

ALASKA PERMANENT FUND CORPORATION
801 W. 10th St., Suite 302 • Juneau, Alaska 99801

1997 ANNUAL REPORT
TAKING STOCK IN ALASKA'S FUTURE



ABOUT THIS ANNUAL REPORT

With earnings of \$2.1 billion in fiscal 1997, the Alaska Permanent Fund brings more Outside money into Alaska than any other business in the state aside from oil. This influx of new money goes much deeper than funding the Permanent Fund dividend program. Through its investments, the Fund helps raise the capital businesses need to continue their growth and helps support the investment industry in Alaska. It invests directly in investment-grade Alaska properties and uses its real estate investments Outside to market Alaska products, tourism and fishing. Through such Alaska programs as Alaska CDs and internships, it provides construction and other financing for Alaska businesses and helps Alaskans achieve the profession of their dreams.

These connections are part of the fabric of the Alaska economy, which is why the Corporation decided to feature them in its fiscal 1997 annual report, "Taking Stock in Alaska's Future."

On the following pages, you will visit some of the global corporations that have made significant investments in Alaska and in which the Fund holds stock, learn about Alaska companies that have directly benefited from the Fund's investment policies and meet Alaskans who have had doors opened to them because of the Fund's relationships. As many and diverse as they are, this report features only a sampling of the investments which connect the Permanent Fund to Alaska, its economy and people.

We begin our tour on the cover, which features the New York Stock Exchange. It has been stocks which have fueled the greatest growth in Fund earnings since the Fund entered the market in 1983.

Driven by extraordinary returns from its stock holdings, the value of the Alaska Permanent Fund increased more than \$3 billion during fiscal 1997. Overlooking the action on the trading floor of the New York Stock Exchange are, from left, Eric Wohlforth, the 1997-98 chair of the Alaska Permanent Fund Corporation's Board of Trustees; Carl Fazio, Vice President of the Bank of New York, the Fund's global custodian; and Peter A. Bushre, Chief Financial Officer for the APFC.

Featured in the insets on the cover are Goldbelt Place in Juneau, one of the Fund's three Alaska properties and headquarters for the APFC; kiosks promoting Alaska goods and services at Tysons Corner Center near Washington, D.C., the Fund's largest real estate investment; and Anchorage teacher Cyd Duffin and her children. The Permanent Fund will play an important role in their future.

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The Alaska Permanent Fund is a savings account that belongs to the State of Alaska. It was created in 1976 by a voter-approved amendment to the Alaska Constitution. The Fund is established as a public 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.

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 Alaska Legislature and the Governor.

The Fund is managed by the Alaska Permanent Fund Corporation (APFC). Policy is established by a six-person Board of Trustees which has adopted the following investment philosophy:

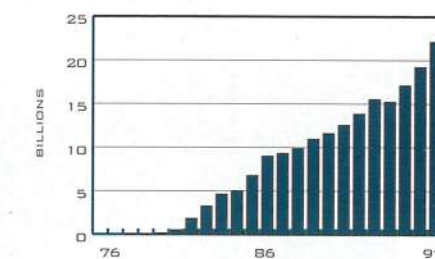
■ **Risk Posture** – The Board's overriding investment objective for the Fund is to maintain the safety of principal while maximizing total return. Therefore, it will always act to ensure that the level of investment risk in the Fund is prudent and does not jeopardize that primary objective.

■ **Return** – The Board believes that over the long term, there exists a relationship between the level of investment risk taken and the rate of investment return realized. It believes that the assumption of a moderate level of risk is reasonable and justified in order to enhance potential long-term returns, understanding that it will produce a wider range of expected returns than more conservative asset mixes. This range of expected returns will narrow as the investment time horizon is lengthened, which fits well with the Fund's role as a long-term investor.

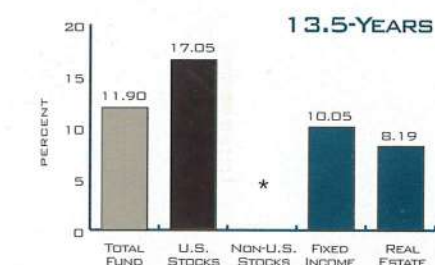
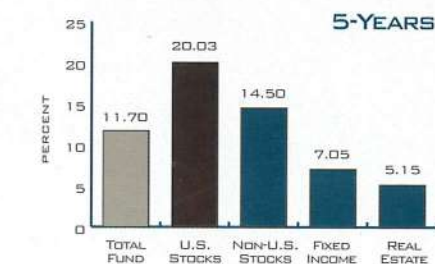
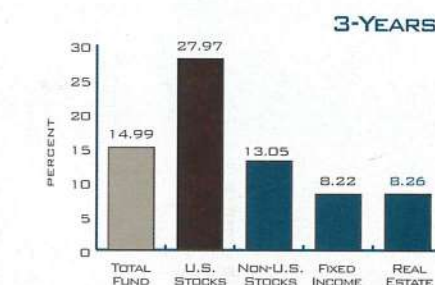
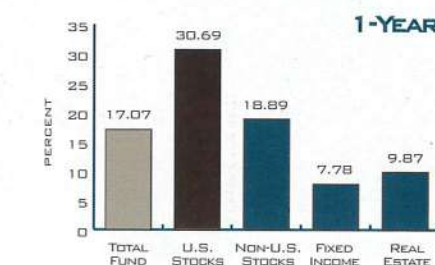
■ **Diversification** – The primary technique employed by the Board to reduce risk and enhance returns is diversification.

■ **Liquidity** – The Permanent Fund is managed with a long-term investment horizon, but seeks to avoid major fluctuations in year-to-year results. Although major consideration is given to capital growth over the long term, appropriate consideration is also given to current income. This meets the statutory requirement to provide benefits for both current and future generations of Alaskans.

GROWTH OF FUND SINCE INCEPTION (AT MARKET)



AVERAGE ANNUAL TOTAL RETURNS (ALL YEARS ENDED JUNE 30, 1997)



* THE FUND MADE ITS FIRST INVESTMENT IN NON-U.S. STOCKS IN 1989.

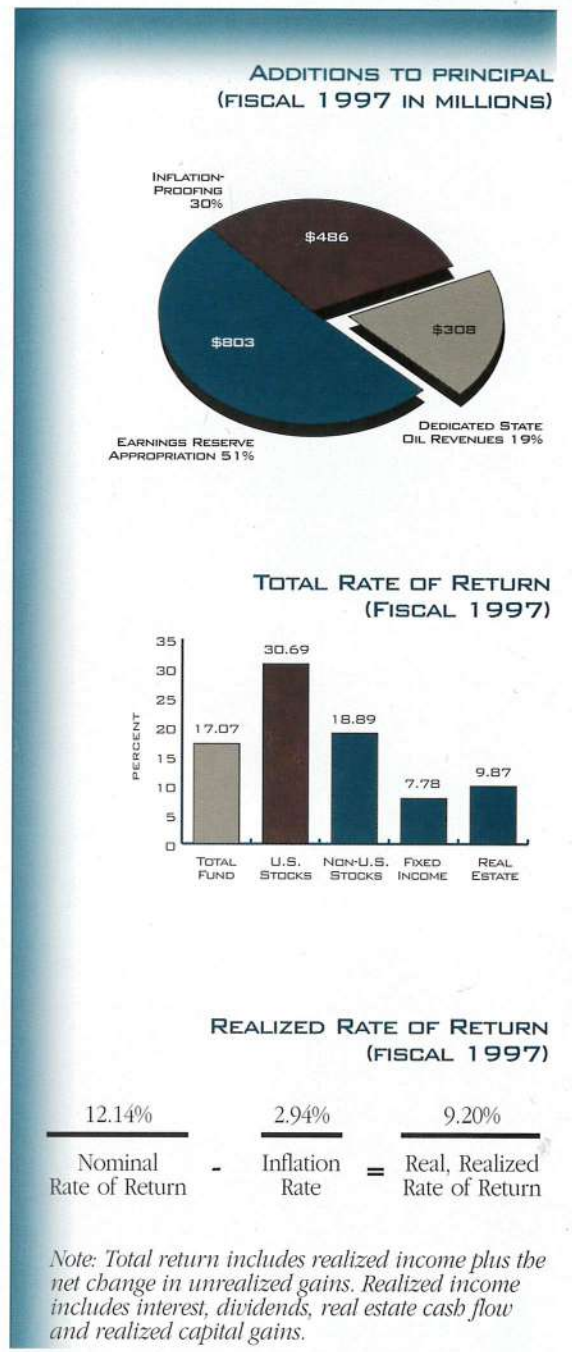
On its 20th anniversary, the Fund enjoyed its highest earnings year ever, spurred largely by the extraordinary performance of U.S. blue chip stocks. In a year in which the 500 largest publicly traded companies in the U.S. increased their market value on average by more than one-third, the Fund's value to the people of Alaska increased by more than \$3 billion, ending the year with a market value of \$22.1 billion.

The Fund earned \$2.1 billion of realized income during the year, including \$1.3 billion in realized gains from the sale of stocks. In addition, the Fund ended the year with \$3.3 billion of unrealized gains, compared to \$2.1 billion a year ago.

The Fund's principal grew by 10 percent in fiscal 1997, aided significantly by a special appropriation of \$803 million from the earnings reserve account. The special appropriation marked the third time in the past three years that the Legislature and Governor returned Fund earnings in excess of dividends and inflation to the principal, and underscores their strong commitment to ensuring a healthy Fund for future generations.

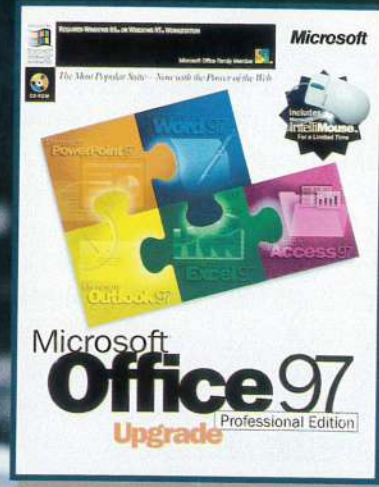
Due to favorable financial markets, the Fund's diversified investment portfolios produced hundreds of millions of dollars more net income than usual, resulting in a fiscal 1997 real, realized rate of return of 9.20 percent. This was the highest inflation-adjusted return for the Fund in a decade and was more than double the Trustees' long-term annual growth target of 4 percent above inflation.

While this level of return cannot be sustained, it vividly demonstrates the contribution of equities to Fund performance. Stocks have outperformed other asset classes over the past 70 years and have driven Fund performance since it entered the U.S. market in 1983.



In a relationship that has returned benefits to both parties, Marriott, one of the Fund's stock investments, has joined forces with NANA, one of the state's Native regional corporations, in a number of business ventures, including the Marriott Courtyard Hotel in Anchorage, a 152-room hotel for business travelers that opened this spring. Here, 1996-97 APFC Chair Grace Schaible meets with NANA President Charlie Curtis in the hotel's courtyard. Marriott's relationship with NANA dates back to 1985 when the two joint-ventured on a catering contract on the North Slope. It has since expanded into joint ventures that provide food service for BP Exploration (Alaska), the new Alaska Native Medical Center and the Anchorage Federal Building, along with construction of the new Fairfield Suites in Anchorage. The relationship has provided jobs and dividends for NANA shareholders, most of whom live in the Kotzebue area, and a positive bottom line for Marriott. The Fund owns 41,200 shares of Marriott, valued at \$1 million at cost and \$3 million at market. (All stock and value figures are calculated as of June 30, 1997.)





Fiscal 1997 was a banner year for U.S. equities, an above-average year for international equities and an improving year for fixed income and real estate.

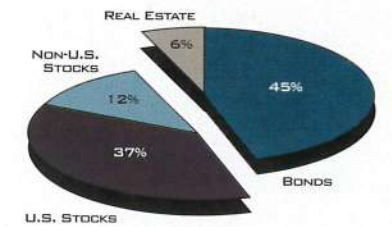
Continuing a 15-year upward surge, the S&P 500 generated a total return of 34.66 percent, more than double the average annual return for the past 20 years. The Fund's U.S. stock portfolio, which is a mix of large-, mid- and small-cap stocks, returned 29.36 percent. Stock markets outside the U.S. also moved ahead strongly during the year, and the Fund's non-U.S. managers earned an 18.89 percent return on the year, substantially outperforming their performance indices.

After a flat first half and a poor third quarter, the fixed-income market rebounded in the fourth quarter, helping the Fund's fixed-income portfolio earn a total return of 7.78 percent for the year, a significant improvement over last year's 4.18 percent.

Improving real estate markets and an internal focus on remediation and realignment helped the Fund's real estate portfolio earn a total rate of return of 9.87 percent, nearly 200 basis points above last year's performance.

On a strategic basis, the Trustees adopted a new asset allocation plan designed to accomplish three objectives: move 2 percent of the Fund's equity allocation from U.S. to non-U.S. stocks, create a new 2 percent allocation for emerging markets and increase from 35 to 45 percent the amount of passive indexing of U.S. large-cap stocks. This portfolio restructuring, which is intended to maximize returns and reduce operating expenses, will result in the movement of more than \$3 billion of Fund assets and is indicative of the kind of effort the APFC must undertake on a regular basis to keep up with, and anticipate changes in a sometimes volatile investment world.

PERMANENT FUND'S ASSET ALLOCATION (JUNE 30, 1997)

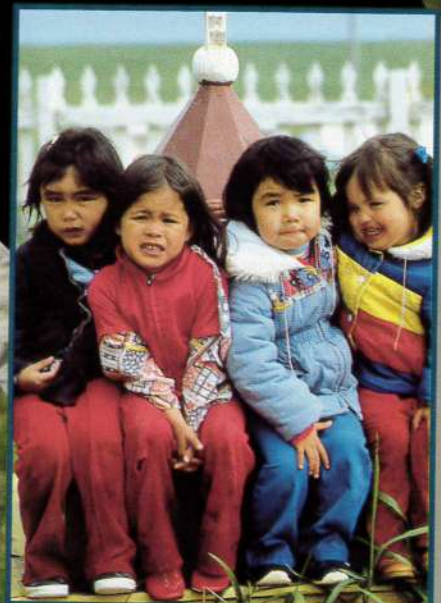


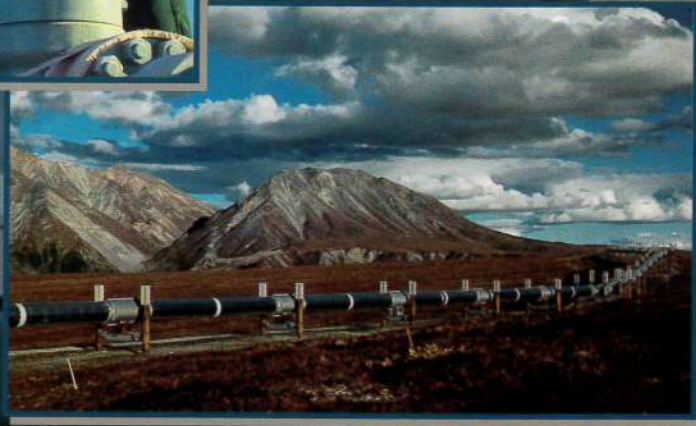
PERMANENT FUND'S REALIZED INCOME AND TOTAL RETURN BY ASSET CLASS (FISCAL 1997)

	BONDS	U.S. STOCKS	NON-U.S. STOCKS	REAL ESTATE
Allocation June 30	45%	37%	12%	6%
Realized income (millions)	\$604	\$1,185	\$228	\$116
% of Realized income	28%	56%	11%	5%
Total return (millions)	\$684	\$2,033	\$418	\$122
% of Total return	21%	62%	13%	4%

Note: Total return includes realized income plus the net change in unrealized gains.

The Fund's equities investments have produced a long-term rate of return of 17.05 percent, substantially higher than any other asset class. These stock investments include companies that provided construction financing, fixtures, and insurance for the Alyeska Prince Hotel, as well as companies that produce the kinds of products that keep Alaskans safe and mobile. Here, APFC Executive Director Byron I. Mallott, right, and Alyeska General Manager Larry Daniels look over the \$100 million investment Seibu Alaska has made in Girdwood. In the insets are companies that contribute to quality of life in Alaska, such as Textron, the parent company of Cessna Aircraft. The Fund owns 970,000 shares of the company, valued at \$27 million at cost and \$64 million at market. Merck developed a vaccine that has greatly reduced the incidence of potentially deadly Hepatitis B among rural Alaska children. The Fund owns 1.4 million shares of Merck, valued at \$76 million at cost and \$139 million at market. And Microsoft products are used in more Alaska computers than any other software produced. The Fund owns 1.1 million shares of Microsoft, valued at \$65 million at cost and \$134 million at market.





BP EXPLORATION



The restructuring also reflects the APFC's movement towards strategic alliances with its investment managers based on recognized strengths and shared goals. With nearly two-thirds of the Fund managed externally, the evolution of these partnerships is key to the Fund's success.

Fiscal 1997 was also a year of celebration for the Fund as Alaskans around the state participated in the 20th anniversary of its creation and began to talk anew about what role the Fund should play in their future. In symposiums, roundtables, newspaper columns and statewide broadcasts, Alaskans reflected on this most remarkable public resource, and how best to balance the needs of today with those of the future.

The anniversary is over but the discussion continues with a two-day conference Nov. 21 and 22 in Anchorage, followed by town hall meetings throughout the state. As trustees of Alaska's largest asset, we invite you to participate in these crucial discussions and to work with each other to reach consensus on the proper course for the next 20 years.

Grace Berg Schaible

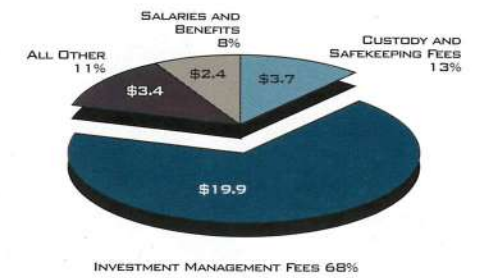
Grace Berg Schaible
Chair, Board of Trustees

Byron I. Mallott

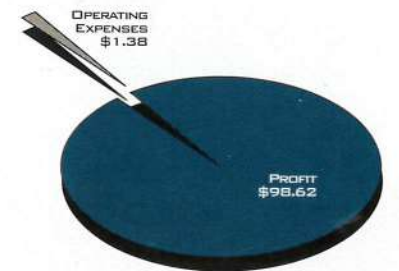
Byron I. Mallott
Executive Director

Footnote: It is with sadness, but great appreciation, that the Fund bids adieu to Grace Schaible, whose gracious but firm leadership proved so valuable over the past two years. Grace declined reappointment to a third term on the Board of Trustees to pursue other public policy and personal interests. We will miss her – and all her polar bear tales. The Board welcomes the newest Trustee, Jim Sampson of Fairbanks.

CORPORATION EXPENSES
(IN MILLIONS)



EXPENSE RATIO
(PER \$100 OF FUND INCOME)



It was the bounty of Prudhoe Bay that drove creation of the Fund, and its dedicated flow of oil revenues have helped build the Fund into the \$22 billion asset it is today. But as the Fund has benefited from the North Slope's bounty, it now invests in the companies that continue to produce nearly 20 percent of the U.S. oil supply today, such as British Petroleum, which has invested more than \$16 billion in the state. Here, Richard Campbell, left, President of BP Exploration (Alaska) Inc., discusses the \$5 billion capital investment BP plans to make in Alaska over the next few years with APFC Trustee Willie Hensley. The Fund owns BP stock valued at \$8 million at cost and \$13 million at market. BP and the other North Slope producers create high paying jobs for hundreds of Alaskans and operate the trans-Alaska pipeline which transports 1.3 million gallons of crude each day. Tankers load Alaska crude at Valdez and ship it to refineries on the West and Gulf Coasts.



Surging equities markets drove Fund performance upward during a year that saw the Fund earn an average of \$175 million per month, or almost \$6 million per day. Fully two-thirds of that income was derived from capital gains realized from the sale of stocks and dividends paid on the stocks the Fund continues to hold. Most of these profits were generated in the U.S., but the Permanent Fund also benefited from impressive returns from Europe and elsewhere around the globe.

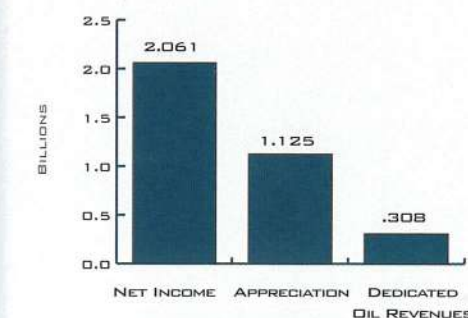
While the equities markets broke records repeatedly, fixed income remained stagnant as interest rates generally moved in a range somewhat higher than last year. Though this resulted in single-digit total return, fixed income did produce \$596 million in interest earnings, some \$21 million more than the year before. This year, the APFC moved a portion of its fixed-income portfolio to external management, funding three U.S. and two non-U.S. managers. At June 30, 1997, the external managers were managing \$640 million in fixed-income assets.

During the year, the Fund moved aggressively to restructure its real estate portfolio as it divested itself of properties in which it owned a minority interest and increased its ownership in prime properties like the Tysons Corner Center near Washington, D.C.

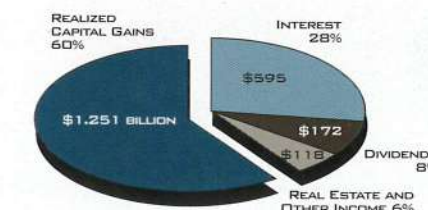
On an operational basis, the APFC began installation and testing of a new management information system, continued its codification program and kept its costs significantly below the industry average for institutional investors. In addition, the real estate section was fully integrated into the investment department.

The APFC also moved to combine its custody and safekeeping services under one global contractor, the Bank of New York, the nation's oldest bank.

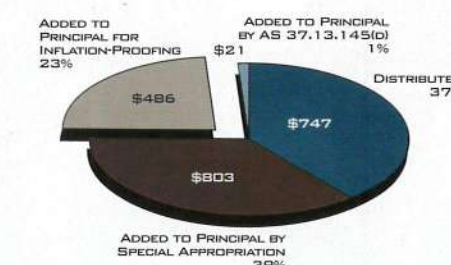
SOURCES OF GROWTH



SOURCES OF INCOME (IN MILLIONS)



USES OF NET INCOME (IN MILLIONS)



While the Fund's U.S. stock investments provide direct benefits to Alaskans, they also help the nation's businesses raise the capital they need to continue their growth. ARCO is a good example, represented here by ARCO Alaska President Ken Thompson, seen here with new APFC chairman Eric Wohlforth, right. The Fund paid \$31 million for 554,900 shares of ARCO that are now valued at \$39 million. ARCO has made a \$15 billion investment in the state. Other companies that have made a substantial investment in Alaska, and in which the Fund has realized significant returns, include Federal Express, which has made a \$157 million investment in the state. The Fund owns 202,700 shares of the company, valued at \$8 million at cost and \$12 million at market. Wal-Mart has made an investment of more than \$36 million in Alaska. The Fund owns 1 million shares of Wal-Mart, valued at \$24 million at cost and \$40 million at market. McDonalds has made a \$50 million investment in Alaska. The Fund owns 641,750 shares of McDonalds, valued at \$19 million at cost and \$31 million at market.

Fiscal 1997 saw explosive growth in the world's equities markets, with U.S. markets achieving the highest returns in a decade. Global equities also surged ahead, propelled by Europe's impressive growth, which was slightly offset by continuing declines in Japan. Five of the 14 developed markets in Europe outperformed the U.S.

The Fund's U.S. equities managers produced a 29.36 percent return, less than the S&P 500's 34.66 percent performance, but above the 28.87 percent achieved by the median manager in Callan's total equity database.

The Fund's international equities managers all outperformed their market benchmarks and produced an 18.89 percent return, well above the combined benchmark of 12.87 percent.

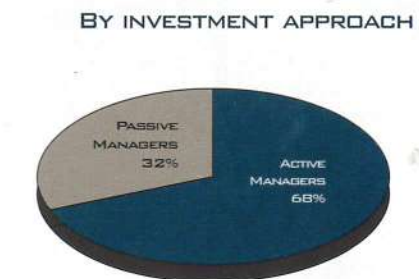
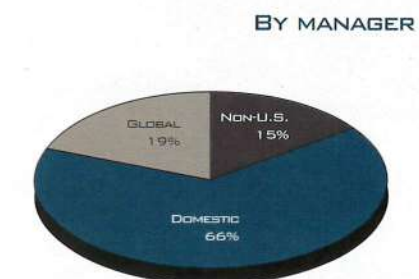
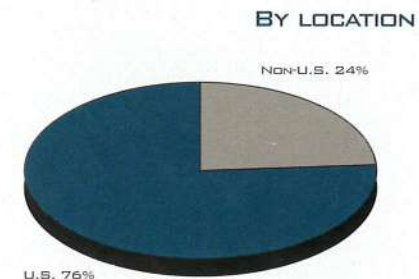
In fiscal 1997, five of the Fund's 11 equity managers invested only in the U.S., two invested only internationally and four invested globally.

The amazing growth in equities, which most analysts say cannot be sustained, forced the Fund to rebalance its portfolio twice during the year as equities approached the legislatively mandated ceiling of 50 percent of the Fund's total assets.

In fiscal 1997, gains realized on the sale of Fund stock totaled \$1.3 billion, the single largest amount in the Fund's history. In addition, the Fund earned \$172 million in dividends, a 6 percent increase over the prior year.

A Trustee decision last year to increase the amount of indexed passive accounts serendipitously resulted in an attractive return this year. The Fund's S&P 500 Index account yielded a 34.59 percent return rate during the year, higher than any of the active managers.

PERMANENT FUND STOCK
DIVERSIFICATION
(AT JUNE 30, 1997)



Historically, stocks have provided a vastly superior long-term rate of return compared to other financial assets. Because current legislation limits the Fund's equities exposure to 50 percent, the Trustees, as long-term investors, have asked the Legislature to increase their investment flexibility by raising the ceiling on equities. Like the Fund, AT&T Alascom is a long-term investor, a company whose roots date back to 1900 when its predecessor first linked Alaska to a submarine cable Outside. Today AT&T connects Alaska to the world, operating more than 300 sites statewide with microwave, satellite and fiber optics communications. This network helps bring the world of cyberspace to classrooms around Alaska, like that of Fairbanks teacher Carolyn Sanz. Jerry De Francisco, left, President of AT&T Alascom, and APFC Trustee Wil Condon stand in the N.O.C.C. (Network Operations Control Center), the heart of Alascom's \$330 million Alaska operation. The Fund owns 933,524 shares of AT&T, valued at \$32 million at cost and \$33 million at market.





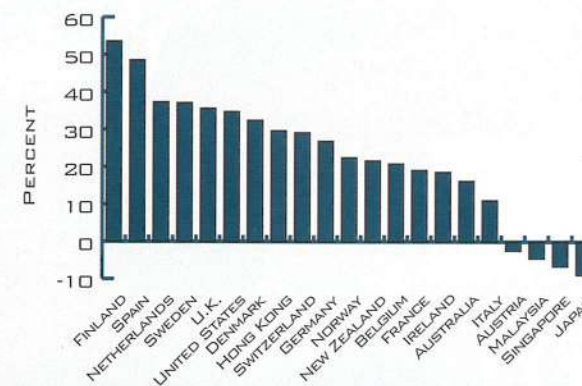
This year, the Board approved an asset allocation plan which maintains broad market balanced capitalization and style (value/growth) neutrality; ensures continuing management flexibility; strengthens its relationships with its managers; and continues the emphasis on global equity management with broader international diversification and the goal of providing low-cost, superior, risk-adjusted returns.

As an initial step in the restructuring, the APFC liquidated the domestic portfolio of Capital Guardian Trust Co. in late June, taking advantage of an opportunity to accomplish the transactions at a cost of less than one cent per share.

At year's end, the cost value of the Fund's U.S. equities portfolio amounted to \$5.4 billion, with a market value of \$8 billion, leaving an unrealized gain of \$2.6 billion. At this level of price appreciation, the portfolio's market value could drop 44 percent and still be worth more than its cost.

The Fund's non-U.S. equities portfolio had a market value of \$2.6 billion as of June 30, 1997, and included more than \$500 million in unrealized gains.

STOCK MARKET RETURNS BY COUNTRY FOR THE YEAR ENDED JUNE 30, 1997 (IN U.S. DOLLARS)



The Fund's non-U.S. equities portfolio produced the second highest return of all investments. Some of the Fund's non-U.S. stock investments have significant roots in Alaska, including Rio Tinto, the parent company of the Green's Creek Mine near Juneau. Green's Creek processes about 1,400 tons of silver, zinc, lead and gold ore each day, creating jobs for 180 Alaskans. The company has invested about \$107 million in its hard rock operation, which miner Tim Hall, right, explains to APFC Trustee Clark Gruening. The Fund owns 239,617 shares of Rio Tinto, valued at \$3 million at cost and \$4 million at market. One of the state's largest investors is Peninsular & Oriental, the mother company of Princess Tours and Cruises. Princess brings more than 185,000 visitors to Alaska each year and has made a \$115 million investment in the state. The Fund owns 240,725 shares of P&O, valued \$2 million at cost and market. One of the Fund's most profitable holdings is Bombardier, manufacturer of Ski-Doo's. The Fund owns 83,500 shares of the Canadian firm, valued at \$609,264 at cost and \$1.9 million at market. Usibelli Coal Mine near Healy was able to develop an international market with the help of Korea Electric Power Corp., which uses Usibelli coal in its generation plants. The Fund owns 41,000 shares of the utility, valued at \$1 million at cost and market.

EQUITIES MANAGERS' PERFORMANCE (FISCAL 1997)

Domestic Equities

MANAGER	RETURN	BENCHMARK
Ark Asset	25.99 %	34.66 %
Brinson Partners	28.90	34.66
Bankers Trust S&P 500*	34.59	34.66
Bankers Trust S&P 1000*	N/A	22.84
Capital Guardian	30.87	34.66
Chancellor Capital	23.62	32.35
INVESCO	28.65	34.66
Lazard Frères	30.61	34.66
RCM Capital	29.61	32.35
Society Asset	27.09	23.39
Combined	29.36	-

International Equities

MANAGER	RETURN	BENCHMARK
Bankers Trust EAFE*	N/A	12.87 %
Brinson Partners	20.27	12.87
Capital Guardian	27.22	12.87
Clay Finlay	31.75	29.98
Lazard Frères	21.04	12.87
Schroder	6.79	-0.54
Combined	18.89	-

Benchmark Returns

S&P 500 Index	34.66 %
S&P Mid-Cap Index	23.39
S&P 1000 Index	22.84
80% S&P 500/20% S&P Mid-Cap	32.35
MSCI Europe Free Index	29.98
Pacific ex-Japan (custom) Index	(0.54)
MSCI EAFE Free Index	12.87
60% S&P 500/40% MSCI EAFE Free	25.59

* The APFC's passive manager uses indexing to match the investment return of these specific market benchmarks. There is no attempt to use traditional or "active" money management, like buying and selling securities after studying financial and market data.

N/A: Funded fourth quarter.

In fiscal 1997, a portion of the fixed-income portfolio was moved to external management for the first time in the Fund's 20-year history. The goal was to broaden the portfolio's overall diversification and to reduce volatility and improve consistency in year-to-year results.

Specifically, the Trustees voted to transfer up to 10 percent of the bond portfolio to three domestic external fixed-income managers, including Alaska Permanent Capital Management, an Alaska-based money manager, and two non-U.S. dollar managers. The domestic managers were funded in the first quarter of the fiscal year, and the non-U.S. managers in the fourth quarter. Therefore, there are no full-year performance numbers for the external managers.

After being in an unrealized loss position for much of the year, the Fund's fixed-income portfolio ended fiscal 1997 some \$40 million above cost, with a market value of \$7.9 billion. The total portfolio produced \$596 million in interest and \$8 million in realized gains.

Positives for the bond market included a benign labor market relative to wages, declining rates of inflation in spite of a strong economy, larger-than-expected tax payments and the passage of a balanced budget agreement.

The internally managed bond portfolio returned 7.83 percent for the fiscal year, slightly greater than the 7.76 percent of its target index - the Lehman Brothers Government/Corporate Bond Index. The benchmark for the external domestic fixed-income managers is the Lehman Brothers Aggregate; for the external non-U.S. fixed income managers, it is the Salomon Brothers Non-Dollar World Government Bond Index/Hedged.

Fixed-income assets represented 43 percent of the Fund at June 30, 1997.

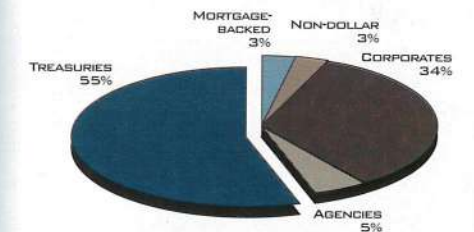
PERFORMANCE OF THE FIXED-INCOME PORTFOLIO

PERMANENT FUND	
PERIOD ENDED JUNE 30, 1997	TOTAL RETURN
1-Year	7.78%
3-Years	8.22
5-Years	7.05
13.5-Years	10.05

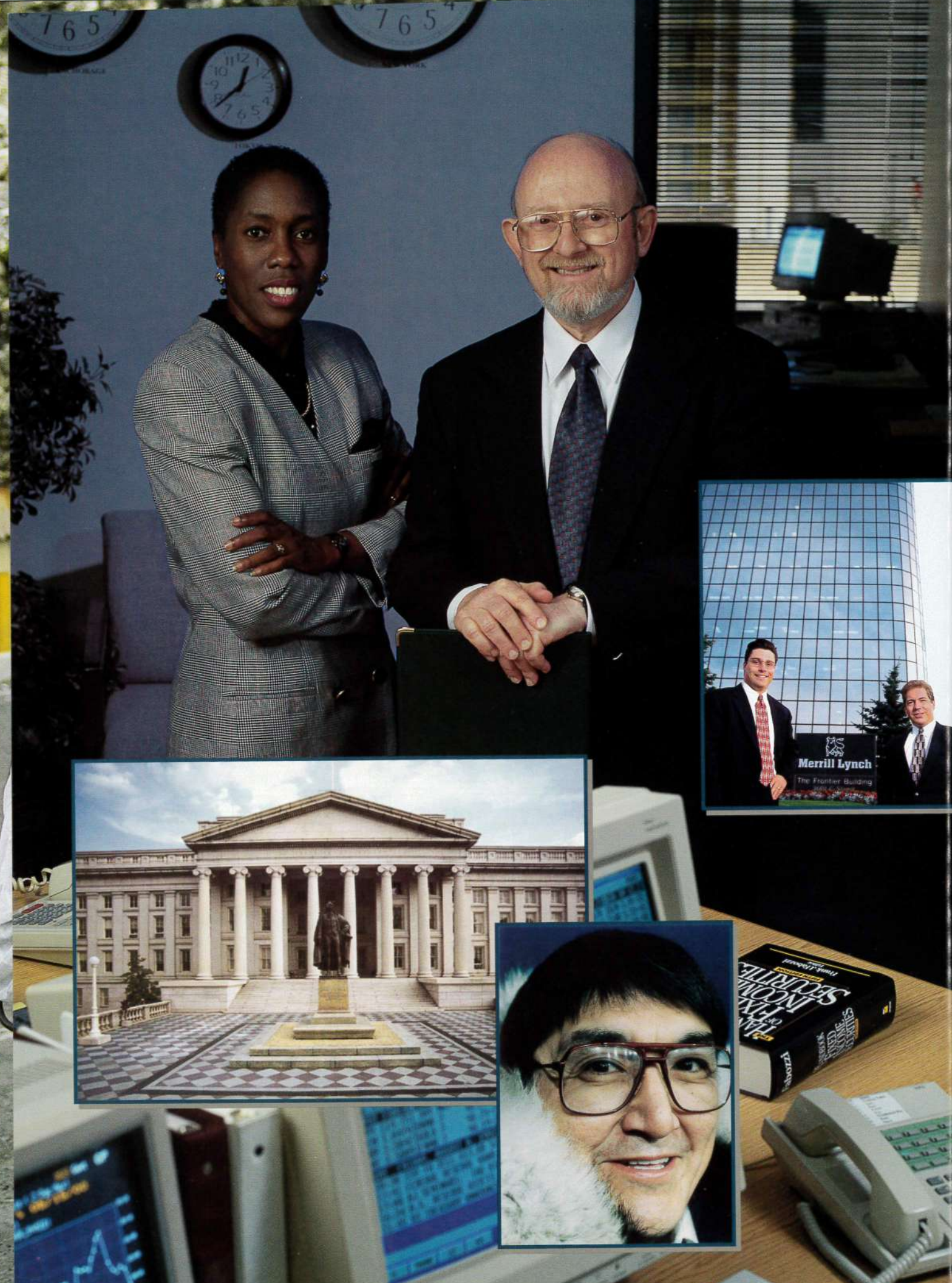
BENCHMARK INDICIES

PERIOD ENDED JUNE 30, 1997	GOVT./ CORP. INDEX	LEHMAN BROS. AGGREGATE	SALOMON BROS. NON-\$ WORLD GOVT. BOND/HEDGED
1-Year	7.76%	8.15%	2.16%
3-Years	8.34	8.53	7.21
5-Years	7.23	7.12	8.16
13.5-Years	10.18	10.33	-

COMPOSITION OF BONDS
(JUNE 30, 1997)



The Fund serves as a model for other entities in Alaska seeking to invest for the benefit of both present and future generations. This has led to the creation of a host of smaller permanent funds across the state, which helps support a growing investment community. Alaska Permanent Capital Management (APCM) manages many of these smaller permanent funds, including \$356 million for the North Slope Borough, under the direction of Mayor Benjamin P. Nageak. President Dave Rose, shown in his trading room with APFC Trustee Melphine Evans, now manages a \$1.2 billion portfolio with the help of seven employees. Rose uses a local brokerage firm to handle his trades, working with Todd LaPorte, right, and David Young at Merrill Lynch of Anchorage. Last year the Fund chose APCM to manage \$75 million of its fixed-income portfolio. Pictured in an inset is the U.S. Treasury Building in Washington, D.C. The Alaska Permanent Fund is one of the U.S. Treasury's largest institutional lenders.



The Fund's real estate portfolio earned 9.87 percent in fiscal 1997, its highest return in almost a decade. The APFC's real estate holdings outperformed the 9.15 percent median for Callan's total Real Estate Fund database, but lagged behind the NCREIF Classic Index. The portfolio earned \$117 million in interest and other income and finished the fiscal year with unrealized gains of \$47 million.

The Fund moved aggressively this year to implement the strategic real estate plan which moves the Fund away from commingled funds and minority co-investments and into majority co-investments and wholly-owned properties, as well as equity and mortgage-based Real Estate Investment Trusts (REITs).

The strategic shift is designed to increase Fund control over its investments and allow increased opportunities to add value, take profits and reduce fees. The APFC took advantage of strong local markets to sell interests in two office properties and three apartment complexes, purchase a new office building and increase its ownership of a large, regional shopping center.

The strategic real estate plan allocates 20 percent of the real estate portfolio to publicly and privately traded REITs. REITs hold the potential of returning greater value than other types of real estate investments and have more liquidity. To move towards the target, the APFC began the search for an external REIT manager.

The Trustees adopted a new Alaska investment policy designed to actively seek out investment opportunities in the state, and directed one of its managers, Kennedy Associates, to take the lead in implementing the policy.

The Fund's real estate portfolio totaled \$1.4 billion at the end of the fiscal year. Approximately 20 percent of the 93 properties the Fund owns are either wholly or majority owned.

PERIOD ENDED JUNE 30, 1997	APFC TOTAL RETURNS	NCREIF INDEX	CALLAN BENCH- MARK
1-Year	9.87%	11.29%	9.15%
3-Years	8.26	9.63	8.76
5-Years	5.15	5.75	5.72
13.5-Years	8.19	5.21	5.05

PROPERTIES SOLD

- 37 W. 57th Street
New York, NY
- 1818 Market Street
Philadelphia, PA
- Folsom Ranch Apartments
Phoenix, AZ
- Amador Oaks Apartments
Dublin, CA
- Club at Tanasbourne
Hillsboro, OR

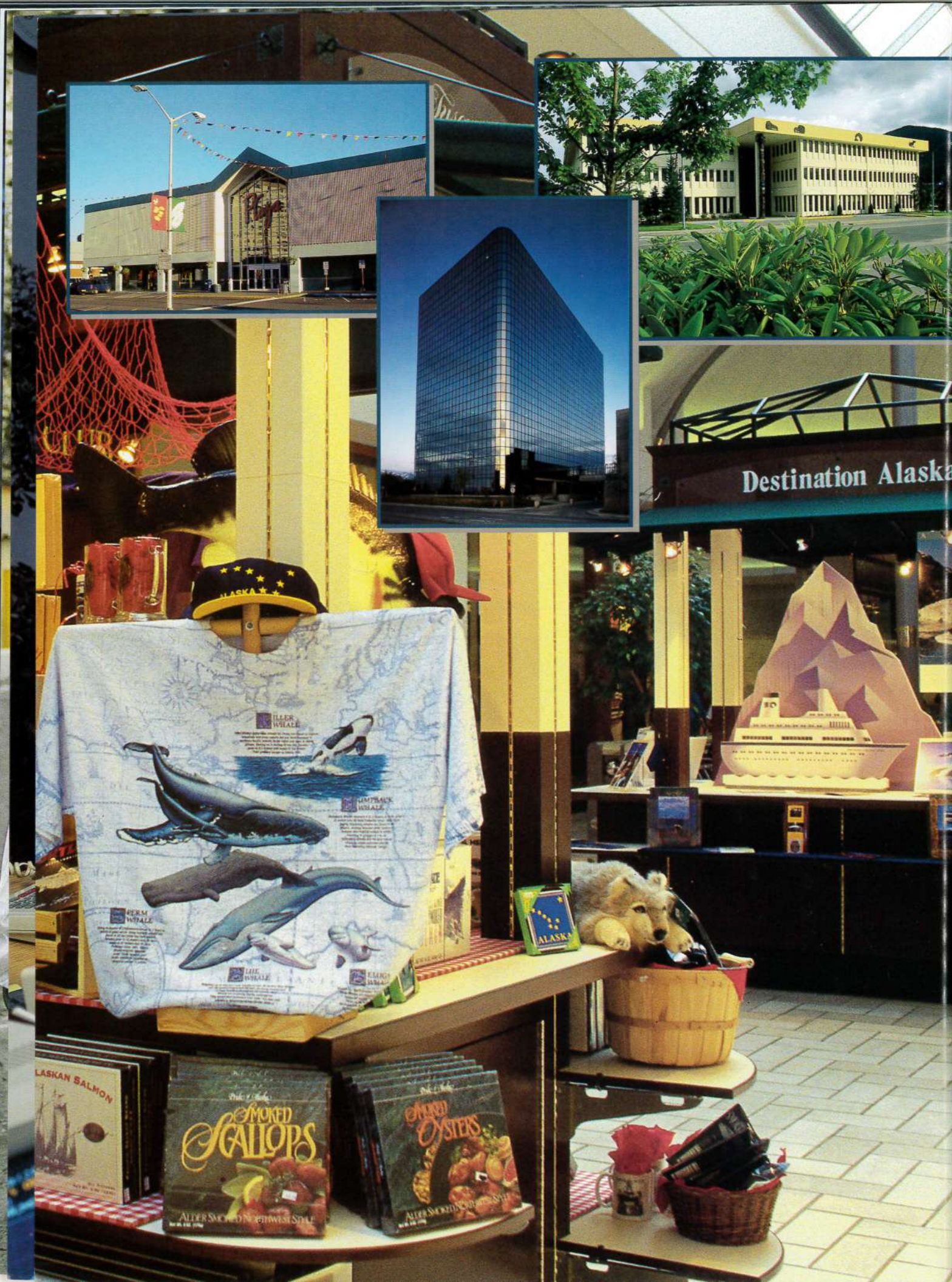
PROPERTIES ACQUIRED

- 1919 Arapaho
Richardson, TX

OWNERSHIP CHANGE

- Tysons Corner Center
Washington, D.C.

A Trustees' decision last year to move the Fund more into majority co-investments and wholly-owned properties allowed the Fund to begin to use its real estate investments to promote Alaska, its economy and its commerce. Working with the Alaska Seafood Marketing Institute and the Alaska Tourism Marketing Council, the APFC developed a prototype installation for Tysons Corner Center near Washington, D.C., a major regional shopping center in the nation's capital and the Fund's largest real estate investment. The exhibition includes kiosks that promote Alaska as a visitor destination and Alaska seafood, along with displays that showcase Alaska products, history and culture. The Fund currently holds ownership positions in three Alaska properties (shown here in the insets): the Frontier Building in Anchorage, Goldbelt Place in Juneau and the Plaza Port West Shopping Mall in Ketchikan.





Alaska's elected representatives increased their commitment to ensuring a prosperous and healthy Permanent Fund for future generations by appropriating \$803 million from the earnings reserve to the Fund's principal. This appropriation is the third in the last three years and the sixth since the Fund was established. Legislative appropriations have increased the Fund's principal by more than \$6.6 billion over the past 20 years.

The Legislature and Governor took the action on the 20th anniversary of the creation of the Fund and the 20th anniversary of the completion of the trans-Alaska pipeline, which helped build the Fund into the unique public trust it is today.

To commemorate the historic occasion, the Legislature passed resolutions thanking all current and past Trustees for their contributions to the Fund's success and hosted a group of former Governors, Trustees and Fund staff at a special reception. The Governor declared the week of February 24 as Permanent Fund Week to mark the 20th anniversary of the first deposit of oil money.

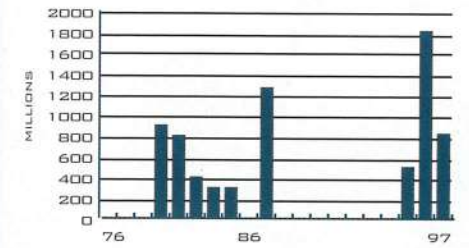
Senate Bill 118, which would increase the Trustees' investment flexibility, remained in the Senate Finance Committee for future consideration. The bill would allow the Trustees to invest up to 60 percent of the Fund in stocks. The Fund is presently limited to a 50 percent equities investment.

In addition to the special appropriation, the Legislature approved a transfer of \$486 million to inflation-proof the Fund and a payment of \$747 million in dividends.

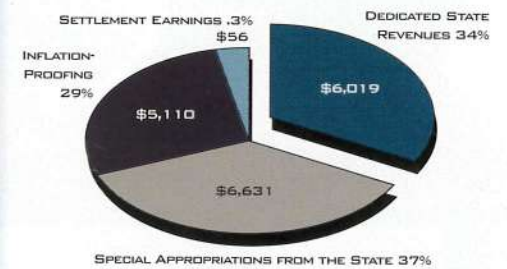
The Legislature approved, and the Governor signed, Senate Bill 177, a bill that provides for the management of the assets of the \$5 million International Trade and Business Endowment, which was established as part of the Alaska Science and Technology Foundation. The Fund already manages the Foundation's \$118 million endowment fund. This legislation was one of several bills introduced during the session that would mandate APFC management of non-Fund assets.

The APFC also manages the \$243 million Alaska Mental Health Trust Fund.

SPECIAL APPROPRIATIONS



SOURCES OF PRINCIPAL (CUMULATIVE/IN MILLIONS)



To add to the capital available for Alaska business loans, the Fund allocates \$300 million each year to the state's financial institutions through its Alaska CD program. Northrim Bank uses the program to increase the money it has available to provide construction financing to builders like Michael Quinn, right, President of the Anchorage Home Builders Association, who is shown here with Marc Langland, President of Northrim and a former APFC Trustee. With the CD program, Northrim now finances one-third of all new home construction in the Anchorage area. The Fund's directed brokerage program ensures that Alaska brokerage firms share in the commissions generated by the Fund's stock trades. Shown here are Clark Rash, Harold Pierce and Tammy Head of Dean Witter. The Fund also manages the assets of the Alaska Science and Technology Foundation which makes grants to companies such as Integrated Power Technologies. Here, from left, are Mike Timson, Tim Newton, Eric Lee and Dan Rogers. The Fund also manages the assets of the Alaska Mental Health Trust, which helps support facilities such as Jake's Place, a residential treatment center in Dillingham.

With \$2.1 billion in income, the Fund brings more money into the state than the payroll of any industry aside from oil and the federal government. These earnings open business, personal and professional opportunities for thousands of Alaskans through a variety of programs that reach out and directly support the state's economy.

The Fund's largest contribution to the state's economy is the dividend program. This year, the dividend distribution totaled \$747 million.

The Fund's CD program, which allocates \$300 million to the state's financial institutions, enables Alaska banks to finance ventures that might otherwise go unfunded, like construction financing for one out of every three new homes in the greater Anchorage area.

The Fund's Alaska investment program seeks out potential investments in Alaska properties where the risk and return are comparable to out-of-state investment opportunities.

This year, the Fund increased its outreach program by utilizing common areas of Fund-owned properties Outside to promote Alaska products and commerce.

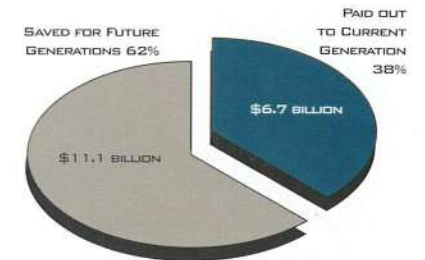
Through its directed brokerage program, which ensures that Alaska businesses share in the commissions generated by the Fund's stock trades, and the Trustees' decision to turn a portion of the Fund's fixed-income portfolio over to an Alaska company, the Fund helps support a growing financial industry in Alaska.

This support has helped Alaska money managers expand their resources and invest and manage the assets of dozens of other, smaller permanent funds across the state.

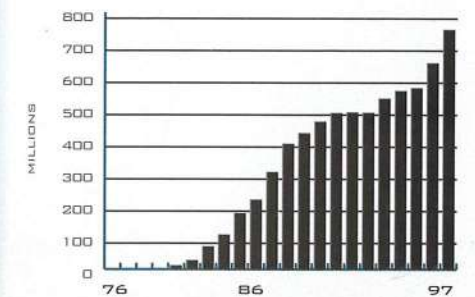
Additionally, the APFC, in partnership with its investment managers, advisors and custodians, provides summer internships to qualified Alaska college students. Over the years, more than a quarter of these interns have gone on to professional careers with various Fund managers.



USE OF FUND INCOME (SINCE INCEPTION)



INCOME PAID OUT FOR DIVIDENDS



The Permanent Fund dividend program puts more money into the state's economy than the total payroll of all but two of Alaska's major industries. Much of that money goes to fund college for students like those of Anchorage Teacher of the Year Bill Ennis (bottom inset), who teaches physics at East Anchorage High School. The APFC's internship program offers on-the-job training for Alaska college students like Ryan Maow of Anchorage (large photo), who spent the summer with Brinson Partners in Chicago, and Brian Blackwell of Juneau, who worked with Beth Stehn from KPMG Peat Marwick on the APFC's annual audit. Beth is a former APFC intern. The Fund's newest Trustee is Jim Sampson (top inset), a former Commissioner of Labor, who is Mayor of the Fairbanks North Star Borough.

Since its creation more than 20 years ago, the Fund has grown into a \$22.1 billion asset that has earned Alaskans more than \$16.1 billion in net income.

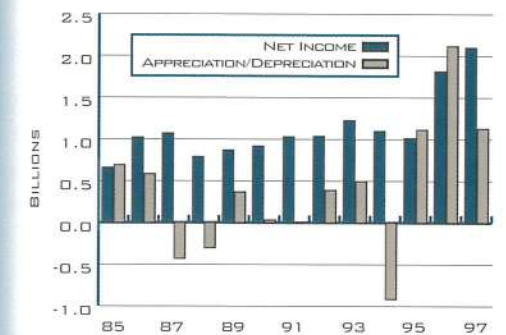
By legislative mandate, the Fund must be conservatively invested to safeguard its principal while maximizing its return within acceptable levels of risk. While the Fund's initial investments were limited entirely to U.S. government bonds, the Legislature has expanded the Fund's authorized list of investments at the Trustees' request.

Today, the list allows diversification into top-rated stocks in the U.S. and around the world, substantially leased real estate properties around the U.S. and investment-grade and domestic and international bonds. This additional investment authority helps build and protect the Fund over the long term.

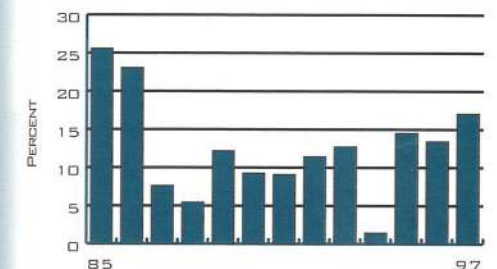
The opportunity to earn higher income comes with increased risk and greater volatility of returns. The Fund has experienced this volatility in the past, as indicated by historic Fund total returns that range from a high of 25.6 percent in 1985 to a low of 1.5 percent in 1994.

There is no such thing as a market that only goes up, and in future years Alaskans can expect annual returns that more closely approximate the Trustees' long-term goal of growth of 4 percent above inflation.

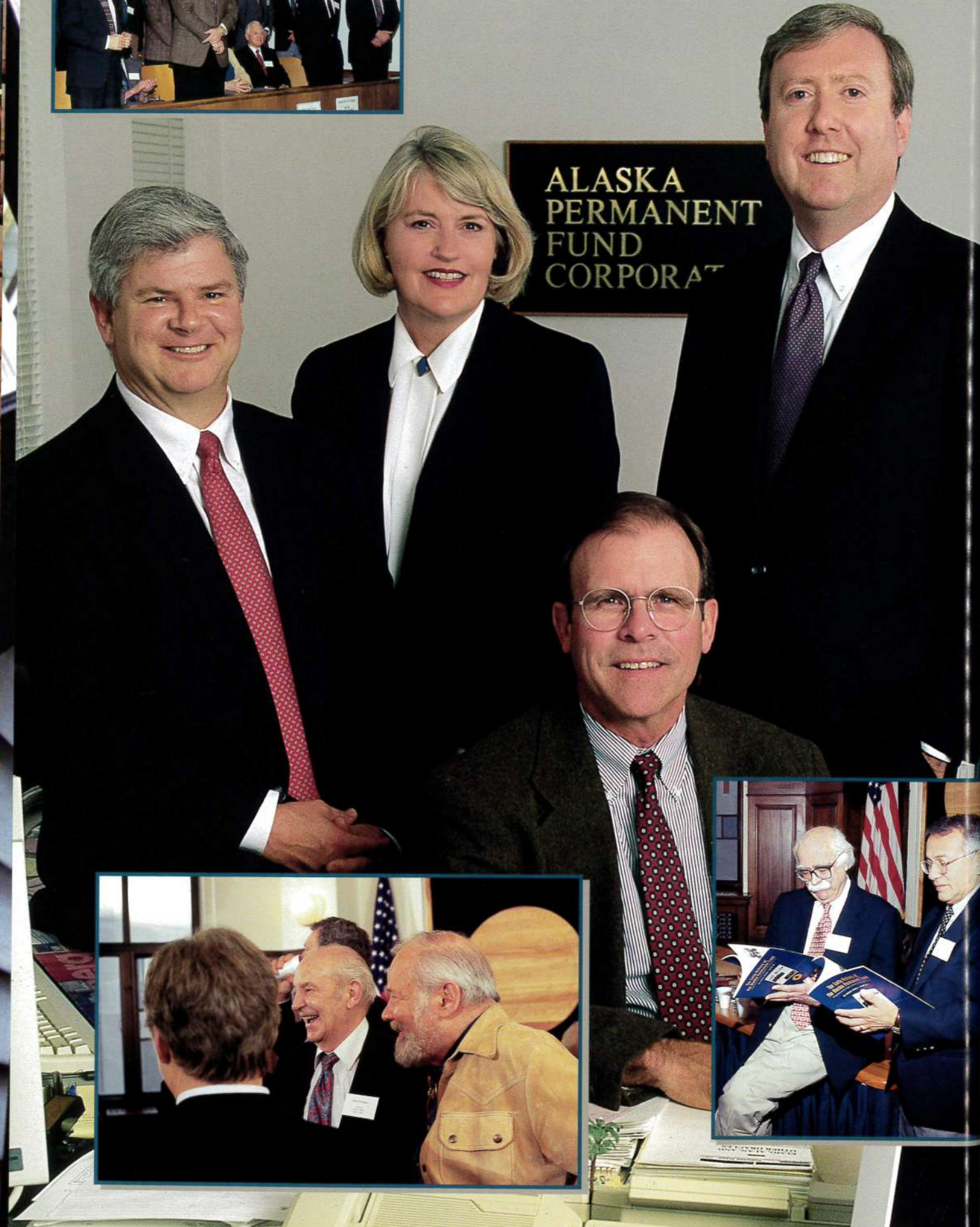
REALIZED AND UNREALIZED INCOME (BY FISCAL YEAR)



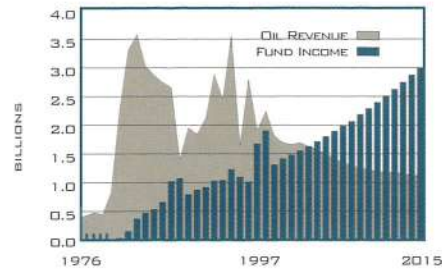
PERMANENT FUND'S TOTAL RETURN (BY FISCAL YEAR)



The Trustees' directive to manage the Fund's assets with professional excellence and integrity establishes the performance standards for the APFC's management. From left: Jim Kelly, Director of Communications; Alison Browne, Director of Administration; Terry A. Brown, the Fund's Chief Investment Officer; and Peter A. Bushre, Chief Financial Officer. The APFC sponsored a number of special events and publications to commemorate the 20th anniversary of the Fund's creation, including a special celebration in Juneau that brought together four former Governors and many of the Fund's former Trustees and staff. Among those who participated were former Legislator and Trustee Oral Freeman, and former Governor Jay Hammond (bottom left inset). The Alaska Legislature honored the group (top inset), passing a resolution thanking them for their dedicated efforts. Reviewing the special publication, "The Early History of the Alaska Permanent Fund," are George Rogers, one of the APFC's original Trustees, and Emil Notti, a Trustee in the mid-1980s.



PERMANENT FUND INCOME AND STATE OIL REVENUE



This graph shows the relationship between unrestricted state oil revenues and actual Fund earnings. The projections for the years 1997-2015 are based on Department of Revenue's mid-case forecast for future oil prices, and the APFC's forecast for future Fund earnings.

THE PERMANENT FUND AND ALASKA'S FUTURE

In the Fund's 20th Anniversary year, Alaskans reflected on this uniquely shared public resource, and talked about how best to balance the needs of today with those of the future.

The anniversary is over but the discussion continues. The Alaska Humanities Forum, along with more than a dozen corporations and nonprofit organizations, including the APFC, is sponsoring a statewide public outreach and education effort to help Alaskans better understand the Fund's purpose and potential.

The project begins Nov. 21 and 22, 1997 in Anchorage with a two-day conference titled "Principles & Interests: The Permanent Fund and Alaska's Future." Conference highlights include:

- What every stakeholder should know
- How the Fund and dividends impact Alaska
- Opportunities and obligations of public wealth
- Alaskans debating the future role of the Fund

The conference will be followed by town meetings throughout the state, and the project concludes with a gathering of Alaskans in Anchorage, televised statewide. Several media outlets have pledged ongoing coverage of the project, and an in-depth examination of some of the fundamental questions Alaskans face about the future of the Fund.

All activities of the Permanent Fund project are free and open to the public.

The APFC invites all Alaskans to participate in these crucial discussions as it is up to you – and your elected representatives – to make the public policy decisions that will drive the Fund for the next 20 years.



Recently, several legislators, Fund Trustees and staff traveled to New York to discuss strategic investment and management issues facing the APFC. Shown here on Wall Street are, from left, Peter Naoroz, Real Estate Investment Officer; Terry Brown, Chief Investment Officer; Sen. Bert Sharp, Co-Chair, Senate Finance Committee; Trustee Clark Gruening; Trustee Jim Sampson; Trustee Melphine Evans; Peter Bushre, Chief Financial Officer; Trustee Eric Wohlforth; Jim Kelly, Director of Communications; Rep. Gene Therriault, Co-Chair, House Finance Committee; and Sen. Dave Donley, Senate Finance Committee.

The Board of Trustees
Alaska Permanent Fund Corporation
(A Component Unit of the State of Alaska)

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, 1997 and 1996, 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, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

August 7, 1997
Anchorage, Alaska

STATEMENTS OF ASSETS, LIABILITIES, PRINCIPAL AND EARNINGS RESERVE

	JUNE 30,	
	1997	1996
ASSETS		
Cash and temporary investments	\$ 1,868,820,000	605,622,000
Receivables, prepaid expenses and other assets	668,709,000	274,102,000
Investments —		
Marketable debt securities	7,816,325,000	8,078,459,000
Preferred and common stock	7,531,363,000	7,112,458,000
Real estate	1,321,562,000	1,404,621,000
Alaska certificates of deposit	141,000,000	143,000,000
Total investments	16,810,250,000	16,738,538,000
TOTAL ASSETS	\$ 19,347,779,000	17,618,262,000
LIABILITIES		
Accounts payable	\$ 291,043,000	319,556,000
Science and Technology Endowment Fund	118,386,000	112,685,000
Alaska Mental Health Trust Fund	258,255,000	230,689,000
Income distributable to the State of Alaska	748,528,000	646,227,000
TOTAL LIABILITIES	1,416,212,000	1,309,157,000
PRINCIPAL AND EARNINGS RESERVE		
Principal	17,794,622,000	16,176,160,000
Principal held in escrow	32,945,000	29,487,000
Earnings reserve	104,000,000	103,458,000
TOTAL PRINCIPAL AND EARNINGS RESERVE	17,931,567,000	16,309,105,000
TOTAL LIABILITIES, PRINCIPAL AND EARNINGS RESERVE	\$ 19,347,779,000	17,618,262,000

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF REVENUES AND EXPENSES

	YEARS ENDED JUNE 30,	
	1997	1996
REVENUES		
Investment income —		
Interest	\$ 595,495,000	574,895,000
Dividends	171,547,000	161,762,000
Real estate and other income	117,800,000	109,303,000
Total investment income	884,842,000	845,960,000
Net realized gains (losses) on —		
Marketable debt securities	8,354,000	67,665,000
Preferred and common stock	1,260,189,000	981,121,000
Real estate	(2,277,000)	(61,241,000)
Foreign exchange contracts	20,459,000	16,481,000
Currency	(36,161,000)	7,968,000
Total net realized gains	1,250,564,000	1,011,994,000
Net unrealized gains (losses) on foreign exchange contracts	(3,113,000)	20,161,000
TOTAL REVENUES	2,132,293,000	1,878,115,000
EXPENSES		
Operating expenses	(29,364,000)	(28,276,000)
Income before other items	2,102,929,000	1,849,839,000
Science and Technology Endowment Fund Earnings	(13,395,000)	(12,324,000)
Alaska Mental Health Trust Fund Earnings	(28,226,000)	(23,949,000)
NET INCOME	\$ 2,061,308,000	1,813,566,000

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN PRINCIPAL AND EARNINGS RESERVE

YEARS ENDED
JUNE 30,

PRINCIPAL

	1997	1996
Balance, beginning of year	\$ 16,176,160,000	13,644,742,000
Dedicated State revenues	308,428,000	263,698,000
State transfer from earnings reserve	803,041,000	1,842,130,000
Inflation-proofing	485,615,000	407,149,000
Settlement earnings	21,378,000	18,441,000
BALANCE, END OF YEAR	\$ 17,794,622,000	16,176,160,000

PRINCIPAL HELD IN ESCROW

Balance, beginning of year	\$ 29,487,000	27,559,000
Escrow earnings	3,458,000	1,928,000
BALANCE, END OF YEAR	\$ 32,945,000	29,487,000

EARNINGS RESERVE

Balance, beginning of year	\$ 103,458,000	1,202,607,000
Escrow earnings	(3,458,000)	(1,928,000)
Appropriation to the Department of Law	(493,000)	(254,000)
State transfer to principal	(803,041,000)	(1,842,130,000)
Net income	2,061,308,000	1,813,566,000
Dividends	(746,781,000)	(642,813,000)
Inflation-proofing	(485,615,000)	(407,149,000)
Settlement earnings	(21,378,000)	(18,441,000)
BALANCE, END OF YEAR	\$ 104,000,000	103,458,000

TOTAL

Balance, beginning of year	\$ 16,309,105,000	14,874,908,000
Dedicated State revenues	308,428,000	263,698,000
Appropriation to the Department of Law	(493,000)	(254,000)
Net income	2,061,308,000	1,813,566,000
Dividends	(746,781,000)	(642,813,000)
BALANCE, END OF YEAR	\$ 17,931,567,000	16,309,105,000

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

YEARS ENDED
JUNE 30,

CASH FLOWS FROM INVESTMENTS

	1997	1996
Net (purchases), sales and maturities of investments —		
Marketable debt securities	\$ 250,420,000	(941,781,000)
Preferred and common stock	(418,905,000)	(1,350,155,000)
Real estate	99,858,000	(9,318,000)
Alaska certificates of deposit	2,000,000	(26,800,000)
Net change in unsettled trades	(455,543,000)	197,466,000
Total net (purchases), sales and maturities	(522,170,000)	(2,130,588,000)
Investment income received	2,148,779,000	1,854,913,000
Amortization	19,902,000	15,723,000
Undistributed real estate income	(16,799,000)	38,527,000
NET CASH PROVIDED (USED) BY INVESTMENTS	1,629,712,000	(221,425,000)

CASH FLOWS FROM NON-CAPITAL FINANCING

Contributions from the State	315,841,000	253,856,000
Income distributions	(644,973,000)	(569,557,000)
Contributions from other Funds	414,000	206,770,000
Distributions to other Funds	(7,729,000)	(6,286,000)
NET CASH USED BY NON-CAPITAL FINANCING	(336,447,000)	(115,217,000)

CASH FLOWS FROM OPERATIONS

Net increase (decrease) in cash and temporary investments		
Cash and temporary investments at beginning of year	1,263,198,000	(362,226,000)
	605,622,000	967,848,000
CASH AND TEMPORARY INVESTMENTS AT END OF YEAR	\$ 1,868,820,000	605,622,000

RECONCILIATION OF NET INCOME TO NET CASH USED BY OPERATIONS

Net income	\$ 2,061,308,000	1,813,566,000
Adjustments to reconcile net income to net cash used by operations —		
Investment earnings	(2,132,293,000)	(1,878,115,000)
Net change in prepaid expenses and accrued liabilities	(703,000)	2,692,000
Earnings of other funds	41,621,000	36,273,000
NET CASH USED BY OPERATIONS	\$ (30,067,000)	(25,584,000)

The accompanying notes are an integral part of the financial statements.

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 21 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 U.S. 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, 1997 and 1996, 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

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. 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.

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.

SECURITIES TRANSACTIONS

Securities transactions are recorded on a trade date basis.

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.

3. CASH AND TEMPORARY INVESTMENTS

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

	1997	1996
Operating account (a)	\$ 74,000	62,000
Cash management accounts (b)	103,567,000	53,665,000
U.S. agencies (c)	33,896,000	84,340,000
Treasury bills (c)	2,498,000	9,486,000
Commercial paper (d)	1,728,785,000	458,069,000
Total Cash and Temporary Investments	\$ 1,868,820,000	605,622,000

(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 custodian in the name of the Fund. Not considered an investment nor assigned a specific risk category.

(c) Debt obligation guaranteed by the U.S. government.

(d) 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:

	1997	1996
Interest receivable	\$ 138,577,000	152,589,000
State dedicated revenues receivable	38,208,000	45,620,000
Securities sold	455,873,000	49,473,000
Dividends receivable	18,660,000	18,165,000
Foreign exchange contracts	17,285,000	8,149,000
Prepaid expenses	106,000	106,000
Total Receivables, Prepaid Expenses and Other Assets	\$ 668,709,000	274,102,000

5. MARKETABLE DEBT SECURITIES

The Corporation is authorized by statute to invest Fund assets in (i) corporate bonds rated investment grade 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 custodian banks in the name of the Corporation on behalf of the Fund.

Marketable debt securities at June 30 are summarized as follows:

	Amortized Cost	Market	Net Unrealized		Yield
			Gains	(Losses)	
1997					
Treasury notes/bonds	\$ 4,342,005,000	4,352,081,000	10,076,000		6.41%
Mortgage-backed securities	229,136,000	232,617,000	3,481,000		6.73
Other federal agencies	374,105,000	370,804,000	(3,301,000)		6.84
Corporate bonds	2,684,352,000	2,710,335,000	25,983,000		7.48
Non-domestic bonds	186,727,000	190,031,000	3,304,000		8.57
Total Marketable Debt Securities	\$ 7,816,325,000	7,855,868,000	39,543,000		6.65%
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%

COMPOSITION OF CORPORATE BONDS

Banks	14%
Finance & Insurance	33
Industrial	30
Oil & Coal	5
Telephone	11
Transportation	3
Electric Utilities	3
Gas Utilities	2

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.

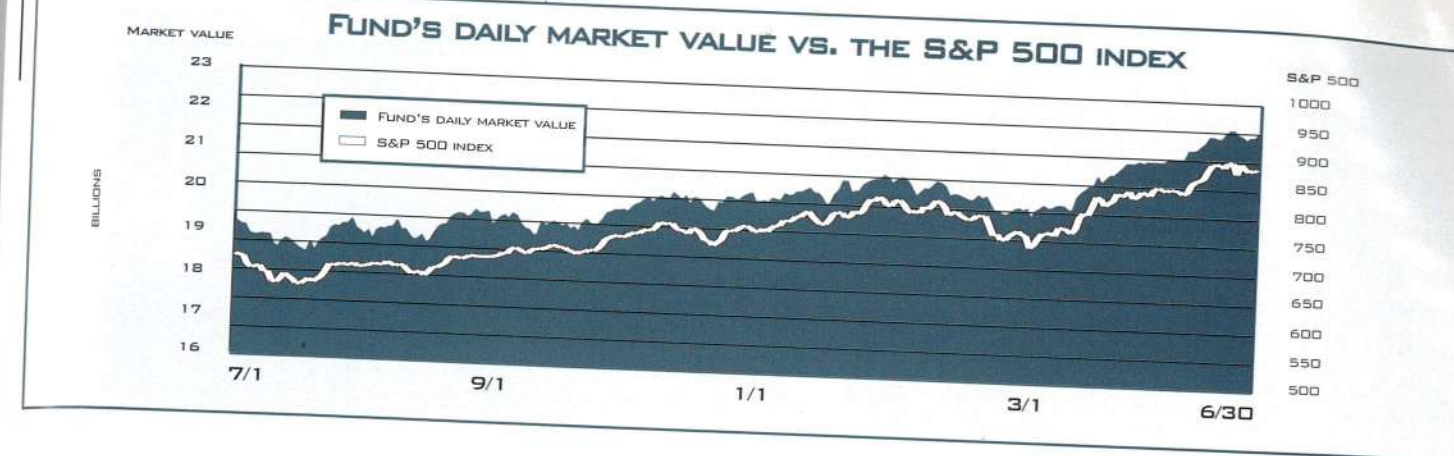
Preferred and common stock at June 30 are summarized as follows:

	Cost	Market	Net Unrealized	
			Gains	(Losses)
1997				
Domestic	\$ 5,426,246,000	8,069,718,000	2,643,472,000	
Non-domestic	2,105,117,000	2,607,723,000	502,606,000	
Total Preferred and Common Stock	\$ 7,531,363,000	10,677,441,000	3,146,078,000	
Net domestic security gains			\$2,643,472,000	
Net non-domestic security gains			606,974,000	
Net currency losses			(104,368,000)	
Total Net Unrealized Gains			\$3,146,078,000	
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	

PERMANENT FUND'S 15 LARGEST STOCKS

(Market value at June 30, 1997, in millions)

Eli Lilly & Co	\$140.3
Merck & Co.	139.0
General Electric	137.8
Microsoft	134.3
Philip Morris	134.2
IBM Corp.	115.3
Pfizer Inc.	115.3
Intel Corp.	90.1
American International	84.3
Warner Lambert	80.9
Coca Cola	78.9
Gillette Co.	78.4
Citicorp	74.8
Colgate Palmolive	72.9
Xerox Corp.	72.5



7. REAL ESTATE

The Corporation is authorized by statute to invest Fund assets in real estate improved by substantially rented buildings located in the U.S. 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 100 percent of the beneficial ownership interest in real estate investments not exceeding \$150,000,000 and may hold up to 67 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 \$7,394,000 during 1997, due to the permanent impairment of value of two properties.

Real estate investments at June 30 are summarized as follows:

	Book Value	Market	Net Unrealized	
			Gains	(Losses)
1997				
Commingled funds				
Real estate investment trusts	\$ 50,016,000	53,052,000	3,036,000	
Alaska residential mortgages	62,162,000	68,107,000	5,945,000	
Direct investments -	228,000	228,000	-	
Retail				
Office	403,027,000	412,046,000	9,019,000	
Industrial	338,715,000	341,327,000	2,612,000	
Residential	171,662,000	179,215,000	7,553,000	
	295,752,000	314,796,000	19,044,000	
Total Real Estate	\$ 1,321,562,000	1,368,771,000	47,209,000	
1996				
Commingled funds				
Real estate investment trusts	\$ 64,552,000	58,121,000	(6,431,000)	
Alaska residential mortgages	62,162,000	67,873,000	5,711,000	
Direct investments -	443,000	443,000	-	
Retail				
Office	440,547,000	460,053,000	19,506,000	
Industrial	342,686,000	346,157,000	3,471,000	
Residential	178,357,000	179,611,000	1,254,000	
	315,874,000	333,108,000	17,234,000	
Total Real Estate	\$ 1,404,621,000	1,445,366,000	40,745,000	

SUMMARY OF REAL ESTATE INVESTMENTS

PROPERTY TYPE	LOCATION	PROPERTY TYPE	LOCATION
INDUSTRIAL		RESIDENTIAL (CONT.)	
Alameda Industrial Properties	Hayward, California	Huntington of N. Dallas	Dallas, Texas
Tech Properties	Redmond, Washington	Hunt's View Apartments	Greensboro, North Carolina
Blue Ash Business Park	Blue Ash, Ohio	Innesbrook Apartments	Durham, North Carolina
Dallas Industrial Portfolio	Dallas, Texas	Island Club Apartments	Miami, Florida
Eastpoint Associates	Dallas, Texas	Lakefront Apartments	Orlando, Florida
Ericsson Counterpoint	Richardson, Texas	Lemay Lake Apartments	Eagan, Minnesota
Harman International	Los Angeles, California	Lexington Farms Apts.	Raleigh, North Carolina
International Place	Richardson, Texas	Logan's Mark	Irving, Texas
MIW-OPUS Properties	MN, WI, MI, IL, IN	Mill Pond & Conifer Creek	Aurora, Colorado
Northgate Business park	Garland, Texas	Oakwood Apartments	Orlando, Florida
Sand Lake West	Orlando, Florida	Ontario Place	Chicago, Illinois
Southgate Business Park	Lanham, Maryland	Overlook Apartments	Albuquerque, New Mexico
OFFICE		Park at Wells Branch Apts.	Austin, Texas
1010 Arapaho	Richardson, Texas	Polo Club Apartments	Strongsville, Ohio
135 East 57th Street	New York, New York	Preston Village Apts.	Dallas, Texas
1701 K Street	Washington, D.C.	Remington Station Apts.	Westerville, Ohio
4111 Northside Parkway	Atlanta, Georgia	Riverbend Apartments	Atlanta, Georgia
580 Walnut Building	Cincinnati, Ohio	Royal Farms Apartments	Salt Lake City, Utah
919 North Michigan	Chicago, Illinois	Sawgrass Apartments	Corpus Christi, Texas
ARAMARK Tower	Philadelphia, Pennsylvania	Siesta Key & Cedar Key	Davie & Deerfield Beach, Florida
Arboretum Lakes	Lisle, Illinois	Skyler Ridge Apartments	Overland Park, Kansas
Frontier Building	Anchorage, Alaska	The Enclave Apartments	Englewood, Colorado
Goldbelt Place	Juneau, Alaska	The Springs Apartments	Indianapolis, Indiana
One Corporate Plaza	Louisville, Kentucky	The Wyndham	Hampton, Virginia
One O'Hare Center	Rosemont, Illinois	Tree Tops Apartments	West Chester, Pennsylvania
Tower Center II	East Brunswick, New Jersey	Tuscany Bay Apartments	Orlando, Florida
Union Bank of CA Center	Sacramento, California	Villages of Forest Ridge	Charlotte, North Carolina
Warner Center Properties	Woodland Hills, California	Waterford Place Apts.	Woodinville, Washington
Westwood Place	Los Angeles, California	Williamsburg Apartments	Dallas, Texas
POOL		Zia Vista Apartments	Santa Fe, New Mexico
Aetna Fund I	Nationwide	RETAIL	
Cigna Fund S	Nationwide	120 East 87th Street	New York, New York
JMB II	Nationwide	Builder's Square II	Houston, Texas
JMB III	Nationwide	Commons at Willowbrook	Houston, Texas
REIT CPI Fund	Nationwide	Danada Centers	Wheaton, Illinois
RESIDENTIAL		Darien Towne Center	Darien, Illinois
Aspen Hills Apartments	Smyrna, Georgia	Fiesta Mall	Mesa, Arizona
Avalon Park Apartments	Tigard, Oregon	Galleria at Southpointe	Mt. Lebanon, Pennsylvania
Bent Tree Apartments	Centerville, Virginia	McKinley Mall	Hamburg, New York
Bridgewater Apartments	St. Petersburg, Florida	Monroeville Mall	Monroeville, Pennsylvania
Bristol Place Apartments	Tampa, Florida	Oakwood Mall	Enid, Oklahoma
Brookstone Apartments	Chapel Hill, North Carolina	Orland Towne Center	Orland Hills, Illinois
Chatham's Mark	Irving, Texas	Plaza Port West	Ketchikan, Alaska
Colonnade at Willow Bend	Plano, Texas	Tysons Corner Center	McLean, Virginia
Conservatory Apartments	Minnetonka, Minnesota	University Mall	Tampa, Florida
Crystal Creek Apartments	Henderson, Nevada	Villa Marina	Marina del Rey, California
Eastridge Apartments	Midvale, Utah	Westside Pavilion	Los Angeles, California



With its new majority ownership position in Tysons Corner Center near Washington, D.C., the Fund has leveraged its investment to actively promote Alaska, its economic development possibilities and its commerce. Here, Peter Naoro, at right, the APFC's Real Estate Investment Officer, chats with Chuck Cope, the manager of Tysons Corner. Tysons Corner worked with Princess Cruises to give away an Alaska cruise as part of the center's inauguration of its Alaska displays.

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 investments 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:

	1997	1996
Accrued liabilities	\$ 9,128,000	9,830,000
Service fees payable	1,514,000	1,658,000
Foreign exchange contracts payable	21,475,000	-
Securities purchased	258,926,000	308,068,000
Total Accounts Payable	\$ 291,043,000	319,556,000

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:

	1997	1996
Principal	\$ 101,067,000	101,067,000
Undistributed earnings	17,319,000	11,618,000
Total Liability	\$ 118,386,000	112,685,000

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 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:

	1997	1996
Principal	\$ 207,120,000	206,740,000
Undistributed earnings	51,135,000	23,949,000
Total Liability	\$ 258,255,000	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:

	1997	1996
Dividends	\$ 717,635,000	613,343,000
Appropriations to the Departments of -		
Corrections	1,047,000	803,000
Health and Social Services	21,493,000	21,717,000
Revenue	4,486,000	5,317,000
Public Safety	2,119,000	1,633,000
Total to Dividend Fund	746,780,000	642,813,000
Department of Law	1,748,000	3,414,000
Total Income Distributable	\$ 748,528,000	646,227,000

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 \$28,436,000 in 1997 and \$24,305,000 in 1996. Of these amounts, \$7,058,000 and \$5,864,000 during 1997 and 1996 respectively, were added to inflation-proofing. The remaining earnings of \$21,378,000 and \$18,441,000 during 1997 and 1996 respectively, have been added to Fund principal in accordance with law.

TABLE I

	1997	1996
Dedicated State revenues	\$ 6,019,164,000	5,710,735,000
Appropriations from the state	6,609,555,000	5,806,514,000
Inflation-proofing	5,109,674,000	4,624,059,000
Settlement earnings	56,224,000	34,847,000
Citizen contributions	5,000	5,000
Total Principal	\$ 17,794,622,000	16,176,160,000

TABLE II

	1997	1996
Settlement -		
Principal	\$ 184,147,000	176,300,000
Earnings	56,224,000	34,847,000
Inflation-proofing	28,143,000	21,085,000
Total Settlement Principal	\$ 268,514,000	232,232,000

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 27 percent 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, 50 percent 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 25 percent would be allocated to the Fund. If the federal government

wins the dispute, 50 percent 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.

In June 1997, the Supreme Court awarded ownership of all disputed tracts to the federal government. The state has asked the Supreme Court to reconsider its decision. The Corporation will credit the balance of principal held in escrow (including associated interest) to the principal of the Fund or remit such balance to the state, whichever is appropriate, when the Supreme Court issues its final decree.

15. EARNINGS RESERVE

By state law, the balance of Fund net income remaining after the payment of dividends and the provision for inflation-proofing 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.

	1997	1996
Unobligated reserves	\$ 100,000,000	100,000,000
Reserves obligated for earnings on principal held in escrow	4,000,000	3,458,000
Total Earnings Reserve	\$ 104,000,000	103,458,000

16. INVESTMENT INCOME BY SOURCE

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

	1997	1996
INTEREST AND AMORTIZATION		
Marketable debt securities	\$ 529,872,000	533,993,000
Alaska certificates of deposit	7,418,000	5,211,000
Cash and other interest	58,205,000	35,691,000
Total Interest and Amortization	\$ 595,495,000	574,895,000
DIVIDENDS		
Domestic preferred and common stock	\$ 122,593,000	121,216,000
Non-domestic preferred and common stock	48,954,000	40,546,000
Total Dividends	\$ 171,547,000	161,762,000
REAL ESTATE AND OTHER INCOME		
Real estate interest	\$ 4,191,000	7,695,000
Other real estate income	112,894,000	98,860,000
Fees on loaned securities	715,000	2,748,000
Total Real Estate and Other Income	\$ 117,800,000	109,303,000

Under AS 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 30 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 102 percent 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, 1997, there were no loaned securities outstanding. During the years ended June 30, 1997 and 1996, 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:

	1997	1996
Security purchases and sales	\$ (35,367,000)	8,146,000
Dividends	(21,000)	(91,000)
Currency inventory	(773,000)	(87,000)
Net Realized Gains (Losses) on Currency	\$ (36,161,000)	7,968,000

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, 1997, the Fund had net unrealized losses 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.

	1997	1996
Contract amount	\$ 55,847,000	203,543,000
Market value using forward rate at June 30	50,810,000	195,393,000
Net unrealized gains on contracts	\$ 5,037,000	8,150,000
Reversal of prior year	(8,150,000)	12,011,000
Net Unrealized Gains (Losses) Recognized	\$ (3,113,000)	20,161,000

19. OPERATING EXPENSES

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

	1997	1996
Salaries and benefits	\$ 2,373,000	1,983,000
Department of Revenue support	54,000	32,000
Travel	283,000	177,000
Communications	690,000	538,000
Consulting fees	529,000	381,000
Custody and safekeeping fees	3,693,000	3,097,000
Investment management fees	19,949,000	21,158,000
Legal and audit fees	199,000	206,000
Public information and subscriptions	257,000	84,000
Rent	225,000	223,000
Property and equipment	290,000	119,000
Other expenses	822,000	278,000
Total Operating Expenses	\$ 29,364,000	28,276,000

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, 1997 and 1996 amounted to \$2,373,000 and \$1,983,000, 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 13.36% and 14.08% of covered salary expenses in the years ended June 30, 1997 and 1996, 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,	1997	1996
Net income	\$ 2,061,308,000	1,813,566,000
Unrealized (gains) losses on foreign exchange contracts	3,113,000	(20,161,000)
Settlement earnings	(28,436,000)	(24,305,000)
Statutory Net Income	\$ 2,035,985,000	1,769,100,000

This publication on the activities and financial condition of the Alaska Permanent Fund Corporation is submitted in accordance to AS 44.88.210. This report was printed at a cost of \$2.24 per copy on recycled paper in Anchorage, Alaska.

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