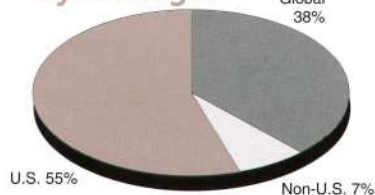
Investments Equities

Permanent Fund Stock Diversification

By Location



By Manager

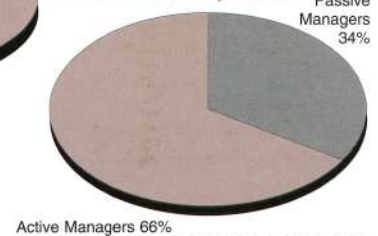


By Style

Before June 30, 1996



After June 30, 1996



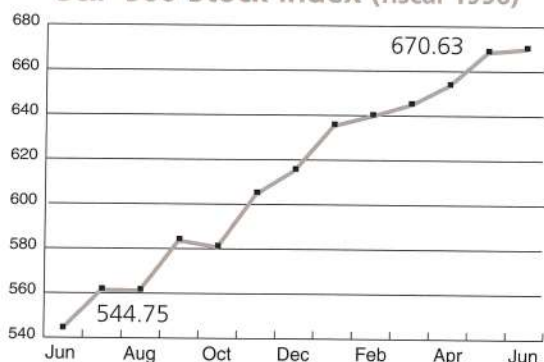
dollar powered U.S. markets. In addition, corporate cost cutting and financial re-engineering gave a big boost to companies' profits in the U.S. ■ ■ Although the U.S. market captured most of the headlines, European markets quietly reached or flirted with all-time highs. Companies committed to increasing shareholder value have become the key driver of international returns as management recognizes global competition for capital as well as business. ■ ■ This year the Trustees approved a three-year asset allocation plan intended to produce superior risk-adjusted investment returns with below-average operational costs. As it relates to equities, the plan increases the Fund's allocation from 45% to a maximum of 50%, reduces the number of active equity managers from 13 to 10, and doubles the percentage of the stock portfolio managed in indexed, passive accounts from 17% to 34%. ■ ■ The plan is designed to

increase the Fund's long-term returns by slightly increasing the amount of short-term investment risk. Bottom-line performance is expected to improve, via the increased allocation to equities, and also by reduced manager fees.

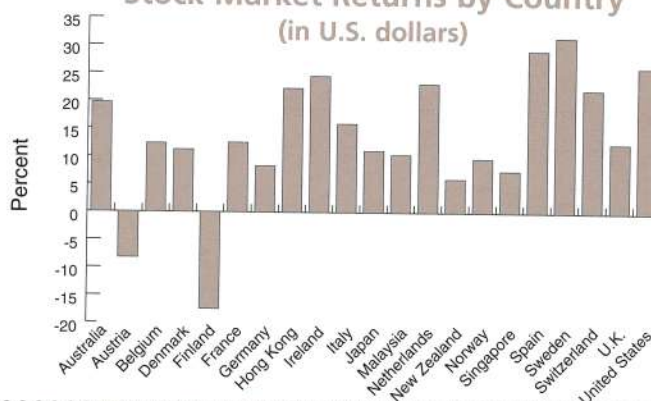
Equities Managers' Performance (fiscal 1996)

Equity Managers	Return	Benchmark Indices	Return
Large-Cap U.S. Active	.25.23%	S&P 500 Index	.26.14%
Large-Cap U.S. Index	.27.31	S&P Mid-Cap Index	.21.65
Large/Mid-Cap U.S. Active	.19.80	80% S&P 500/ 20% S&P Mid-Cap	.25.25
Total U.S. Active	.26.41		
Combined U.S.	.26.15		
Europe Active	.15.90	MSCI Europe Free Index	.14.69
Pacific ex- Japan Active	.15.16	Pacific ex-Japan Index	.15.40
Total Non-U.S. Active	.16.21	MSCI EAFE Free Index (\$)	.13.30
Total International Equity	.16.18		
Global Managers	.22.63	60% S&P 500/40% MSCI EAFE Free Index	.20.88
All Managers	.22.77		

S&P 500 Stock Index (fiscal 1996)



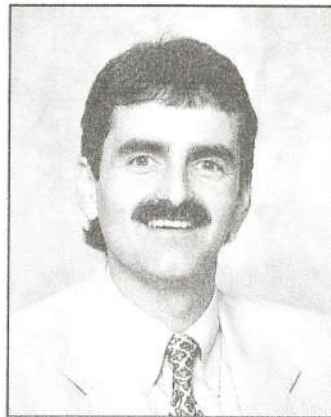
Stock Market Returns by Country (in U.S. dollars)



Non-U.S. Stockholdings (In millions)

Country	Market Value	Allocation	Country	Market Value	Allocation
Argentina	\$. 1.0	.0.0%	Japan	\$.566.3	.26.4%
Australia	.87.4	.4.1	Luxemburg	.0.5	.0.0
Austria	.19.2	.0.9	Malaysia	.73.4	.3.4
Belgium	.24.5	.1.1	Mexico	.3.9	.0.2
Bermuda	.2.2	.0.1	Netherlands	.80.3	.3.8
Brazil	.4.1	.0.2	New Zealand	.18.5	.0.9
Canada	.18.9	.0.9	Norway	.35.6	.1.7
China (Taiwan)	.2.1	.0.1	Philippines	.12.4	.0.6
Denmark	.27.6	.1.3	Portugal	.5.4	.0.3
Finland	.18.6	.0.9	Republic of Korea	.13.3	.0.6
France	.186.0	.8.7	Singapore	.62.4	.2.9
Germany	.150.1	.7.0	Spain	.70.0	.3.3
Hong Kong	.98.4	.4.6	Sweden	.59.3	.2.8
India	.2.1	.0.1	Switzerland	.94.0	.4.4
Indonesia	.13.0	.0.6	Taiwan	.0.9	.0.0
Ireland	.13.5	.0.6	Thailand	.20.4	.1.0
Italy	.58.7	.2.7	United Kingdom	.295.8	.13.8





Investments Bonds

Fixed-income investments totaled \$8 billion at the end of fiscal 1996 and produced a 4.18% total rate of return, or \$356 million, consisting of \$575 million in interest and \$67 million in realized gains, offset by \$286 million in depreciation. ■ ■ As indicated by the market depreciation, it was a sluggish year for U.S. bond investors. During the first half, the U.S. economy slowed and experienced moderate inflation pressures. The Federal Reserve cut interest rates twice. In the second half, the U.S. dollar gained strength and capital moved out of the U.S. Treasury market, initiating higher bond yields. ■ ■ The portfolio's overall return trailed its indices (see below) partially because mortgage-backed securities did well during the year and the Fund had a low mortgage exposure, but also because of the portfolio's high quality orientation and its slight-

Performance of the Fixed-Income Portfolio

PERMANENT FUND		LEHMAN BROS. BENCHMARK INDICES		
Period Ending June 30, 1996	Total Return	Treasury Index	Intermediate Treasury	Gov't/Corp Index
1-Year	4.18%	4.48%	4.88%	4.65%
3-Years	4.89	4.92	4.73	5.16
5-Years	8.33	8.22	7.40	8.48
12.5-Years	10.23	10.10	9.40	10.39

ly longer duration in a rising interest rate environment. ■ ■ To provide the Fund with broader exposure to the global bond market and to increase participation in some U.S. segments such as mortgages, which have not been used extensively by the Fund in the past, the Trustees voted during the year to transfer \$800 million, roughly 10% of the portfolio, to external fixed-income managers. The external managers are expected to achieve above-market and peer group performance and to broaden the overall diversification, which will reduce volatility and improve consistency in year-to-year results. ■ ■ For the first time in the Fund's history, the Trustees selected an Alaska firm — Alaska Permanent Capital Management — to manage domestic active duration/broad market investments.

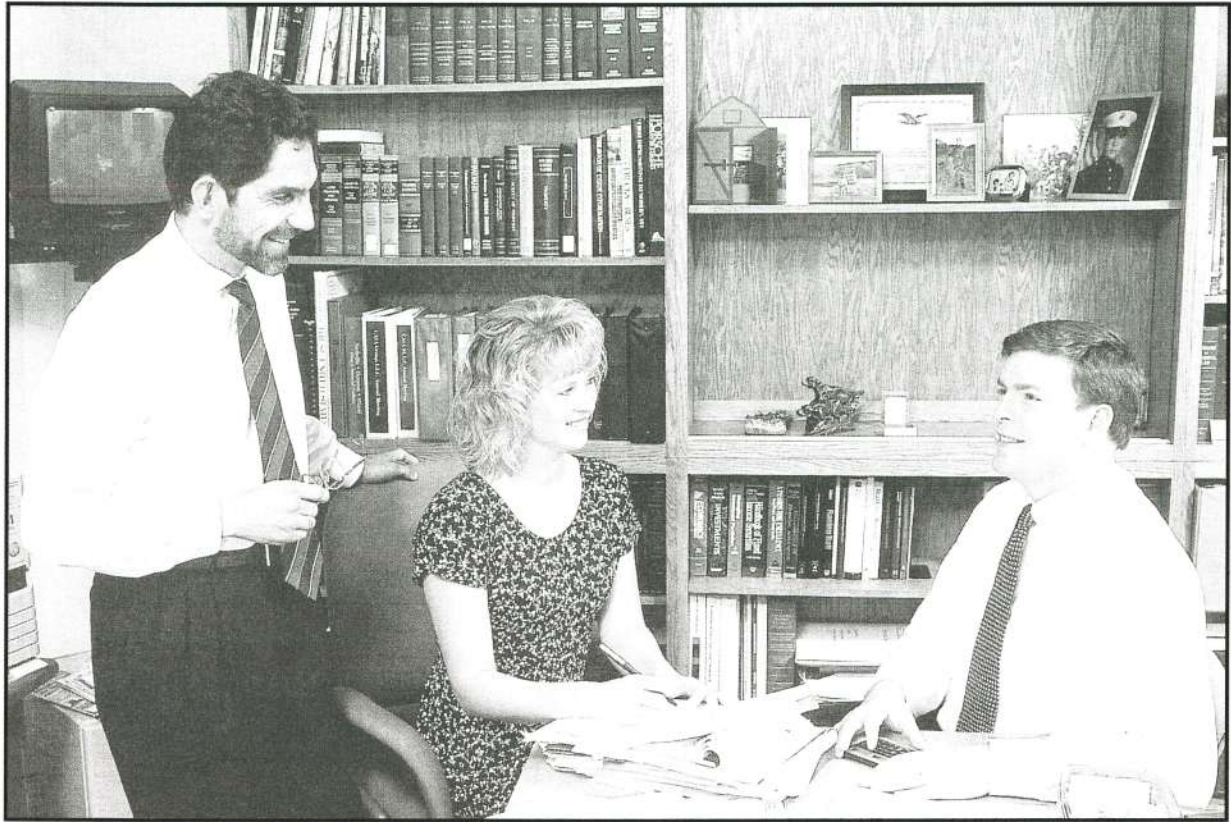
The Fund's real estate portfolio earned 7.98% in fiscal 1996, its highest return since 1990. The APFC's real estate holdings outperformed the 6.67% median for Callan's Total Real Estate Fund database, though it lagged the NCREIF Classic Index, which posted a pre-fee return of 9.57%. On a comparative basis, the portfolio ranked in the 38th percentile, a marked improvement from fiscal 1995's 60th percentile rank. While below stock market returns, real estate did outperform the bond market this year and added \$45 million of cash to the Fund's bottom line, after manager fees which totaled approximately \$7 million. ■ ■ The APFC's real estate portfolio consists of 98 individual investments, with an aggregate market value of \$1.4 billion. While emphasizing remediation, the Fund acquired two new properties during fiscal 1996: the Northgate

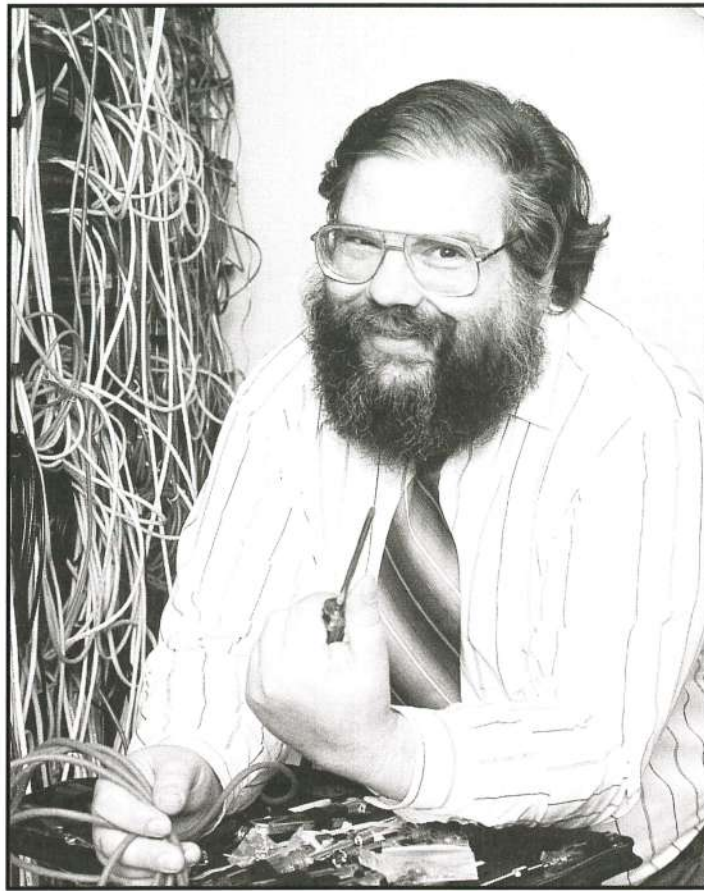
Investments Real Estate

Real Estate Performance

<u>Periods Ended</u> <u>June 30, 1996</u>	<u>APFC</u> <u>Total Returns</u>	<u>NCREIF</u> <u>Index</u>	<u>Callan</u> <u>Benchmark</u>
1-Year	7.98%	9.57%	6.67
3-Years	5.50	7.22	8.32
5-Years	2.07	2.06	2.72
12.5-Years	8.05	4.75	4.06

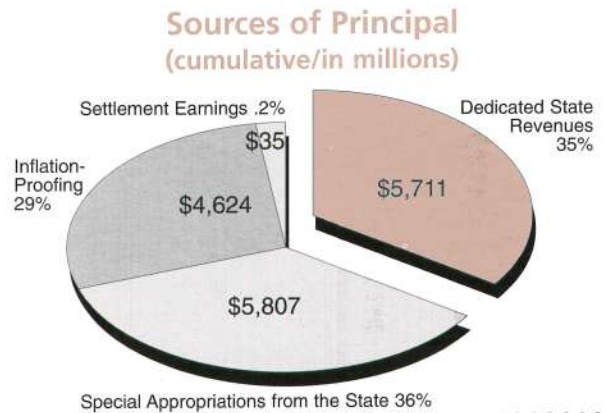
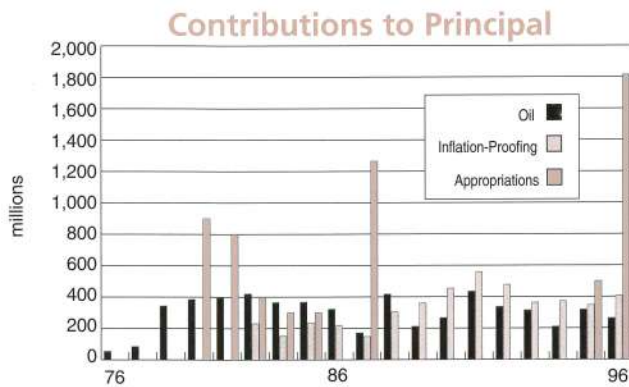
Business Park in Garland, Texas, and Warner Center Properties in Woodland Hills, California. The Fund sold its interest in the following assets: MNTX Business Center in Eden Prairie, MN; Hampton Woods in Norman, OK; the South Park Tower in New York, NY; and the St. Louis Center in St. Louis, MO. ■ ■ The Trustees adopted a new real estate strategic plan with the following goals: preserve capital, provide the Fund reliable cash returns, and diversify the Fund's overall investment portfolio. ■ ■ This strategic plan moves the Fund away from commingled funds and minority co-investments and into majority co-investments and wholly-owned properties, as well as real estate securities to include both equity (REIT) and mortgage-type products. The strategic shift is intended to increase the Fund's control over its investments and allows it to increase opportunities, add value, take profits and reduce fees.





The Alaska State Legislature passed, and Governor Knowles signed, three significant pieces of legislation to help ensure that the Fund continues to prosper for the benefit of both present and future generations of Alaskans. ■ ■ Two special legislative appropriations added \$1.8 billion to the Fund's principal, thereby reducing the Earnings Reserve Account to \$100 million. These appropriations increased the Fund's principal by more than 13% during a year that saw the nine-billionth barrel of Prudhoe Bay oil flow through the trans-Alaska pipeline. ■ ■ In all, there have been five special legislative appropriations to the Fund's principal since its inception, and these appropriations now constitute the single largest source of principal growth to date. ■ ■ In May 1996, the legislature passed House Bill 525, which had been introduced at the

Legislation

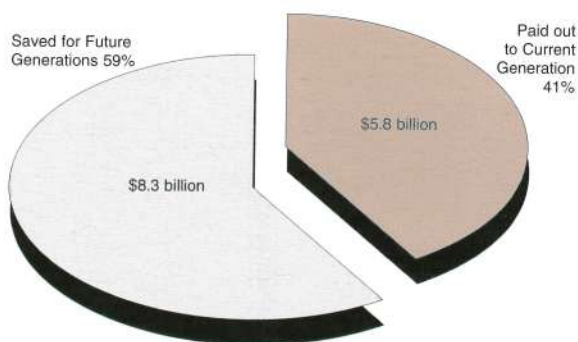


request of the Permanent Fund's Board of Trustees. The law incrementally expands the Fund's authority to invest in U.S. and non-U.S. stocks, and in debt securities rated Baa/BBB or better by the nationally recognized rating services. ■ ■ The changes will help the Trustees strike a prudent balance between slightly higher future returns and slightly higher risk. In addition, the Fund will gain a larger global presence, more diversification, increased flexibility and will be able to make more efficient use of its external managers. This also fits with the Trustees' new emphasis on instituting strategic partnerships with all Fund consultants and managers. ■ ■ The legislature and the Governor also discussed a number of proposals relating to possible new uses of Fund income in conjunction with closing the State's fiscal gap, but did not reach consensus for final action.

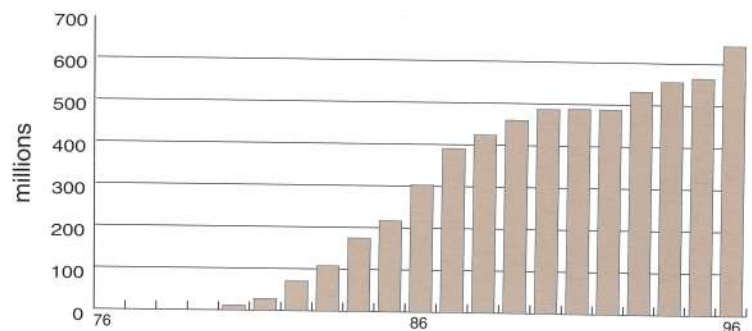
The Permanent Fund helps sustain Alaska's economy by funding the dividend program for the State's residents and by helping provide the State with financial stability and a solid foundation for future growth. This year's dividend payout of \$643 million is the largest ever. In the 15 years since the dividend distributions began, \$5.8 billion of Fund income has been paid out to Alaska residents. Permanent Fund dividends put more money into the State's economy than the total payroll of all but two of Alaska's major industries: petroleum and the U.S. government. ■ ■ The Fund is also involved in local investment. A directed brokerage program ensures that Alaska brokerage firms share in the commissions generated by the Fund's stock trades. Properties in Alaska are purchased when the risk and return are comparable to out-of-state real

Commitment to Alaska

Use of Fund Income (since inception)



Income Paid Out for Dividends



estate investment opportunities. The APFC is also working with its real estate advisors to develop a policy to utilize public common areas of Fund-owned properties to promote Alaska products and commerce. On the fixed-income side, \$300 million is allocated to the State's financial institutions to add to the capital available for Alaska business loans, and this year, an Alaska company was selected to manage a portion of the Fund's bond portfolio. ■ ■ Additionally, the APFC, in partnership with its investment managers, advisors and custodians, provides more than a dozen summer internships each year to qualified Alaska college students — opening career doors for many of Alaska's best and brightest young people. ■ ■ The APFC also provides assistance to Alaska by managing the \$113 million Alaska Science and Technology Endowment Fund and the \$231 million Alaska Mental Health Trust Fund.

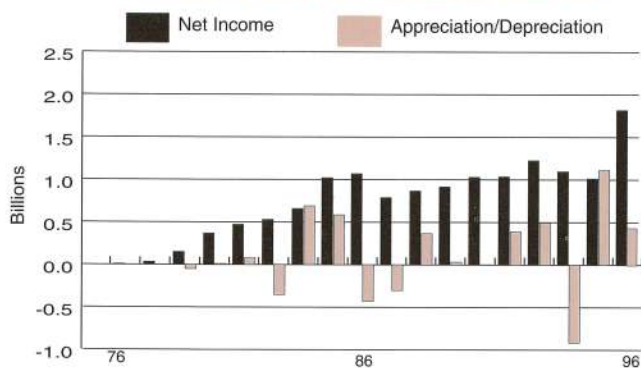




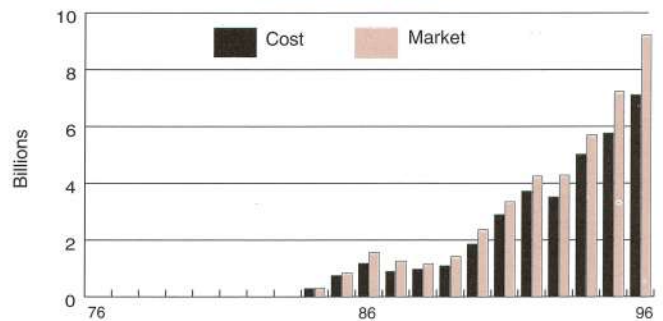
Since its creation 20 years ago, the Alaska Permanent Fund has grown into a \$19 billion asset that has earned Alaskans more than \$14 billion in net income. ■■ Permanent Fund performance over the long term has equaled 11.50% on a total return basis and 10.97% on a realized rate of return basis. ■■ By legislative mandate, the Fund must be conservatively invested to safeguard its principal while maximizing its return within acceptable levels of risk. While the Fund's initial investments were limited entirely to U.S. government bonds, the safest asset class, since then the Trustees have asked for and received legislative approval expanding the Fund's authorized list of investments to allow diversification of the Fund into top-rated stocks in the U.S. and around the world, into substantially leased real estate properties located in the U.S.,

Long-term Performance

Realized and Unrealized Income



Growth of Equities (since inception)



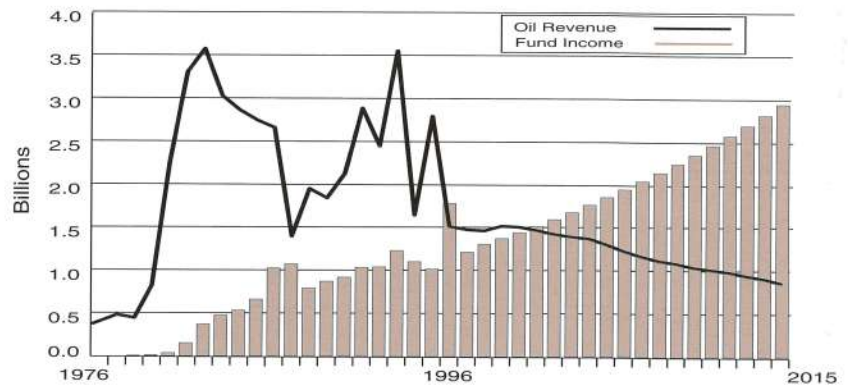
and into investment-grade corporate and Yankee bonds. These additional investment powers help protect and build the Fund by adding diversification and by enhancing returns over the long term. ■■ The opportunity to earn higher income, of course, brings with it the possibility of increased volatility over short periods of time. The Fund has experienced this volatility in the past, as indicated by historic Fund total returns ranging from a high of 25.6% in 1985 to a low of 1.5% in 1994. In the future, there will again be both good and bad years. Over the long term, however, Alaskans can expect their Fund to grow at an annual rate in excess of 4% above inflation.

Twenty years ago, Alaskans embarked on a remarkable economic journey. Voters changed the State Constitution to create the Alaska Permanent Fund, setting aside a significant portion of the incredible oil wealth buried beneath the North Slope. ■ ■ Today, we celebrate the foresight of those voters. The Fund now comprises one of the largest pools of money in this country. ■ ■ From an initial deposit of \$734,000 on February 28, 1977, the Fund has grown into a \$19 billion asset, one that produced more earnings in fiscal 1996 than the state collected in General Fund oil revenues. While this historic milestone is not expected to be repeated for several more years, it serves as a harbinger of what the future holds. ■ ■ The growth of the Fund is the result of a partnership between Alaskans, their elected representatives, and the Trustees and management of

20th Anniversary

Permanent Fund Income and State Oil Revenue

This graph shows the relationship between the total unrestricted oil revenues received by the State and the annual earnings of the Permanent Fund. The period 1976-1996 reflects actual numbers. The projections for the years 1997-2015 are based on the Department of Revenue's mid-case forecast for future oil production and prices, and the Alaska Permanent Fund Corporation's forecast for future Fund earnings.



the Alaska Permanent Fund Corporation. The legislature created the APFC as an independent state entity in 1980 to manage the Fund's growing assets, and to separate the savings functions of the Fund from the spending functions of the State. It's a separation that has profited all Alaskans – as this year's record income well illustrates. ■ ■ The health of today's Fund is a reflection of the guidance of its original Trustees and those who followed. People like Elmer Rasmuson, the original board chair; Dr. George Rogers, who succeeded Mr. Rasmuson as chair; and Dave Rose, the APFC's first executive director. We honor the contributions of these pioneering Alaskans and of the many, many others, including Governor Jay Hammond, and former legislators and Trustees Hugh Malone and Oral Freeman, who by their vision and their dedication made the Permanent Fund the successful institution it is today.

We have audited the accompanying statements of assets, liabilities, principal and earnings reserve of Alaska Permanent Fund (a Component Unit of the State of Alaska) as of June 30, 1996 and 1995, and the related statements of revenues and expenses, changes in principal and earnings reserve and cash flows for the years then ended. These financial statements are the responsibility of the Alaska Permanent Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Permanent Fund (a Component Unit of the State of Alaska) as of June 30, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Rent Marwick LLP

August 9, 1996

Anchorage, Alaska

STATEMENTS OF ASSETS, LIABILITIES, PRINCIPAL AND EARNINGS RESERVE

June 30,

	1996	1995
ASSETS		
Cash and temporary investments	\$ 605,622,000	967,848,000
Receivables, prepaid expenses and other assets	274,102,000	335,991,000
Investments —		
Marketable debt securities	8,078,459,000	7,152,401,000
Preferred and common stock	7,112,458,000	5,762,303,000
Real estate	1,404,621,000	1,433,830,000
Alaska certificates of deposit	143,000,000	116,200,000
	<hr/>	<hr/>
TOTAL INVESTMENTS	16,738,538,000	14,464,734,000
	<hr/>	<hr/>
TOTAL ASSETS	\$ 17,618,262,000	15,768,573,000
	<hr/>	<hr/>
LIABILITIES		
Accounts payable	\$ 319,556,000	214,331,000
Science and Technology Endowment Fund	112,685,000	106,617,000
Alaska Mental Health Trust Fund	230,689,000	—
Income distributable to the State of Alaska	646,227,000	572,717,000
	<hr/>	<hr/>
TOTAL LIABILITIES	1,309,157,000	893,665,000
	<hr/>	<hr/>
PRINCIPAL AND EARNINGS RESERVE		
Principal	\$ 16,176,160,000	13,644,742,000
Principal held in escrow	29,487,000	27,559,000
Earnings reserve	103,458,000	1,202,607,000
	<hr/>	<hr/>
TOTAL PRINCIPAL AND EARNINGS RESERVE	16,309,105,000	14,874,908,000
	<hr/>	<hr/>
TOTAL LIABILITIES, PRINCIPAL AND EARNINGS RESERVE	\$ 17,618,262,000	15,768,573,000
	<hr/>	<hr/>

The accompanying notes are an integral part of the financial statements

STATEMENTS OF REVENUES AND EXPENSES

June 30,

	1996	1995
REVENUES		
Investment income —		
Interest	\$ 574,895,000	591,101,000
Dividends	161,762,000	136,621,000
Real estate and other income	109,303,000	89,370,000
	<hr/>	<hr/>
Total investment income	845,960,000	817,092,000
	<hr/>	<hr/>
Net realized gains (losses) on —		
Marketable debt securities	67,665,000	7,535,000
Preferred and common stock	981,121,000	170,259,000
Real estate	(61,241,000)	(37,534,000)
Foreign exchange contracts	16,481,000	(12,494,000)
Currency	7,968,000	105,575,000
	<hr/>	<hr/>
Total net realized gains	1,011,994,000	233,341,000
	<hr/>	<hr/>
Net unrealized gains (losses) on foreign exchange contracts	20,161,000	(6,051,000)
	<hr/>	<hr/>
TOTAL REVENUES	1,878,115,000	1,044,382,000
 EXPENSES		
Operating expenses	(28,276,000)	(24,164,000)
	<hr/>	<hr/>
INCOME BEFORE OTHER ITEMS	1,849,839,000	1,020,218,000
Science and Technology Endowment Fund Earnings	(12,324,000)	(7,260,000)
Alaska Mental Health Trust Fund Earnings	(23,949,000)	—
	<hr/>	<hr/>
NET INCOME	\$ 1,813,566,000	1,012,958,000
	<hr/>	<hr/>

The accompanying notes are an integral part of the financial statements

STATEMENTS OF CHANGES IN PRINCIPAL AND EARNINGS RESERVE

June 30,

	1996	1995
PRINCIPAL		
Balance, beginning of year	\$ 13,644,742,000	12,972,898,000
Dedicated State revenues	263,698,000	318,085,000
State transfer from earnings reserve	1,842,130,000	—
Inflation-proofing	407,149,000	347,614,000
Settlement earnings	18,441,000	6,145,000
	<hr/>	<hr/>
BALANCE, END OF YEAR	\$ 16,176,160,000	13,644,742,000
PRINCIPAL HELD IN ESCROW		
Balance, beginning of year	\$ 27,559,000	25,525,000
Escrow earnings	1,928,000	2,034,000
	<hr/>	<hr/>
BALANCE, END OF YEAR	\$ 29,487,000	27,559,000
EARNINGS RESERVE		
Balance, beginning of year	\$ 1,202,607,000	1,116,659,000
Escrow earnings	(1,928,000)	(2,034,000)
Appropriation to the Department of Law	(254,000)	(5,960,000)
State transfer to principal	(1,842,130,000)	—
Net income	1,813,566,000	1,012,958,000
Dividends	(642,813,000)	(565,257,000)
Inflation-proofing	(407,149,000)	(347,614,000)
Settlement earnings	(18,441,000)	(6,145,000)
	<hr/>	<hr/>
BALANCE, END OF YEAR	\$ 103,458,000	1,202,607,000
TOTAL		
Balance, beginning of year	\$ 14,874,908,000	14,115,082,000
Dedicated State revenues	263,698,000	318,085,000
Appropriation to the Department of Law	(254,000)	(5,960,000)
Net income	1,813,566,000	1,012,958,000
Dividends	(642,813,000)	(565,257,000)
	<hr/>	<hr/>
BALANCE, END OF YEAR	\$ 16,309,105,000	14,874,908,000

The accompanying notes are an integral part of the financial statements

STATEMENTS OF CASH FLOWS

June 30,

1996

1995

CASH FLOWS FROM INVESTMENTS

Net (purchases), sales and maturities of investments —

Marketable debt securities	\$ (941,781,000)	466,231,000
Preferred and common stock	(1,350,155,000)	(742,425,000)
Real estate	(9,318,000)	(404,264,000)
Alaska certificates of deposit	(26,800,000)	(7,375,000)
Net change in unsettled trades	197,466,000	(35,317,000)
Total net (purchases), sales and maturities	(2,130,588,000)	(723,150,000)
Investment income received	1,854,913,000	1,058,118,000
Amortization	15,723,000	2,586,000
Undistributed real estate income	38,527,000	35,211,000
NET CASH PROVIDED (USED) BY INVESTMENTS	(221,425,000)	372,765,000

CASH FLOWS FROM NON-CAPITAL FINANCING

Contributions from the State	\$ 253,856,000	294,401,000
Income distributions	(569,557,000)	(564,724,000)
Contributions from other Funds	206,770,000	—
Distributions to other Funds	(6,286,000)	(9,851,000)
NET CASH USED BY NON-CAPITAL FINANCING	(115,217,000)	(280,174,000)

CASH FLOWS FROM OPERATIONS

Net increase (decrease) in cash and temporary investments	\$ (25,584,000)	(22,836,000)
Cash and temporary investments at beginning of year	(362,226,000)	69,755,000
CASH AND TEMPORARY INVESTMENTS AT END OF YEAR	967,848,000	898,093,000
	\$ 605,622,000	967,848,000

RECONCILIATION OF NET INCOME TO NET CASH USED BY OPERATIONS

Net income	\$ 1,813,566,000	1,012,958,000
Adjustments to reconcile net income to net cash used by operations —		
Investment earnings	(1,878,115,000)	(1,044,382,000)
Net change in prepaid expenses and accrued liabilities	2,692,000	1,328,000
Earnings of other funds	36,273,000	7,260,000
NET CASH USED BY OPERATIONS	\$ (25,584,000)	(22,836,000)

The accompanying notes are an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS

June 30, 1996 and 1995

1. ENTITY

The constitution of the State of Alaska (the "State") was amended by public referendum in 1976 to dedicate a portion of certain natural resource revenues to the Alaska Permanent Fund (the "Fund"), a component unit of the State of Alaska. The principal of the Fund is to be invested in perpetuity. The Alaska State Legislature (the "Legislature") created the Alaska Permanent Fund Corporation (the "Corporation"), a government instrumentality of the State that is administered by a board of trustees (the "Trustees"), to manage the investments of the Fund. By statute, (i) a portion of annual earnings is transferred to the State's dividend fund, and (ii) a portion of the earnings reserve account sufficient to offset the impact of inflation is transferred to the principal of the Fund. The balance of earnings is held by the Fund in the earnings reserve account and is subject to appropriation by the Legislature.

The accounting and reporting policies of the Fund conform to generally accepted accounting principles. The Fund follows the accrual method of accounting. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ from those estimates. The more significant accounting and reporting policies applied in the preparation of the accompanying financial statements are discussed in note 2.

2. SIGNIFICANT ACCOUNTING POLICIES

As allowed by the Governmental Accounting Standards Board Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Corporation has elected not to apply Statements and Interpretations issued by the Financial Accounting Standards Board after November 30, 1989.

Contributions

Contributions from dedicated State revenues are recorded when certain revenues defined by statute are received or reported by the Alaska Department of Natural Resources. Contributions from appropriations and other sources are recorded when received.

Dividend Appropriations

Current statutes require that one-half of twenty-one percent of the Fund's net income for the last five fiscal years, excluding earnings from contributions made in the North Slope royalty case (State v. Amerada Hess, et al.), settlements and unrealized gains and losses, be made available for the payment of dividends and other appropriations each year.

Forward Exchange Contracts

The Fund is party to a variety of forward contracts in its trading activities and in the management of its foreign exchange rate exposure. These contracts are speculative in nature, and the contract amounts do not appear on the balance sheet. Realized and unrealized gains and losses are currently included in net income and are determined on the maturity date of the contracts. Unrealized

gains and losses are calculated using foreign currency forward rates at the balance sheet date.

Inflation Impact

The impact of inflation is measured by the change in the prior calendar year average of the United States consumer price index for all urban consumers, applied against the balance of contributed equity at the end of the fiscal year. The inflation rates were 2.82% and 2.61% during the years ended June 30, 1996 and 1995, respectively.

Interest Income

Interest income is accrued monthly as earned, and is shown net of amortization of premiums and accretion of discounts on marketable debt securities.

Income Taxes

The Internal Revenue Code provides that gross income for tax purposes does not include income accruing to a state or any subdivision thereof, which is derived from the exercise of any essential governmental function. The Fund is a political subdivision of the State performing an essential governmental function and is therefore exempt from Federal and State income taxes.

Investment Valuation

By resolution, the Trustees have adopted the following accounting policies for the valuation of investments:

Type	Basis
Marketable debt securities	Cost adjusted for amortization of premiums and accretion of discounts
Real estate	Equity
Preferred and common stock	Lower of aggregate cost or market
Alaska certificates of deposit	Cost

If, in the opinion of management, a permanent impairment of value has occurred, the investment is written down to fair market value by a charge to operations.

Market Value

Fair market values are obtained from independent sources for debt and equity securities and by independent appraisals for real estate. Market value for all other assets approximates cost.

Real Estate

Investments in real estate are carried at cost plus undistributed equity from the results of operations. Income from commingled real estate funds and pools is recognized as distributions are declared. Income from other real estate is recognized as earned. Unrealized losses that are deemed to be other than temporary are charged to current income as realized losses.

Realized Gains and Losses

Realized gains or losses on the sale of investments are determined on the transaction date by average cost for investments in preferred and common stock, and by specific identification for all other investments.

Statement of Cash Flows

The Fund considers all highly liquid short-term investments purchased with a maturity of one year or less to be cash equivalents for purposes of the statement of cash flows.

Securities Transactions

Securities transactions are recorded on the date that securities are purchased or sold.

3. CASH AND TEMPORARY INVESTMENTS

All cash and temporary investments bear interest at competitive rates, and are summarized as follows at June 30:

	1996	1995
Operating account (a)	\$ 62,000	65,000
Cash management accounts (b)	53,665,000	214,273,000
Repurchase agreements (c)	—	57,900,000
U.S. agencies (d)	84,340,000	389,435,000
Treasury bills (d)	9,486,000	143,425,000
Commercial paper (e)	458,069,000	162,750,000
TOTAL CASH AND TEMPORARY INVESTMENTS	\$ 605,622,000	967,848,000

a) Insured by the Federal Deposit Insurance Corporation (FDIC) to \$100,000 per account. Remaining balance uninsured and uncollateralized.

b) Share ownership in a money market fund, payable on demand. Collateralized by underlying securities held by the Fund in the name of the custodian. Not considered an investment nor assigned a specific risk category.

c) Uninsured and unregistered. Underlying collateral securities generally comprised of debt obligations of the U.S. government and held by the counterparty bank.

d) Debt obligation guaranteed by the U.S. government.

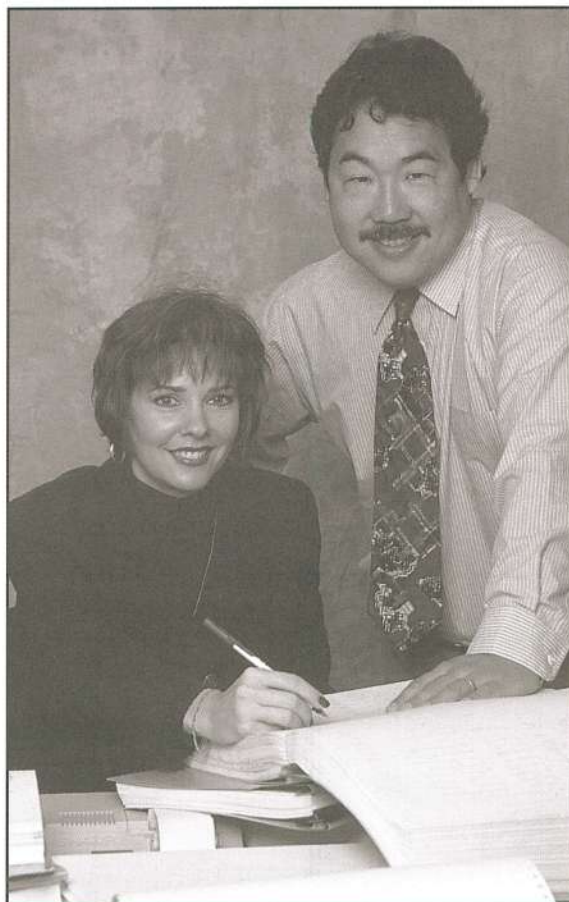
e) Commercial paper rated A-1 by Standard & Poor's or P-1 by Moody's, or the foreign equivalent.

4. RECEIVABLES, PREPAID EXPENSES AND OTHER ASSETS

Receivables, prepaid expenses and other assets at June 30, are as follows:

	1996	1995
Interest receivable	\$ 152,589,000	151,051,000
State dedicated revenues receivable	45,620,000	35,778,000
Securities sold	49,473,000	132,893,000
Dividends receivable	18,165,000	16,108,000
Foreign exchange contracts	8,149,000	—
Other receivables	—	27,000
Prepaid expenses	106,000	134,000
TOTAL RECEIVABLES, PREPAID EXPENSES AND OTHER ASSETS	\$ 274,102,000	335,991,000

The Fund today serves the basic three purposes envisioned at its inception: saving oil wealth, investing for the future and producing current income. ■ ■ Karen Emberton serves the Fund as an Accounting Technician; Calvin Kubota is Comptroller.



5. MARKETABLE DEBT SECURITIES

The Corporation is authorized by statute to invest Fund assets in (i) corporate bonds rated A or better by Standard & Poor's or Moody's, or the foreign equivalent; (ii) obligations of the United States Treasury, its agencies and instrumentalities; and (iii) obligations of foreign governments. All marketable debt securities are held by custodial banks in the name of the Corporation on behalf of the Fund.

Composition of Corporate and Yankee Bond Portfolios

Banks	27%
Finance and Insurance	20
Industrial	27
Oil and Coal	2
Telephone	15
Transportation	2
Electric Utilities	3
Gas Utilities	4

Marketable debt securities at June 30 are summarized as follows:

	Amortized Cost	Market	Net Unrealized Gains (Losses)	Yield
1996				
Treasury notes/bonds	\$ 5,096,187,000	5,088,563,000	(7,624,000)	6.68%
Mortgage-backed securities	486,707,000	487,421,000	714,000	7.88%
Other federal agencies	506,293,000	489,276,000	(17,017,000)	6.63%
Corporate bonds	1,820,110,000	1,818,336,000	(1,774,000)	7.41%
Yankee bonds	169,162,000	171,872,000	2,710,000	8.03%
TOTAL MARKETABLE DEBT SECURITIES	\$ 8,078,459,000	8,055,468,000	(22,991,000)	7.04%

1995				
Treasury notes/bonds	\$ 5,186,567,000	5,381,279,000	194,712,000	7.17%
Mortgage-backed securities	102,954,000	106,924,000	3,970,000	8.60%
Other federal agencies	109,706,000	117,972,000	8,266,000	7.93%
Corporate bonds	1,684,792,000	1,733,812,000	49,020,000	7.63%
Yankee bonds	68,382,000	75,140,000	6,758,000	8.82%
TOTAL MARKETABLE DEBT SECURITIES	\$ 7,152,401,000	7,415,127,000	262,726,000	7.32%

6. PREFERRED AND COMMON STOCK

The Corporation is authorized by statute to invest Fund assets in the preferred and common stock of United States and non-domestic corporations. All preferred and common stock investments are held by custodial banks in the name of the Corporation on behalf of the Fund.

Permanent Fund's Largest 15 Stockholdings (in millions)

MO	\$136.4
GE	131.5
MRK	115.2
LLY	112.4
IBM	99.5
T	92.7
AIG	87.4
PEP	85.8
JNJ	76.3
GRN	75.0
BA	72.7
COL	69.2
FNM	66.6
PFE	66.1
HWP	65.5

Preferred and common stock at June 30 are summarized as follows:

	Cost	Market	Net Unrealized Gains (Losses)
1996			
Domestic	\$ 5,283,521,000	7,078,563,000	1,795,042,000
Non-domestic	1,828,937,000	2,141,329,000	312,392,000
TOTAL PREFERRED AND COMMON STOCK	\$ 7,112,458,000	9,219,892,000	2,107,434,000
Net domestic security gains			\$1,795,042,000
Net non-domestic security gains			342,398,000
Net currency losses			(30,006,000)
TOTAL NET UNREALIZED GAINS			\$2,107,434,000
1995			
Domestic	\$ 4,252,243,000	5,544,786,000	1,292,543,000
Non-domestic	1,510,060,000	1,685,284,000	175,224,000
TOTAL PREFERRED AND COMMON STOCK	\$ 5,762,303,000	7,230,070,000	1,467,767,000
Net domestic security gains			\$1,292,543,000
Net non-domestic security gains			50,159,000
Net currency gains			125,065,000
TOTAL NET UNREALIZED GAINS			\$1,467,767,000

7. REAL ESTATE

The Corporation is authorized by statute to invest Fund assets in real estate improved by substantially rented buildings, located in the United States. Improved real estate investments may take the form of equity interests or debt obligations secured by a first lien on the real estate. By statute, the Fund may hold up to one-hundred percent of the beneficial ownership interest in real estate investments not exceeding \$150,000,000 and may hold up to sixty-seven percent of the beneficial ownership interest in real estate investments exceeding

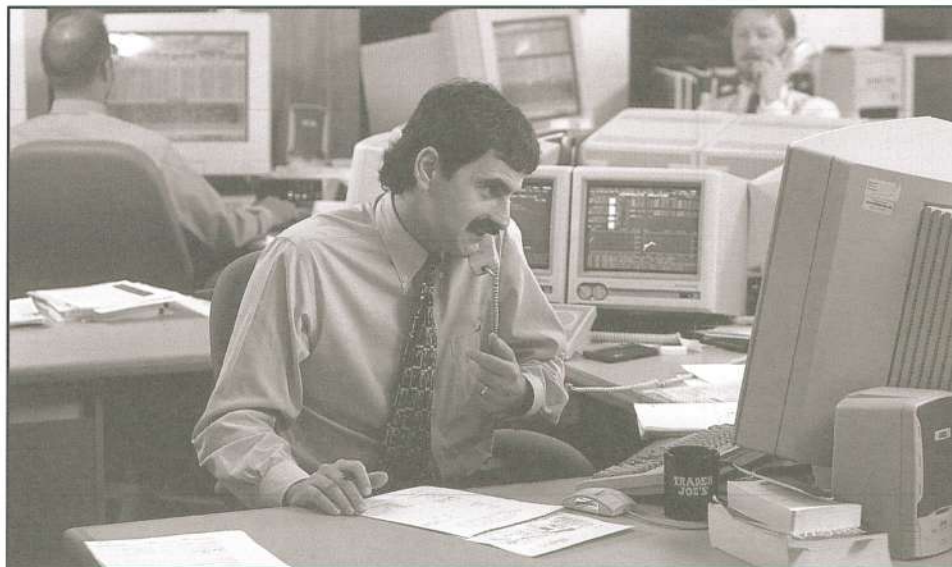
\$150,000,000. All real estate investments are held by the Corporation in its own name on behalf of the Fund, and are managed by professional real estate management firms.

The Fund recorded a loss of investment value with a corresponding charge to operations of \$42,640,000 during 1996, due to the permanent impairment of value of seven properties.

Real estate investments at June 30 are summarized as follows:

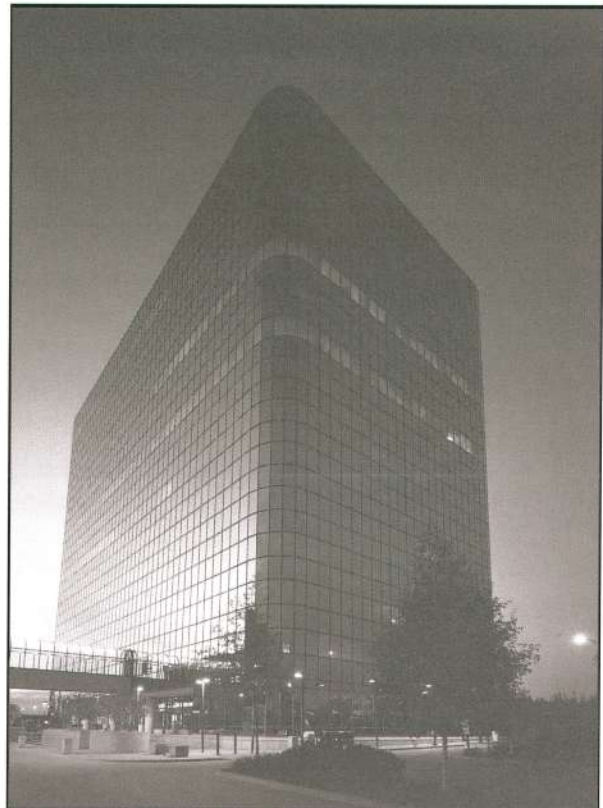
	Book Value	Market	Net Unrealized Gains (Losses)
1996			
Commingled funds	\$ 64,552,000	58,121,000	(6,431,000)
Real estate investment trusts	62,162,000	67,873,000	5,711,000
Alaska residential mortgages	443,000	443,000	—
Direct investments —			
Retail	440,547,000	460,053,000	19,506,000
Office	342,686,000	346,157,000	3,471,000
Industrial	178,357,000	179,611,000	1,254,000
Residential	315,874,000	333,108,000	17,234,000
TOTAL REAL ESTATE	\$ 1,404,621,000	1,445,366,000	40,745,000
1995			
Commingled funds	\$ 70,464,000	60,500,000	(9,964,000)
Real estate investment trusts	62,160,000	68,115,000	5,955,000
Alaska residential mortgages	454,000	454,000	—
Direct investments —			
Retail	458,953,000	467,474,000	8,521,000
Office	297,230,000	279,748,000	(17,482,000)
Industrial	190,136,000	178,115,000	(12,021,000)
Residential	354,433,000	355,557,000	1,124,000
TOTAL REAL ESTATE	\$ 1,433,830,000	1,409,963,000	(23,867,000)

The in-house investment staff strives to achieve above-average, risk-adjusted investment performance with below-average operational costs. Gary Dokes, in the foreground, is a Senior Investment Officer.





Unrealized gains have raised the market value of the Fund to \$19 billion, more than \$2 billion above cost. Warner Center Properties in Woodland Hills was acquired by the Permanent Fund in 1996.



The Frontier Building in Anchorage, Alaska, is one of three Alaska properties in the Permanent Fund's real estate portfolio. In addition to a 19% interest in the mortgage on this 14-story, class "A" office building, the APFC has a 40% ownership interest in the Goldbelt Building, a three-story office building in Juneau; and a 13% interest in a mortgage secured by the Plaza Port West Shopping Center in Ketchikan.

8. ALASKA CERTIFICATES OF DEPOSIT

The Corporation is authorized by statute to invest Fund assets in certificates of deposit or the equivalent instruments of banks, savings and loan associations, mutual savings banks, and credit unions doing business in Alaska. These invest-

ments are (i) guaranteed by the Federal Home Loan Bank or (ii) fully collateralized by securities and mortgages which would qualify as investments of the Fund.

9. ACCOUNTS PAYABLE

Accounts payable at June 30 are summarized as follows:

	1996	1995
Accrued liabilities	\$ 9,830,000	7,166,000
Service fees payable	1,658,000	1,131,000
Foreign exchange contracts payable	—	12,012,000
Securities purchased	308,068,000	194,022,000
TOTAL ACCOUNTS PAYABLE	\$ 319,556,000	214,331,000

10. SCIENCE AND TECHNOLOGY ENDOWMENT FUND

The Alaska Science and Technology Endowment Fund (the "Endowment") was created by an act of the 1989 Legislature to provide financial support for the Alaska Science and Technology Foundation (the "Foundation"). By statute, the Endowment is to be held and invested by the Corporation under the same investment authority as the Fund is managed. Net income from the Endowment is distributed to the Foundation after appropriation by the Legislature and is not included in the computation of Fund dividends.

The assets of the Endowment have been commingled with the assets of the Fund for investment purposes. Earnings are allocated to the Fund and the Endowment on the basis of unit shares and fractional shares. Each unit share or fractional unit share has an undivided beneficial interest in the commingled assets equal to the proportion that it bears to the total units outstanding. Unit shares are credited to the Endowment on the basis of total funds contributed to the investment pool.

Principal and undistributed earnings of the Endowment at June 30, are summarized as follows:

	1996	1995
Principal	\$ 101,067,000	101,037,000
Undistributed earnings	11,618,000	5,580,000
TOTAL LIABILITY	\$ 112,685,000	106,617,000

Distributions to the Foundation are made by liquidation of unit shares valued at cost. Current earnings of the Endowment are reflected on the Statement of Revenues and Expenses as a reduction of Fund income.

11. ALASKA MENTAL HEALTH TRUST FUND

The Alaska Mental Health Trust Fund (the "Trust") was created by an act of the State legislature as the result of the settlement of mental health land trust litigation (Weiss v. State). The act authorized the Alaska Mental Health Trust Authority (the "Authority"), to use income from the Trust to assist it in fulfilling its purpose of ensuring an integrated comprehensive mental health program for the State. By statute and memorandum of agreement with the Authority, the Trust is to be held and invested by the Corporation under the same investment authority as the Fund is managed. By statute, net income from the Trust is transferred to the Mental Health Trust Net Income Account at the end of each fiscal year and is not included in the computation of Fund dividends.

The assets of the Trust have been commingled with the assets of the Fund for investment purposes. Earnings are allocated to the Trust on the basis of unit shares and fractional shares. Each unit share or fractional unit share has an undivided beneficial interest in the commingled assets equal to the proportion

that it bears to the total units outstanding. Unit shares are credited to the Trust on the basis of total funds contributed to the investment pool.

Principal and undistributed earnings of the Trust are summarized as follows:

	1996	
Principal	\$ 203,539,000	
Corpus reserve account	701,000	
Net income investment account	26,449,000	
TOTAL LIABILITY	\$ 230,689,000	

Distributions to the Trust are made by liquidation of unit shares valued at cost. Current earnings of the Trust are reflected on the Statement of Revenues and Expenses as a reduction of Fund income.

12. INCOME DISTRIBUTABLE TO THE STATE OF ALASKA

The Legislature appropriated a portion of the Fund's net income for various purposes, including the payment of dividends to qualified residents of the State of Alaska. In addition, the Legislature appropriated a portion of the Fund's earnings reserves for the cost of oil and gas revenue litigation. Income distributable to the State at June 30, is summarized as follows:

	1996	1995
Dividends	\$ 613,343,000	536,175,000
Appropriations to the Departments of -		
Corrections	803,000	803,000
Health and Social Services	21,717,000	21,887,000
Revenue	5,317,000	4,418,000
Public Safety	1,633,000	1,974,000
TOTAL TO DIVIDEND FUND	642,813,000	565,257,000
Department of Law	3,414,000	7,460,000
TOTAL INCOME DISTRIBUTABLE	\$ 646,227,000	572,717,000

13. PRINCIPAL

The principal balance of the Fund at June 30, is shown in Table I.

The Fund received dedicated State revenues from North Slope royalty case (State v. Amerada Hess, et al.) settlements. By statute, earnings from these settlements are to be treated in the same manner as other Fund income, except that earnings on settlements are excluded from the dividend calculation. Accumulated settlement related activity which is included in the principal balance of the Fund at June 30 is shown in Table II.

Total earnings on settlement principal were \$24,305,000 during 1996 and \$11,204,000 during 1995. Of these amounts, \$5,864,000 and \$5,060,000 during 1996 and 1995 respectively, were added to inflation-proofing. The remaining earnings of \$18,441,000 and \$6,145,000 during 1996 and 1995 respectively, have been added to Fund principal in accordance with law.

Table I

	1996	1995
Dedicated State revenues	\$ 5,710,735,000	5,447,038,000
Appropriations from the state	5,806,514,000	3,964,384,000
Inflation-proofing	4,624,059,000	4,216,909,000
Settlement earnings	34,847,000	16,406,000
Citizen contributions	5,000	5,000
TOTAL PRINCIPAL	\$ 16,176,160,000	13,644,742,000

Table II

	1996	1995
Settlement —		
Principal	\$ 176,300,000	173,440,000
Earnings	34,847,000	16,406,000
Inflation-proofing	21,085,000	15,221,000
TOTAL SETTLEMENT PRINCIPAL	\$ 232,232,000	205,067,000

14. PRINCIPAL HELD IN ESCROW

Certain bonus payments, rent and interest from the joint State-Federal Beaufort Sea lease sale of 1979 were deposited in a federally managed escrow account because ownership of the tracts is in dispute. In December 1987, Congress amended the law to provide for the distribution of twenty-seven percent (27%) of the balance in the account, plus accrued interest, to the State. This distribution represents the total amount which would be due as federal mineral revenue sharing in the event that the Supreme Court awards the ownership of all disputed tracts to the Federal government.

Under State law, the final allocation of this 1987 distribution between the Fund and the State depends upon which party — the State or the Federal government — prevails in Court. If the State wins the dispute, fifty percent (50%) of the

1987 distribution would be allocated to the Fund, except for the bonus and interest on the lease of four tracts for which only twenty-five percent (25%) would be allocated to the Fund. If the Federal government wins the dispute, fifty percent (50%) of the 1987 distribution would be allocated to the Fund.

An amount equal to the bonus and interest in dispute on these four tracts has been placed in escrow by the Corporation on behalf of the Fund or the State under a memorandum of understanding between the Corporation and the State, pending final settlement of the litigation between the State and the Federal government. Interest is accrued thereon each year at the rate of return earned by the Fund.

15. EARNINGS RESERVE

By State law, the balance of Fund net income remaining after the payment of dividends and the provision for inflation is held in the earnings reserve account. Earnings on the investment of principal held in escrow during the years ended June 30, have been obligated for payment to the escrow account on July 1.

	1996	1995
Unobligated reserves	\$ 100,000,000	1,200,679,000
Reserves obligated for earnings on principal held in escrow	3,458,000	1,928,000
TOTAL EARNINGS RESERVE	\$ 103,458,000	1,202,607,000

16. INVESTMENT INCOME BY SOURCE

Investment income during the years ended June 30, is summarized as follows:

	1996	1995
Interest and amortization		
Marketable debt securities	\$ 533,993,000	544,046,000
Alaska certificates of deposit	5,211,000	6,355,000
Cash and other interest	35,691,000	40,700,000
TOTAL INTEREST AND AMORTIZATION	\$ 574,895,000	591,101,000
Dividends		
Domestic preferred and common stock	\$ 121,216,000	101,977,000
Non-domestic preferred and common stock	40,546,000	34,644,000
TOTAL DIVIDENDS	\$ 161,762,000	136,621,000
Real estate and other income		
Real estate interest	\$ 7,695,000	10,137,000
Other real estate income	98,860,000	77,558,000
Fees on loaned securities	2,748,000	1,675,000
TOTAL REAL ESTATE AND OTHER INCOME	\$ 109,303,000	89,370,000

Under Statute 37.13.120(f), the Fund is authorized to enter into securities lending transactions. The Fund lends marketable debt securities to security dealers with substantial capitalization, and charges a fee to the borrowers at the prevailing market rate. Such loans have fixed maturity dates with an average life of thirty days and are fully collateralized with similar securities to those on loan, including similar maturity dates. Collateral is held by a custodian bank in the name of the Corporation on behalf of the Fund and is required to be not less than one-hundred two percent (102%) of the market value of the loaned securities and accrued interest. The Fund has the ability to sell collateral securities only after the borrowers defaults. At June 30, 1996, there were no loaned securities outstanding. During the years ended June 30, 1996 and 1995, there were no losses incurred as a result of securities lending transactions.

17. NET REALIZED GAINS (LOSSES) ON CURRENCY

Net realized gains and losses on foreign currency for the years ended June 30, consisted of the following elements:

	1996	1995
Preferred and common stock	\$ 8,146,000	104,511,000
Dividends	(91,000)	226,000
Currency inventory	(87,000)	838,000
NET REALIZED GAINS ON CURRENCY	\$ 7,968,000	105,575,000

18. FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The Fund entered into foreign currency forward exchange contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing cash positions in these currencies. The maturity periods for these contracts ranged from one to five months. At June 30, 1996, the Fund had net unrealized gains with respect to such contracts.

The counterparties to the foreign currency forward contracts consisted of a diversified group of financial institutions. The Fund is exposed to credit risk to the extent of non-performance by these counterparties; however, the Fund considers the risk of default to be remote. The Fund's market risk is limited to the difference between contractual rates and forward rates at the end of the fiscal year.

	1996	1995
Contract amount	\$ 203,543,000	162,822,000
Market value using forward rate at June 30	195,393,000	174,833,000
NET UNREALIZED GAINS (LOSSES) ON CONTRACTS	\$ 8,150,000	(12,011,000)
Reversal of prior year	12,011,000	5,960,000
NET UNREALIZED GAINS (LOSSES) RECOGNIZED	\$ 20,161,000	(6,051,000)

19. OPERATING EXPENSES

Operating expenses of the Corporation for the years ended June 30 are summarized as follows:

	1996	1995
Salaries and benefits	\$ 1,983,000	2,024,000
Department of Revenue support	32,000	32,000
Travel	177,000	179,000
Communications	538,000	494,000
Consulting fees	381,000	410,000
Custody and safekeeping fees	3,097,000	3,309,000
Investment management fees	21,158,000	16,570,000
Legal and audit	206,000	367,000
Public information and subscriptions	84,000	183,000
Rent	223,000	203,000
Property and equipment	119,000	122,000
Other expenses	278,000	271,000
TOTAL OPERATING EXPENSES	\$ 28,276,000	24,164,000

20. PENSION PLAN

All full-time employees of the Corporation participate in the State of Alaska Public Employees Retirement System (PERS), a multiple employer public employee retirement system. Total salaries and benefits for employees covered by PERS for the years ended June 30, 1996 and 1995 amounted to \$1,983,000 and \$2,024,000, respectively.

Corporation employees are required to contribute 6.75% of their annual salaries to PERS. The Corporation contributes the remaining amounts necessary to pay benefits when due. These contributions represented 14.08% and 15.17% of covered salary expenses in the years ended June 30, 1996 and 1995, respectively.

21. NET INCOME

By statute, net income is computed in accordance with generally accepted accounting principles (GAAP), excluding settlement income and any unrealized gains or losses. Net income is required by GAAP, however, to include unrealized currency valuation gains and losses on non-domestic marketable debt securities and foreign exchange contracts and all other income, regardless of source. Consequently, GAAP net income and statutory net income will not always agree. It is statutory net income that is used to compute the Permanent Fund dividend.

Years Ended June 30,	1996	1995
Net income	\$ 1,813,566,000	1,012,958,000
Unrealized (gains) losses on		
foreign exchange contracts	(20,161,000)	6,051,000
Settlement earnings	(24,305,000)	(11,204,000)
STATUTORY NET INCOME	\$ 1,769,100,000	1,007,805,000

22. SUBSEQUENT EVENT

On July 1, 1996, the Fund transferred \$1,529,695,000 from active equity management, to passive indexed equity portfolios. Securities were transferred to new indexed portfolios, S&P 1000 and EAFE (Europe, Australia and Far East) indices and to the existing S&P 500 index portfolio. Securities not included in any of these indices were sold and funds re-invested in the indices, during the index re-balancing process. As a result of this re-balancing process, gains of \$108,375,000 were realized in July 1996.



In 1996, net income from Permanent Fund investments is providing Alaskans the largest dividend in the Fund's history. Joyce Andrews is the APFC's Receptionist/Secretary.



Despite its growth and success, the Fund remains accessible to Alaskans. ■ ■ Chief Financial Officer Peter Bushre answers fairgoers' questions at the Alaska State Fair in Palmer.

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