

challenge

change

2000

ANNUAL REPORT
ALASKA PERMANENT FUND CORPORATION

The Alaska Permanent Fund: a public trust investing for Alaska's future

The Alaska Permanent Fund is an investment 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 amending the state constitution with a majority vote of the people. Decisions about uses of the earnings are made each year by the people's elected representatives – the Alaska State 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 given to current income. This meets the statutory requirement to provide benefits for both current and future generations of Alaskans.

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about this report

"It is change, continuing change, inevitable change, that is the dominant factor in society today. No sensible decision can be made any longer without taking into account not only the world as it is, but the world as it will be."

— Isaac Asimov



Fiscal 2000 was a year of challenge and change for the Alaska Permanent Fund Corporation (APFC). Trustees chose Bob Storer as the corporation's new executive director following the resignation of Byron I. Mallott. Storer moved rapidly to bring together a new management team to replace the retiring directors of finance, administration, information services and investments. By year's end seasoned veterans occupied the first three spots and a search was on for the fourth.

With markets returning to higher, more traditional levels of volatility, Trustees further diversified the Fund's investment portfolio and increased the equity allocation to 53 percent.

As mergers within industries, cross-border company acquisitions and the democratization of technology drew the world ever closer together, Trustees moved to add value to the Fund by transferring additional assets into global portfolios.

In short, Trustees used the challenge of change to protect the principal, grow the assets and provide benefits for both current and future generations of Alaskans – Alaskans like Harriet Beleal, above, a Tlingit from Wrangell of the Dog Salmon Clan, Raven Moeity, and Jacob Herring of Anchorage, who is Inupiat and Athabaskan.

The first fiscal year of the new century roared in on a wave of volatility that brought challenge and change to the Alaska Permanent Fund Corporation (APFC).

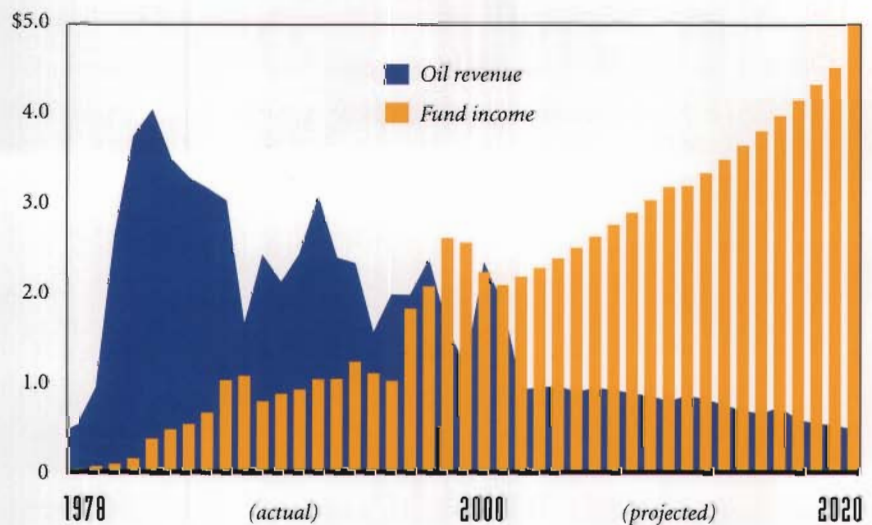
Extraordinary volatility rocked the equity markets as domestic stocks returned to more traditional levels after five straight years of double-digit returns. International stocks surged upward, led by new economy companies. Bonds regained some of their strength during the last half of the year and a remediated real estate portfolio added real value to the Fund's performance.

The Fund lost more than \$200 million on 30 different days during the year, including its biggest one-day paper loss ever when it closed the books on September 17 down \$894 million. The market value of the Fund rose as high as \$28.4 billion during the year and dropped as low as \$24.7 billion.

Fortunately there were more up days than down days, including March 16 when the Fund grew by \$468 million just one week before the Dow Jones Industrial Average closed at a record 11,112.72. By the time the fiscal year closed, the Fund had increased its value to Alaskans by \$1.7 billion and ended the year with a market value of \$28.1 billion.

Fund statutory net income vs. state oil revenue

(Dollars in billions)

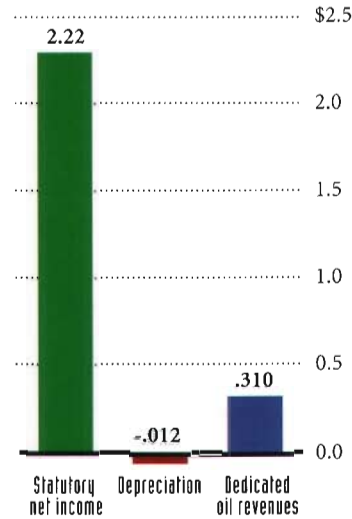


This graph shows the relationship between total state oil revenues and actual Fund earnings. The projections for the years 2001-2020 are based on Department of Revenue's forecast for future oil revenues and the APFC's forecast for future earnings.

Growth of Fund since inception (Dollars in billions, at market value)



Sources of growth (Fiscal year 2000; dollars in billions)



Fund beats benchmarks to return 9.18 percent

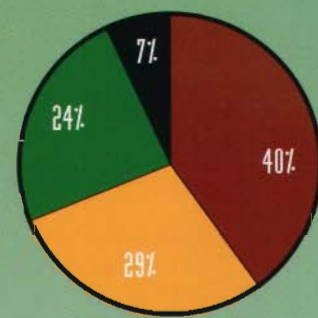
While there will be years in which the Fund earns negative returns, the Fund ended fiscal 2000 with a 9.18 percent return despite two quarters' losses from the domestic stock portfolio. The annual return is less than the Fund's long-term return of 11.83 percent, but greater than the Trustees' five-year projected annualized return of 8.25 percent. Statutory net income totaled \$2.2 billion, which will produce the largest dividend distribution ever, some \$1.2 billion.

The Fund's equity managers beat their benchmarks, with domestic stocks returning 8.66 percent. Small-cap growth stocks experienced a good year, led by Dresdner RCM's small-cap return of 34.31 percent, which was more than double its benchmark. Dresdner's large-cap portfolio returned 40.93 percent, besting its benchmark by almost six times. Over the past 16 1/2 years, Dresdner's domestic portfolio has produced a 20.73 percent return to earn the distinction as the Fund's best-performing manager.

International stocks lead the returns

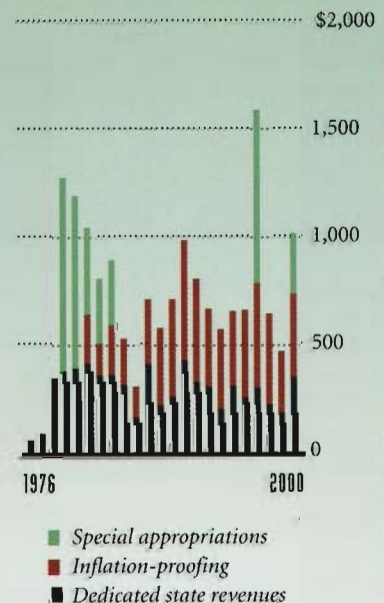
Excellent performances by three Fund managers helped produce a 23.25 percent return for the Fund's international stocks. Capital Guardian's international portfolio earned 38.73 percent, more than double its benchmark. Its emerging markets portfolio ended the year up 29.41 percent. The Fund's two specialty managers – Clay Finlay and Schroders – returned 35.33 and 18.25 percent respectively.

Additions to principal (\$1.1 billion in fiscal 2000)

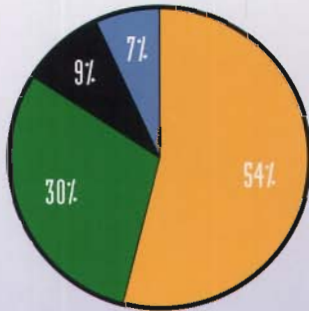


- Inflation-proofing**
\$423 million (40%)
- Dedicated state oil revenues**
\$310 million (29%)
- Special appropriations**
\$250 million (24%)
- Settlement earnings/
transfer from escrow**
\$72 million (7%)

Contributions to principal (\$20 billion since inception) (dollars in millions)

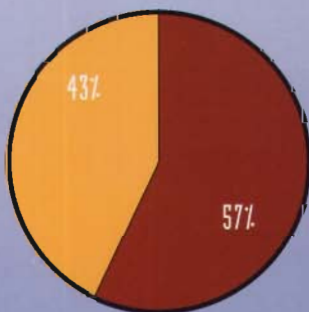


Sources of revenue
(\$2.3 billion in fiscal 2000)



Realized and unrealized capital gains
\$1,241 million (54%)
Interest
\$687 million (30%)
Real estate and other income
\$196 million (9%)
Dividends
\$167 million (7%)

Use of Fund income
(\$23.5 billion since inception)



\$13.4 billion (57%) of Fund income has been saved for future generations and \$10.1 billion (43%) has been paid out to the current generation.

It was a year of recovery in the fixed income markets with the Fund's domestic portfolio returning 3.72 percent. International fixed income faced a challenging year that ended in a -1.73 percent return.

Real estate produced another double-digit year, returning 10.78 percent.

More than \$1 billion added to principal

The people of Alaska, through their elected representatives, appropriated \$745 million to the Fund's principal in fiscal 2000, including \$423 million for inflation-proofing and \$322 million in special appropriations. Extraordinarily high oil prices added another \$310 million to the principal through dedicated oil revenues.

The "permanent" part of the Permanent Fund was reinforced when the legislature refused to take action on a proposal to pay out half the Fund in a large, one-time, final dividend. Legislators also moved to protect the independence of the Fund's Trustees through passage of a proposed constitutional amendment.

New executive director chosen

Fiscal 2000 was a year of change at the APFC, which witnessed a major transition in its management team, a significant realignment in its asset allocation and a renewed emphasis on investment basics.

Trustees chose Bob Storer as the corporation's new executive director following the resignation of Byron I. Mallott. Storer has deep ties to the corporation, working first as a former investment officer and later as a Trustee. Storer's first challenge was to bring together a new management team to

Other Alaska funds under APFC management

(Years ended June 30)

Funds	2000	1999
Alaska Science and Technology Foundation	\$ 117,715,000	\$ 124,887,000
Alaska Mental Health Trust Fund	327,301,000	305,939,000
International Trade and Business Endowment Fund	5,917,000	5,927,000
Total other funds	\$ 450,933,000	\$ 436,753,000

replace the retiring directors of finance, administration and information services, along with the chief investment officer. By year's end, seasoned veterans occupied the first three spots and a search was on for the fourth.

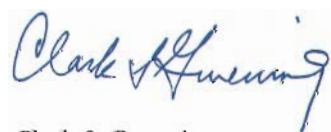
The corporation also prepared to bid adieu to Trustee John Shively who is leaving the administration to spend more time with his family.

Trustees increase equity allocation

Responding to legislative changes and evolving world markets, Trustees increased the equity allocation from 48 to 53 percent and began to study the costs and benefits of investing in alternative investments. As domestic equity markets returned to more historic levels, Trustees moved to better position the Fund to weather poor or negative markets. Additional assets were transferred to international portfolios and two new aggressive growth managers were hired, including McKinley Capital Management of Anchorage, the Fund's second Alaska manager.

With more emphasis on risk and return, the corporation terminated its relationship with one equity manager for non-performance and gave two other equity managers one year to improve their performance. The corporation also reduced the number of real estate managers to control costs and increase return.

Fiscal 2000 turned into a year of major change for the APFC, which met this challenge with a renewed emphasis on the fundamentals and a long-term investment philosophy that yielded substantial benefits for current and future generations of Alaskans.



Clark S. Gruening
Chair, Board of Trustees

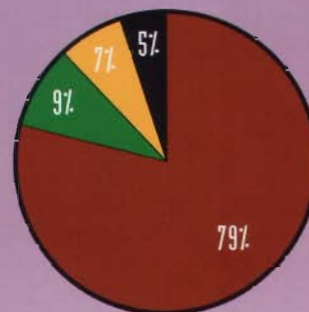


Robert D. Storer
Executive Director



From left to right:
Chair Clark S. Gruening, Vice Chair Melphine Evans, Trustee Wilson L. Condon, Trustee Jim Sampson, Trustee John Shively, Trustee Eric E. Wohlforth and Executive Director Robert D. Storer.

Corporate expenses (Fiscal year 2000)



- Investment management fees**
\$32.8 million (79%)
- Custody and safekeeping fees**
\$2.0 million (5%)
- Salaries and benefits**
\$2.8 million (7%)
- All other**
\$3.8 million (9%)

Expense ratio (Fiscal year 2000)

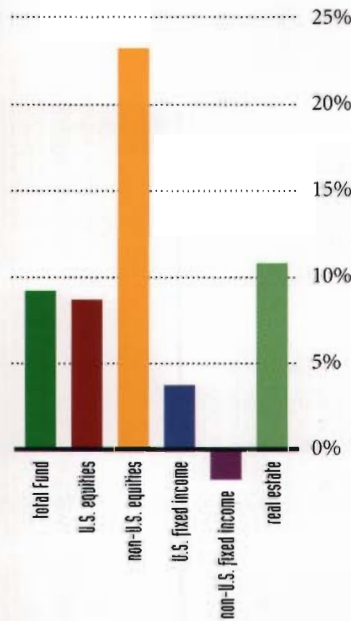


- Operating expenses – \$1.83**
- Profit – \$98.17**
- (Per \$100 of Fund net income)

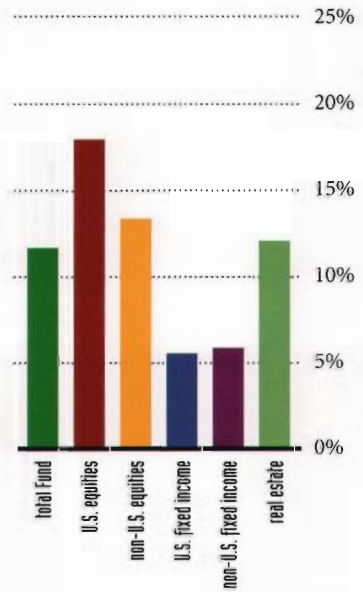
LONG-TERM PERFORMANCE

In anticipation of a return to more historic equity market levels, the Trustees adopted an investment strategy expected to produce an average annual total return of 8.25 percent over a 5-year period. With inflation projected at 3.25 percent, the real, after inflation return for the Permanent Fund is projected to average 5 percent annually.

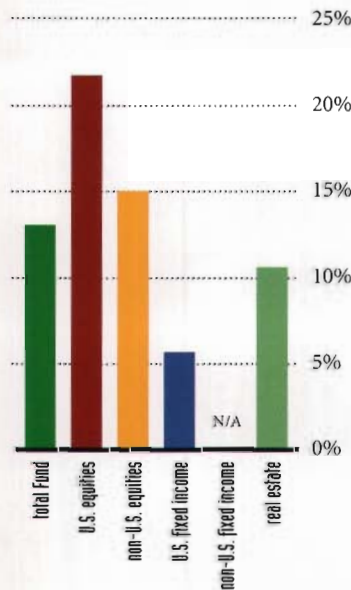
1-year returns
(Year ended June 30, 2000)



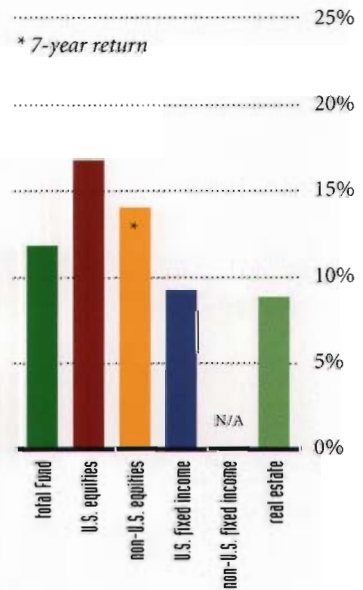
Average annual 3-year returns
(Years ended June 30, 2000)



Average annual 5-year returns
(Years ended June 30, 2000)



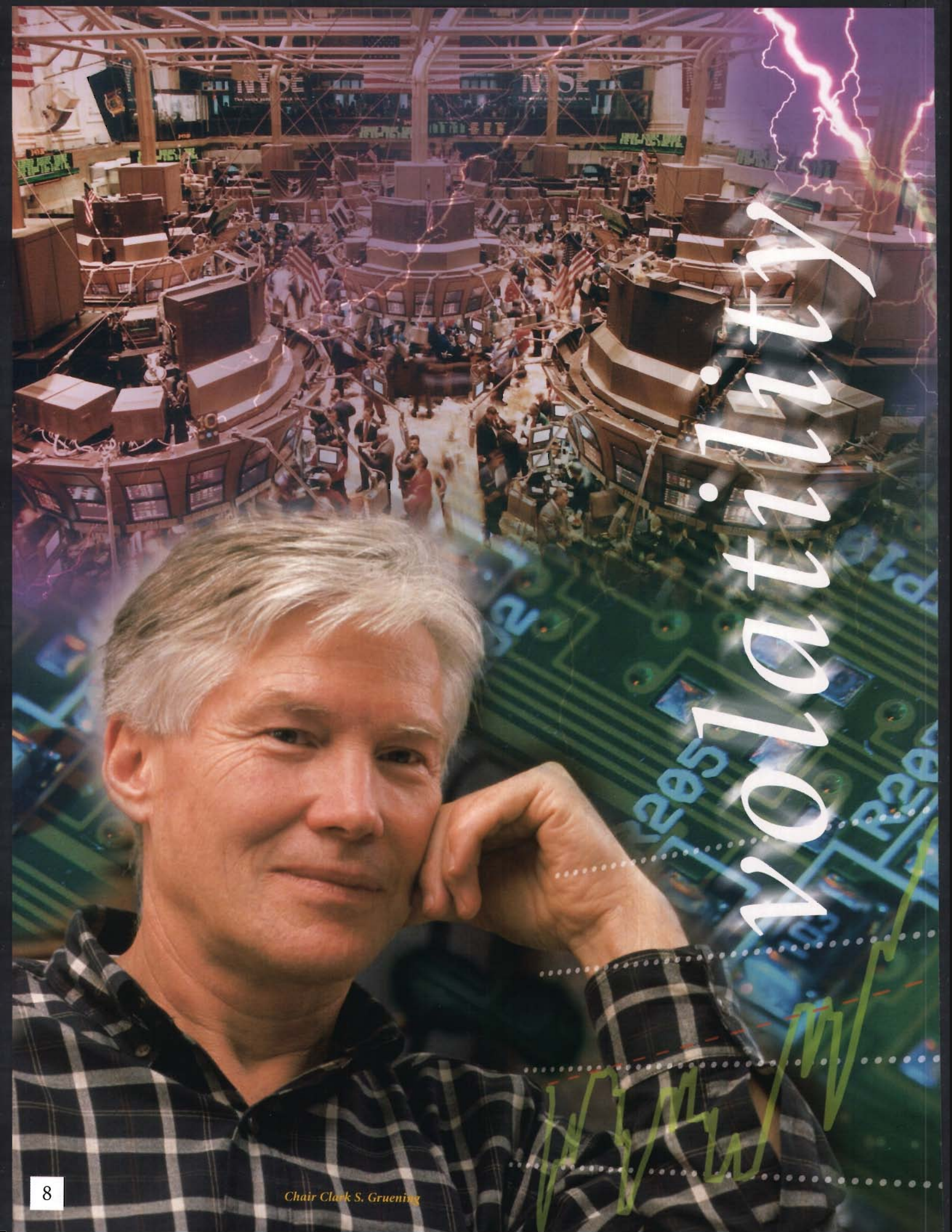
Average annual 16.5-year returns
(Years ended June 30, 2000)



ASSET ALLOCATION

Dollars in millions, as of June 30, 2000
(including cash held by managers)

	Market value	Percent of total Fund
Active equity		
<i>Domestic managers</i>		
Alliance Capital Management	\$ 213	0.76%
Ark Asset Management	265	0.94
Brinson Partners	359	1.27
Capital Guardian (small-cap)	584	2.07
Dresdner RCM (large-cap)	1,523	5.40
Dresdner RCM (small-cap)	511	1.81
INVESCO Capital Management	518	1.84
Lazard Frères	551	1.95
McKinley Capital Management	240	0.85
Putnam Investments	896	3.17
Total – domestic managers	\$ 5,660	20.06%
<i>Non-U.S. Managers</i>		
Brinson Partners	291	1.03
Capital Guardian	722	2.56
Capital Guardian (emerging markets)	380	1.35
Clay Finlay (Europe)	966	3.42
Dresdner RCM	227	0.81
Lazard Frères	537	1.90
Schroders Capital Management (Pacific Rim)	240	0.85
Schroders (emerging markets)	285	1.01
Total – non-U.S. managers	\$ 3,648	12.93%
Total active equity	\$ 9,308	32.99%
Passive equity		
Deutsche Asset Management S&P 500	\$ 3,622	12.84%
Deutsche Asset Management S&P 1000	827	2.93
Deutsche Asset Management EAFE	1,329	4.71
Total passive equity	\$ 5,778	20.48%
Total – all equity managers	\$ 15,086	53.47%
Fixed income		
APFC internal	\$ 9,008	31.93%
Alaska Permanent Capital Management	222	0.79
Brinson Partners	276	0.98
Sanford Bernstein	314	1.11
Julius Baer	271	0.96
Rogge Global Partners	331	1.17
Alaska CD's	157	0.55
Total – all fixed-income managers	\$ 10,579	37.49%
Real estate		
<i>Direct</i>		
AEW Capital Management	\$ 187	0.66
CB Richard Ellis	369	1.31
Heitman Property	64	0.23
Henderson Investors	74	0.26
Kennedy Property	239	0.85
L&B Property	321	1.14
LaSalle Property	221	0.78
Sentinel I & II	193	0.68
SSR Realty Advisors	6	0.02
Total real estate – direct	\$ 1,674	5.93%
<i>Other</i>		
Commingled	\$ 19	0.07
REITs	559	1.98
Mortgages/CMBS	296	1.05
Total real estate – other	\$ 874	3.10%
Total – all real estate managers	\$ 2,548	9.03%



Innovation

The swings were dramatic. Fifty-eight days in which the Fund either gained or lost \$200 million. Down \$894 million one day. Up \$702 million another. The Fund dropped in value \$1.4 billion the week of April 10 and rose in value \$1.5 billion the week of May 30.

The technology-heavy Nasdaq lost nearly 30 percent of its value before a partial recovery in June helped stem the fall at -13.3 percent. The Dow experienced a 16 percent correction in the third quarter. The S&P 500 ended the last half of fiscal 2000 in negative territory.

While periodic market corrections are inevitable – and frequently healthy over the long-term – they can challenge even the most focused, long-term investor.

The Board's asset allocation policy balances the risks of negative returns in the short term against the rewards of higher positive returns over the long term.

Short-term negative returns will surely occur. Nonetheless, the Board assures the Alaska public that short-term losses will not lead to the abandonment of the Fund's commitment to long-term investment goals. * * *



The mission of the Alaska Permanent Fund Corporation is to maximize the value of Alaska's oil revenues through prudent long-term investment and protection of principal to produce income to benefit all current and future generations of Alaskans.

Strong earnings growth ran headlong into the Federal Reserve Board, which raised interest rates from 4.75 percent on July 1, 1999 to 6.50 percent by June 30, 2000. The market fluctuated as opinions varied as to how high interim rates would go and when the Fed would stop raising rates. Domestic equity markets struggled during the first and fourth quarters but performed well in the second and third quarters. The S&P 500 closed the year up 7.24 percent.

Growth-oriented stocks again outperformed value stocks across small-, mid- and large-capitalization tiers. In a reversal of recent years past, large-cap stocks underperformed small- and mid-cap stocks as the S&P 1000 returned 16.56 percent.

The technology sector dominated returns for both indexes. The closest competitor to technology's 10.3 percent return in the S&P 500 was health care at a mere 1.7 percent.

The Nasdaq suffered through a technology correction the second half of the year that saw its value fall by more than 20 percent. One precipitating factor was a federal court ruling in April which opined that Microsoft had violated the Sherman Antitrust Act. Microsoft's shares fell more than \$15, reducing the company's value by \$70 billion. As of June 30, the Fund owned 356,100 shares of Microsoft with a book value of \$31.8 million and a market value of \$24.9 million.

The Fund's domestic equities portfolio earned 8.66 percent, led by Dresdner RCM, the Fund's highest-performing manager. Dresdner earned 40.93 percent in fiscal 2000, an extraordinary 33.69 percentage points more than its benchmark. The manager has returned 20.73 percent over the past 16.5 years. Dresdner's small-cap portfolio finished the year up 34.31 percent, beating its target by 17.75 points.

APFC adds second Alaska manager

A fiscal 1999 decision to hire a core active growth manager produced strong returns for fiscal 2000. Putnam Investments ended the year up 16.61 percent against its benchmark of 7.24 percent.

Trustees and staff spent much of the year focused on ways to increase diversification and improve performance. One example was the search for a new aggressive growth, large-cap manager. The Board liked the two finalists – McKinley Capital Management of Anchorage and Alliance Capital Management of New York City – so well it decided to hire both last fall and funded them in December. McKinley's investment style worked particularly well during much of the second half of the year and it earned 13.25 percent, growing its initial \$200 million in funding by \$40 million.

Value managers experience negative year

Key Asset Management, a mid-cap value manager since 1994, failed to meet its performance target and was terminated. Two other value managers – Ark Asset Management and Brinson Partners – were given one year to improve performance relative to their peers. Brinson was the top performer during the fourth quarter but finished the year -15.88 percent. Ark ended the year -21.75 percent.

Trustees also authorized a search for an enhanced S&P index manager. Enhanced indexing aims to increase return with a minimal increase in risk, management efforts and resources.

The corporation moved \$600 million from large-cap active managers to Deutsche Asset Management's S&P 500 index portfolio to rebalance the equity portfolio's active/passive ratio. Passive management is more cost effective, with fees a fraction of those charged by active managers. The Fund's passive S&P 500 portfolio has earned 17.44 percent over the past 16.5 years and its S&P 1000 portfolio has returned 17.71 percent over the last three years.

The Fund's U.S. stock portfolio had a market value of \$10.3 billion as of June 30, 2000 and included \$2.8 billion of unrealized gains.

Domestic equities managers' performance

(As of June 30, 2000)

Managers	1-year return	1-year benchmark	5-year return	5-year benchmark
Alliance Capital	1.19% *	-0.43% *	—	—
Ark Asset	-21.75	7.24	11.17	23.80
Brinson Partners	-15.88	7.24	14.10	23.80
Capital Guardian (small-cap)	20.34	14.32	—	—
Deutsche Asset Mgt. S&P 500	7.43	7.24	23.76	23.80
Deutsche Asset Mgt. S&P 1000	17.17	16.56	—	—
Dresdner RCM (large-cap)	40.93	7.24	32.63	23.80
Dresdner RCM (small-cap)	34.31	14.32	—	—
INVESCO	-10.91	7.24	15.11	23.80
Lazard Frères	-10.97	7.24	16.46	24.10
McKinley Capital	13.25 *	-0.43 *	—	—
Putnam Investments	16.61	7.24	—	—
Combined Return	8.66%		21.77%	

Benchmark returns

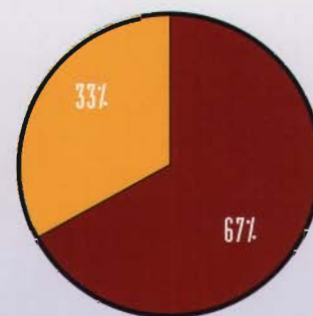
S&P 500 Index	7.24%	23.80%
S&P 1000 Index	16.56	19.56
Russell 2000	14.32	14.28
S&P 500 Index (1/2 year)	-0.43	—

* 1/2 year only

Returns for periods greater than one year are annualized.

Stock diversification by location

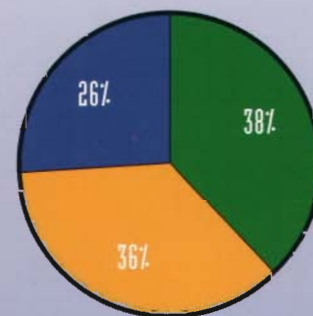
(June 30, 2000)



U.S. equities (67%)
Non-U.S. equities (33%)

Stock diversification by manager

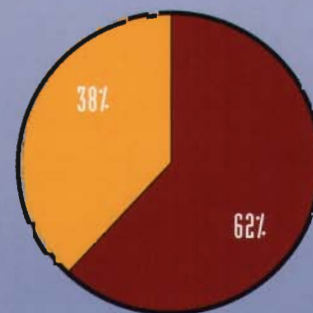
(June 30, 2000)



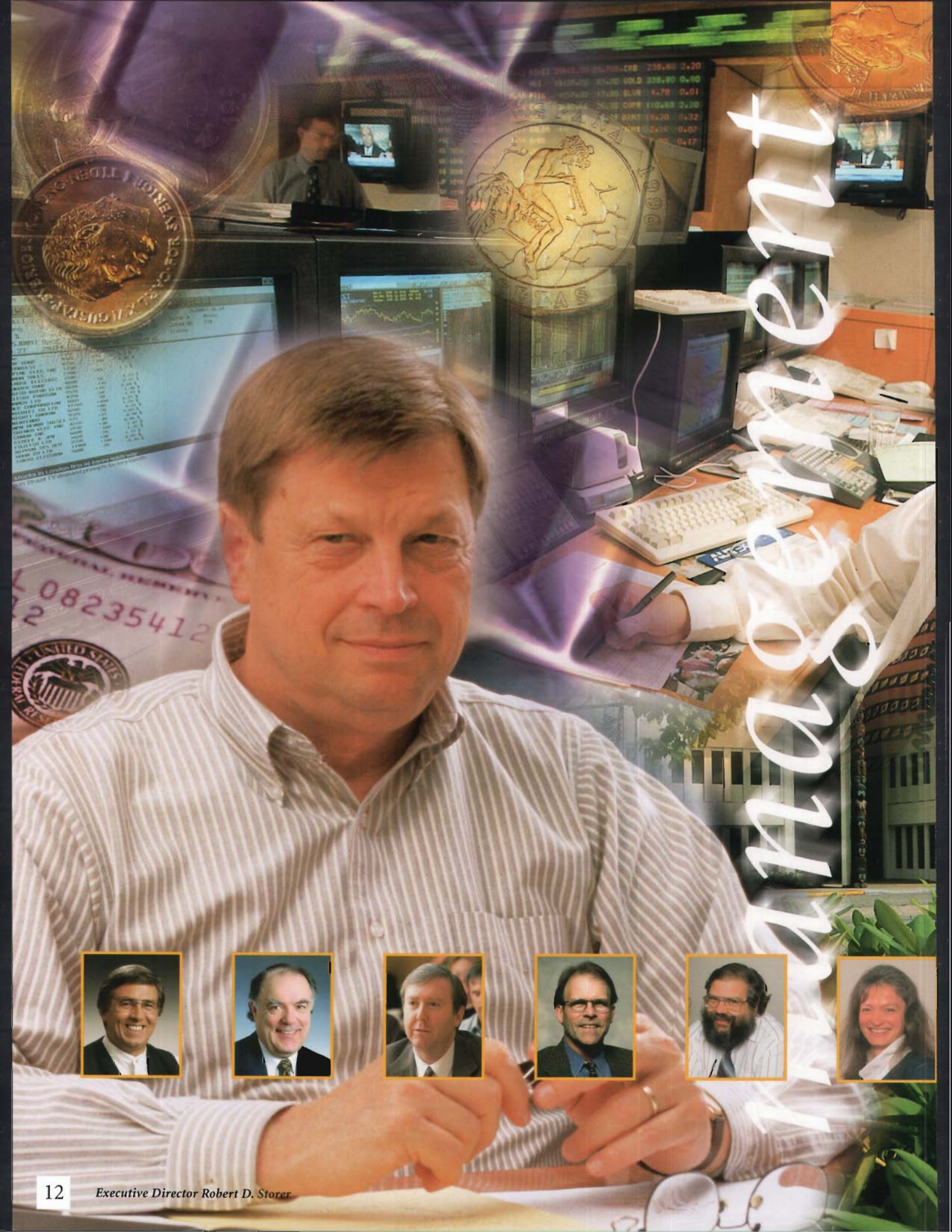
Domestic managers (38%)
Global managers (36%)
Non-U.S. managers (26%)

Stock diversification by style

(June 30, 2000)



Active managers (62%)
Passive managers (38%)



Investment



Fiscal 2000 was a year of change for the corporation – an opportunity to refocus and review its mission.

The resignation of its executive director and the retirements of four members of the management team brought a renewed emphasis on the fundamentals of management and investment. And it allowed the Trustees to reach backwards to select the man who will help lead the APFC forward.

When Byron I. Mallott announced his resignation last winter after five years as executive director, Trustees moved swiftly to find a successor. Their choice was Robert D. Storer, who served nine years as an APFC investment officer and briefly as a Trustee. Storer spent the last eight years as Chief Investment Officer for the state Department of Revenue, Treasury Division, where he supervised the management of 18 public funds totaling more than \$19 billion.

As the APFC management evolved, so, too, did some external managers. Caught up in the international wave of mergers and acquisitions, the parent companies of three APFC real estate managers were sold to overseas firms. ❁ ❁ ❁

(Pictured from left to right)

Departures

Byron I. Mallott
Executive Director, '95-'99; Trustee, '82-'91

John Shively
Trustee, '99-'00

Peter Busire
Chief Financial Officer, '83-'99

Terry Brown
Chief Investment Officer, '92-'00

David Riccio
Information Technology Manager, '93-'99

Pat Belec
Director of Administration, '98-'00

Arrivals

Robert D. Storer *(pictured above left)*
Executive Director

Chris Phillips, CFA
Director of Finance

Robert Bartholomew
Director of Administration

William Johnson
Director of Information Technology



NON-U.S. STOCKS

Global equity markets registered good returns overall as the U.S. economy showed few signs of slowing down and the rest of the world, particularly in Asia and Europe, benefited from recoveries in economic growth.

The Fund's non-U.S. stock portfolio earned 23.25 percent during the year, almost 10 percentage points more than its seven-year average of 14.04 percent.

The MSCI EAFE Free index returned 17.11 percent for the year, with much of its strength concentrated in telecommunications. Clay Finlay, the Fund's Europe specialist, ended the year with earnings of 35.33 percent, besting its benchmark, the MSCI Europe Index, by more than 20 percentage points.

Japan continued to recover, albeit at a slow pace. The Pacific region as a whole struggled due to higher global interest rates and rising commodity prices. The Fund's Pacific Rim specialist, Schrodgers, earned 18.25 percent during the year, exceeding its benchmark by almost 5 points. This is the healthiest return in years for a portfolio that has averaged a 1.81 percent return over the past five years, compared to its benchmark of -1.28 percent.

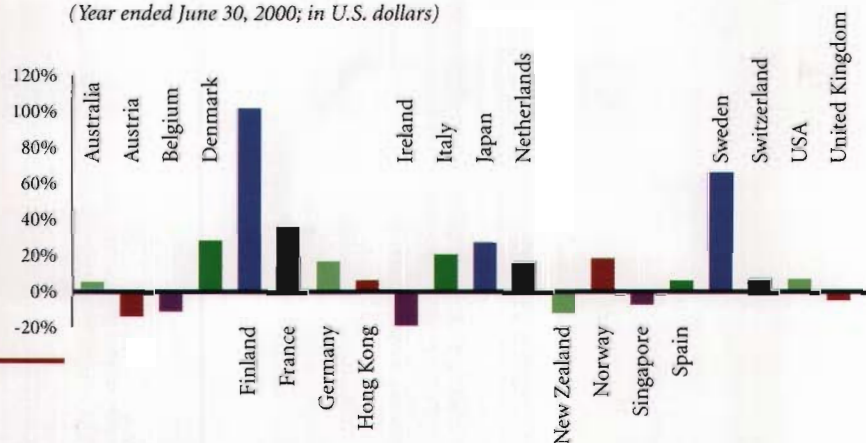
International equity markets rallied strongly in the first half of fiscal 2000, returning more than 22 percent. The second half was characterized by growing volatility, with the EAFE markets falling more than 4 percent. Scandinavian cellular phone giants Nokia (Finland) and Ericsson (Sweden) posted tremendous gains during the year. Finland was the best performing country of the year with a 101.1 percent return, followed by Sweden with 64.9 percent.

Two of the Fund's international managers significantly beat their benchmark of 17.11 percent. Capital Guardian finished the year with a 38.73 percent return, followed by Dresdner RCM Global at 33.45 percent. Two international managers, both with value orientations, underperformed. Brinson Partners earned 15.49 percent and Lazard Frères returned 14.92 percent for the year.

After a strong performance in fiscal 1999, many emerging equity markets retrenched, influenced by higher interest rates and volatile equity markets

Global equity markets

(Year ended June 30, 2000; in U.S. dollars)



in the developed world. Schroders' emerging market portfolio ended the year at 6.56 percent, missing its benchmark by almost 3 points. The global slowdown failed to deter Capital Guardian, whose newly funded emerging markets portfolio returned 29.41 percent, beating its benchmark by almost 20 points.

Trustees increased the equity allocation target, including international stocks, to 53 percent in November and eased the control bands around its strategic asset allocation targets in an effort to reduce the number of times a portfolio needs to be rebalanced. The asset allocation for non-U.S. stocks was raised from 14 to 16 percent, with a control band of ± 5 .

With the fiscal 1999 funding of two new non-U.S. stock portfolios, the APFC reached a milestone as the financial markets ended 1999 for the holidays. Holdings in 2,067 non-U.S. equities totaled \$5 billion in market value and \$3.5 billion at cost. International equities are the Fund's second best-performing asset class, returning 14.04 percent over the past seven years.

The Fund's non-U.S. equities had a market value of \$4.4 billion as of June 30, 2000 and included \$981 million in unrealized gains.

Non-U.S. equities managers' performance

(As of June 30, 2000)

Managers	1-year return	1-year benchmark	5-year return	5-year benchmark
Brinson Partners	15.49%	17.11%	14.40%	11.26%
Capital Guardian	38.73	17.11	23.05	11.26
Capital Guardian (emerging)	29.41	9.48	—	—
Clay Finlay (Europe)	35.33	15.10	22.71	18.45
Deutsche Asset Mgt. EAFE	17.33	17.11	—	—
Dresdner RCM Global	33.45	17.11	—	—
Lazard Frères	14.92	17.11	15.62	11.26
Schroder (Pacific Rim)	18.25	13.36	1.81	-1.28
Schroder (emerging)	6.56	9.48	—	—
Combined Return	23.25			

Benchmark returns

MSCI EAFE Free Index – U.S. dollars	17.11%	11.26%
MSCI Europe Index – U.S. dollars	15.10	18.45
Pacific ex Japan (Custom)	13.36	-1.28
MSCI Emerging Markets Free	9.48	—

Returns for periods greater than one year are annualized.

Non-U.S. equities

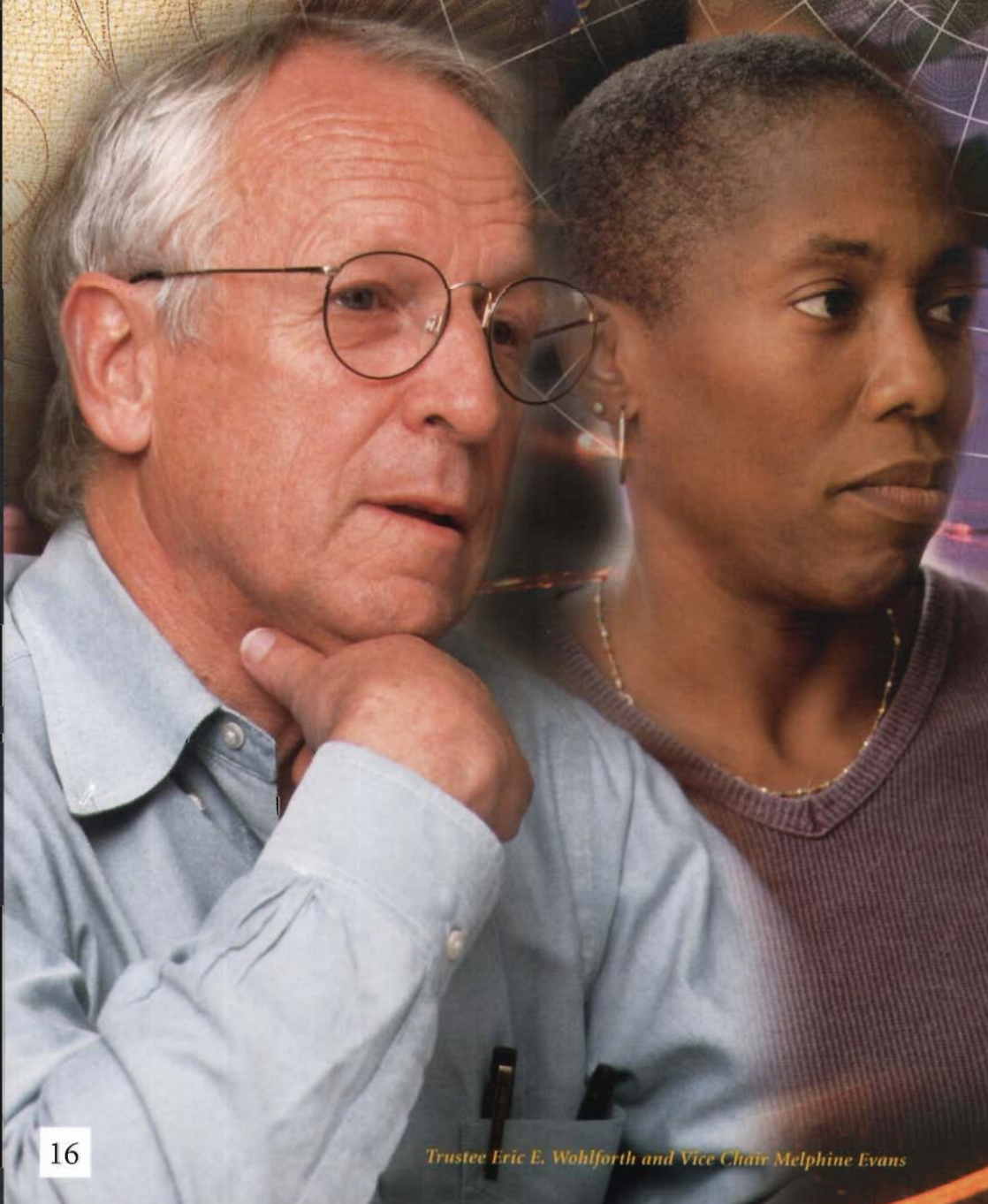
(By country)

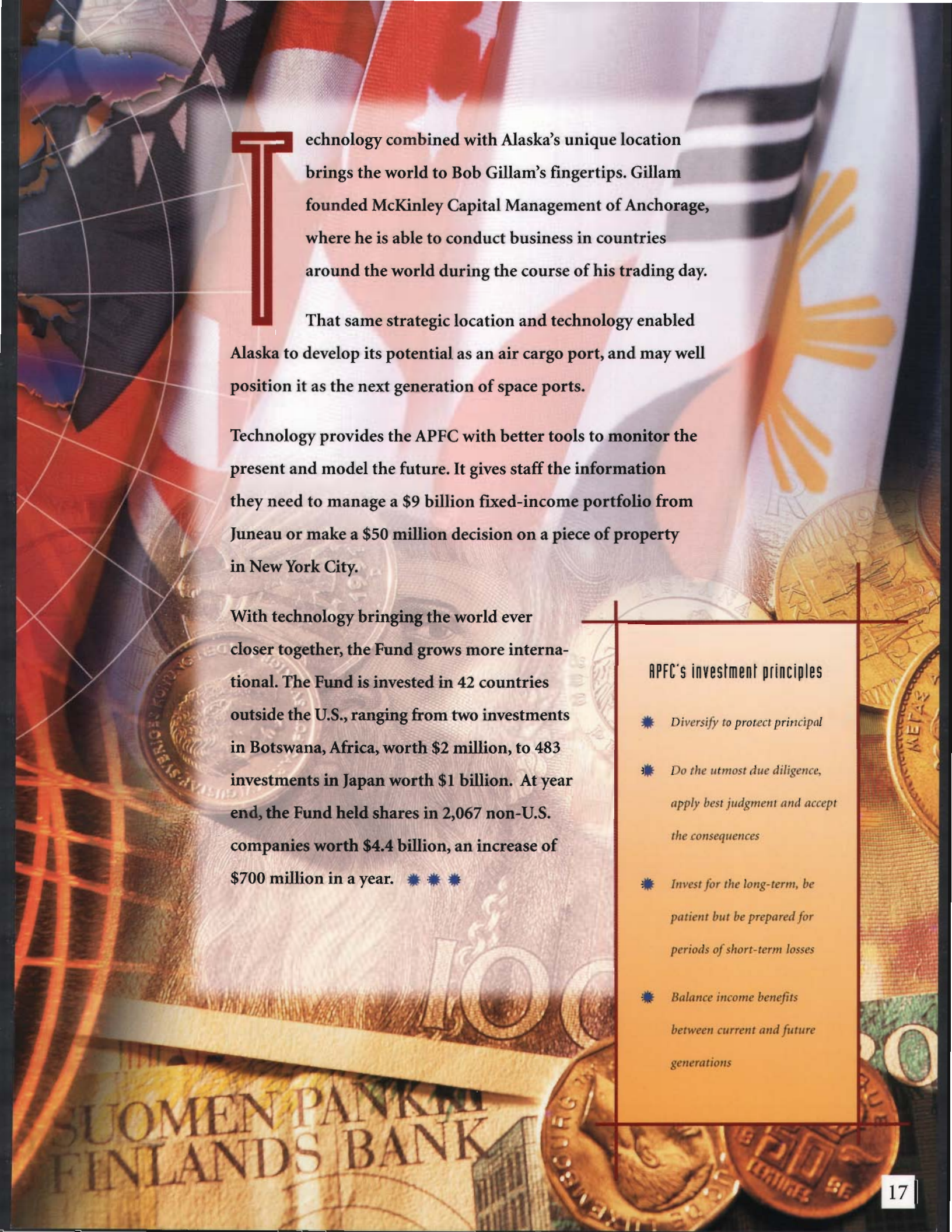
	market value	percent of total
Argentina	\$ 4.6	*
Australia	130.3	2.7%
Austria	3.0	*
Belgium	13.7	*
Botswana	1.5	*
Brazil	74.2	1.5
Canada	36.2	*
Chile	9.2	*
China	0.1	*
Czech Republic	1.9	*
Denmark	29.1	*
Egypt	1.3	*
Finland	114.1	2.3
France	534.6	10.9
Germany	336.2	6.8
Greece	11.1	*
Hong Kong	123.5	2.5
Hungary	10.6	*
India	56.8	1.2
Indonesia	8.8	*
Ireland	30.5	*
Israel	23.2	*
Italy	165.3	3.4
Japan	911.2	18.6
Korea	120.7	2.5
Luxembourg	0.6	*
Malaysia	27.9	*
Mauritius	0.7	*
Mexico	103.5	2.1
Netherlands	350.0	7.1
New Zealand	4.9	*
Norway	7.9	*
Peru	2.3	*
Philippines	9.9	*
Poland	6.8	*
Portugal	22.0	*
Russia	6.3	*
Scotland	4.0	*
Singapore	66.2	1.3
South Africa	52.8	1.1
Spain	116.0	2.4
Sweden	150.4	3.1
Switzerland	197.9	4.0
Taiwan	96.0	2.0
Thailand	6.2	*
Turkey	41.3	*
United Kingdom	897.2	17.9
United States	4.2	*
Venezuela	0.5	*

* less than 1 percent

2940847

Globalization





Technology combined with Alaska's unique location brings the world to Bob Gillam's fingertips. Gillam founded McKinley Capital Management of Anchorage, where he is able to conduct business in countries around the world during the course of his trading day.

That same strategic location and technology enabled Alaska to develop its potential as an air cargo port, and may well position it as the next generation of space ports.

Technology provides the APFC with better tools to monitor the present and model the future. It gives staff the information they need to manage a \$9 billion fixed-income portfolio from Juneau or make a \$50 million decision on a piece of property in New York City.

With technology bringing the world ever closer together, the Fund grows more international. The Fund is invested in 42 countries outside the U.S., ranging from two investments in Botswana, Africa, worth \$2 million, to 483 investments in Japan worth \$1 billion. At year end, the Fund held shares in 2,067 non-U.S. companies worth \$4.4 billion, an increase of \$700 million in a year. * * *

APFC's investment principles

- * *Diversify to protect principal*
- * *Do the utmost due diligence, apply best judgment and accept the consequences*
- * *Invest for the long-term, be patient but be prepared for periods of short-term losses*
- * *Balance income benefits between current and future generations*

SUOMEN PANKKI
FINLANDS BANK

fixed income

FIXED INCOME

Amid a backdrop of 4.2 percent growth, extraordinary rises in the cost of oil and gas and the lowest unemployment rates in 30 years, the U. S. Federal Reserve raised interest rates six times during the period June 30, 1999 to June 30, 2000 to keep inflationary pressures under control.

The very large increases in bond yields during calendar year 1999 produced the worst year in 70 years for the 30-year bond. The Lehman Brothers Government/Corporate Bond Index delivered a loss during calendar '99 for only the second time in its 26-year history.

Fixed income rallied during the second half of the year, ending fiscal 2000 with a 3.72 percent return, more than twice its fiscal 1999 performance. The APFC's bond portfolio has returned 9.21 percent over the last 16.5 years.

The portfolio produced \$687 million in interest income, a \$20 million decline over fiscal 1999, but more than half the fiscal 2000 dividend distribution of \$1.2 billion.

The APFC's internally managed portfolio, which represents about 86 percent of all fixed-income assets, missed its benchmark by 0.67 percent, returning 3.64 percent. The portfolio ended the year with a market value of just over \$9 billion.

Two of the Fund's external domestic managers beat their targets, led by Brinson Partners' 5.31 percent return. Sanford Bernstein ended the year up 4.75 percent and Alaska Permanent Capital Management finished at 4.48 percent, slightly off its benchmark of 4.57 percent. The three manage about \$812 million.

In June, Trustees voted to increase from 10 to 18 percent the amount of fixed-income assets under external domestic management. Approximately \$195 million was divided equally among the three external managers. This distribution adds additional diversification as each manager has different investment philosophies and styles.

In March, the Board of Trustees approved a revised set of *Investment Guidelines* governing investment policies for the internally managed portfolio. The new guidelines reduce risk by narrowing the extent to which the portfolio can vary its duration from its benchmark. The guidelines were also simplified, and parameters were clarified that address credit risk.

The corporate bond portion of the internal portfolio has been further diversified. There are 26 percent more issuers, and risk exposure to the 25 largest issuers has fallen by nearly 30 percent. These changes will reduce the variation in performance results and lower the effects of adverse credit developments at individual companies.

Relatively flat international markets produced poor fixed-income results for the year with the APFC's international portfolio returning -1.73 percent. The Fund's two international managers experienced a poor year, missing their benchmark by almost 6 percentage points. Julius Baer ended the year down -1.21 percent and Rogge Global Partners finished at -2.16 percent. The two have about \$602 million under management.

The Fund's marketable debt portfolio had a market value of \$10 billion as of June 30, 2000, with unrealized losses of approximately \$282 million.

Fixed-income managers' performance

(As of June 30, 2000)

U.S. Managers	1-year return	1-year benchmark	3-year return	3-year benchmark
APFC in-house	3.64%	4.31%	5.49%	6.03%
Alaska Permanent Capital Mgt.	4.48	4.57	5.90	6.04
Brinson Partners	5.31	4.57	6.01	6.04
Sanford Bernstein	4.75	4.57	5.94	6.04
Combined Return	3.72%		5.52%	

Benchmark returns

Lehman Brothers Aggregate	4.57%	—	6.04%
Lehman Brothers Govt/Corp	4.31	—	6.03

Non-U.S. Managers	1-year return	1-year benchmark	3-year return	3-year benchmark
Julius Baer	-1.21%	4.15%	4.90%	3.29%
Rogge Global	-2.16	4.15	6.72	3.29
Combined Return	-1.73%		5.84%	

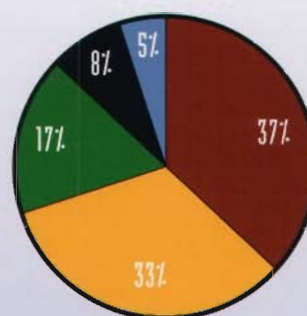
Benchmark returns

Salomon Hedged Non-U.S. Government Bond	4.15%	3.29%
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Returns for periods greater than one year are annualized.

Composition of bonds

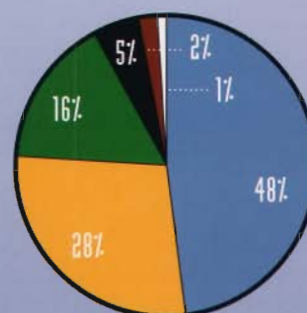
(June 30, 2000)



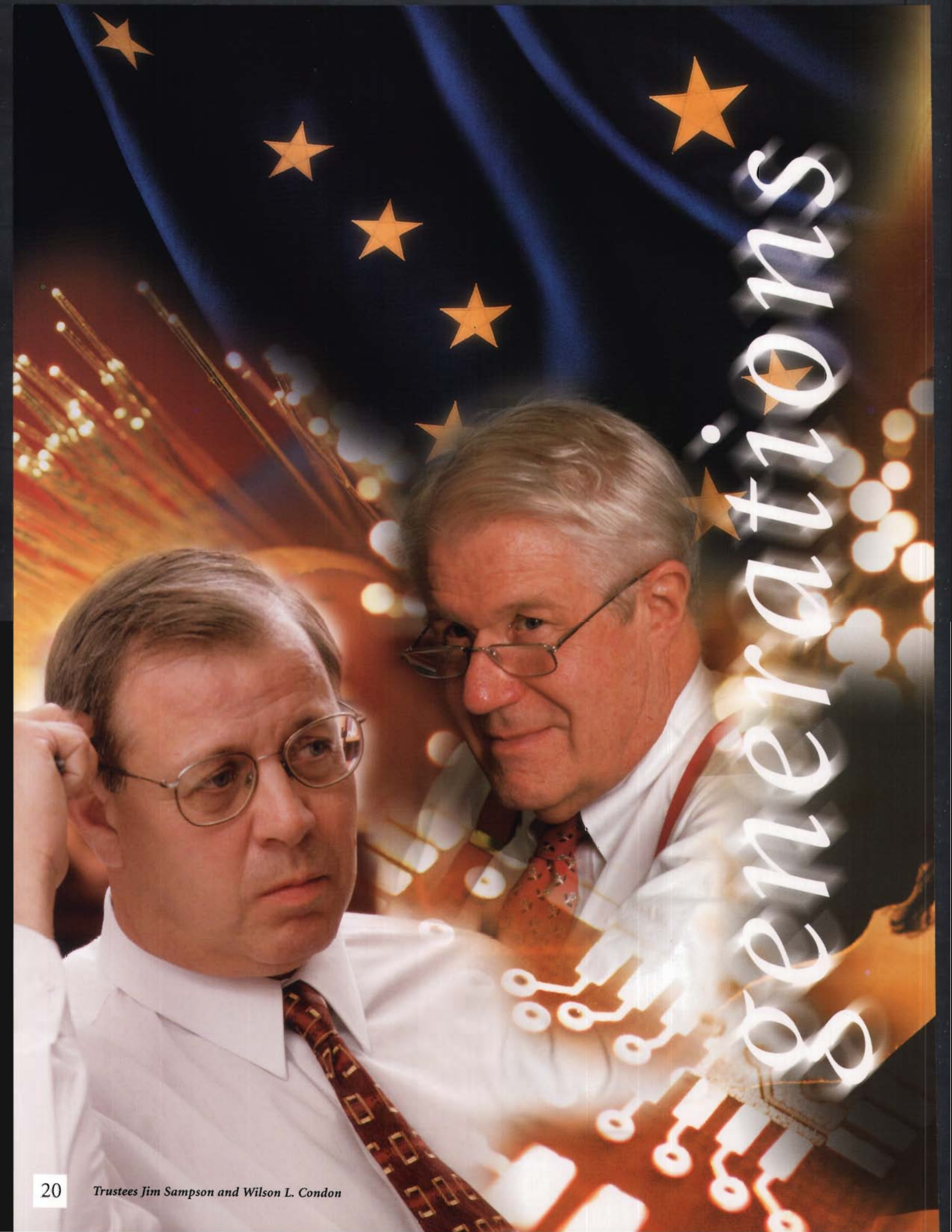
Corporates (37%)
Treasuries (33%)
Agencies (17%)
Mortgage-backed (8%)
Non-dollar (5%)

Composition of corporate bonds

(June 30, 2000)



Banking and finance (48%)
Industrial (28%)
Utilities (16%)
Private placements (5%)
Yankee (2%)
Other (1%)



generations

It's a delicate balancing act for Trustees, especially in volatile times: protect the Fund's principal to benefit future generations and produce income to benefit current generations.

In recent years, there have been more than enough earnings to do both – to produce healthy, growing amounts of income available for distribution and to fully inflation-proof the principal. And legislators have been generous in growing the principal by appropriating some of the surplus earnings to the Fund's principal.

But that could end if we experience a sequence of down markets.

Alaska law gives dividend distributions first call on the Fund's net income, which means there could be years when the principal cannot be protected from inflationary erosion. The legislature could make up the difference from the earnings reserve account if sufficient reserves remain, and Alaska doesn't need that money for other purposes.

Trustees are examining two solutions to this dilemma. One would ask the legislature to reverse priorities and fully inflation-proof the principal first. The other would establish a fixed payout each year that would protect the principal over the long-term and provide a stable revenue flow to the state each year for whatever use it deemed necessary. ❄️ ❄️ ❄️

Fund principal and income with and without inflation-proofing
(Projected for 2020; dollars in billions)



This chart shows the effect of inflation-proofing over a 20-year period. Without inflation-proofing, the Fund would be approximately half its size and produce half the annual income.

Excellent market conditions and professional portfolio management produced a solid year for real estate, pushing final returns well beyond the S&P 500 index for the first time since 1994. A continued focus on program diversification, asset remediation and a strategic decision to move into majority- and wholly-owned properties enabled the corporation to record its second consecutive year of returns in excess of its benchmark.

The APFC ended the year with an overall return of 10.78 percent, compared to its blended benchmark of 9.76 percent. The portfolio ended the year at \$2.6 billion, or 9.03 percent of the Fund's total investments.

The Fund's direct holdings returned 12.58 percent as national office vacancy rates fell, apartment occupancy rates continued at record rates and stability returned to industrial and retail sectors.

LaSalle Investment Management, which returned 21.84 percent compared to its target of 12.53 percent, produced the highest return. LaSalle assisted the APFC in reviewing a significant number of assets in need of remediation. LaSalle started the year with \$75 million in assets under management and was advising the APFC on a portfolio of approximately \$365 million at year end.

Portfolio management

The Fund ended relationships with several smaller managers which managed about \$150 million in assets. This is consistent with the APFC's consolidation efforts over the past five years and its continued focus on increasing revenues while reducing costs. At year-end, the Fund had approximately one-half of the number of active managers working on its behalf as compared to historic level.

In October, L&B and LaSalle were selected to focus on apartment consolidation and acquisition. LaSalle assumed management of Bent Tree Apartments in Centerville, VA, and Lexington Farms and Mariner's Crossing Apartments in Raleigh, NC. L&B Realty Advisors took over management of Colonnade at Willow Bend in Dallas, TX.

The commingled funds, which have been reduced to 1 percent of the total portfolio, experienced a return of 1.79 percent, compared to its benchmark of 12.53 percent. The managers of these funds continue an active liquidation program.

Kennedy Associates, which advises the Fund on its loan secured by the Frontier Building in Anchorage, reported that occupancy appeared solid consistent with national rates. Kennedy also prepared a plan to revitalize Plaza Port West, Ketchikan's largest mall, which the borrower returned to the Fund and four other Alaska pension fund owners during the year.

REITs and mortgage program

APFC's two REIT portfolios managed by AEW Capital Management ended the year on a strong note, returning 10.45 and 7.52 percent respectively.

Lend Lease received its full \$300 million to invest in a diversified portfolio of investment-grade commercial mortgage-backed securities (CMBS) and whole loans. The publicly traded CMBS carry a rating of BBB- or higher. Eight whole loans closed during the year totaling \$55.7 million and increasing the whole loan portfolio to \$67.5 million. Investment-grade whole mortgages and CMBS have provided attractive premium spreads over Treasuries and corporate debt securities. This was the case for the year as the portfolio earned 5.79 percent during the year, 2.81 percent more than its benchmark.

Portfolio earnings up 21 percent

The real estate portfolio produced \$195.6 million in earnings, a 21 percent increase over fiscal 1999. Two-thirds of the holdings were direct equity, 21 percent in REITs and 12 percent in mortgages. The Fund's real estate portfolio had a market value of \$2.6 billion as of June 30, 2000, and included \$151 million in unrealized gains.

Real estate managers' performance

(As of June 30, 2000)

Managers	1-year return	1-year benchmark	5-year return	5-year benchmark
AEW Capital Management	11.76%	12.53%	—	—
CB Richard Ellis	9.50	12.53	11.53	13.09
Heitman Property	15.58	12.53	9.63	13.09
Henderson Investors	12.79	12.53	13.56	13.09
Kennedy Property	10.57	12.53	10.44	13.09
L&B Property	11.61	12.53	9.47	13.09
LaSalle Property	21.84	12.53	9.94	13.09
Sentinel 1 & 2	13.29	12.53	11.12	13.09
Total Direct Holdings	12.58	12.53	11.47	13.09
Commingled	1.79	12.53	10.74	13.09
AEW REIT	7.52	5.25	—	—
AEW Focus	10.45	5.25	—	—
Simon Property Group	9.81	5.25	7.39	9.89
Total REITs	8.38%	5.25	7.39	9.89
Lend Lease (CMBS/mortgages)	5.79	2.98	—	—
Total Real Estate	10.78%	9.76% *	10.60%	10.75% *

Benchmark returns

NCREIF Classic Index	12.53%	13.09%
Morgan Stanley REIT Index	5.25	9.89
Lehman Brothers Corporate Series A	2.98	5.88
APFC Target *	9.76	10.75

* The APFC Target equals 65 percent of the NCREIF Index, 20 percent of the Morgan Stanley REIT Index and 15 percent of the Lehman Brothers Corporate Series A for 2000.

Returns for periods greater than one year are annualized.



APFC sold its interest in Ontario Place, realizing a 40 percent gain over its appraised value.

Real estate transactions

(During fiscal year 2000)

Properties sold

OFFICE

1211 Avenue of Americas

New York, NY

IBM Building

Atlanta, GA

One Columbia Circle

Atlanta, GA

RETAIL

Monroeville Mall

Pittsburg, PA

RESIDENTIAL

Bridgewater Place Apartments

Tampa, FL

Ontario Place

Chicago, IL

INDUSTRIAL

MIW-Opus Properties

Indianapolis, IN

Properties acquired

OFFICE

Gateway Center

White Plains, NY

RETAIL

Maui Marketplace

Kahului, HA

Ownership increases

770 L Street

Sacramento, CA

40% to 100%

COMMITMENT TO ALASKA

The APFC's commitment to Alaska extends well beyond its fiduciary responsibility to protect and grow Alaska's largest asset.

The corporation chose its second Alaska money manager this year, helping to support a growing investment community that has an estimated \$8-10 billion under management.

Sixteen Alaska students participated in the corporation's internship program, which is a cooperative venture with the Fund's managers, advisors and custodians. Since 1988, some 122 of Alaska's best and brightest college students have worked with the APFC or one of its managers as interns. One-fifth of these went on to full-time employment with their firms.



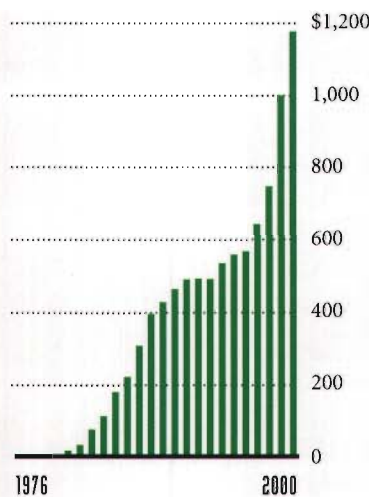
Natalya Fedo, left, University of Alaska Fairbanks intern at Kennedy Associates and Anna Tokeava, University of Alaska Anchorage intern at Brinson Partners

The corporation held \$157 million in Alaska CDs, which help Alaska banks finance loans that might otherwise go unfunded.

And through its directed brokerage program, Alaska businesses share in the commissions generated by the Fund's stock trades.

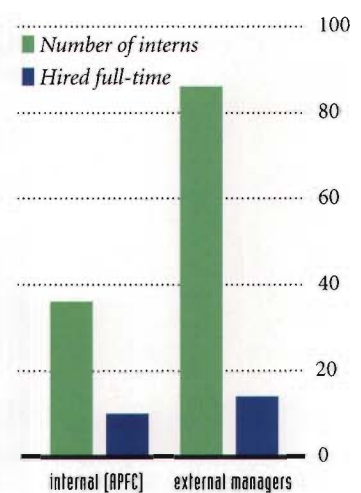
Income paid out for dividends

(Dollars in millions)



Alaskans hired as interns

(Since 1988)



Independent auditors' report

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 the Alaska Permanent Fund (a Component Unit of the State of Alaska) as of June 30, 2000 and 1999, 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 auditing standards generally accepted in the United States of America. 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, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

August 9, 2000

Statements of assets, liabilities, principal and earnings reserve

June 30,	2000	1999
Assets		
Cash and temporary investments	\$ 747,739,000	\$ 361,181,000
Receivables, prepaid expenses and other assets	496,173,000	366,881,000
Investments –		
Marketable debt securities	9,723,751,000	10,479,125,000
Preferred and common stock	14,663,776,000	13,094,036,000
Real estate	2,326,403,000	2,002,511,000
Alaska certificates of deposit	152,318,000	142,415,000
Total investments	26,866,248,000	25,718,087,000
Total assets	\$ 28,110,160,000	\$ 26,446,149,000
Liabilities		
Accounts payable	\$ 419,018,000	\$ 266,046,000
Income distributable to the State of Alaska	1,175,231,000	1,047,991,000
Total liabilities	1,594,249,000	1,314,037,000
Principal and Earnings Reserve		
Principal	20,014,648,000	18,958,785,000
Principal held in escrow	—	42,124,000
Earnings reserve		
Unrealized earnings reserve	3,528,804,000	3,540,829,000
Remaining earnings reserve	2,972,459,000	2,590,374,000
Total earnings reserve	6,501,263,000	6,131,203,000
Total principal and earnings reserve	26,515,911,000	25,132,112,000
Total liabilities, principal and earnings reserve	\$ 28,110,160,000	\$ 26,446,149,000

The accompanying notes are an integral part of the financial statements

Statements of revenues and expenses

<i>Years ended June 30,</i>	2000	1999
Revenues		
Investment income –		
Interest	\$ 687,158,000	\$ 706,778,000
Dividends	166,816,000	166,892,000
Real estate and other income	195,570,000	153,647,000
Total investment income	1,049,544,000	1,027,317,000
Net increase (decrease) in the fair value of investments –		
Marketable debt securities	(334,289,000)	(472,196,000)
Preferred and common stock	1,547,321,000	1,612,041,000
Real estate	29,186,000	(10,627,000)
Foreign exchange contracts	2,296,000	18,155,000
Currency	(3,825,000)	6,609,000
Total gains	1,240,689,000	1,153,982,000
Total revenues	2,290,233,000	2,181,299,000
Expenses		
Operating expenses	(41,457,000)	(33,529,000)
Net income	\$ 2,248,776,000	\$ 2,147,770,000
Adjustments to bring net income to statutory net income – settlement earnings and unrealized (gains) losses	(26,613,000)	396,342,000
Statutory net income	\$ 2,222,163,000	\$ 2,544,112,000

The accompanying notes are an integral part of the financial statements

Statements of changes in principal and earnings reserve

Years ended June 30,	2000	1999
Principal		
Balance, beginning of year	\$ 18,958,785,000	\$ 18,479,031,000
Dedicated state revenues	310,488,000	155,491,000
State transfer from earnings reserve	250,000,000	—
Inflation-proofing	422,920,000	288,176,000
Settlement earnings	30,331,000	36,087,000
Transfer from escrow	42,124,000	—
Balance, end of year	\$ 20,014,648,000	\$ 18,958,785,000
Principal held in escrow		
Balance, beginning of year	\$ 42,124,000	\$ 36,945,000
Escrow earnings	—	5,179,000
Transfer to principal	(42,124,000)	—
Balance, end of year	\$ —	\$ 42,124,000
Earnings reserve		
Balance, beginning of year	\$ 6,131,203,000	\$ 5,360,339,000
Escrow earnings	—	(5,179,000)
Appropriation to other State agencies	(3,014,000)	(2,521,000)
State transfer to principal	(250,000,000)	—
Inflation-proofing	(422,920,000)	(288,176,000)
Settlement earnings	(30,331,000)	(36,087,000)
Dividends	(1,172,451,000)	(1,044,943,000)
Net income	2,248,776,000	2,147,770,000
Balance, end of year	\$ 6,501,263,000	\$ 6,131,203,000
Total		
Balance, beginning of year	\$ 25,132,112,000	\$ 23,876,315,000
Dedicated state revenues	310,488,000	155,491,000
Appropriation to other State agencies	(3,014,000)	(2,521,000)
Dividends	(1,172,451,000)	(1,044,943,000)
Net income	2,248,776,000	2,147,770,000
Balance, end of year	\$ 26,515,911,000	\$ 25,132,112,000
Earnings reserve composition		
Unrealized earnings reserve	\$ 3,528,804,000	\$ 3,540,829,000
Remaining earnings reserve	2,972,459,000	2,590,374,000
Total earnings reserve	\$ 6,501,263,000	\$ 6,131,203,000

The accompanying notes are an integral part of the financial statements

Statements of cash flows

Years ended June 30,	2000	1999
Cash flows from investments		
Net (purchases), sales and maturities of investments –		
Marketable debt securities	\$ 675,380,000	\$ (403,318,000)
Preferred and common stock	(1,505,015,000)	(1,196,797,000)
Real estate	(283,401,000)	(429,771,000)
Alaska certificates of deposit	(9,903,000)	(9,962,000)
Net change in unsettled trades	38,051,000	23,178,000
Total net (purchases), sales and maturities	(1,084,888,000)	(2,016,670,000)
Investment income received	2,302,054,000	2,630,480,000
Undistributed real estate income	(25,679,000)	5,639,000
Net cash provided by investments	1,191,487,000	619,449,000
Cash flows from non-capital financing		
Contributions from the State	282,385,000	157,993,000
Income distributions	(1,048,225,000)	(892,678,000)
Net cash used by non-capital financing	(765,840,000)	(734,685,000)
Cash flows from operations		
	(39,089,000)	(31,309,000)
Net increase (decrease) in cash and temporary investments	386,553,000	(146,545,000)
Cash and temporary investments at beginning of year	361,181,000	507,726,000
Cash and temporary investments at end of year	\$ 747,739,000	\$ 361,181,000
Reconciliation of net income to net cash used by operations		
Net income	\$ 2,248,776,000	\$ 2,147,770,000
Adjustments to reconcile net income to net cash used by operations –		
Investment earnings	(2,290,233,000)	(2,181,299,000)
Net change in prepaid expenses and accrued liabilities	2,368,000	2,220,000
Net cash used by operations	\$ (39,089,000)	\$ (31,309,000)

The accompanying notes are an integral part of the financial statements

Notes to the financial statements

June 30, 2000 and 1999

[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 and the disclosure of contingent 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.

Notes to the financial statements

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 2.19 percent and 1.54 percent and applied to the years ended June 30, 2000 and 1999, respectively.

Interest Income

Interest income is accrued monthly as earned.

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.

Investments

The Fund's marketable securities, excluding direct real estate investments, are reported at fair value in the financial statements. Unrealized gains and losses are reported as components of net income. Fair values are obtained from independent sources for marketable debt and equity securities and real estate investment trusts.

Real estate commingled funds, direct real estate investments and direct commercial mortgages are carried at historical cost plus the Fund's share of undistributed earnings. 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.

The Corporation may invest Fund assets in (i) equity securities up to 55 percent of total Fund investments, and (ii) other investments, which meet the test of prudence, including those currently authorized by law, up to 5 percent of total Fund investments.

Securities Transactions

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

Statement of Cash Flows

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

Notes to the financial statements

[3] Cash and temporary investments

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

	2000	1999
Cash (a)	\$ 99,981,000	\$ 142,216,000
U.S. agencies (b)	212,719,000	1,393,000
Commercial paper (c)	435,039,000	217,572,000
Total Cash and Temporary Investments	\$ 747,739,000	\$ 361,181,000

- a) 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.
 b) Debt obligation guaranteed by the U.S. government.
 c) Commercial paper rated investment grade.

[4] Receivables, prepaid expenses and other assets

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

	2000	1999
Interest receivable	\$ 173,928,000	\$ 171,810,000
Dividends receivable	13,761,000	14,221,000
Sales receivable	255,660,000	152,680,000
Foreign exchange contracts	3,337,000	6,786,000
Contributions receivable	49,487,000	21,384,000
Total Receivables, Prepaid Expenses and Other Assets	\$ 496,173,000	\$ 366,881,000

[5] Marketable debt securities

The Corporation is authorized by statute to invest Fund assets in (i) corporate bonds rated investment grade; (ii) obligations of the United States Treasury, its agencies and instrumentalities; and (iii) foreign obligations of comparable quality. All marketable debt securities are held by custodian banks in the name of the Corporation on behalf of the Fund.

Notes to the financial statements

Marketable debt securities at June 30 are summarized as follows:

	<i>Cost</i>	<i>Market</i>	<i>Unrealized losses</i>
2000			
Treasury notes/bonds	\$ 3,234,534,000	\$ 3,191,033,000	\$ (43,501,000)
Mortgage-backed securities	811,435,000	786,199,000	(25,236,000)
Other federal agencies	1,675,307,000	1,650,972,000	(24,335,000)
Corporate bonds	3,751,391,000	3,587,763,000	(163,628,000)
Non-domestic bonds	532,778,000	507,784,000	(24,994,000)
Total Marketable Debt Securities	\$ 10,005,445,000	\$ 9,723,751,000	\$ (281,694,000)

1999

Treasury notes/bonds	\$ 4,366,922,000	\$ 4,278,235,000	\$ (88,687,000)
Mortgage-backed securities	795,587,000	790,671,000	(4,916,000)
Other federal agencies	1,315,035,000	1,306,731,000	(8,304,000)
Corporate bonds	3,690,793,000	3,618,564,000	(72,229,000)
Non-domestic bonds	512,488,000	484,924,000	(27,564,000)
Total Marketable Debt Securities	\$ 10,680,825,000	\$ 10,479,125,000	\$ (201,700,000)

[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 custodian banks in the name of the Corporation on behalf of the Fund.

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

	<i>Cost</i>	<i>Market</i>	<i>Unrealized gains</i>
2000			
Domestic	\$ 7,469,847,000	\$ 10,297,594,000	\$ 2,827,747,000
Non-domestic	3,385,069,000	4,366,182,000	981,113,000
Total Preferred and Common Stock	\$ 10,854,916,000	\$ 14,663,776,000	\$ 3,808,860,000
1999			
Domestic	\$ 6,351,224,000	\$ 9,430,628,000	\$ 3,079,404,000
Non-domestic	2,998,677,000	3,663,408,000	664,731,000
Total Preferred and Common Stock	\$ 9,349,901,000	\$ 13,094,036,000	\$ 3,744,135,000

Notes to the financial statements

[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. Real estate investments may take the form of direct equity interests, real estate title-holding entities, real estate investment trusts, real estate operating companies or other entities whose assets consist primarily of real property, debt obligations secured by real property or similar entities. 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. Real estate investment trusts and commercial mortgage-backed securities are held by custodian banks in the name of the Corporation on behalf of the Fund.

The carrying value of real estate at June 30 was \$2,326,403,000 in 2000 and \$2,002,511,000 in 1999. Carrying value consists of the equity value of direct real estate investments, commingled funds and commercial mortgages and the market value of real estate investment trusts and commercial mortgage-backed securities.

In the ordinary course of business, the Corporation has made commitments related to real estate investments. In the opinion of management, meeting these commitments will not have a material adverse effect on the Corporation's financial position, results of operation or liquidity.

Real estate investments at June 30 are summarized as follows:

	<i>Book value</i>	<i>Market</i>	<i>Unrealized gains (losses)</i>
2000			
Commingled funds	\$ 12,338,000	\$ 18,236,000	\$ 5,898,000
Real estate investment trusts	510,621,000	520,799,000	10,178,000
Commercial mortgage-backed securities	225,937,000	221,971,000	(3,966,000)
Commercial mortgages	65,644,000	64,278,000	(1,366,000)
Alaska residential mortgages	198,000	198,000	—
Direct investments –			
Retail	385,377,000	385,166,000	(211,000)
Office	636,194,000	753,364,000	117,170,000
Industrial	172,459,000	177,166,000	4,707,000
Residential	311,423,000	329,820,000	18,397,000
Total Real Estate	\$ 2,320,191,000	\$ 2,470,998,000	\$ 150,807,000

1999

Commingled funds	\$ 16,845,000	\$ 20,346,000	\$ 3,501,000
Real estate investment trusts	470,599,000	462,338,000	(8,261,000)
Commercial mortgage-backed securities	112,608,000	112,269,000	(339,000)
Commercial mortgages	11,646,000	11,646,000	—
Alaska residential mortgages	207,000	207,000	—
Direct investments –			
Retail	333,819,000	353,324,000	19,505,000
Office	581,964,000	659,703,000	77,739,000
Industrial	158,034,000	167,049,000	9,015,000
Residential	325,389,000	349,188,000	23,799,000
Total Real Estate	\$ 2,011,111,000	\$ 2,136,070,000	\$ 124,959,000

Summary of APFC real estate investments

Industrial Properties

Eastpoint Associates (Dallas, TX)
 Dallas Industrial (Dallas, TX)
 Northgate Business Park (Garland, TX)
 Southgate Business Park (Lanham, MD)
 Sand Lake West (Orlando, FL)
 Memphis Industrial (Memphis, TN)

Office properties

1010 Arapaho (Richardson, TX)
 Ericsson Counterpoint (Richardson, TX)
 1701 K Street (Washington, DC)
 Frontier Building (Anchorage, AK)
 International Place (Richardson, TX)
 Goldbelt Building (Juneau, AK)
 770 L Street (Sacramento, CA)
 919 North Michigan (Chicago, IL)
 Arboretum Lakes (Lisle, IL)
 580 Walnut Building (Cincinnati, OH)
 ARAMARK Tower (Philadelphia, PE)
 LG&E Building (Louisville, KY)
 Providence Towers (Dallas, TX)
 One Thomas Circle (Washington, DC)
 Parkway Center (Marietta, GA)
 550 Corporate Center (San Diego, CA)
 Tower Center II (East Brunswick, NJ)
 Warner Center Properties (Woodland Hills, CA)
 Gateway Center (White Plains, NY)
 1861 International Drive (McLean, VA)

Residential Properties

Island Club Apartments (Miami, FL)
 Aspen Hills Apartments (Smyrna, GA)
 Oakwood Apartments (Orlando, FL)
 Polo Club Apartments (Strongsville, OH)
 Preston Village Apts (Dallas, TX)
 Remington Station Apts. (Westerville, OH)
 Sawgrass Apartments (Corpus Christi, TX)
 The Wyndham (Hampton, VA)
 Bent Tree Apartments (Centerville, VA)
 Lexington & Mariner's (Raleigh, NC)

Avalon Park Apartments (Tigard, OR)
 Bristol Place Apartments (Tampa, FL)
 Crystal Creek Apartments (Henderson, NV)
 Eastridge Apartments (Midvale, Utah)
 Innesbrook Apartments (Durham, NC)
 Lakefront Apartments (Orlando, FL)
 Overlook Apartments (Albuquerque, NM)
 Royal Farms Apartments (Salt Lake City, UT)
 Skyler Ridge Apartments (Overland Park, KS)
 Zia Vista Apartments (Santa Fe, NM)
 Colonnade at Willow Bend (Plano, TX)
 Tree Tops Apartments (West Chester, PA)

Retail properties

Plaza Port West (Ketchikan, AK)
 Oakwood Mall (Enid, OK)
 Builder's Square II (Houston, TX)
 Danada Centers (Wheaton, IL)
 Orland Towne Center (Orland Hills, IL)
 Darien Towne Center (Darien, IL)
 Galleria at Southpointe (Mt. Lebanon, PA)
 Fiesta Mall (Mesa, AZ)
 120 East 87th Street (New York, NY)
 Commons at Willowbrook (Houston, TX)
 Tysons Corner Center (McLean, VA)
 Maui Marketplace (Kahului, HI)

Pool Properties

JMB II (Nationwide)
 Aetna Fund I (Nationwide)
 Cigna Fund S (Nationwide)
 JMB III (Nationwide)

Other

REITs (Nationwide)
 Commercial Mortgages (Nationwide)

Types of APFC real estate holdings (As of June 30, 2000)

Residential	13%
Industrial	7%
Office	30%
Retail	16%
Commingled Funds	1%
REITs Public	16%
REITs Private	5%
Mortgages/CMBS	12%
Total Real Estate Portfolio	100%

Notes to the financial statements

[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. Letters of credit from the Federal Home Loan Bank secure these investments. The market value of these certificates approximates cost.

[9] Accounts payable

Accounts payable at June 30 are summarized as follows:

	2000	1999
Accrued liabilities	\$ 12,398,000	\$ 10,030,000
Service fees payable	3,275,000	1,753,000
Foreign exchange contracts	8,051,000	—
Securities purchased	395,294,000	254,263,000
Total Accounts Payable	\$ 419,018,000	\$ 266,046,000

[10] 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 to fund various other agency activities. Income distributable to the State at June 30 is summarized as follows:

	2000	1999
Dividends	\$ 1,142,148,000	\$ 1,016,113,000
Appropriation to the Departments of –		
Corrections	2,929,000	2,147,000
Health and Social Services	17,518,000	18,689,000
Revenue	4,985,000	4,793,000
Public Safety	4,871,000	3,234,000
Total to Dividend Fund	1,172,451,000	1,044,976,000
Other agencies	2,780,000	3,015,000
Total Income Distributable	\$ 1,175,231,000	\$ 1,047,991,000

Notes to the financial statements

[11] Principal

The principal balance of the Fund at June 30 is shown as follows:

	2000	1999
Dedicated State revenues	\$ 6,731,426,000	\$ 6,420,937,000
Appropriations from the State	6,885,906,000	6,635,906,000
Inflation-proofing	6,243,421,000	5,820,502,000
Settlement earnings	153,895,000	123,564,000
Total Principal	\$ 20,014,648,000	\$ 19,000,909,000

On June 30, 2000, a \$250,000,000 transfer was made from earnings reserve to the principal of the Fund. The transfer was authorized by the Legislature through House Bill 18, "An Act making a special appropriation in an amount not to exceed \$250,000,000 from the earnings reserve account to the principal of the permanent fund; and providing for an effective date."

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. Total earnings on settlement principal were \$38,638,000 in 2000 and \$41,188,000 in 1999. Of these amounts, \$8,307,000 and \$5,101,000 during 2000 and 1999 respectively, were added to inflation-proofing. The remaining earnings of \$30,331,000 and \$36,087,000 during 2000 and 1999 respectively, have been added to Fund principal in accordance with law. Accumulated settlement-related activity which is included in the principal balance of the Fund at June 30 is shown as follows:

	2000	1999
Settlement – Principal	\$ 215,655,000	\$ 208,769,000
Earnings	153,895,000	123,564,000
Inflation-proofing	48,405,000	40,098,000
Total Settlement Principal	\$ 417,955,000	\$ 372,431,000

[12] Principal held in escrow

In June 1997, the Supreme Court of the United States awarded ownership of all disputed tracts from the joint State-Federal Beaufort Sea lease sale of 1979 to the federal government. The state asked the Supreme Court to reconsider its decision. As of June 30, 2000, the Supreme Court had entered a final decree in this litigation. This decree will result in an additional distribution to the state of approximately \$5 million, a portion of which will subsequently be transferred to the Fund. The Corporation transferred the balance of the previously received principal held in escrow (including associated earnings), to the principal of the Fund on July 1, 1999.

Notes to the financial statements

[13] Investment income by source

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

	2000	1999
Interest		
Marketable debt securities	\$ 672,348,000	\$ 691,357,000
Alaska certificates of deposit	8,189,000	8,046,000
Cash and other interest	6,621,000	7,375,000
Total Interest	\$ 687,158,000	\$ 706,778,000
Dividends		
Domestic preferred and common stock	\$ 100,122,000	\$ 110,895,000
Non-domestic preferred and common stock	66,694,000	55,997,000
Total Dividends	\$ 166,816,000	\$ 166,892,000
Real Estate and other income		
Real estate interest	\$ 21,568,000	\$ 6,542,000
Real estate dividends	34,086,000	21,660,000
Other real estate income	129,963,000	119,199,000
Loaned security and other income	9,953,000	6,246,000
Total Real Estate and Other Income	\$ 195,570,000	\$ 153,647,000

Under Statute 37.13.120(f), the Corporation is authorized to enter into securities lending transactions. The Corporation, through an agreement with the Bank of New York (the "Bank"), lends marketable debt and equity securities. These loans are fully collateralized at not less than 102 percent of the market value of the loaned securities for U.S. securities and 105 percent of market value for non-U.S. securities. The Corporation is fully indemnified by the Bank against any loss resulting from a default on a loaned security. The Corporation is able to sell any securities out on loan. The Bank may sell collateral upon borrower default. The Bank receives a fee based on earnings from securities lending. At June 30, 2000, there were \$1,703,230,000 in loaned securities outstanding. During the years ended June 30, 2000 and 1999, there were no losses incurred as a result of securities lending transactions.

[14] 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:

	2000	1999
Security purchases	\$ (292,000)	\$ 3,857,000
Currency inventory	(3,533,000)	2,752,000
Gains/(Losses) on Currency	\$ (3,825,000)	\$ 6,609,000

Notes to the financial statements

Currency gains and losses resulting from the sale of securities are included as part of the net increase or decrease in the fair value of the sold securities.

[15] Foreign exchange contracts and off-balance sheet risk

The Corporation 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, 2000, the Corporation 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 Corporation is exposed to credit risk to the extent of non-performance by these counterparties; however, the Corporation considers the risk of default to be remote. The Corporation's market risk is limited to the difference between contractual rates and forward rates at the end of the fiscal year.

The Corporation had net sale contracts outstanding totaling \$263,447,000 and \$568,507,000 for the years ended June 30, 2000 and 1999, respectively. The market value of these contracts, using the forward rate at June 30, 2000 and 1999, was \$268,228,000 and \$561,598,000, respectively. This resulted in net unrealized losses of \$11,690,000 for the year ended June 30, 2000 and net unrealized gains of \$8,469,000 for the year ended June 30, 1999, including prior year reversals in each year. The Fund had realized gains amounting to \$13,986,000 and \$9,686,000 for the years ended June 30, 2000 and 1999, respectively.

[16] Operating expenses

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

	2000	1999
Salaries and benefits	\$ 2,810,000	\$ 2,489,000
Travel	245,000	257,000
Communications	864,000	866,000
Custody and safekeeping fees	2,047,000	1,450,000
Consulting fees	595,000	364,000
Investment management fees	32,784,000	25,704,000
Legal and audit fees	433,000	356,000
Public information and subscriptions	231,000	374,000
Rent	308,000	495,000
Property and equipment	340,000	559,000
Other expenses	800,000	615,000
Total Operating Expenses	\$ 41,457,000	\$ 33,529,000

Notes to the financial statements

[17] 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, 2000 and 1999 amounted to \$2,810,000 and \$2,489,000, respectively.

Corporation employees are required to contribute 6.13 percent of their annual salaries to PERS. The Corporation contributes the remaining amounts necessary to pay benefits when due. These contributions represented 8.13 percent and 8.51 percent of covered salary expenses in the years ended June 30, 2000 and 1999, respectively.

[18] Investments managed on behalf of other entities

By statute, the Alaska Science and Technology Endowment Fund, the Alaska Mental Health Trust Fund and the International Trade and Business Endowment Fund (other funds) are invested by the Corporation under the same investment authority as the Fund is managed. The assets of the other funds are commingled with the assets of the Fund for investment purposes. Earnings are separately allocated to the other funds on the basis of unit and fractional unit shares, which have undivided beneficial interests in the commingled assets equal to the proportion that such shares bear to the total units outstanding. Unit shares are credited to the other funds on the basis of amounts contributed to the investment pool. The following represents the other funds' shares of the commingled net assets, which are not reflected in the accompanying financial statements:

	2000	1999
Alaska Science and Technology Endowment Fund	\$ 117,715,000	\$ 124,887,000
Alaska Mental Health Trust Fund	327,301,000	305,939,000
International Trade and Business Endowment Fund	5,917,000	5,927,000
Total Other Funds	\$ 450,933,000	\$ 436,753,000

This publication on the activities and financial condition of the Alaska Permanent Fund Corporation is submitted in accordance to AS 37.13.170. This report was printed at a cost of \$2.95 per copy on recycled paper in Anchorage, Alaska.

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