

# DIRECTION

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## THE ALASKA PERMANENT FUND: 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 beneficiaries of the Fund are the State of Alaska and all present and future generations of Alaskans.

The Permanent Fund is made up of two parts: reserved (principal) and unreserved assets. The reserved portion of the Fund is invested permanently and cannot be spent without amending the state constitution through a majority vote of the people. Decisions about uses of the unreserved portion are made each year by the people's elected representatives – the Alaska State Legislature and the Governor. The Alaska Permanent Fund Corporation (APFC) manages the Fund.



## LETTER FROM THE CHAIR

Dear Alaskans,

Fiscal year 2003 was finally a year of positive returns for the Alaska Permanent Fund. The Fund earned 4.5 percent after two prior fiscal years of negative returns. If, as appears to be the case, the three-year stock market drought has ended, we can all take satisfaction in the fact that the Permanent Fund, because of its relatively conservative asset mix, weathered the storms of the

financial markets better than most. In fact, the Fund performed at the 37th percentile among comparable funds, both for fiscal 2003 and over the five preceding years. These are percentages and numbers to be proud of. They are also something to build upon.

Under Governor Murkowski's Administration, the new Board is comprised of returning Trustee and former Chair Carl Brady, of

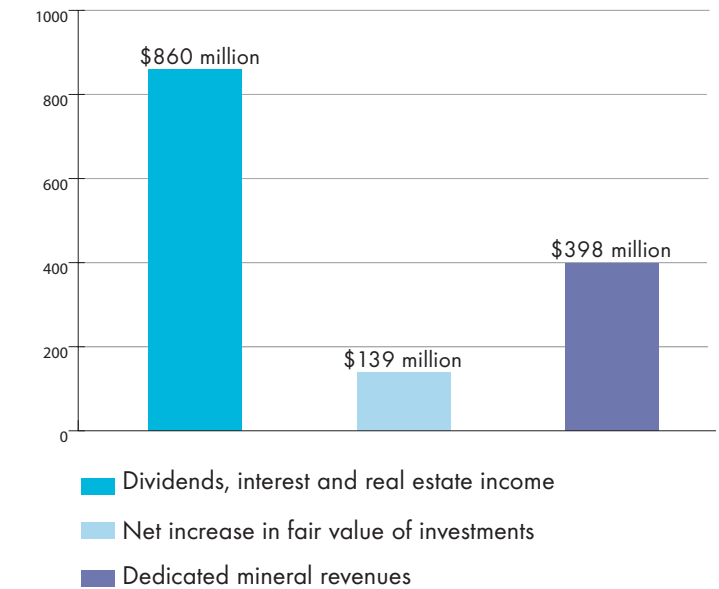
Anchorage; Steve Frank, a former legislator from Fairbanks; Commissioner of Revenue Bill Corbus of Juneau; Alaska Attorney General Gregg Renkes of Juneau; Vice Chair Clark Gruening of Juneau and me. We are facing new challenges in a new investment environment. Dramatic changes in the stock market in the last three years – and indeed the five-year annualized return of 3.4 percent for the Permanent Fund – have caused

endowment funds like ours and our public employee retirement fund peers to examine closely the investment landscape and consider new strategies. Among those strategies are market-neutral approaches. We are also considering investment mandates in all securities on a global basis instead of in certain kinds of securities, such as large-cap value domestic stocks. The Board is also weighing whether to embark upon a program of alternative investments in the areas of venture capital, leveraged buy-outs and hedge funds.

Notice that our motto for fiscal 2004 is one word: "accountability." Governor Murkowski took the lead in demonstrating accountability when he reversed precedent and allowed existing Board members to fill out their terms. The previous Board had hoped that the terms could become tenured, making Trustees non-removable, except for cause. But legislation to this effect has not moved in the Legislature. The Governor's recognition of the value of Board tenure provides a measure of stability for the Board, as former Trustees represent an important information resource for new Board members.

A second dynamic of accountability is the Board's aggressive posture on corporate governance. Under our former Trustee, Attorney General Botelho's and our current Trustee, Attorney General Renkes' leadership, we have taken a strong stance in redressing situations in which the

Revenue/sources in fiscal 2003



Fund has lost money due to corporate fraud. The APFC has hired law firms and joined lawsuits to recoup Fund losses.

In addition, Attorney General Renkes demonstrates accountability by moving rapidly to answer urgent legal questions that the Fund faces. In June, he issued an opinion stating that unrealized capital gains and losses should be attributed to the reserved portion of the Fund rather than to Fund earnings. He has also moved rapidly to secure answers to other legal issues that the Fund faces.

With legal answers to formerly unresolved issues in hand, the Board is in an excellent position to advance what we feel is the most important public issue facing the Fund: the definition of Fund income annually available for legislative appropriation. Currently the amount available for appropriation is calculated based upon realized earnings.

We need, instead, to base it on total return in order to improve the stability of year-to-year income withdrawals from the Fund. The APFC Trustees have proposed a Constitutional Amendment to effect this stability. The amendment would permit the Legislature to annually appropriate up to five percent of the average of the last five years' market values. If passed, this Constitutional Amendment would be a basic building block of a sensible fiscal plan for the State. We earnestly hope that the Legislature will undertake action to pass the amendment by the requisite two-thirds vote in the forthcoming session so that the Alaska electorate may vote on it in the 2004 General Election. ■

Yours,

Eric E. Wohlforth  
Chair



APFC Board of Trustees from left to right: Gregg D. Renkes, Chair Eric E. Wohlforth, Executive Director Robert D. Storer, Vice Chair Clark S. Gruening, William A. Corbus, Steve Frank and Carl Brady.

## LETTER FROM THE EXECUTIVE DIRECTOR

Dear Alaskans,

The Alaska Permanent Fund Corporation's Board of Trustees' disciplined approach to investment management was crucial to the success the Permanent Fund (Fund) experienced this year. The Trustees maintained their long-term investment objective in a year that proved very volatile. After two consecutive years of negative returns, the Fund earned a positive 4.5 percent for fiscal 2003. The Fund's market value increased by \$669.1 million (after dividends were recorded) for the fiscal year, bringing its total to \$24.2 billion at the close of business on June 30, 2003.

These positive returns the Fund garnered masked a volatile financial market. Financial scandals

dominated the news in the first half of the fiscal year with large companies such as WorldCom, Tyco, Adelphia and ImClone consistently in the spotlight for accounting irregularities, insider trading and fraud. The growing lack of confidence in corporations and a slowing economy translated into a -7.5 percent first quarter return for the Fund in fiscal 2003 - the worst quarterly return in the Fund's history.

During the second quarter, which ended on December 31, 2002, the Fund's return improved by 4.4 percent. However, uncertainty regarding war in Iraq loomed over the financial markets. By March 31, the third quarter's end, that war had become a reality. A -1.8 percent third quarter return pulled the Fund's cumulative

returns for the first nine months of fiscal 2003 back into negative territory, at -5.2 percent.

By the fourth quarter, concerns about a prolonged war had subsided. That outcome combined with mixed signs of corporate earnings to produce stock market returns in excess of 15 percent in the United States and over 19 percent in the international equity market. These stronger equity markets boosted the Permanent Fund's fourth quarter performance to just over a 10 percent return, rounding out the overall return for fiscal 2003 to 4.5 percent.

### THE FUND: RESERVED ASSETS AND THE REALIZED EARNINGS ACCOUNT

The Fund is divided into two components: the reserved assets, which are constitutionally protect-

ed from appropriation and the realized earnings account, which may be appropriated. (A discussion about how the Fund accounts for unrealized gains and losses in the reserved assets can be found on page 24 of this annual report.) In fiscal 2003, the contributions and appropriations portion of the Fund's reserved assets grew from \$21.9 billion to \$23.0 billion. Three sources contributed to this increase: \$397.6 million is attributed to dedicated State revenues, \$352.0 million from inflation proofing and \$354.2 million from special legislative appropriations. Inflation proofing and the special appropriation were both funded from the Permanent Fund's realized earnings account.

During fiscal 2003, the unrealized appreciation portion of the reserved assets, which represents the change in the Fund's market value, grew from \$505.2 million to \$1.1 billion. The realized earnings account (stock dividends, bond interest, real estate income and gains and losses from the sales of assets) decreased from \$1.1 billion to \$100.0 million. The realized earning account was reduced by the amounts required to fund the dividend (\$690.7 million), to inflation proof Fund principal (\$352.0 million) and to transfer a special legislative appropriation of \$354.2 million into the Fund's reserved assets.

### OTHER HIGHLIGHTS

As noted in the Chair's report, Governor Murkowski is allowing

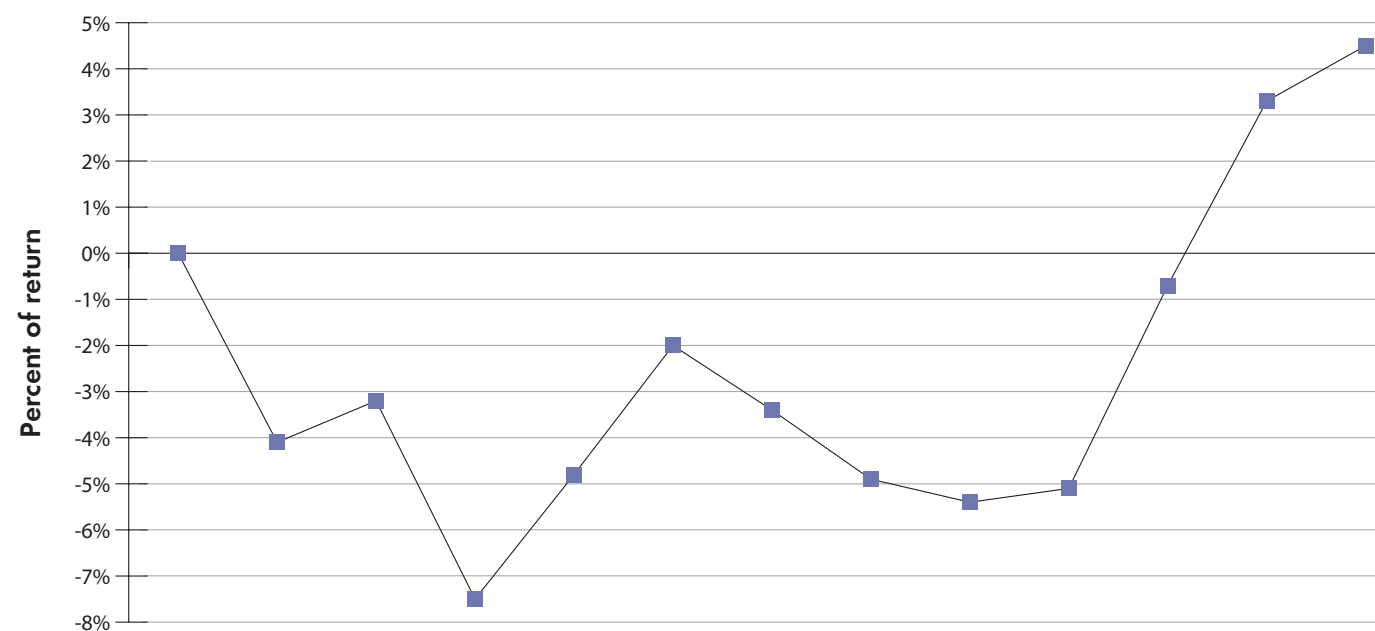
existing Board members Clark Gruening and Eric Wohlforth to serve out their terms, enabling them to share their years of investment management experience to benefit new Trustees. The two cabinet members serving on the new Board are Attorney General Gregg Renkes and Commissioner of Revenue Bill Corbus. Steve Frank of Fairbanks and former Board Chair Carl Brady of Anchorage were appointed to fill the two vacant public member Board positions. ■

Sincerely,



Robert D. Storer  
Executive Director

Cumulative month-to-month Fund returns in FY03



Total Fund return

Percent	0.00	-4.07	-3.18	-7.52	-4.83	-1.99	-3.44	-4.93	-5.35	-5.19	-0.68	3.32	4.46
Date	6/30	7/31	8/31	9/30	10/31	11/30	12/31	1/31	2/28	3/31	4/30	5/31	6/30



Goldbelt Place in Juneau, a real estate investment property of the Alaska Permanent Fund, is also the location of the Alaska Permanent Fund Corporation offices.

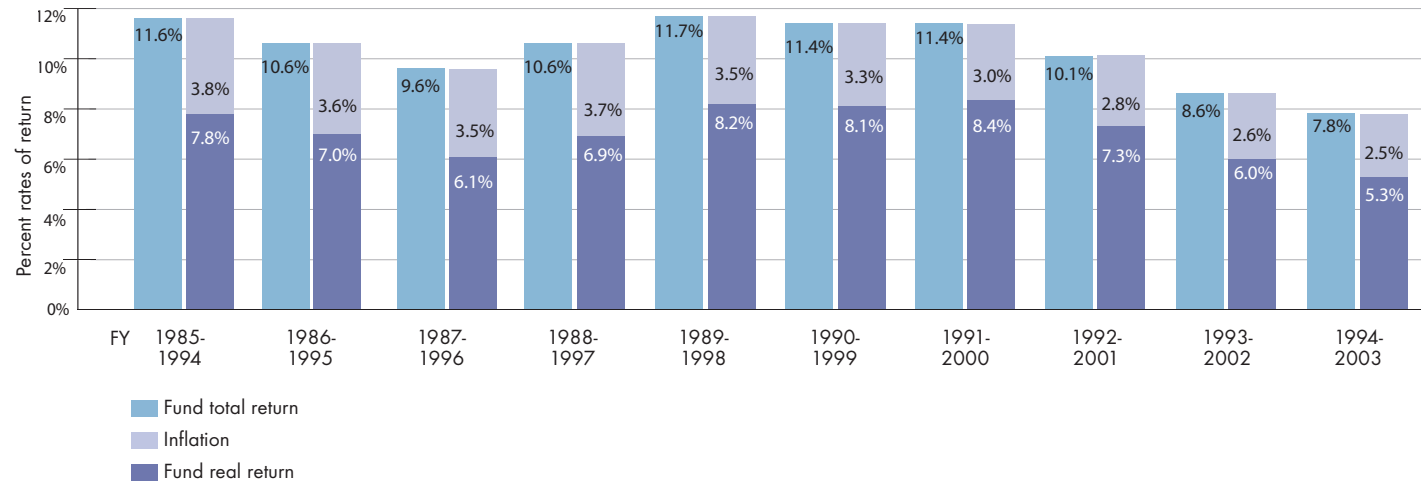
## INVESTING FOR THE LONG TERM

To achieve a target total rate of return, the Board of Trustees of the Alaska Permanent Fund Corporation manages risk by strategically allocating the Fund among stocks, bonds and real estate investments. Different types of assets are influenced differently by factors such as the economic cycle, interest rates, inflation and fiscal policy. A mix of asset types whose returns move out of phase with one another moderates the total Fund's volatility.

Each year, on the advice of its consultant, the Board fine-tunes its asset allocation to adjust to changes in the market environment. Its current goal is to earn about five percent over the rate of inflation in the long run. That means that in any ten-year period, the average real returns (after inflation) of the Fund should be around five percent. The charts below illustrate how the Fund has been doing.

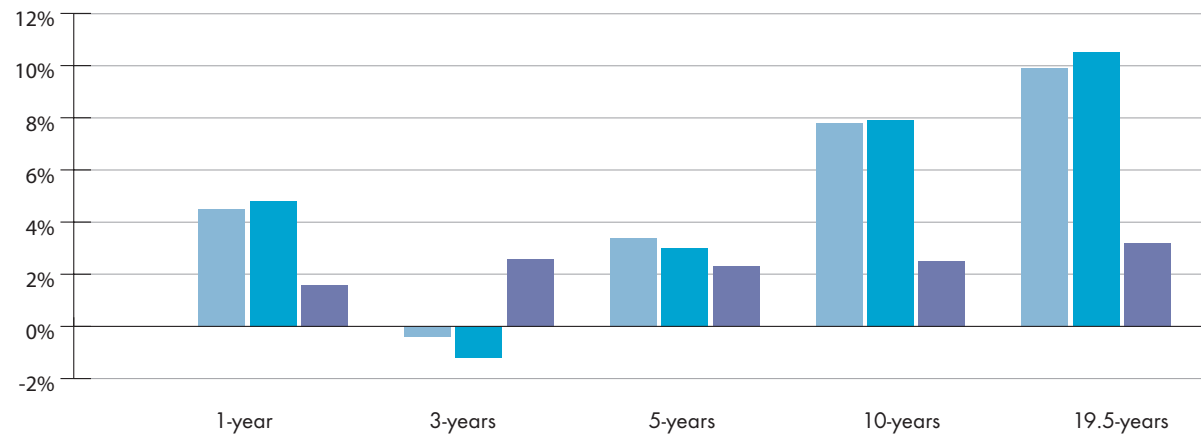
### Rolling 10-year returns

annualized returns for period ending June 30, 2003

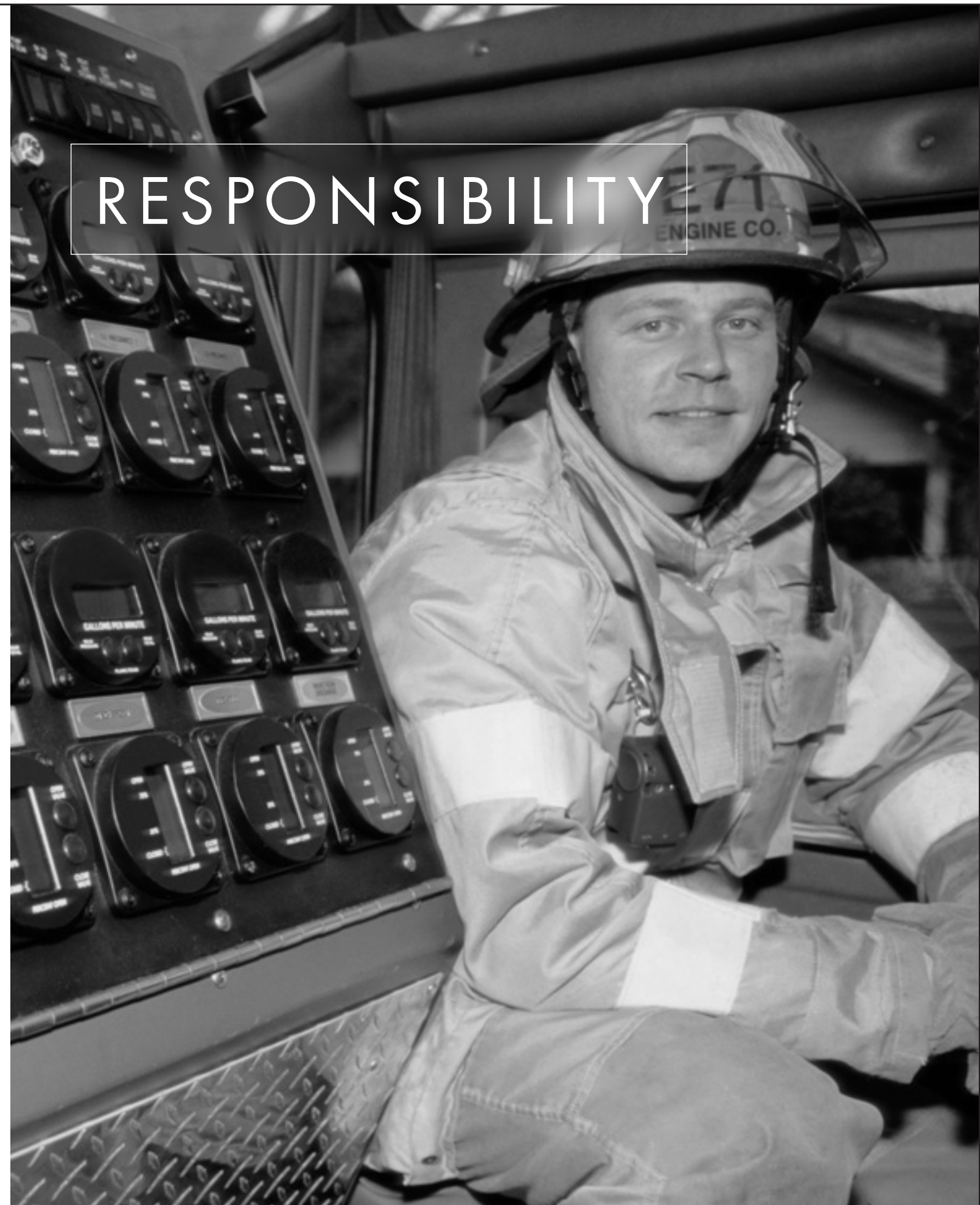


### Fund's long-term investment performance

annualized returns for period ending June 30, 2003



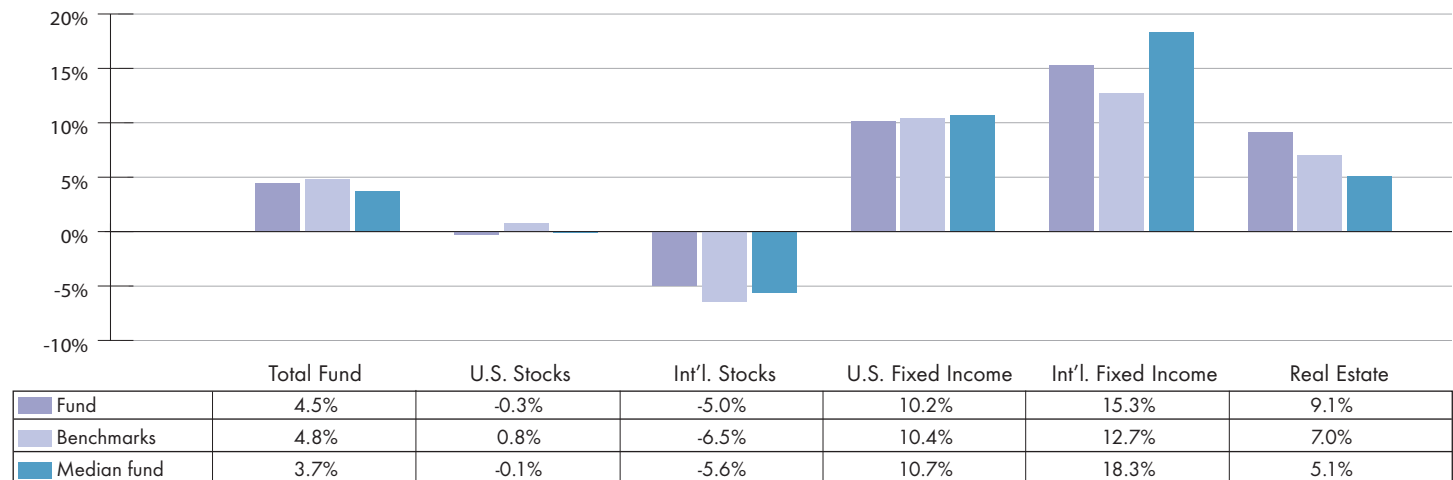
	1-year	3-years	5-years	10-years	19.5-years
Fund	4.5%	-0.4%	3.4%	7.8%	9.9%
Benchmarks	4.8%	-1.2%	3.0%	7.9%	10.5%
Inflation	1.6%	2.6%	2.3%	2.5%	3.2%





# VALUES

Fund fiscal '03 performance



## Alaska Permanent Fund - Asset Allocation

Dollars in millions as of June 30, 2003 (including cash held by managers)

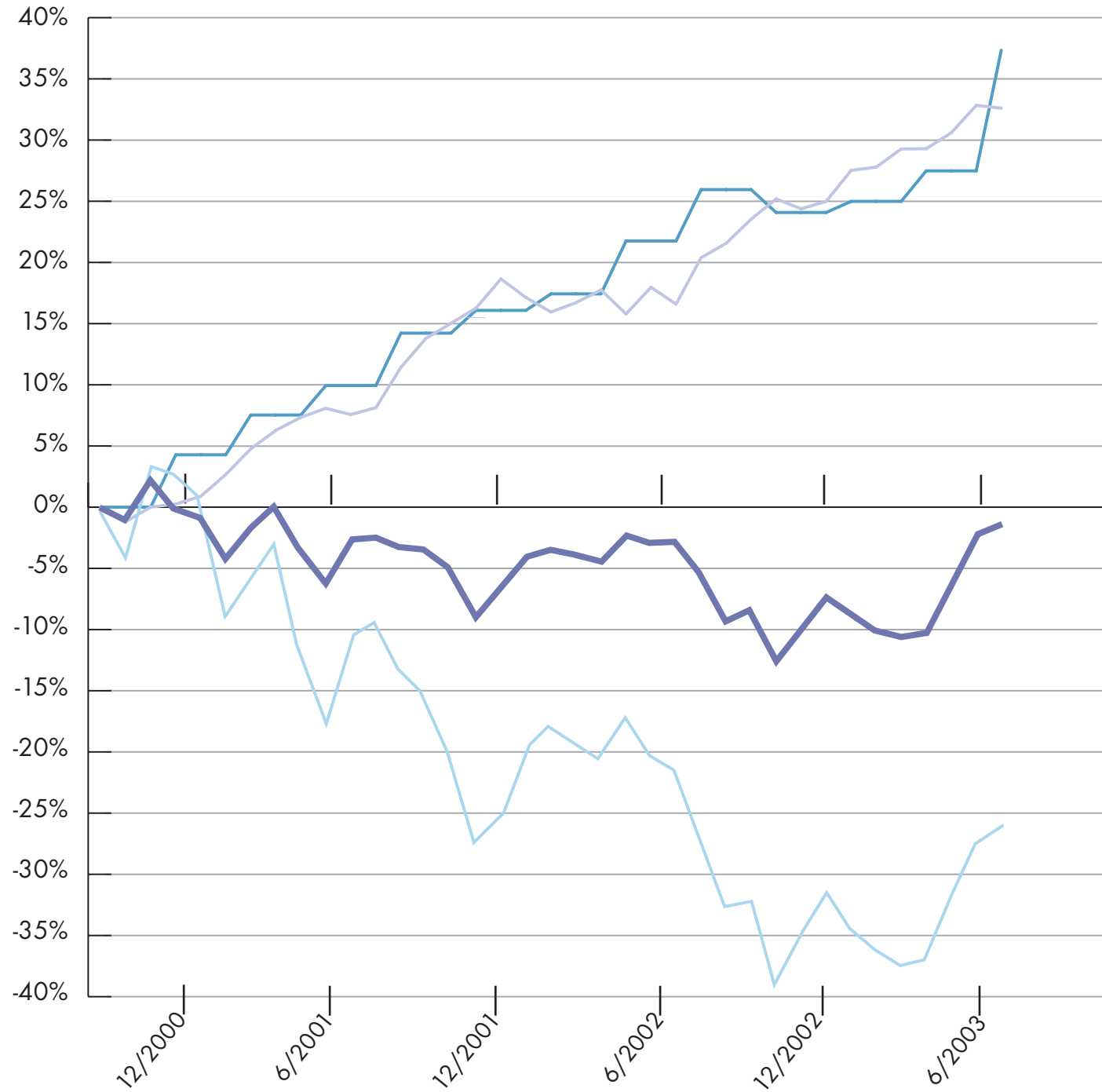
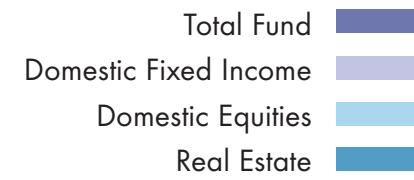
	Market value	Percent of total Fund	Target allocation
<b>FIXED INCOME</b>			
<b>U.S. active managers</b>			
APFC - Internal Fixed Income	7,832	31.4%	32% +/- 7%
Alaska Permanent Capital Management	286	1.1%	
UBS Asset Management	360	1.4%	
Alaska CD Program	197	0.8%	
<b>Total U.S. managers</b>	<b>\$ 8,675</b>	<b>34.7%</b>	
<b>International managers</b>			
Julius Baer	550	2.2%	5% +/- 2%
Rogge Global Partners	620	2.5%	
<b>Total international managers</b>	<b>\$ 1,170</b>	<b>4.7%</b>	
<b>Total fixed income</b>	<b>\$ 9,845</b>	<b>39.4%</b>	<b>37% +/- 5%</b>

	Market value	Percent of total Fund	Target allocation	
<b>STOCKS</b>				
<b>U.S. active managers</b>				
Alliance Capital	162	0.6%	37% +/- 7%	
UBS Asset Management	645	2.6%		
Dodge & Cox	442	1.8%		
Dresdner RCM - Large Cap	1,104	4.4%		
Lazard Freres	508	2.0%		
McKinley Capital Management	178	0.7%		
Putnam Investments	466	1.9%		
Tukman Capital Management	408	1.6%		
Capital Guardian - Small Cap	411	1.6%		
Dresdner RCM - Small Cap	293	1.2%		
T. Rowe Price - Small Cap	320	1.3%		
Martingale Asset Management	90	0.4%		
Turner Investment Management	57	0.2%		
Cordillera Asset Management	114	0.5%		
<b>Total U.S. active managers</b>	<b>\$ 5,198</b>	<b>20.8%</b>		
<b>U.S. passive managers</b>				
Northern Trust S&P 500	3,187	12.8%		15.0%
Northern Trust S&P 1000	561	2.2%		
<b>Total passive stocks</b>	<b>\$ 3,748</b>	<b>15.0%</b>		
<b>Total U.S. stocks</b>	<b>\$ 8,946</b>	<b>35.8%</b>	<b>37% +/- 7%</b>	
<b>International active managers</b>				
Capital Guardian	545	2.2%	11.4%	
Clay Finlay - Europe	509	2.1%		
Schroders Pacific Rim	157	0.6%		
UBS Asset Management	647	2.6%		
Lazard Freres	510	2.0%		
Schroders Capital Management - Emerging Markets	198	0.8%		
Capital Guardian - Emerging Market	271	1.1%		
<b>Total international active managers</b>	<b>\$ 2,837</b>	<b>11.4%</b>		
<b>International passive managers</b>				
Northern Trust EAFE	1,141	4.6%		16% +/- 5%
<b>Total international passive managers</b>	<b>\$ 1,141</b>	<b>4.6%</b>		
<b>Total international stocks</b>	<b>\$ 3,978</b>	<b>16.0%</b>	<b>16% +/- 5%</b>	
<b>Total stocks</b>	<b>\$ 12,924</b>	<b>51.8%</b>	<b>53% +/- 5%</b>	

	Market value	Percent of total Fund	Target allocation
<b>REAL ESTATE</b>			
<b>Direct investments</b>			
CB Richard Ellis	358	1.4%	5.7%
Henderson Investors	26	0.1%	
Kennedy Property	182	0.7%	
L&B Property	141	0.6%	
LaSalle Property	511	2.1%	
Sentinel I & II	196	0.8%	
<b>Total real estate - direct</b>	<b>\$ 1,414</b>	<b>5.7%</b>	
<b>Other</b>			
AEW REITs	419	1.7%	3.1%
AEW Capital Management	169	0.7%	
Wellington Management	174	0.7%	
Other/Opportunistic	8	0.0%	
<b>Total real estate - other</b>	<b>\$ 770</b>	<b>3.1%</b>	
<b>Total real estate</b>	<b>\$ 2,184</b>	<b>8.8%</b>	<b>10% +/- 2%</b>

## The effect of diversification

Three-year cumulative returns



## EQUITIES

Domestic and international equities in fiscal 2003 fully lived up to their volatile reputations: they were down, then up, then back down, then up again on a quarter-to-quarter basis. Domestic stocks, as indicated by the S&P

500 Index, emerged from the roller coaster ride with a positive return of 0.25 percent for the fiscal year. While barely positive, it represents a significant improvement over the prior two years, in which the Fund experienced con-

secutive double-digit, negative returns in its U.S. stock portfolio.

International stocks fell even harder early in fiscal 2003. Failing to climb back to their beginning levels, they ended the



ETHICS

year with a loss of -6.5 percent, as indicated by an international equity index, the Morgan Stanley Capital International Equities Index for Europe, Asia and the Far East (MSCI EAFE).

By the end of the fiscal year, stock market observers focused on the strength of the June quarter, not the entire twelve-month period. For that final quarter, the S&P 500 returned 15.4 percent, a rate not seen since the height of what is now known as the stock market "bubble" of the late 1990s. Small stocks, as indicated by the Russell 2000 Index, did even better, producing 23.4 percent for the quarter. Note, however, that even these healthy rebounds did not fully offset previous losses for the year. The Russell 2000 Domestic Small Stock Index, including the rally in the final quarter, ended the full fiscal year with a negative -1.6 percent return. Similarly, the -6.5 MSCI EAFE overall return for international stocks was enhanced by the inclusion of the fourth quarter 19.3 percent return.

Market watcher prognosticators who pay more attention to short-term action than to longer-term results declared the bear market over by the end of the fiscal year. Whether that call is accurate will only be known in retrospect. The APFC employs a disciplined long-term investment strategy. For this reason, the Board of Trustees determines the equity exposure that is appropriate to the Fund's long-term investment objective

and ensures that the Fund's allocation to equities remains within a band around that target. The APFC's exposure to equities ranged between the 48 percent lower limit of the equity band and the 53 percent target throughout most of the fiscal year. Equities dipped below the lower limit at the end of September 2002. The Board promptly rebalanced this asset class back within the band in early October.

Active management added value to the Fund in the domestic small-cap and international equity areas, but in fiscal 2003, passive management prevailed in domestic large-cap stocks and in the Fund's equity portfolio overall. Large-cap domestic equity returned -0.1 percent for the year versus its Russell 1000 benchmark of 0.95 percent. Small and mid-cap domestic equities were more fortunate, returning -0.8 percent, compared to its Russell 2000 benchmark of -1.6 percent. On the international front, APFC equities returned -5.0 percent, substantially better than the benchmark EAFE index return of -6.5 percent. The Fund's emerging markets portfolio was a strong factor, contributing 7.0 percent to its international equities out performance.

Looking at individual managers, Putnam Investments' domestic large-cap portfolio returned 2.6 percent. But it is interesting to note that Dodge & Cox Investment Management's 0.9 percent return actually represented a better relative perform-

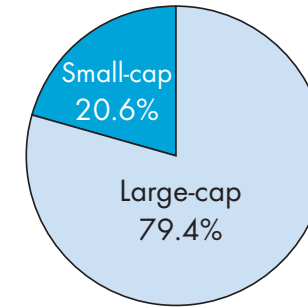
ance. This is because Putnam manages large, growth-oriented stocks, which returned 2.9 percent for the year, as indicated by a representative growth index. Dodge & Cox, on the other hand, manages large-cap, value-oriented stocks, which returned -1.0 percent for the year. Relative to the expectations for each, Putnam produced about what was expected, while Dodge & Cox produced more than was expected.

The APFC hired three new small-cap managers during the year. Among them, Cordillera Asset Management and Martingale Asset Management did well for that part of the fiscal year during which they were funded. The third new manager of that group, Turner Investment Management, lagged slightly behind expectations. A large-cap value manager, Tukman Capital Management was hired and funded early in the fiscal year. It performed well for most of the year, but fell behind its benchmark in the fourth quarter. ■

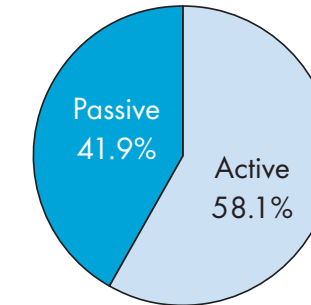
Non-U.S. stocks by region as of June 30, 2003	
Europe ex U.K.	45%
United Kingdom	25%
Americas	3%
Asia ex Japan	10%
Japan	16%
Other	1%

## APFC domestic stock structure

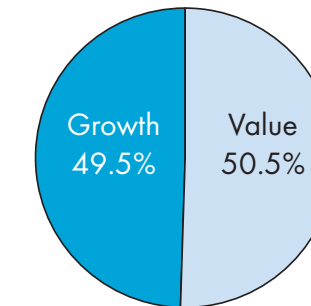
Company capitalization as of June 30, 2003	
	Dollars
Large-cap	\$7.1 billion
Small-cap	\$1.8 billion
<b>Total</b>	<b>\$8.9 billion</b>



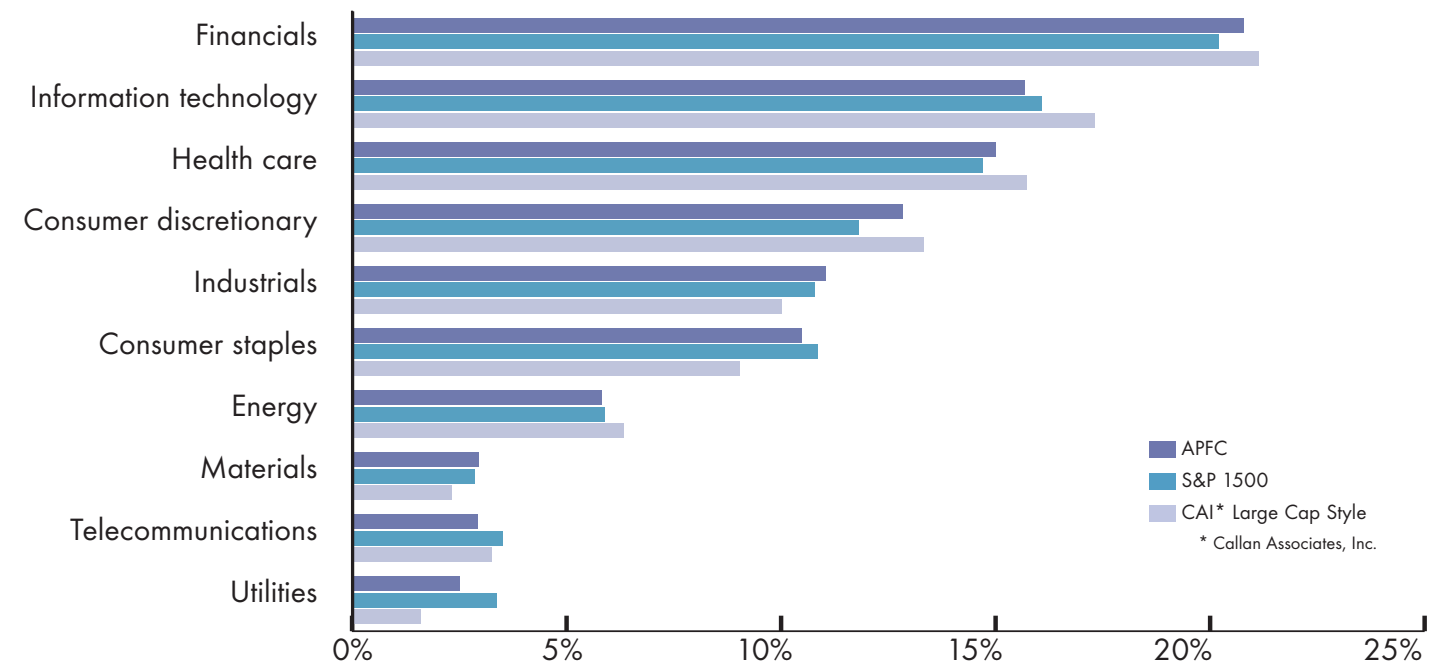
Active and passive management styles	
	Dollars
Active	\$5.2 billion
Passive	\$3.7 billion
<b>Total</b>	<b>\$8.9 billion</b>



Growth v. value management styles	
	Dollars
Value	\$4.5 billion
Growth	\$4.4 billion
<b>Total</b>	<b>\$8.9 billion</b>



## Sector allocation as of June 30, 2003



## FIXED INCOME

On June 30, 2003, the APFC's fixed income portfolio wrapped up a third great consecutive year with both domestic and foreign bonds producing double-digit returns. For the three-year period that ended in June, the Fund's domestic fixed income benchmark, the Lehman Brothers U.S. Aggregate Bond Index, returned a 10.1 percent annualized return – over 21 percent per year better than stock returns as measured by the S&P 500 Index for the same period. That comparison reinforces the point we've emphasized during the past three years; there is genuine value in diversification.

Domestically, the benchmark returned 10.4 percent for the 2003 fiscal year. However, this

great result masks significant turmoil during the year. The first quarter began with terrible performance by corporate bonds in high contrast to U.S. Treasury securities' tremendous performance. The performance difference between these two sectors stood at three percent at the end of September and diverged further through October. By the end of December 2002, however, the turbulence had subsided for those securities tied to credit risk, such as corporate bonds.

During fiscal 2003, the interest rate on the 10-year U.S. Treasury note had declined from 4.8 percent to 3.5 percent. Bond prices rose – meaning yields fell – from near the beginning of the fiscal

year and didn't really stop falling until about two weeks before the end of the fiscal year. Federal Reserve overnight rates began the fiscal year at the same 1.75 percent that had prevailed since December 2001. On November 6, 2002, the Federal Reserve Open Market Committee cut the rate to 1.25 percent. Then, just five days before the end of the fiscal year, it cut the rate by 0.25 percent (25 basis points) to 1.0 percent and pronounced the economic risks balanced, albeit with a greater risk of price deflation than price inflation.

One of the most interesting things about the year was that the strategies pursued by the three domestic fixed income managers differed considerably. At times, those differences resulted in widely divergent performance statistics. In the end, however, the range between the highest and lowest performances was only three basis points. All three managers had minor shortfalls in their performances as compared to the benchmark at 10.4 percent. The internally managed portfolio returned 10.2 percent, while the two external managers, Alaska Permanent Capital Management Company and UBS Global Asset Management, returned 10.2 percent and 10.1 percent respectively.

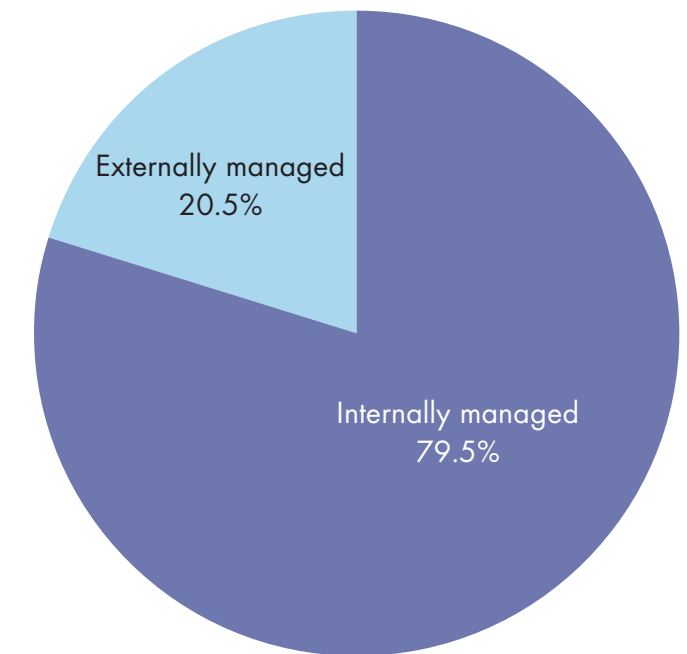
Expanding the comparison among the domestic managers across the most recent three fis-

cal years, the benchmark returned 10.1 percent per year, versus 9.9 percent for both the internal portfolio and for UBS Global Asset Management, and 9.5 percent for Alaska Permanent Capital Management Company. It is usually more difficult for active bond managers to beat a benchmark during periods when the bond market is in full rally mode, as it has been for several years.

The very satisfactory 15.3 percent return from the Fund's international bond investments in fiscal 2003 handily beat the 12.7 percent return of their international index, with both external managers outperforming the benchmark. The index by which we measure non-dollar manager performance is the Salomon Brothers World Government Bond Index (excluding the U.S.) and adjusted for a 50 percent hedge on the foreign currencies.

As in domestic bonds, the ultimately robust return from international bonds belied underlying turmoil throughout the year. For example, on June 30, 2002, the euro could buy 0.99 U.S. dollars. That exchange rate grew to 1.19 U.S. dollars per euro, a gain of 20 percent, at its greatest divergence during the fiscal year. Interest rates overseas were nearly as volatile as they were in the U.S. and rallied just as strongly. For example, 10-year German yields fell from 5.2 percent to 3.9 percent during fiscal 2003.

## Fixed income management as of June 30, 2003

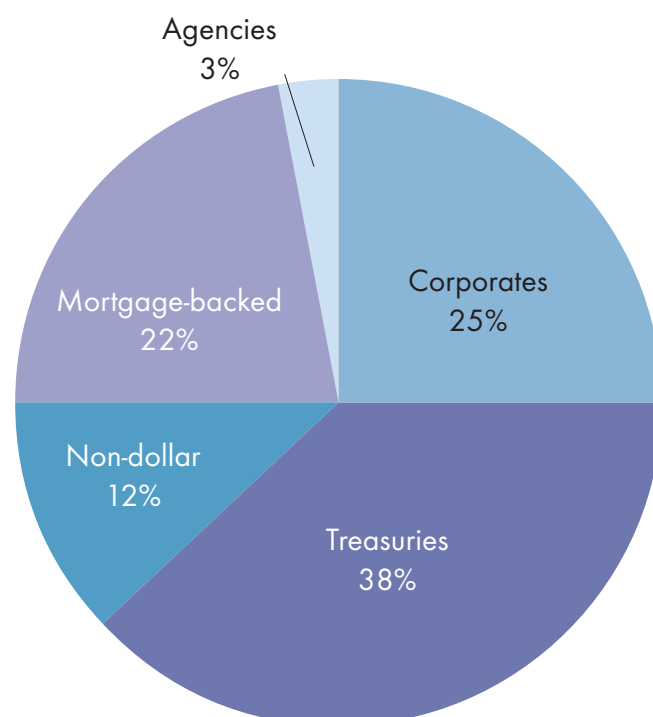


The APFC's benchmark index for the three-year returns from non-dollar bonds has averaged 7.7 percent per year. Both of the Fund's non-domestic fixed income managers exceeded that mark nicely with an 8.8 percent return for Julius Baer and 8.4 percent for Rogge Global Partners.

**DIVERSIFICATION AND REBALANCING** Few investment principles are more frequently cited than "buy low, sell high." With bonds in fiscal 2003 continuing to outperform stocks by such a wide margin, APFC Trustees illustrated that maxim through periodic rebalancing of the asset mix back to their target allocation of 37 percent fixed income. Adhering to our rebalancing discipline requires the APFC to take proceeds from an asset class that has exceeded the high end limit of its target allocation and move that money through buying the securities in

an asset class that has declined near or below the lower limit of its target allocation. The APFC has been doing just that; we are systematically selling bond assets that have gone up in price to buy equity assets with low prices. Alternatively, some Alaskans may recall during the "bubble" years when stocks were rising, the Fund's money was flowing in the opposite direction – from stocks to bonds. In fiscal 2003, the Board reallocated funds from bonds to stocks in October 2002. At the end of the fiscal year, the Board approved funding the dividend payment in July 2003 entirely from domestic bonds, thereby again rebalancing the three major asset classes back within their target ranges. ■

## Composition of bonds as of June 30, 2003



## REAL ESTATE

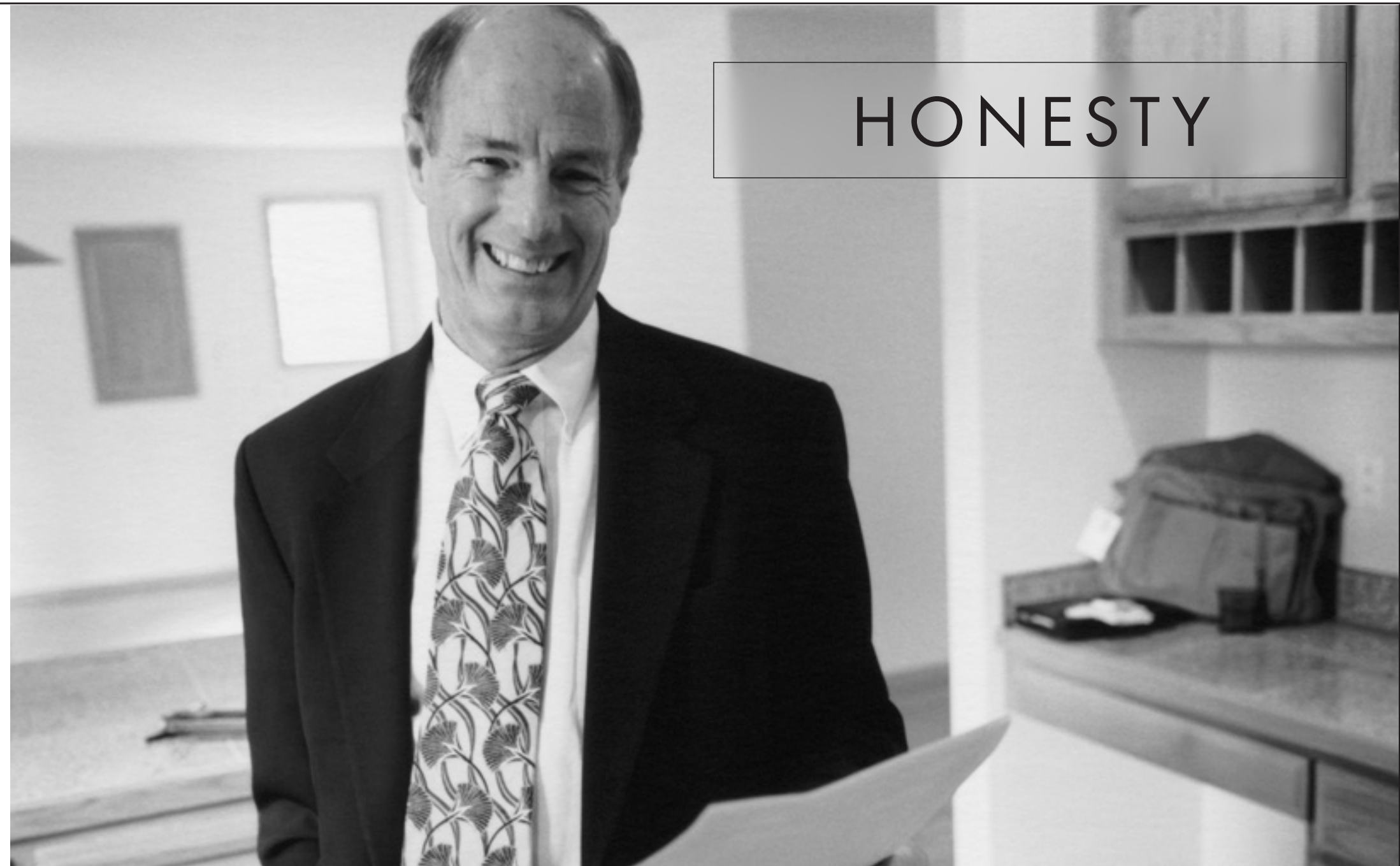
Real estate continued to make a positive contribution to the Fund throughout fiscal 2003, although the annual return was slightly below the long-term average. It was also notable that returns displayed more volatility on a quarter-to-quarter basis. Rent income from the Fund's properties this year declined somewhat, perhaps due to slow economic growth and subdued expectations for business activity. However, the price of high quality real estate continued to climb during the year, apparently driven by demand from capital flowing into the real estate market.

The APFC portfolio of directly owned (equity) properties comprises 65 percent of the total real estate portfolio and produced a 10.1 percent return for the fiscal year. This compares favorably to the 6.2 percent return for the NCREIF\* Index, which is the Fund's benchmark for real estate equity. The remaining one fourth of the APFC's real estate portfolio consists of Real Estate Investment

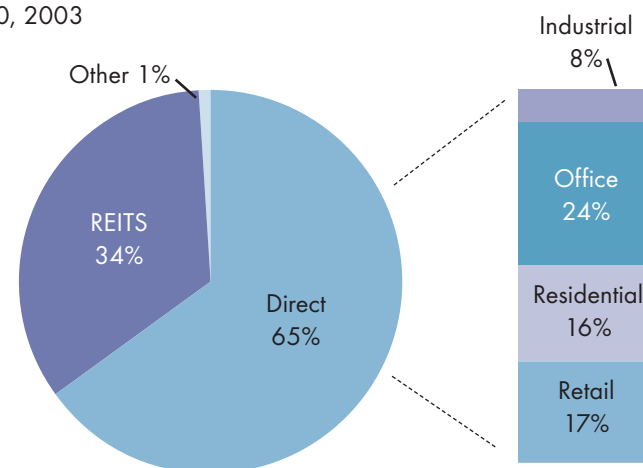
Trust Securities (REITS). REITS returned 4.9 percent this year; another favorable result, as compared to the 3.9 percent earned by their benchmark, the Morgan Stanley REIT (RMS) Index.

Overall, the APFC real estate program returned 9.1 percent, nicely outperforming its combined benchmark of 7.0 percent. This very solid performance is even more pronounced when considering that the NCREIF portion of the benchmark reflects returns before the cost of management fees is deducted, while the APFC figure shows the net return — after management fees are deducted.

The APFC made no new direct equity real estate purchases this year. It focused instead on the sale of nine properties that collectively returned \$246.2 million in proceeds. The APFC sold its largest office property, Warner Center, in Los Angeles, as well as two other office properties; the



**Real estate diversification**  
as of June 30, 2003



Frontier Building in Anchorage and 1701 K Street in Washington, D.C. Purchased in 1994, 1701 K had been the Fund's first wholly owned property. The APFC also sold five multifamily residential properties: Sawgrass Apartments, The Polo Club Apartments, Remington Station Apartments, The Wyndham Apartments and Zia Vista Apartments. Lastly, it sold Orland Towne Center, a retail mall located in a Chicago suburb.

The APFC also completed the liquidation of its \$216.6 million commercial mortgage-backed securities portfolio, a process that had begun at the end of fiscal 2002. Finally, the APFC finished selling \$70.8 million in privately held REIT shares. The APFC's valuation policies warranted the write down of three properties by a total of \$63.8 million to reflect losses of value due to local market conditions. On June 30,

2003, the Fund's real estate investments closed at \$2.1 billion, about \$483 million below the close of fiscal 2002.

Real estate transactions, changes in property values, and contributions to other asset classes collectively resulted in an underweight in allocation to real estate by the year's end. However, at that point, market conditions still favored sellers of real estate

rather than buyers, due in large part to low interest rates. This, with the sustained conditions of lower rental income and higher values for the high quality properties that the Fund purchases, has left the APFC's advisors urging caution and careful underwriting on any new acquisitions as the year closed out. ■

\*National Council of Real Estate Investment Fiduciaries

## THE 5% SOLUTION

The Board of Trustees of the Alaska Permanent Fund Corporation is required to manage the assets of the Fund for current and future generations. Imbedded in that charge is the responsibility to maintain purchasing power of the Fund to ensure that all generations of Alaskans benefit equally from the Fund.

Historically, maintaining the purchasing power of the Fund was addressed by inflation proofing the principal of the Fund. In the early 1980s, legislation was enacted that established a formula using the Consumer Price Index to achieve the goal. After years of study, the Trustees believed that the payout method adopted by many foundations and endowment funds is a superior method to maintain the purchasing power of the Fund and to meet contemporary investment approaches.

The Board has proposed a solution to meet modern investment theory and inflation proof the Fund. Removing the distinction between reserved assets and earnings of the Fund and adopting a Percent of Market Value (POMV) payout methodology will provide the solution.

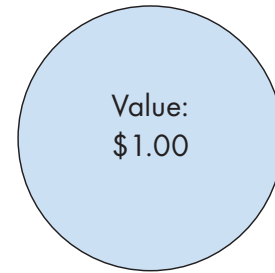
### Protection

POMV would provide constitutional inflation proofing protection of the entire Fund, while the current, statutory method only inflation proofs contributions and appropriations to the Fund.

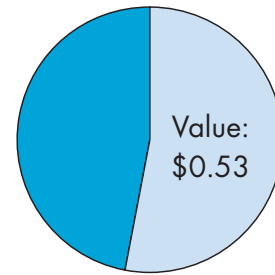
Inflation is projected to average three percent annually and investments are projected to earn five percent in excess of inflation over the long term. To protect the Fund, under POMV each year's payout of Permanent Fund earnings would be limited to five percent of the Fund's average market values over a five-year period. Over time, payouts would match after-inflation earnings, meaning that the Fund's total value would grow to offset inflation.

Inflation proofing is necessary to preserve the buying power of the fund over time. A dollar in 1982 is only worth 53 cents today. Fortunately, the Legislature has seen the wisdom of inflation proofing the Fund, and has made the necessary appropriations each year to do so. Building in inflation proofing through POMV helps ensure that the Fund's value is preserved and eliminates the need for annual legislative appropriations.

### Why is inflation proofing necessary?



\$1 in 1982



1982 dollar in 2003

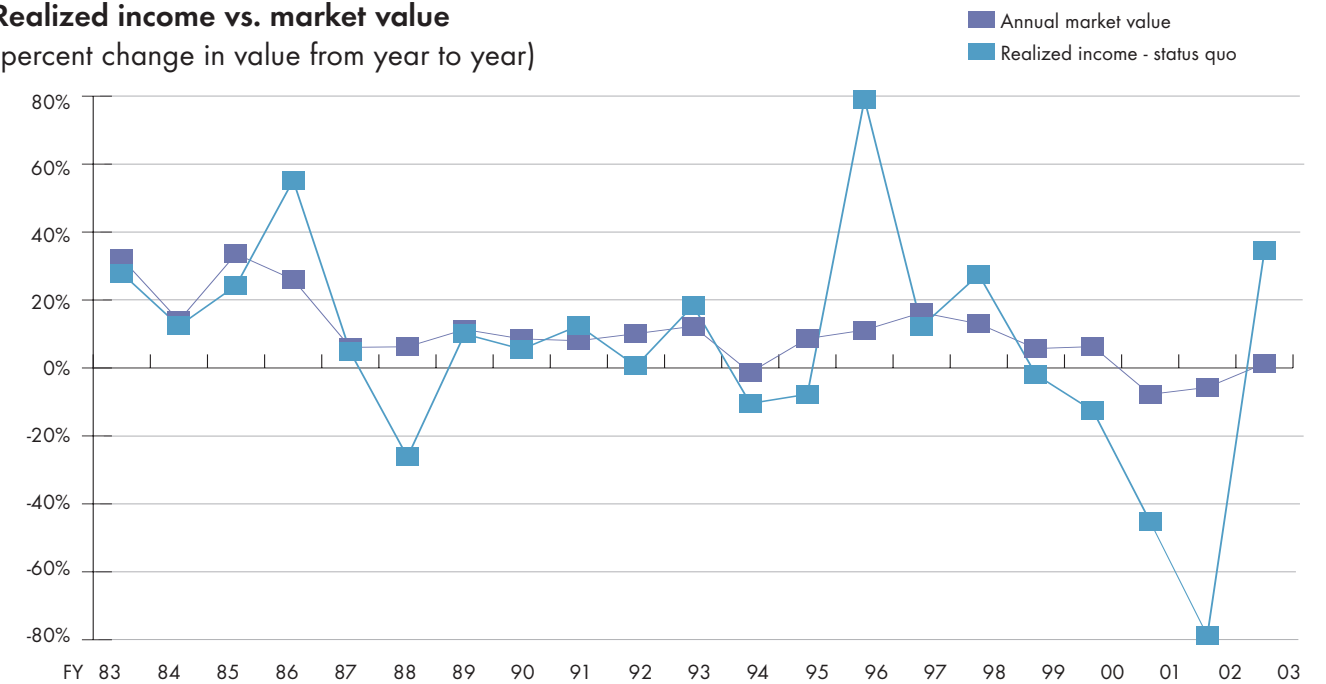
### Predictability and stability

Under POMV, appropriations of up to five percent of the Fund's average market value would be available to Alaskans each year, regardless of market ups or downs. Because the current payout method is based on realized income of the Fund, payouts may vary dramatically from year to year. In fact, the sale of assets to keep the Fund within asset alloca-

### Volatility

#### Realized income vs. market value

(percent change in value from year to year)



tion guidelines could produce realized gains, and therefore the amount available for appropriation would be affected. Appropriating those realized gains would erode the Fund's purchasing power.

POMV imposes a discipline that prevents overspending in the good years but also makes distributions available in the down years. POMV payouts based on the Fund's average market value

will be far more consistent in size from year to year than the current method of payouts based on realized earnings. This increased stability would allow for better planning.

### Compatibility

The Permanent Fund is invested in stocks, bonds and real estate. POMV is compatible with this diversified, long-term investment strategy, designed to achieve a five percent real rate of return

over time. The Fund's current payout method was designed a quarter century ago, when the Fund was invested one hundred percent in bonds. For a fund invested in bonds, it made sense to distinguish between principal and income because bonds provide a stable rate of return and could be held until maturity. For an actively managed, diversified fund in which a significant portion of the total return comes from appreciation of assets that include stocks

and real estate, it makes sense to eliminate the distinction between principal and income. The chart above shows that the current realized income has varied significantly, while the Fund's market value stayed more stable. Basing the payout on a five-year average of market values will make it more stable from year to year. ■

### What is POMV?

A formula that uses a percent of a fund's total market value to determine the size of annual payouts while protecting against inflation.

### How does POMV work?

Average inflation	3% a year
Expected real return	<u>5% a year</u>
	8% a year

Even with annual payouts of up to 5 percent, the Fund still holds 3 percent of each year's growth, which provides for built-in inflation proofing.

### Alaskans provide the solution

It was the people of this state who made the monumental decision in 1976 to begin saving a portion of our one-time oil wealth and that decision has proven visionary. Now it is time for the people of Alaska to make another decision if they want to limit spending and protect the Fund for the future.

A constitutional amendment to eliminate the distinction between principal and earnings, and to enact a five percent POMV spending limit, has been introduced in the Legislature as HJR 26 and SJR 18. If one of these resolutions passes the Legislature next session, the amendment will appear on the 2004 General Election Ballot and the people of Alaska will have a chance to protect their Permanent Fund.

# COMMITMENT



Ken Kimura of Anchorage interned at McKinley Capital Management in 2002 and 2003 through the APFC intern program. He attends Swarthmore College in Pennsylvania.

## COMMITMENT TO ALASKANS, FOR ALASKANS.

Most Alaskans think of the Permanent Fund as the source of the dividend checks that the state has been issuing to qualified Alaskans since 1982. However, the Alaska Permanent Fund Corporation (APFC), which manages the Fund, has involved Alaskans and Alaska businesses in the success of the Permanent Fund in a number of other ways throughout the years.

### APFC INTERN PROGRAM

In 1988, the Alaska Permanent Fund Corporation instituted an internship program that provides Alaska students access to the caliber of summer internships that are usually associated with some of the most exclusive colleges and universities in the nation. The APFC, 24 of its management firms

and its custodian bank have hired 169 interns to date through the program. Thirty-nine of those interns have been subsequently hired as full-time staff. Qualifications to participate in the APFC intern program are outlined in the intern section of our web site, [apfc.org](http://apfc.org), along with other information about the program.

*“Words can’t even do justice to express the benefits of the intern program.”*

*Matthew Miller of the University of Alaska Anchorage interned at Invesco.*

*“This internship at the Alaska Permanent Fund Corporation was an unforgettable experience.”*

*Glory Banaszak of the University of Alaska Southeast interned at the APFC Finance Department in 2003.*

### MONEY MANAGEMENT FIRMS IN ALASKA

The APFC has one external bond manager and one external stock manager based in Alaska. Together, these two firms are managing nearly half a billion dollars of Alaska money in our state.

### Alaska Permanent Capital Management

In the fall of 1996, the APFC hired the firm Alaska Permanent Capital Management (APCM) of Anchorage to run an active, broad market domestic bond portfolio. As of June 30, 2003, APCM had \$286 million under

management in its Permanent Fund portfolio.

### McKinley Capital Management

In 1999, the APFC hired Anchorage-based McKinley Capital Management for active management of a domestic growth stock portfolio. The APFC’s McKinley portfolio was worth \$178 million on June 30, 2003.

### LENDING MONEY TO ALASKA BANKS

To increase the volume of business loan capital available in Alaska, the APFC allocates up to

\$300 million to Alaska’s financial institutions in the form of a fully collateralized Certificates of Deposit Program. In 2003, two Alaska banks availed themselves of approximately \$200 million in the program. These investments help those banks to increase the money they have available for construction financing, commercial lending and other loan programs.

### ALASKA BROKERAGE ACTIVITIES

Recognizing that certain brokerage firms have invested significant financial and human resources in Alaska, the Alaska

*“I had a super time and everyone I met had really great attitudes and were very willing and eager to help me out.”*

*Jeremiah Atkisson of the University of Alaska Fairbanks interned at Julius Baer Investment Management, Inc.*



Bill Sobers, right, interned at Kennedy Associates’ Maryland office in 2003. He attends Alaska Pacific University.

Permanent Fund encourages money managers to execute equity trades with these firms. All trades are executed through the managers' existing relationships and must be comparable in price and commission with the

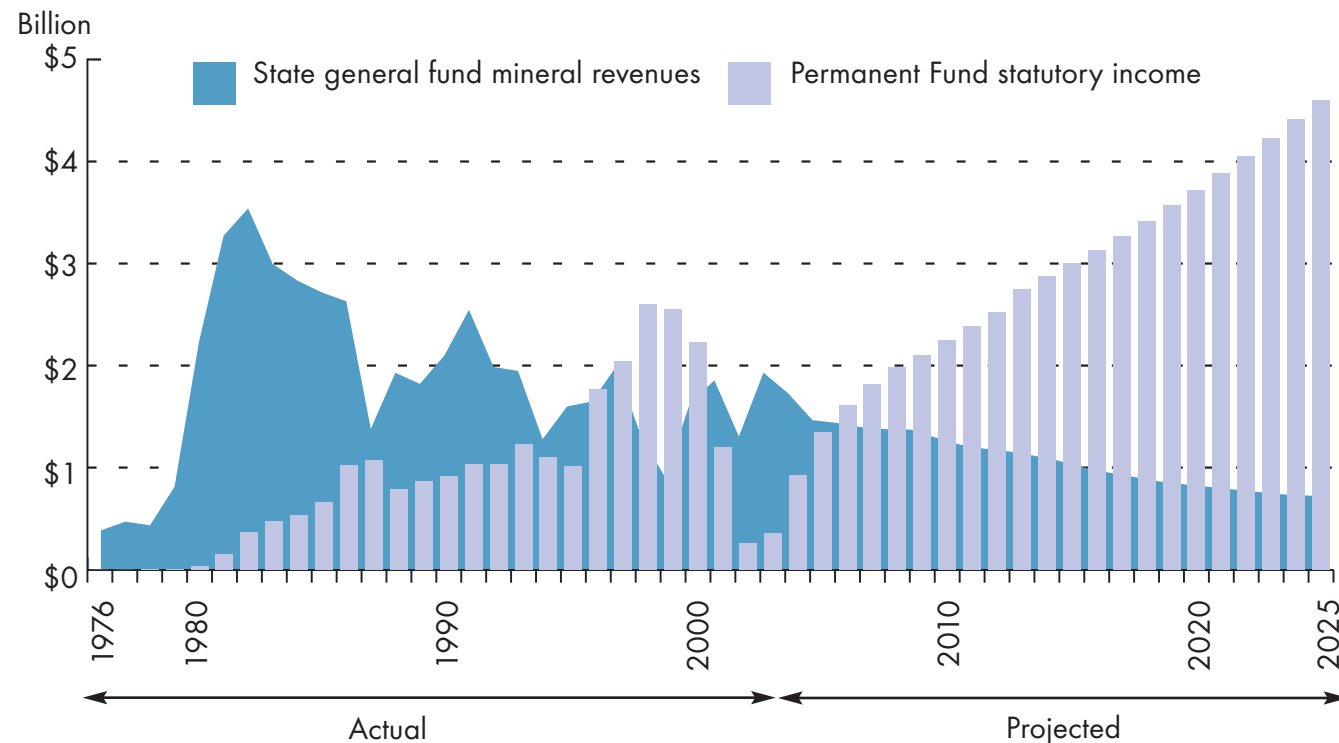
lowest cost options. A portion of the commission activity is shared with the offices located in Alaska and are typically distributed to meet wages and operating expenses.

*"On the whole, my experience here at Kennedy Associates has been amazing. From the very first day, everyone here has been friendly, patient and helpful. I've had a great time this summer and have learned more than I could have imagined."*

Brandon Stone of Ohio State University interned at Kennedy Associates' Seattle office in 2003.

### REAL ESTATE INVESTING IN ALASKA

Permanent Fund real estate assets are diversified by economic and geographic region and can be found all over the United States. For many years, the Fund has been a real estate investor in Alaska. At present, the Fund owns Goldbelt Place in Juneau, where its corporate offices are located, and is a co-investor in the Plaza Port West retail mall in Ketchikan. The Fund had been part of a lender group that made a loan in 1991 to the owners of the Frontier office building in Anchorage. That loan, which was secured by the building, was paid off during fiscal 2003. ■



[Visit apfc.org](http://apfc.org)

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ALASKA PERMANENT FUND CORPORATION

# ACCOUNTABILITY TO ALASKANS

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#### APFC completes transfer to Mellon fund

August 20 - The Alaska Permanent Fund Corporation (APFC) finalized the transfer of over \$215 million from Schroder's Emerging Markets portfolio to a Mellon International index fund on Monday

[Continue](#)

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#### APFC Board to meet on Sept. 5

August 25 - The APFC Board of Trustees will meet by videoconference on September 5. The videoconference will be based out of the APFC's Hugh Malone boardroom in Juneau and is open to the public. A full agenda, with the meeting location and teleconference information follows.

[Agenda](#)

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#### Fourth quarter rally produces positive year-end return

August 14 - A stock rally during the Permanent Fund's fourth quarter improved the Fund's total returns, from -0.7 percent in April to 3.3 percent in May and ending June (and the quarter) at a total return of 4.5 percent. As compared to June 30 one year ago, the Fund balance increase by \$0.7 billion.

[Fourth Quarter Report](#)

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#### Audit Committee to meet in Juneau

August 14 - The APFC Audit Committee will meet in Juneau on August 29. The public is invited to attend the meeting or participate by teleconference. A full agenda, with the meeting location and teleconference formation, follows.

[Agenda](#)

#### LEGISLATION

- **HJR 26**
- **SJR 18**
- **TRUSTEES' POMV RESOLUTION 03-05**
- **HOW POMV PROTECTS THE PERMANENT FUND**
- **POMV V. STATUS QUO**

#### APFC MISSION STATEMENT

To maximize the value of Alaska's Permanent Fund through prudent long-term investment and protection of principal to produce income to benefit all generations of Alaskans

#### LINKS

- PFD Homepage
- Managers & Consultants
- Benchmarks
- State of Alaska
- Other APFC-managed Funds
- Public Policy

#### APFC BOARD MEETINGS

Month	Meeting Type
SEPTEMBER	
5	Regular meeting
24-25	Annual meeting
NOVEMBER	
12-13	Regular meeting
DECEMBER	
4	Regular meeting

[MORE MEETINGS](#)

#### FUND CHARTS

The relationship of Fund income to state oil revenues: past and future

View: [PDF](#) [PPT](#)

#### REAL ESTATE

#### MORE NEWS

- Fund hires Mellon to manage passive equity portfolio
- Principal to receive special appropriation
- Board passes POMV resolution
- Brandy, Frank and Renkes appointments complete APFC Board
- Protecting Alaskan's interests

#### ANNUAL REPORT

2003 ANNUAL REPORT

[Agenda](#)

#### QUARTERLY

Fourth Quarter Report

#### FUND HISTORY

TRUSTEES' PAPERS VOL. V

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This *Management's Discussion and Analysis* is a section of the Alaska Permanent Fund's (Fund) annual report required by Governmental Accounting Standards Board Statement No. 34 (GASB 34). This section is intended to make the financial statements more understandable to the average reader not familiar with traditional accounting terminology.

This annual report has three integral parts: the narrative with charts and graphs preceding the financial statements, this *Management's Discussion and Analysis*, and the financial statements with the accompanying notes. Together, they present the Fund's financial performance during the fiscal year ended June 30, 2003. Prior fiscal year information is shown as needed for comparative purposes.

### REQUIRED FINANCIAL STATEMENTS

GASB 34 requires two financial statements: the *Balance Sheet* and the *Statement of Revenues, Expenditures, and Changes in Fund Balances*. These statements report financial information about the Fund's activities using accounting principles generally accepted in the United States of America.

### BALANCE SHEETS

The *Balance Sheets* report assets, liabilities and fund balances of the Fund. Fund balances are composed of reserved net assets, unavailable for appropriation, and unreserved net assets, which are available for appropriation, as of June 30, 2003 and June 30, 2002.

**Assets.** Assets represent the value of the Fund's investments on the financial statement dates, recorded at fair market value. Assets are the investments that generate revenue for the Fund, such as stocks, bonds and real estate, and also include cash,

receivables and prepaid expenses. Cash amounts represent not just cash but also short-term liquid investments. All assets are valued at their fair market, or recoverable, value as of the dates shown, except direct real estate holdings, which are valued under the equity method of accounting. The equity method of accounting is defined as cost plus the Fund's portion of the property's undistributed earnings.

**Liabilities.** Liabilities represent claims against the Fund, which are paid subsequent to June 30, 2003 and June 30, 2002.

**Fund balances.** Fund balances are categorized into two components, reserved and unreserved. Reserved fund balances, which are not available for appropriation, include all contributions received by the Fund, inflation-proofing transfers from the realized earnings account and special legislative appropriations. Also included in the reserved fund balance is the accumulated unrealized appreciation and

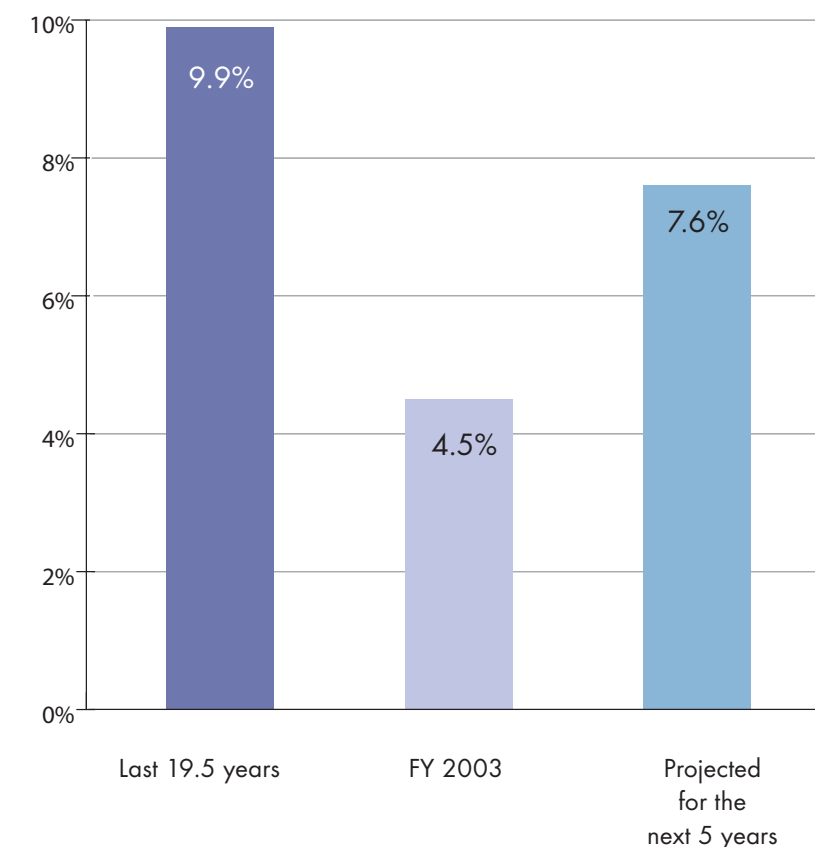
depreciation of invested assets pursuant to an Attorney General's opinion, dated June 18, 2003, that concluded the accumulated unrealized appreciation and depreciation of invested assets is not available for appropriation. Prior to the opinion, the reserved fund balances only included contributions and appropriations to the Fund (previously known as principal). Amounts in the prior period have been reclassified to conform to this current period financial statement presentation.

The unreserved fund balances, available for appropriation, include the realized earnings account as defined in Alaska Statute 37.13.140. The realized earnings account is where all income available for appropriation is accounted for and retained until distributed in accordance with law. The values shown for the realized earnings account are net of the deductions required for the Fund's recorded liabilities.

	As of June 30, 2003	As of June 30, 2002	\$ increase (decrease)	% change
<b>ASSETS</b>				
Cash	\$ 637,752,000	614,997,000	22,755,000	3.7%
Receivables, prepaid expenses and other	381,587,000	355,261,000	26,326,000	7.4%
Marketable debt securities	9,082,157,000	9,160,003,000	-77,846,000	-1.0%
Preferred and common stock	12,750,289,000	12,052,016,000	698,273,000	5.8%
Real estate	2,057,104,000	2,540,323,000	-483,219,000	-19.0%
Alaska certificates of deposit	196,802,000	78,592,000	118,210,000	150.4%
<b>TOTAL ASSETS</b>	<b>\$ 25,105,691,000</b>	24,801,192,000	304,499,000	1.2%
<b>LIABILITIES</b>				
Accounts payable	220,275,000	345,626,000	-125,351,000	-36.3%
Income distributable to State of Alaska	691,082,000	930,353,000	-239,271,000	-25.7%
<b>TOTAL LIABILITIES</b>	<b>\$ 911,357,000</b>	1,275,979,000	-364,622,000	-28.6%
<b>FUND BALANCES</b>				
Reserved - principal				
Contributions and appropriations	22,988,019,000	21,884,170,000	1,103,849,000	5.0%
Unrealized appreciation on invested assets	1,106,315,000	505,255,000	601,060,000	119.0%
Unreserved				
Realized earnings account	100,000,000	1,135,788,000	-1,035,788,000	-91.2%
<b>TOTAL FUND BALANCES</b>	<b>\$ 24,194,334,000</b>	23,525,213,000	669,121,000	2.8%

The table above shows the market value of Fund assets by type as of June 30, 2003 and 2002, as well as liabilities and fund balances. The mix of Fund assets reflects the asset allocation decisions made by the Board of Trustees of the Alaska Permanent Fund Corporation (APFC), implemented by APFC staff. The change in value of real estate reflects the sale of a number of private real estate assets. Other dollar and percentage changes in the value of the assets, between those two points in time, are due to three primary factors: a reduction of assets caused by the payment of Permanent Fund dividends in July 2002, additional mineral contributions to the Fund, and a modest increase in the financial markets in fiscal year 2003.

**Permanent Fund's total return**  
annualized for the past, present and future



The Alaska certificates of deposit program implemented new collateral requirements during fiscal year 2002. Subsequent to implementation of the new collateral requirements, the Alaska certificate of deposit program increased to a more average program level during fiscal year 2003.

The decrease in accounts payable at June 30, 2003 results from a lower level of pending trades by asset managers. Lower income distributable to the state at June 30, 2003 results from the lower dividend liability owed to the Department of Revenue for the Permanent Fund dividend program. This decrease is due to lower realized earnings produced by the Fund in recent years.

Contributions and appropriations to the Fund increased in fiscal year 2003 by the dedicated mineral revenues deposited in reserved fund balance, the annual inflation proofing transfer from the realized earnings account, and a special appropriation by the legislature. The increase in the value of the unrealized appreciation reflects the modest increase in the financial markets. The decrease in the realized earnings account reflects reductions for the annual dividend distribution, the inflation proofing transfer, and a special legislative appropriation to move all but \$100 million from the realized earnings account to the reserved fund balance.

#### STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

The *Statements of Revenues, Expenditures and Changes in Fund*

*Balances* account for all of the Fund's investment revenues. The statements show the activity that occurred during each of the last two fiscal years.

**Revenues.** Revenues include dividends from stocks, interest from bonds and income from real estate investments. Also included in revenues is the change in the fair market value of the investments held by the Fund.

**Expenditures.** The Fund's operating costs include all expenditures required to manage the Permanent Fund. This includes in-house expenses as well as external manager and custodial fees. Expenditures are subtracted from revenues.

**Other financing sources/uses.** These lines account for the mineral revenues received by the Fund as

well as all appropriations out of the Fund, with transfers to the dividend fund being the largest distribution.

**Changes in fund balances.** The bottom lines of this statement (see page 26) show the net effect of all the Fund's activities during the year on fund balances. In fiscal year 2003, for example, the fund balances were \$23.5 billion at the beginning of the year and \$24.2 billion at the end of the year. This statement accounts for the change in Fund value.

Fiscal years 2002 and 2003 are most notably marked by below-average performance in the financial markets. In fiscal year 2003, the Fund produced a positive 4.5 percent return, following a negative 2.3 percent return in fiscal year 2002. Overall, dividends and real estate income were substantially the same in fiscal year 2003 as in the prior fiscal year. However, interest income on

bonds was lower due to a lower overall level of interest rates. Both years experienced depreciation in the fair value of common stock held by the Fund, but the loss was more than offset in fiscal year 2003 by an increase in the value of marketable debt securities.

The operating expenditures of the Fund were lower in fiscal year 2003 due to lower investment management fees paid on externally managed assets, which had lower market values during the first nine months of the fiscal year. A subsequent increase in market values affected the final quarterly management fees only, resulting in lower net fees paid for fiscal year 2003. Transfers into the Fund represent the Fund's share of Alaska mineral revenue. The Fund's higher mineral contribution in fiscal year 2003 reflected a higher average price of oil.

The lower dividend distribution from the Fund reflects the impact of the five-year averaging formula of the Fund's statutory income, outlined in AS 37.13.140 and AS 37.13.145. As the Fund replaces years of higher statutory income with years of lower statutory income, lower distributions will occur.

#### ECONOMIC FACTORS

The market value of Fund assets is directly impacted by the activity of the various financial markets. Subsequent to fiscal year-end, the Fund's net asset value continues to be affected by the volatility of the financial markets, however, diversification in different asset types helps to mitigate this volatility.

Provided below is a table summarizing the changes to the reserved and unreserved fund balances during the year. Additional information on changes to these fund balances can be found in the notes to the financial statements.

Years Ended June 30				
	2003	2002	\$ increase (decrease)	% change
<b>Revenues</b>				
Dividend, interest and real estate income	\$ 859,850,000	984,082,000	-124,232,000	-12.6%
Total net increase (decrease) in the fair value of investments	139,344,000	-1,562,979,000	1,702,323,000	108.9%
<b>Total revenues</b>	<b>999,194,000</b>	-578,897,000	1,578,091,000	272.6%
Less operating expenditures	36,633,000	38,124,000	-1,491,000	-3.9%
<b>Excess (deficiency) of revenues over expenditures</b>	<b>962,561,000</b>	-617,021,000	1,579,582,000	256.0%
Other financing sources/uses				
Transfers in	397,642,000	257,697,000	139,945,000	54.3%
Transfers out	691,082,000	930,353,000	-239,271,000	-25.7%
<b>Net change in fund balances</b>	<b>669,121,000</b>	-1,289,677,000	1,958,798,000	151.9%
Fund balances beginning of period	23,525,213,000	24,814,890,000	-1,289,677,000	-5.2%
<b>Fund balances end of period</b>	<b>\$ 24,194,334,000</b>	23,525,213,000	669,121,000	2.8%
Statutory income calculation				
Excess (deficiency) of revenues over expenditures	\$ 962,561,000	-617,021,000	1,579,582,000	256.0%
Settlement earnings and unrealized (gains) losses	-607,220,000	874,003,000	-1,481,223,000	-169.5%
<b>Statutory net income</b>	<b>\$ 355,341,000</b>	256,982,000	98,359,000	38.3%

FY03 Reserved Fund Balance – Principal (in millions)				FY03 Unreserved Fund Balance (in millions)		
	Contributions and appropriations	Unrealized appreciation (depreciation)	Total	Realized earnings account	Total Fund	
Beginning balance	21,884.2	505.2	22,389.4	1,135.8	23,525.2	
Mineral revenue	397.6	0.0	397.6		397.6	
Change in unrealized appreciation	0.0	601.1	601.1		601.1	
Inflation proofing	352.0	0.0	352.0		0.0	
Special appropriation	354.2	0.0	354.2		0.0	
<b>Total fiscal year-end</b>	<b>22,988.0</b>	<b>1,106.3</b>	<b>24,094.3</b>	<b>100.0</b>	<b>24,194.3</b>	

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the Alaska Permanent Fund as of June 30, 2003 and 2002, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of the Alaska Permanent Fund Corporation'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.

As discussed in note 1, the financial statements present only the Alaska Permanent Fund and do not purport to, and do not, present fairly the financial position of the State of Alaska as of June 30, 2003 and 2002, and changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Permanent Fund as of June 30, 2003 and 2002, and its changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 24 through 27 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**KPMG LLP**

August 8, 2003  
Anchorage, Alaska

## BALANCE SHEETS

	June 30	
	2003	2002
<b>Assets</b>		
Cash and temporary investments	\$ 637,752,000	614,997,000
Receivables, prepaid expenses and other assets	381,587,000	355,261,000
Investments —		
Marketable debt securities	9,082,157,000	9,160,003,000
Preferred and common stock	12,750,289,000	12,052,016,000
Real estate	2,057,104,000	2,540,323,000
Alaska certificates of deposit	196,802,000	78,592,000
Total investments	24,086,352,000	23,830,934,000
<b>Total assets</b>	<b>\$ 25,105,691,000</b>	<b>24,801,192,000</b>
<b>Liabilities</b>		
Accounts payable	\$ 220,275,000	345,626,000
Income distributable to the State of Alaska	691,082,000	930,353,000
<b>Total liabilities</b>	<b>911,357,000</b>	<b>1,275,979,000</b>
<b>Fund Balances</b>		
Reserved – principal		
Contributions and appropriations	22,988,019,000	21,884,170,000
Unrealized appreciation/depreciation on invested assets	1,106,315,000	505,255,000
Total reserved	24,094,334,000	22,389,425,000
Unreserved		
Realized earnings account	100,000,000	1,135,788,000
<b>Total fund balances</b>	<b>24,194,334,000</b>	<b>23,525,213,000</b>
<b>Total liabilities and fund balances</b>	<b>\$ 25,105,691,000</b>	<b>24,801,192,000</b>

## STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

	Years ended June 30	
	2003	2002
<b>Revenues</b>		
Interest	\$ 468,095,000	576,268,000
Dividends	214,602,000	180,487,000
Real estate and other income	177,153,000	227,327,000
Total interest, dividends, real estate and other income	859,850,000	984,082,000
Net increase (decrease) in the fair value of investments —		
Marketable debt securities	533,020,000	265,704,000
Preferred and common stock	(316,460,000)	(1,876,590,000)
Real estate	(12,485,000)	90,947,000
Foreign exchange contracts	(67,361,000)	(41,742,000)
Currency	2,630,000	(1,298,000)
Total net increase (decrease) in the fair value of investments	139,344,000	(1,562,979,000)
<b>Total revenues</b>	<b>999,194,000</b>	<b>(578,897,000)</b>
<b>Expenditures</b>		
Operating expenditures	(36,633,000)	(38,124,000)
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ 962,561,000</b>	<b>(617,021,000)</b>
<b>Other financing sources (uses)</b>		
Transfers in	397,642,000	257,697,000
Transfers out	(691,082,000)	(930,353,000)
<b>Net changes in fund balances</b>	<b>669,121,000</b>	<b>(1,289,677,000)</b>
<b>Fund balances</b>		
Beginning of period	23,525,213,000	24,814,890,000
End of period	\$ 24,194,334,000	23,525,213,000

## NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

### 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"). These contributions to the Fund are to be invested in perpetuity. The Alaska State Legislature (the "Legislature") created the Alaska Permanent Fund Corporation (the "Corporation"), a component unit 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 realized earnings account sufficient to offset the impact of inflation is transferred to the reserved balance of the Fund. The balance of the Fund's earnings is held in the realized earnings account and is subject to appropriation by the Legislature.

The Fund's assets are held in a wide variety of investments, in accordance with Alaska statute and internal investment policies. The investments include stocks and bonds, both domestic and non-domestic, as well as real estate investments, both direct equity and publicly traded securities. The Fund's results of operations rely in large part on the success of financial markets. However, the volatility of markets, especially equity markets, can cause substantial period-to-period fluctuations in operating results. Diversification in different asset types helps to mitigate the volatility of operating results. All realized earnings of the Fund are accounted for in the realized earnings account of the Fund, and are available for appropriation by the Legislature. Unrealized gains and losses on Fund assets are considered reserved, and are not available for appropriation, nor do they affect the realized earnings account.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The Fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In preparing the financial statements, management is required to make estimates and assumptions as of the date of the balance sheet that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities and revenue and expenses for the period. Actual results could differ from those estimates.

#### Dividend appropriations

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

#### 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 gains and losses are included in net income at the time the contract settles, and are determined based on the difference between the contract rate and the market rate at the time of settlement. Unrealized gains and losses are calculated using foreign currency market rates at the balance sheet date.

### Fund balances

Reserved fund balances consist of historical mineral revenues, special appropriations, and inflation proofing of the Fund, as well as recorded unrealized appreciation or depreciation of invested assets. Unreserved fund balances consist of the realized earnings of the Fund, which have not yet been appropriated.

### Inflation proofing

State statute requires that the contributions and appropriations of the Fund be adjusted for the impact of inflation annually. The impact of inflation is measured by the percent change in the prior two calendar years averages of the United States consumer price index for all urban consumers, applied against the total of the reserved fund balance, excluding unrealized gains and losses, at the end of the fiscal year. The inflation rates were 1.58 percent and 2.83 percent, and were applied to the years ended June 30, 2003 and 2002, respectively.

### Interest income

Interest income is accrued monthly as earned.

### Income taxes

As integral parts of the state, the Fund and the Corporation are not subject to federal or state income taxes. In addition, 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 and the Corporation perform an essential governmental function and are therefore exempt from Federal income taxes under that provision, as well.

### Investments

The Fund's investments, 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 the equity value, which is 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.

### Reclassifications

As described in note 11, fund balances in the prior period presented have been reclassified to conform to the current period financial statement presentation. This reclassification had no effect on previously reported excess/deficiency of revenues over expenditures.

### Securities transactions

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

### Transfers in

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.

### Transfers out

Transfers out to other state agencies are recorded when measurable.

### 3. CASH AND TEMPORARY INVESTMENTS

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

	2003	2002
Cash (a)	\$ 106,720,000	60,241,000
U.S. agencies (b)	104,067,000	94,657,000
Treasury bills (b)	11,026,000	130,516,000
Commercial paper (c)	415,939,000	329,583,000
<b>Total cash and temporary investments</b>	<b>\$ 637,752,000</b>	<b>614,997,000</b>

(a) Share ownership in a money market fund, payable on demand. Collateralized by underlying securities held by the money market fund in the name of the custodian.

(b) Debt obligations guaranteed by the U.S. government, held by the custodian in the name of the Fund.

(c) Commercial paper rated investment grade, held by the custodian in the name of the Fund.

### 4. RECEIVABLES, PREPAID EXPENSES AND OTHER ASSETS

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

	2003	2002
Interest receivable	\$ 93,633,000	117,127,000
Dividends receivable	23,066,000	19,694,000
Sales receivable	204,239,000	169,329,000
Foreign exchange contracts	7,176,000	0
Contributions receivable	49,985,000	44,195,000
Other receivables	3,488,000	4,916,000
<b>Total receivables, prepaid expenses and other assets</b>	<b>\$ 381,587,000</b>	<b>355,261,000</b>

### 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 Fund.

Marketable debt securities at June 30 are summarized as follows:

	Cost	Market	Unrealized gains
<b>2003</b>			
Treasury notes/bonds	\$ 3,349,451,000	3,405,231,000	55,780,000
Mortgage-backed securities	1,974,779,000	2,032,847,000	58,068,000
Other federal agencies	264,219,000	294,994,000	30,775,000
Corporate bonds	2,067,496,000	2,261,038,000	193,542,000
Non-domestic bonds	1,003,793,000	1,088,047,000	84,254,000
<b>Total marketable debt securities</b>	<b>\$ 8,659,738,000</b>	<b>9,082,157,000</b>	<b>422,419,000</b>
<b>2002</b>			
Treasury notes/bonds	\$ 2,321,949,000	2,348,416,000	26,467,000
Mortgage-backed securities	2,783,112,000	2,848,395,000	65,283,000
Other federal agencies	874,940,000	916,058,000	41,118,000
Corporate bonds	2,354,458,000	2,395,091,000	40,633,000
Non-domestic bonds	601,132,000	652,043,000	50,911,000
<b>Total marketable debt securities</b>	<b>\$ 8,935,591,000</b>	<b>9,160,003,000</b>	<b>224,412,000</b>

## 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 Fund.

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.

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

	Cost	Market	Unrealized gains(losses)
<b>2003</b>			
Domestic	\$ 8,348,089,000	9,000,820,000	652,731,000
Non-domestic	3,850,868,000	3,749,469,000	(101,399,000)
<b>Total preferred and common stock</b>	<b>\$12,198,957,000</b>	<b>12,750,289,000</b>	<b>551,332,000</b>
<b>2002</b>			
Domestic	\$ 8,017,837,000	8,268,628,000	250,791,000
Non-domestic	3,904,855,000	3,783,388,000	(121,467,000)
<b>Total preferred and common stock</b>	<b>\$ 11,922,692,000</b>	<b>12,052,016,000</b>	<b>129,324,000</b>

## 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. The Fund invests in direct real estate through its ownership of interests in corporations, limited liability companies and partnerships that own title to the real estate. Direct real estate investments 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 Fund.

During the fiscal year ended June 30, 2003, the Corporation analyzed its real estate investments for permanent impairment. This review indicated that three assets were impaired, and consequently the carrying values of these assets were written down to their market values. The total charge to the asset carrying value and operating income was \$63,799,000. The statement of revenues, expenditures and changes in fund balances includes this amount in the net increase (decrease) in the fair value of investments - real estate.

The carrying value of real estate at June 30, 2003 and 2002 was \$2,057,104,000 and \$2,540,323,000, respectively. Direct real estate investments, commingled funds, property notes receivable, and commercial and residential mortgages are recorded in the financial statements using the equity method, which consists of the asset's historical cost plus the Fund's share of undistributed earnings from the asset. Real estate investment trusts and commercial mortgage-backed securities are recorded in the financial statements at their market value.

In the ordinary course of business, the Corporation has made Fund commitments related to real estate investments. In the opinion of management, meeting these commitments will not have a materially adverse effect on the Fund's financial position, results of operations, or liquidity. Real estate investments at June 30 are summarized as follows:

	Cost/Equity value	Market	Unrealized gains/(losses)	Carrying value
<b>2003</b>				
Commingled funds	\$ 436,000	1,091,000	655,000	436,000
Real estate investment trusts	616,894,000	742,344,000	125,450,000	742,344,000
Alaska residential mortgages	96,000	96,000	0	96,000
Property note receivable	3,198,000	3,198,000	0	3,198,000
Direct investments -				
Retail	346,491,000	370,840,000	24,349,000	346,491,000
Office	491,042,000	520,574,000	29,532,000	491,042,000
Industrial	158,299,000	174,214,000	15,915,000	158,299,000
Residential	315,198,000	348,605,000	33,407,000	315,198,000
<b>Total real estate</b>	<b>\$ 1,931,654,000</b>	<b>2,160,962,000</b>	<b>229,308,000</b>	<b>2,057,104,000</b>
<b>2002</b>				
Commingled funds	\$ 2,635,000	3,262,000	627,000	2,635,000
Real estate investment trusts	619,440,000	783,189,000	163,749,000	783,189,000
Commercial mortgage-backed securities	132,371,000	138,459,000	6,088,000	138,459,000
Commercial mortgages	71,821,000	74,094,000	2,273,000	71,821,000
Alaska residential mortgages	106,000	106,000	0	106,000
Property note receivable	3,141,000	3,141,000	0	3,141,000
Direct investments -				
Retail	341,228,000	360,338,000	19,110,000	341,228,000
Office	639,827,000	738,188,000	98,361,000	639,827,000
Industrial	192,834,000	187,918,000	(4,916,000)	192,834,000
Residential	367,083,000	407,983,000	40,900,000	367,083,000
<b>Total real estate</b>	<b>\$ 2,370,486,000</b>	<b>2,696,678,000</b>	<b>326,192,000</b>	<b>2,540,323,000</b>

## 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. Collateral, primarily in the form of letters of credit from the Federal Home Loan Bank or U.S. government securities, secure these investments.

## 9. ACCOUNTS PAYABLE

Accounts payable at June 30 are summarized as follows:

	2003	2002
Accrued liabilities	\$ 10,141,000	10,748,000
Foreign exchange contracts	0	18,229,000
Securities purchased	210,134,000	316,649,000
<b>Total accounts payable</b>	<b>\$ 220,275,000</b>	<b>345,626,000</b>

## 10. INCOME DISTRIBUTABLE TO THE STATE OF ALASKA

The Legislature appropriated a portion of the Fund's statutory 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 realized earnings to fund various other agency activities. Income distributable to the state at June 30 is summarized as follows:

	2003	2002
Dividends	\$ 657,064,000	897,453,000
Appropriation to the Departments of -		
Corrections	6,895,000	4,258,000
Health and Social Services	15,406,000	13,008,000
Revenue	5,444,000	5,245,000
Public Safety	4,209,000	5,380,000
Legislature	462,000	462,000
Administration	1,178,000	0
Total to dividend fund	690,658,000	925,806,000
Other agencies	424,000	4,547,000
<b>Total income distributable</b>	<b>\$ 691,082,000</b>	<b>930,353,000</b>

## 11. RESERVED AND UNRESERVED FUND BALANCES

Fund balance activity during the years ended June 30 is summarized as follows:

	2003	2002
<b>Reserved – principal</b>		
Balance, beginning of year	\$ 22,389,425,000	22,431,155,000
Dedicated state revenues	397,642,000	257,697,000
Inflation proofing transfer from realized earnings	352,052,000	602,278,000
Special appropriation from realized earnings	354,155,000	0
Settlement earnings, net of adjustments	0	(23,384,000)
Change in market value appreciation (depreciation) on invested assets	601,060,000	(878,321,000)
<b>Balance, end of year</b>	<b>\$ 24,094,334,000</b>	<b>22,389,425,000</b>
<b>Unreserved</b>		
Balance, beginning of year	\$ 1,135,788,000	2,383,735,000
Appropriation to other state agencies	(424,000)	(4,547,000)
Inflation proofing transfer to reserved fund balance	(352,052,000)	(602,278,000)
Special appropriation to reserved fund balance	(354,155,000)	0
Settlement earnings, net of adjustments	0	23,384,000
Dividends	(690,658,000)	(925,806,000)
Realized earnings	361,501,000	261,300,000
<b>Balance, end of year</b>	<b>\$ 100,000,000</b>	<b>1,135,788,000</b>
<b>Total</b>		
Balance, beginning of year	\$ 23,525,213,000	24,814,890,000
Dedicated state revenues	397,642,000	257,697,000
Appropriation to other state agencies	(424,000)	(4,547,000)
Dividends	(690,658,000)	(925,806,000)
Excess (deficiency) of revenues over expenditures	962,561,000	(617,021,000)
<b>Balance, end of year</b>	<b>\$ 24,194,334,000</b>	<b>23,525,213,000</b>

On June 18, 2003, the Corporation received an Alaska Attorney General's Opinion (Opinion), clarifying the portion of Fund assets that is legally reserved. The Opinion indicates that the recorded unrealized appreciation and depreciation on invested assets must be classified with the reserved portion of fund balances, making them unavailable for appropriation. Based on the Opinion, and effective July 1, 2001, the recorded unrealized earnings of the fund balance have been reclassified from unreserved fund balances to reserved fund balances. The Opinion had no impact on previous or future inflation proofing calculations or the excess (deficiency) of revenues over expenditures.

The composition of the contributions and appropriations reserved fund balance at June 30 is shown as follows:

	2003	2002
Dedicated state revenues	\$ 7,726,080,000	7,328,438,000
Special appropriations	7,240,061,000	6,885,906,000
Inflation proofing	7,883,680,000	7,531,628,000
Settlement earnings	138,198,000	138,198,000
<b>Total contributions and appropriations</b>	<b>\$ 22,988,019,000</b>	<b>21,884,170,000</b>

During the fiscal years 1990 through 1999, the Fund received dedicated state revenues from North Slope royalty case (State v. Amerada Hess, et al.) settlements. By statute, realized earnings from these settlement payments received are to be treated in the same manner as other Fund income, except that these earnings on settlements are excluded from the dividend calculation, and are to be transferred to the reserved fund balance. Total realized earnings on settlement principal were \$6,160,000 in 2003 and \$4,318,000 in 2002. These amounts were added to inflation proofing. There were no additional realized earnings in excess of inflation for either fiscal year. Accumulated settlement related activity, which is included in the contributions and appropriations balance of the Fund at June 30, is shown as follows:

	2003	2002
Settlement -		
Principal	\$ 194,083,000	194,083,000
Earnings	138,198,000	138,198,000
Inflation proofing	68,272,000	62,112,000
<b>Total settlement principal</b>	<b>\$ 400,553,000</b>	<b>394,393,000</b>

## 12. STATUTORY NET INCOME

By Alaska law, statutory net income is computed in accordance with accounting principles generally accepted in the United States of America (GAAP), excluding settlement income from the North Slope royalty case (State v. Amerada Hess, et al.) and any unrealized gains or losses. However, net income is required by GAAP to include unrealized gains and losses and all other income, regardless of source. Consequently, GAAP net income and statutory net income differ. It is statutory net income that is used to compute the amount available for the annual Permanent Fund dividend.

Statutory net income for the years ended June 30 is calculated as follows:

	2003	2002
Excess (deficiency) of revenues over expenditures	\$ 962,561,000	(617,021,000)
Unrealized losses (gains)	(601,060,000)	878,321,000
Settlement earnings	(6,160,000)	(4,318,000)
<b>Statutory net income</b>	<b>\$ 355,341,000</b>	<b>256,982,000</b>

### 13. INVESTMENT INCOME BY SOURCE

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

	2003	2002
<b>Interest</b>		
Marketable debt securities	\$ 454,920,000	558,641,000
Alaska certificates of deposit	3,220,000	2,614,000
Cash and other interest	9,955,000	15,013,000
<b>Total interest</b>	<b>\$ 468,095,000</b>	576,268,000
<b>Dividends</b>		
Domestic preferred and common stock	\$ 124,252,000	109,104,000
Non-domestic preferred and common stock	90,350,000	71,383,000
<b>Total dividends</b>	<b>\$ 214,602,000</b>	180,487,000
<b>Real estate and other income</b>		
Real estate interest	\$ 2,505,000	18,939,000
Real estate dividends	43,287,000	45,974,000
Direct real estate income	122,082,000	150,999,000
Loaned security and other income	9,279,000	11,415,000
<b>Total real estate and other income</b>	<b>\$ 177,153,000</b>	227,327,000

Under Statute 37.13.120(f), the Corporation is authorized to enter into securities lending transactions on behalf of the Fund. 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 one hundred two percent (102%) of the market value of the loaned securities for U.S. securities and one hundred five percent (105%) of market value for non-U.S. securities. The Corporation and the Fund are 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 25 percent of the earnings derived from securities lending. There was \$3,319,408,000 and \$2,743,599,000 in loaned securities outstanding for the years ended June 30, 2003 and 2002, respectively. During the years ended June 30, 2003 and 2002, there were no losses incurred as a result of securities lending transactions.

### 14. NET REALIZED GAINS AND LOSSES ON CURRENCY

Net realized gain on foreign currency inventory was \$2,630,000 for the year ended June 30, 2003. There was a net realized loss on foreign currency for the year ended June 30, 2002 of \$1,298,000. Currency gains and losses resulting from the purchase and sale of securities are included as part of the net increase or decrease in the fair value of the traded securities.

### 15. FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

Asset managers for the Corporation entered into foreign currency forward exchange contracts to buy and sell, on behalf of the Fund, 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 six months.

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 Corporation considers the risk of default to be remote. The Fund's market risk is limited to the difference between contractual rates and market rates at the end of the fiscal year.

On behalf of the Fund, asset managers of the Corporation had net purchase contracts receivable totaling \$7,176,000 as of June 30, 2003 and net sale contracts payable totaling \$18,229,000 as of June 30, 2002. Foreign currency forward exchange contracts resulted in net unrealized gains of \$25,405,000 for the year ended June 30, 2003 and net unrealized losses of \$25,640,000 for the year ended June 30, 2002, including prior year reversals in each year. The Fund had realized losses amounting to \$92,766,000 and \$16,102,000 for the years ended June 30, 2003 and June 30, 2002, respectively.

### 16. OPERATING EXPENSES

Operating expenses of the Corporation, paid for by the Fund, for the years ended June 30 are summarized as follows:

	2003	2002
Salaries and benefits	\$ 2,954,000	2,800,000
Travel	203,000	227,000
Communications	799,000	845,000
Custody and safekeeping fees	1,694,000	1,681,000
Consulting fees	651,000	505,000
Investment management fees	28,581,000	30,258,000
Legal and audit fees	308,000	353,000
Public information and subscriptions	291,000	343,000
Rent	472,000	313,000
Property and equipment	136,000	241,000
Other expenses	544,000	558,000
<b>Total operating expenses</b>	<b>\$ 36,633,000</b>	38,124,000

## 17. PENSION PLAN

All full-time, regular employees of the Corporation participate in the State of Alaska Public Employees Retirement System (PERS) and all employees of the Corporation participate in the Alaska Supplemental Benefits System (SBS). PERS is a defined benefit multiple-employer public employee retirement system. Employees were required to contribute 6.75 percent of their annual salaries to PERS in both years ended June 30, 2003 and 2002. The Corporation contributed a matching 7.20 percent to the PERS system for the benefit of each employee during the years ended June 30, 2003 and 2002. SBS is a defined contribution multiple-employer plan that was created under Alaska statutes effective January 1, 1980, to provide benefits in lieu of those provided by the Federal Social Security System. All Corporation employees are required to contribute 6.13 percent of their annual salaries to SBS, and the Corporation contributes a matching 6.13 percent to the plan for the benefit of each employee. Total salaries for employees covered by PERS for the years ended June 30, 2003 and 2002 amounted to \$2,301,000 and \$2,191,000, respectively. Total salaries for employees covered by SBS for the years ended June 30, 2003 and 2002 amounted to \$2,323,000 and \$2,203,000, respectively.

## APFC STAFF

### Executive Director & Corporate Secretary/Treasurer

ROBERT D. STORER, EXECUTIVE DIRECTOR  
Laura Achee, Research and Communications Liaison

#### Investments

ALLAN MOORE, CHIEF INVESTMENT OFFICER  
Joyce Andrews, Executive Secretary

#### Fixed Income

Richard D. Shafer, Manager of Fixed Income Investments  
James E. Parise, Senior Investment Officer/Fixed Income  
Tobie A. Putman, Investment Officer/Fixed Income

#### Equities

Michael T. Bell, Manager of Equities Investments  
Steve Eason, Investment Associate

#### Real Estate

Peter Naoroz, Manager of Real Estate Investments  
Christi Grussendorf, Investment Officer/Real Estate  
Christy Leer, Investment Officer/Real Estate  
Rosemarie Duran, Investment Associate

*Long-time APFC Communications Director Jim Kelly  
retired in November, 2002.*

#### Operations

ROBERT N. BARTHOLOMEW, CHIEF OPERATING OFFICER  
Joan Cahill, Communications Specialist

#### Administration

Freda M. Westman, Administrative Officer  
Sandra Firestack, Executive Assistant  
Shawn Lew, Executive Secretary  
Kathy L. Thatcher, Administrative Specialist  
Jeanne Mungle, Procurement Specialist  
Lisa Flores, Receptionist/Secretary

#### Finance

CHRIS PHILLIPS, DIRECTOR OF FINANCE  
Becky Baxter, Administrative Assistant  
Julie Hamilton, Controller  
Ruth E. Danner, Portfolio Accountant  
Karen Emberton, Portfolio Accountant  
Chris LaVallee, Accountant  
Matthew Wood, Accounting Technician

#### Information Technology

MARSHAL KENDZIOREK, DIRECTOR OF IT  
Robert McKnight, Senior IT Specialist  
Andrew Loney, IT Specialist  
Charles Cardwell, IT Specialist