

Letter from the Chair	2
Letter from the Executive Director	4
Investing for the long run	7
Fiscal year '04 performance	8
Fund asset allocation	9
Equities	11
Corporate governance	12
Fixed income	14
Diversification	15
Real estate	16
Legislation	19
Commitment to Alaskans	20
Management's Discussion and Analysis	23
Financial statements	28



THE ALASKA PERMANENT FUND

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 manages the Fund.

Growth and stability



for Alaska's future

As Alaskans look to the future and what it will hold for the Permanent Fund, it's important to remain focused on the basic principles that have helped us achieve success with the Fund since its inception nearly three decades ago. Our theme for fiscal year 2004 – *Growth and stability for Alaska's future* – defines our approach to managing Alaska's savings account.

To some, this may sound like a conflict in management styles – growth implies change while stability implies staying in one place. However, we see these two attributes working in harmony to ensure the Fund's success.

Over time the Fund has grown. While the dollar value of the Fund may have occasionally dropped from one year to the next, even in down years it was worth significantly more than the 1978 fiscal year-end balance of \$54 million.

Our growth includes keeping abreast of technological advances, which enables our investment practices to be state of the art. Initially the Fund was invested entirely in domestic bonds, but now it is investing in worldwide stock and bond markets, as well as real estate, private equity and absolute return strategies. At one time, brokers used telephones and ticker tape. Now our staff monitors markets using real time displays and we have back-up systems in place to ensure that we can remain connected to the rest of the world in times of crisis.

But growth by itself isn't enough. We need stability to ensure that the growth of today is protected for tomorrow. Retaining institutional knowledge within the APFC is important to ensure stability in investment decisions over time. On page 19 we provide a report on how Alaska state law was changed this year to help ensure the Board retains the knowledge and experience of its members.

Stability also comes from committing to long-term investment decisions rather than responding to current events. Bob Storer, who retired this summer as Executive Director of the APFC, expressed this idea with the phrase "staying the course." His guidance was essential as we maneuvered through one of the worst bear markets in recent history. I think it is clear that this strategy worked. Our losses were smaller than those of similar funds during the worst years and the Fund was poised to take advantage of recovering markets, producing a 14 percent return this year.

One form of stability that we have not yet achieved is basing Fund payouts on a percent of the market value, rather than the current method of making realized earnings available for withdrawal. Making annual payouts more predictable from year to year will allow for better management of the Fund, but will require an amendment to Alaska's constitution.

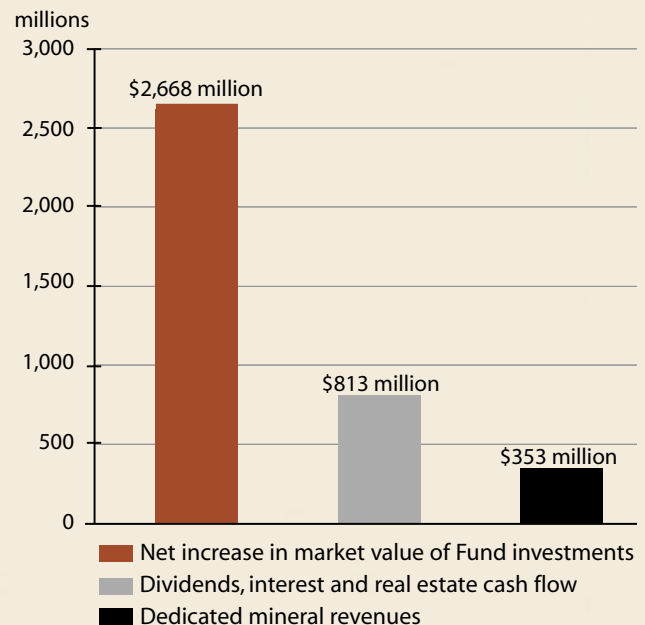
While growth and stability are both good for the Fund, there is also room for change, and the APFC has seen some changes this year. One important change is the arrival of long-time Alaska financial leader Mike Burns, who was hired as the new Executive Director of the APFC. Mr. Burns has been in Alaska for almost 20 years, serving as president of Key Bank until he retired from the organization in 2002. He brings to the Permanent Fund knowledge of the financial industry, experience in executive management and familiarity with Alaska's unique political and social climates. We are pleased to have him join the team.

Here's to Alaska's future.



Carl Brady, Chair

Sources of growth in fiscal 2004



Staying the

Board of Trustees as pictured from left to right:
Gregg Renkes, William A. Corbus, Vice Chair Steve Frank,
Eric E. Wohlforth, Bill Hudson, and Chair Carl Brady.



course



Dear Alaskans,

The Permanent Fund plays a vital role in Alaska's current economy and will be integral to our future. This is a unique organization within the United States and I am privileged to become part of it. I am impressed by the sense of purpose shown by the APFC staff

and I hold them in high regard. Alaskans should have confidence in the Trustees and staff that have fiduciary responsibility for this valuable state resource. I would like to share with you the activities of the Fund for the past year.

After coming through several years of down markets and low returns, the Fund had a strong showing of 14.2 percent for fiscal year 2004 and ended the year with a market value of \$27.4 billion. The Alaska Constitution divides the Fund into two very distinct parts. The reserved assets, which may not be spent, had a year-end balance of \$26.5 billion. The realized earnings account, which is available for appropriation, ended the year with \$859 million after transferring \$581 million to the State for the dividend and \$170 million to the reserved assets for inflation proofing. In fiscal 2003, the Legislature made an advance transfer of \$354 million toward the total needed to inflation proof principal in fiscal 2004.

While the Fund ended fiscal year 2004 with strong returns, the markets were erratic. The first three quarters continued the market upswing that began with a rally in the final quarter of fiscal year 2003, and all asset classes had positive returns for this nine-month period. A modest downturn for the fourth fiscal quarter, with low or negative returns in all asset classes, detracted little from the total return for the year. The performance

A large, semi-transparent photograph of a woman with shoulder-length blonde hair, wearing a grey blazer over a white collared shirt. She is looking towards the right of the frame. In the background, other people are seated at a long table in what appears to be a conference room or meeting space. The lighting is soft and the overall tone is professional.

Moving forward with

of this final quarter fits the scenario we would expect to see in the third year of the U.S. economic recovery, with bonds struggling against potentially higher interest rates while equities make slow progress.

Equities had the greatest growth for the year, with positive returns in every quarter. International equities returned 28.4 percent, while domestic equities returned 21.1 percent for fiscal year 2004. Real estate also added to the Fund's strong showing, with a total return of 16.5 percent for the year. U.S. bonds ended the year essentially where they started, with almost no growth for the first half of the year and a final return of less than 1 percent. Non-domestic bonds had a better showing, ending the year with a return of 4.3 percent. More information on the performance of each asset class is included in this annual report.

While every one of the Permanent Fund's asset classes produced positive returns this year, often they run counter-cyclical to each other. Diversifying the Fund into multiple asset types helps protect its value while providing for steady growth and distributions. Page 15 of this report provides

a graphic representation of this diversification strategy by charting the performance of each asset class over the last five years.

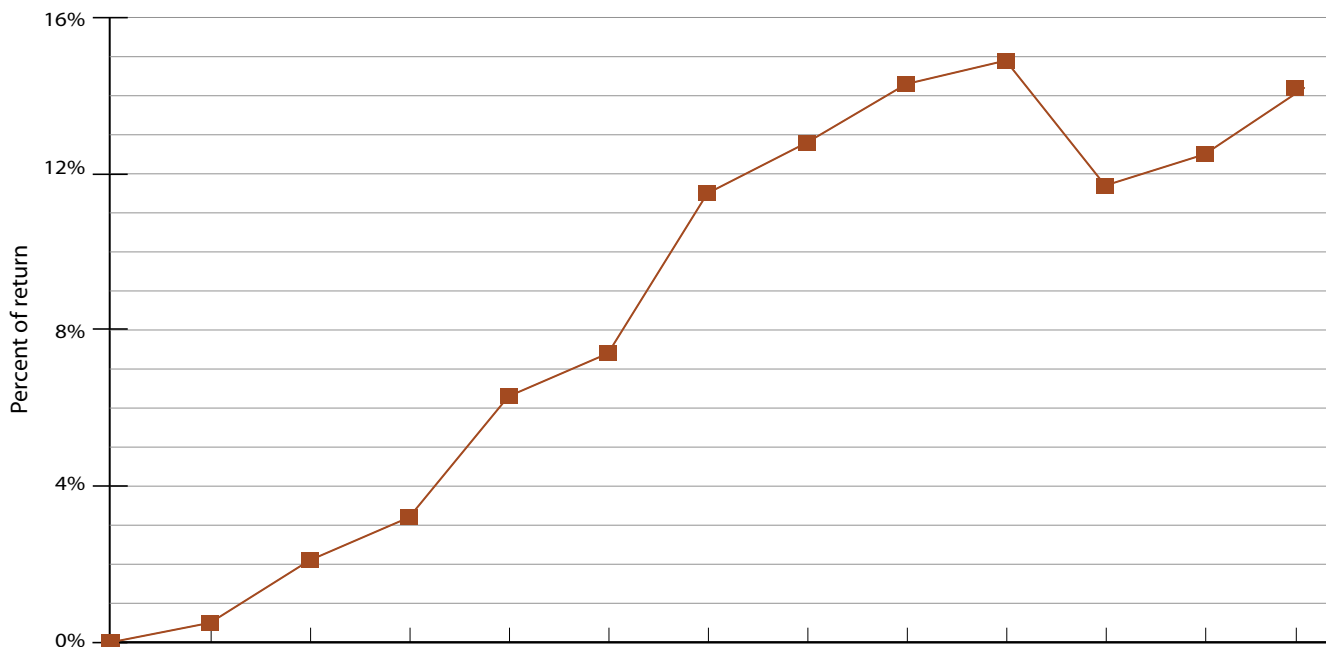
The Trustees further increased the diversity of the Permanent Fund's investments this year by creating an absolute return strategy program and a private equity portfolio. This is the first time the Fund has moved into a new asset class since it began investing in international fixed income in 1995. Managers have been selected and the contracts have been signed, but the first investments in these assets will take place in fiscal year 2005.

I'm looking forward to being part of the Fund's continued success.



Michael J. Burns
Executive Director

Cumulative month-to-month returns in FY04

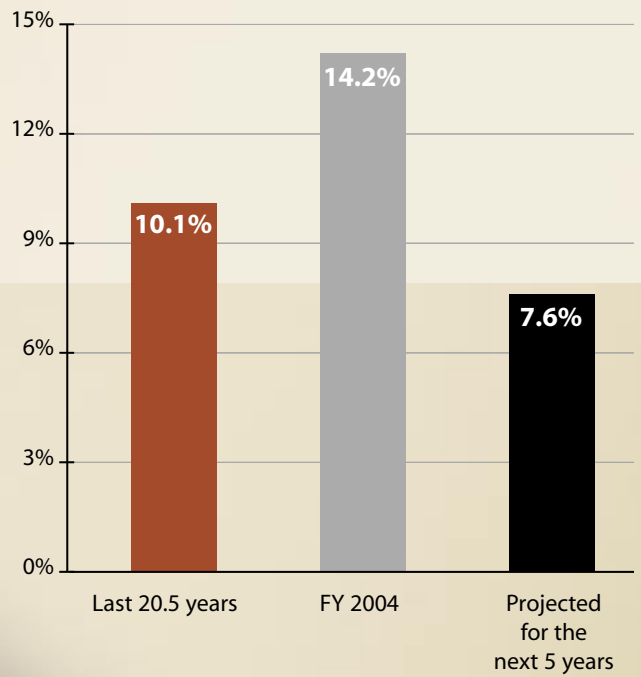


Total Fund return

Return date	6/30	7/31	8/31	9/30	10/31	11/30	12/31	1/31	2/29	3/31	4/30	5/31	6/30
Total Fund return	0.0	0.5%	2.1%	3.2%	6.3%	7.4%	11.5%	12.8%	14.3%	14.9%	11.7%	12.5%	14.2%
Fund target	0.0	0.2%	1.7%	2.9%	6.2%	7.2%	11.2%	12.6%	14.3%	14.4%	11.6%	12.4%	14.1%

strength and diversity

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



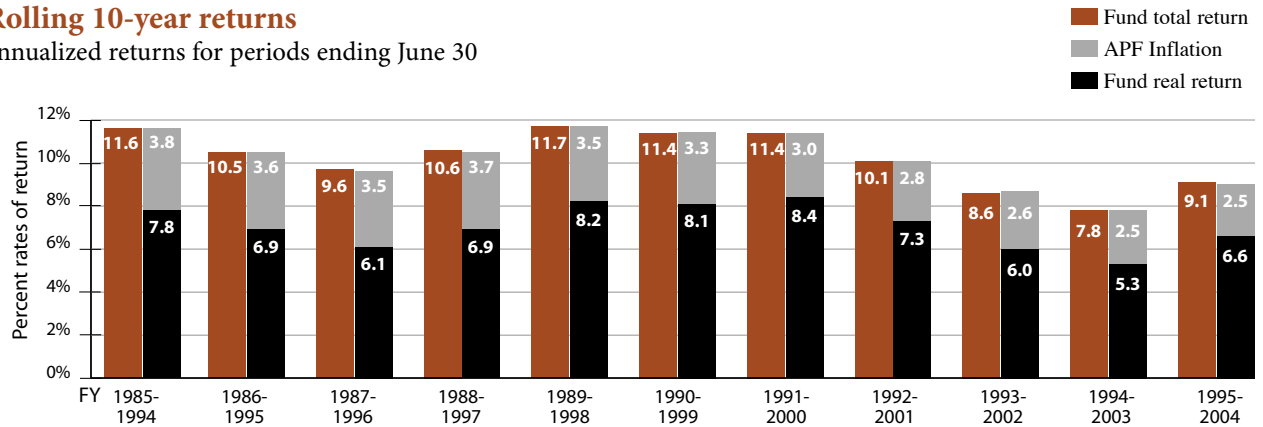
Our future

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 sync with one another moderates the total Fund's volatility.

Each year the Board fine-tunes its asset allocation to adjust to changes in the market environment. Its current goal is to earn about 5 percent over the rate of inflation in the long run. That means, in any 10-year period, the average real return (after inflation) of the Fund should be around 5 percent. The charts below illustrate how the Fund has been doing.

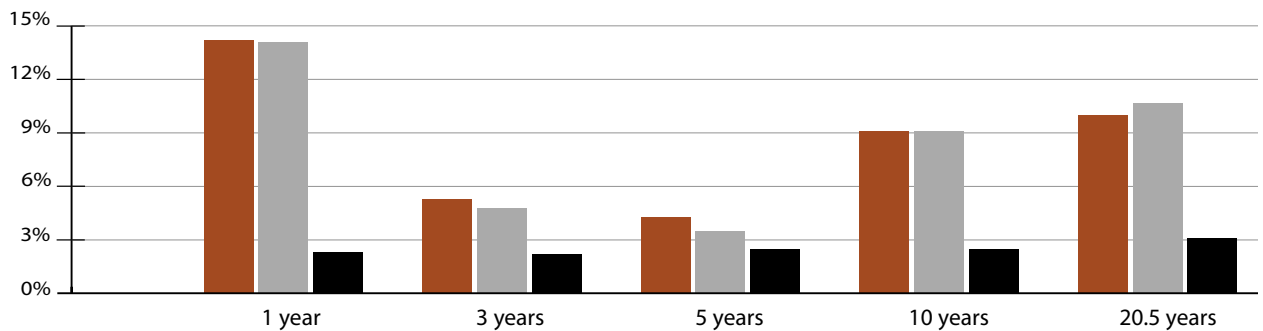
Rolling 10-year returns

annualized returns for periods ending June 30



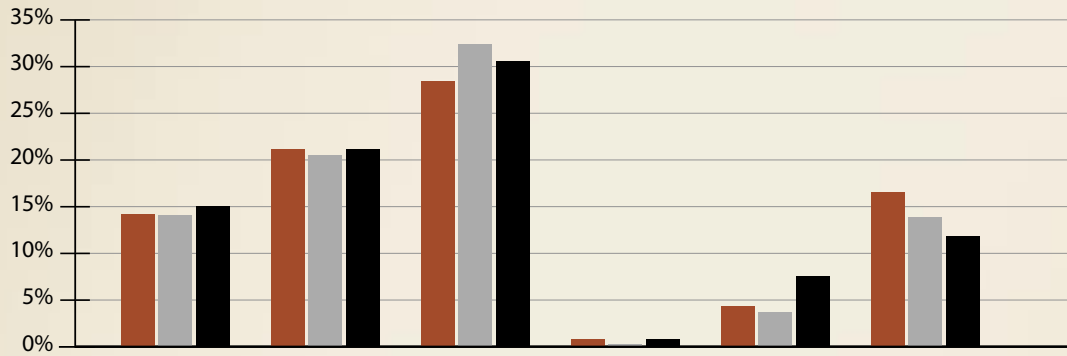
Fund's long-term investment performance

annualized returns for periods ending June 30, 2004



our growth

Fund fiscal '04 performance



	Total Fund	U.S. stocks	Int'l. stocks	U.S. fixed income	Int'l. fixed income	Real estate
■ Fund	14.2%	21.1%	28.4%	0.8%	4.3%	16.5%
■ Benchmarks	14.1%	20.5%	32.4%	0.3%	3.7%	13.9%
■ Median public fund	15.0%	21.2%	30.6%	0.8%	7.5%	11.8%



Maximizing

ALASKA PERMANENT FUND - ASSET ALLOCATION

Dollars in millions as of June 30, 2004 (including cash held by managers)

FIXED INCOME	Market value	Percent of total Fund	Target allocation
U.S. managers			
APFC - Internal Fixed Income	7,780	27.7	
Alaska Permanent Capital Management	287	1.0	
UBS Asset Management	365	1.4	
Alaska CD Program	173	0.6	
Total U.S. managers	\$ 8,605	30.7%	28% +/- 5%
International managers			
Julius Baer	580	2.1	
Rogge Global Partners	646	2.3	
Total international managers	\$ 1,226	4.4%	4% +/- 2%
Total fixed income	\$ 9,831	35.1%	32% +/- 5%
ACTIVELY MANAGED STOCKS			
U.S. managers			
Alliance Capital	191	0.7	
UBS Asset Management	729	2.6	
Dodge & Cox	577	2.1	
RCM - Large Cap	1,279	4.6	
Lazard Asset Management	591	2.1	
McKinley Capital Management	377	1.3	
Putnam Investments	541	1.9	
Tukman Capital Management	471	1.7	
Capital Guardian - Small Cap	511	1.8	
RCM - Small Cap	399	1.4	
T. Rowe Price - Small Cap	435	1.6	
Martingale Asset Management	125	0.4	
Turner Investment Management	81	0.3	
Cordillera Asset Management	143	0.5	
Total U.S. active managers	\$ 6,450	23.0%	
International managers			
Capital Guardian	709	2.5	
Clay Finlay - Europe	615	2.2	
Schroders Pacific Rim	217	0.8	
UBS Asset Management	853	3.0	
Lazard Asset Management	637	2.3	
Capital Guardian - Emerging Markets	348	1.2	
Total international active managers	\$ 3,379	12.0%	
Total active stocks	\$ 9,829	35.0%	
PASSIVELY MANAGED STOCKS			
Mellon S&P 500	3,816	13.6	
Mellon S&P 1000	577	2.1	
Mellon EAFE	1,798	6.4	
Total passive stocks	\$ 6,191	22.1%	
Total stocks	\$ 16,020	57.1%	55% +/- 5%
REAL ESTATE			
Private equity real estate			
CB Richard Ellis	339	1.2	
Kennedy Associates Real Estate	166	0.6	
L&B Realty Advisors	142	0.5	
LaSalle Investment Management	392	1.4	
Sentinel Real Estate	175	0.6	
Total private equity real estate	\$ 1,214	4.3%	
Public equity real estate/other			
AEW Capital Management	540	1.9	
AEW Capital Management - focus	219	0.8	
Wellington Management	229	0.8	
Other/Opportunistic	4	0.0	
Total public equity real estate/other	\$ 992	3.5%	
Total real estate	\$ 2,206	7.8%	10% +/- 2%
PRIVATE EQUITY			
Pathway Capital Management	-	0.0	2% +/- 2%
ABSOLUTE RETURN			
Crestline Investors	-	0.0	1% +/- 1%
		100.0%	100.0%

investments

Chief Investment Officer

Richard D. Shafer, CFA


Richard (Rick) Shafer (pictured below) was promoted to the position of Chief Investment Officer of the APFC, effective January 2004. Mr. Shafer oversees the APFC investment process and portfolio structure and supervises nine investment professionals covering the Fund's stock, bond, real estate and other assets.

Prior to becoming Chief Investment Officer, Mr. Shafer served as Manager of Fixed Income for more than four years. In that capacity, he directly managed fixed income assets and staff while overseeing the external fixed income and, later, global equity managers. Fixed income and global equity together comprise nearly half the Fund's assets.

Mr. Shafer's more than 25 years of investment-related experience spans senior level and supervisory fixed

income investment positions with several large insurance companies, including Lincoln National, Aetna, and The Hartford. His duties have encompassed security analysis and portfolio management of stocks and bonds, as well as trading, asset-liability analysis, client service, and total return portfolio management. He has served on investment committees with oversight responsibility for all asset types, and on a corporate pension committee.

Rick Shafer attended Stanford University and Dartmouth College. He received his Bachelor of Arts degree from Dartmouth in 1973. He has earned the Chartered Financial Analyst designation.



A global view

Both domestic and international equities delivered double-digit returns in fiscal year 2004, buoyed by rebounding economies, improving corporate earnings and relatively stable interest rates. The APFC Board of Trustees slightly increased the Fund's annual target allocation to equities from 53 to 55 percent, which captured the current strength of this asset class. The Fund ended the year with 57 percent in equities. The target allocation is a median number and APFC has a band on either side, which allows the market value to fluctuate. At 57 percent, equities are still within the target range.

The Board also establishes median targets within the portfolio for various segments of the equity market, including U.S. versus non-U.S. equities and large-cap versus small-cap equities. At fiscal year end, the Fund's total equity portfolio was allocated with 54 percent in U.S. large-cap stocks, 14 percent in U.S. small-cap stocks and 32 percent in non-U.S. stocks, and was balanced between value and growth stocks.

U.S. large-cap stocks, as measured by the S&P 500 Index, returned 19.1 percent, while the Russell 2000 Index of smaller capitalization U.S. stocks gained a breathtaking 33.4 percent for the fiscal year. Much of the gains occurred in the first two quarters, as investors rushed to buy many stocks beaten down during the recession. This "junk rally" slowed in the third quarter as investors turned their attention to companies with more sustainable earnings growth. Equity markets struggled somewhat during the fourth quarter, weighed down by the prospect of rising interest rates, ongoing geopolitical uncertainty, and sharply rising oil prices.

The Fund's domestic equity portfolio returned 21.1 percent in fiscal year 2004, slightly ahead of its benchmark, the Russell 3000 Index return of 20.5 percent. Relative performance was helped by the strength of small-cap stocks combined with a modest overweighting of small-cap versus large-cap stocks in the Fund's portfolio. The small-cap equity portfolio returned 30.8 percent, outpacing the large-cap equity portfolio, which gained 18.5 percent. As a group, APFC's active domestic equity managers returned 21.3 percent, outperforming the passively managed domestic equity portfolio, which returned 20.7 percent.

In a year that favored small-cap over large-cap stocks and value stocks over growth, two of APFC's large-cap managers outperformed the benchmark Russell 1000 Index of large-cap stocks. The Dodge & Cox large-cap

value portfolio returned 29.8 percent and McKinley Capital Management's large-cap growth portfolio returned 21.3 percent. While these two managers have very different investment approaches, they both tend to focus on smaller companies within the large-cap universe. Several of APFC's small-cap managers did well on both an absolute and relative return basis. Turner Investment Management's small-cap portfolio returned 41.9 percent, Martingale's small-cap value portfolio returned 37.8 percent, RCM's small-cap growth portfolio returned 35.6 percent and T. Rowe Price's small-cap value portfolio returned 35.2 percent.

With the strong relative performance of small-cap stocks, the Board rebalanced the equity portfolio during the fiscal third quarter, and \$150 million was shifted from the passive S&P 1000 small-cap portfolio to one of APFC's active large-cap managers (McKinley). This decision is consistent with the view that larger companies with more sustainable earnings growth are expected to have better performance as we enter the later stages of the economic cycle. So far, this change has worked in the Fund's favor. During the fiscal fourth quarter, the McKinley portfolio returned 3.4 percent, compared to the S&P 1000 portfolio's return of 1.8 percent.

International equities outpaced domestic equities, with the Morgan Stanley Capital International Equities Index for Europe, Australia and the Far East (MSCI EAFE) returning 32.4 percent in fiscal year 2004. For U.S. investors, including the APFC, investments in non-U.S. equities were enhanced by strength in the Japanese yen, the British pound and the European euro. The MSCI Pacific Index returned 41.1 percent during the fiscal year, outperforming the MSCI Europe Index, which returned 28.9 percent. Equities in the Pacific region were boosted by a rebound in the Japanese economy, growth in China and capital flows into the region. The MSCI index of emerging market equities finished the fiscal year with a gain of 33.5 percent.

In fiscal year 2004, the Fund's international equity portfolio returned 28.4 percent. This return lagged its benchmark MSCI EAFE Index by 4.0 percent, but was helped by its passively managed MSCI EAFE portfolio, which returned 32.6 percent. Lagging performance among APFC's active international equity managers and a modest overweighting of European versus Pacific equities detracted from the portfolio's overall performance.

The U.S. mutual fund industry came under a great deal of scrutiny as a result of improper trading by some mutual fund shareholders in fiscal year 2004. Since all of the Fund's equity portfolios are managed in separate accounts, not mutual funds, the Fund was not directly impacted by the mutual fund trading problems. However, two of APFC's managers, Alliance Capital

and Putnam Investments, were identified by regulators as having allowed market-timing activity in some of their mutual funds. Both firms have since reached settlements with federal and state regulators and are taking significant steps to enhance their compliance policies, controls and procedures. APFC staff and Board of Trustees continue to monitor their progress.



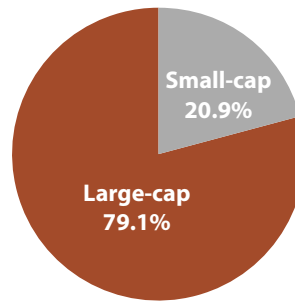
Recognizing

Management styles

as of June 30, 2004

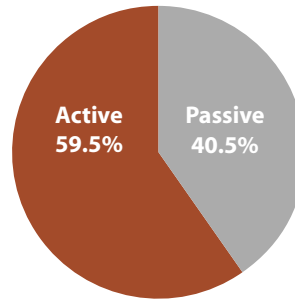
Large-cap v. small-cap

Large-cap	\$8.57 billion
Small-cap	<u>\$2.27 billion</u>
Total	\$10.84 billion



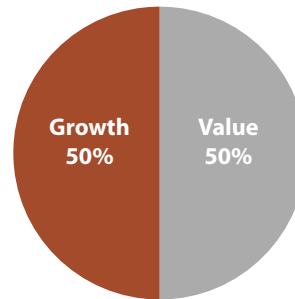
Active v. passive

Active	\$6.45 billion
Passive	<u>\$4.39 billion</u>
Total	\$10.84 billion



Growth v. value

Value	\$5.42 billion
Growth	<u>\$5.42 billion</u>
Total	\$10.84 billion



Non-U.S. stocks by region

as of June 30, 2004

Europe ex-UK	41.9%
United Kingdom	23.7%
Asia ex-Japan	6.6%
Japan	18.9%
Emerging markets	6.7%
Americas	1.5%
Other	0.7%



Bob Storer, former executive director of the APFC, closed trading on Wall Street on Sept. 17, 2003. New York Stock Exchange Vice President Noreen Culhane joined him.

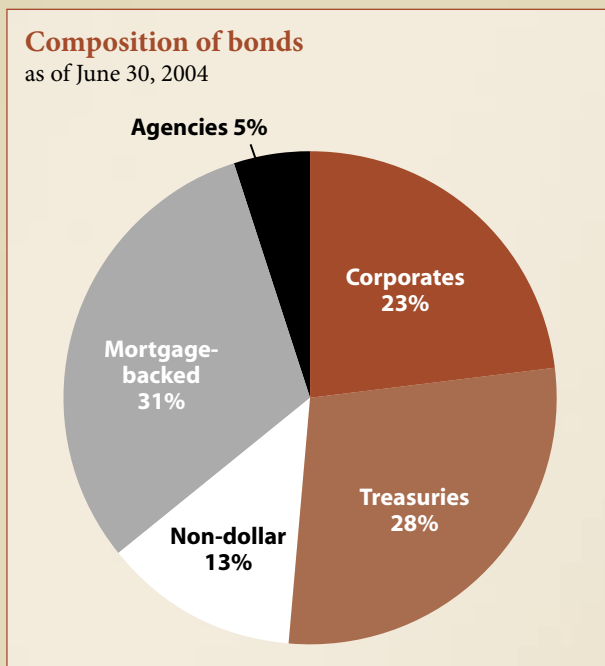
Photo Credit: AP/Wide World Photos

Fiscal year 2004 was the ninth consecutive year of positive fixed income returns. Domestic bond returns, annualized over the last five years, are almost 7 percent, while the Russell 3000 stock index returned a 1 percent loss for the same period. Our managers' performances put the Fund well ahead of these benchmark returns for the last year, though we are moderately behind the domestic bond benchmark for the five-year stretch. All of this is good news for bonds.

The bad news is that fiscal year 2004's Lehman index return of 0.3 percent for the domestic bond market was the third lowest in the 28-year history of the index, and existing bond yields are not promising for future returns. However, we still expect that over time fixed income will beat inflation, continue its critical role as a diversifier to other assets, and contribute strong positive cash flows in all market environments.

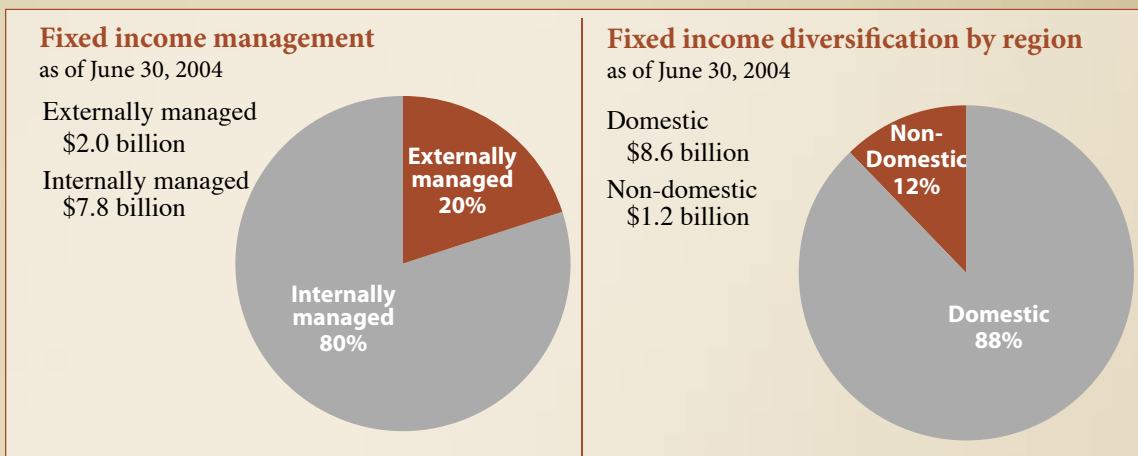
Non-dollar bonds fared better in fiscal year 2004 than domestic bonds. The Fund's non-dollar benchmark index returned 3.7 percent and our managers' combined results topped that at 4.3 percent. Slightly higher interest rates were offset by appreciation of key currencies against the dollar, resulting in higher returns. Divergent rates of growth around the world mean that non-domestic bonds will not always perform like domestic bonds, adding a modest measure of diversification within fixed income, rather than across asset classes.

This spring the APFC Board of Trustees reduced their allocation to domestic core fixed income (from 32 percent to 28 percent) at their annual asset allocation review. This change was made to allow allocations to



two new alternative asset classes, private equity and absolute return strategies.

The genuine value of diversification has been demonstrated a number of times in the past four years as the strength of fixed income returns has allowed the Fund to transfer money from bonds into stocks on several special occasions. This activity allowed the APFC to buy stocks at lower market levels than those which prevail at this writing. Selling assets that have gone up in value and buying those that have fallen is a time honored, disciplined strategy for investing and for managing investment risk.



Diversification

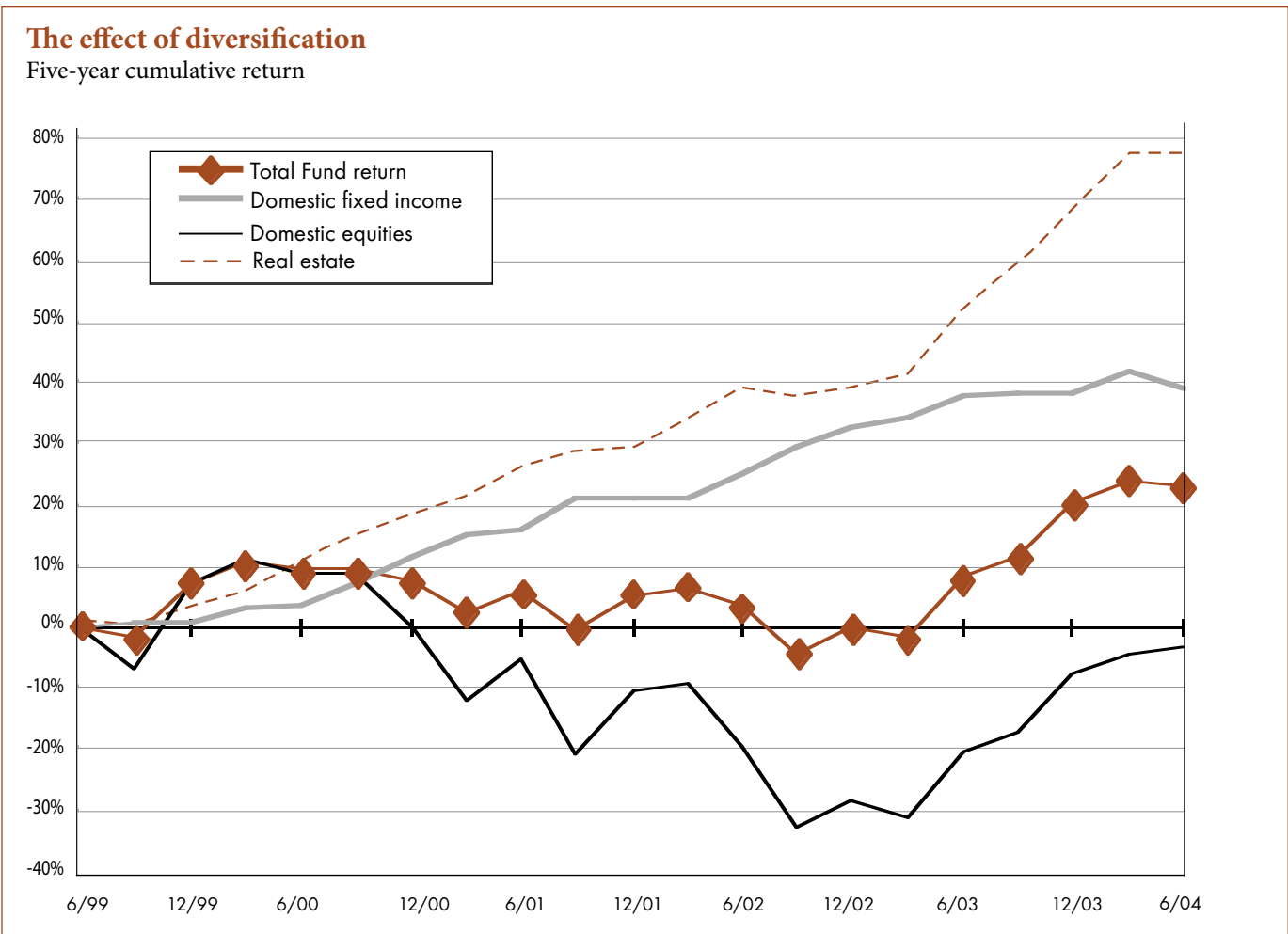
It is worth examining the relative returns of stocks and bonds in a bit more detail. As noted earlier, five-year bond returns have thumped stock returns. This is not a surprise to the Trustees because they knew that, at some time or other, bonds would outperform stocks. That's one reason why they continue to allocate money to the asset class.

While a situation of not making much money beats losing money, it nonetheless challenges the Fund's long-term investment goals. There are clearly times when being in bonds *seems* to hold the Fund back from better returns. For an example, look no further than last year's domestic bond return at less than 1 percent while stocks soared. So what then is the value of diversification? Maybe we should stop investing in bonds altogether since stocks have been shown historically to produce higher total returns over time.

Before we do that, let's examine the context in which stocks have earned higher returns. History shows that large company stocks have returned 10.4 percent annualized since 1926, while intermediate bonds have returned 5.4 percent. To get that additional 5 percent return, the holder would

have had to endure some frightening years. In one year, the holder of stocks saw their value drop by 43 percent! Likewise, a holder would have had to hold on, not giving into the temptation to sell, while their stocks rose 54 percent in a year. The worst year a holder of intermediate bonds had in those 78 years was a loss of 5 percent, while their most positive year was as high as 29 percent.

But the really amazing part is that when you create a portfolio that is a blend of 70 percent stocks and 30 percent bonds, and follow a disciplined program of rebalancing, you can get a very attractive risk-reward trade-off. The long-term return from this blended portfolio is 9.3 percent, just 1 percent less than a portfolio of nothing but stocks. However, the worst loss this blended portfolio would ever have suffered for a full year was 17 percent, less than half that of a stocks-only portfolio. The result is that this blended portfolio would cut the worst single loss in half while only giving up 1 percent of the potential return over time, illustrating the power of diversification.



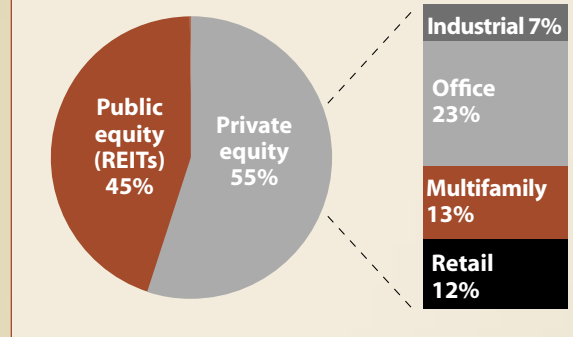
diversification

The Fund's real estate portfolio continued to make a positive contribution to total performance, returning 16.5 percent for fiscal year 2004, substantially above both the benchmark of 13.9 percent and the past performance of this portfolio.

Private equity real estate investments are the real property that the Fund invests in directly, such as office buildings, retail malls and apartment complexes. These investments comprise 55 percent of the total real estate portfolio and produced a 10.1 percent return for the fiscal year. This compares favorably to the 9.7 percent return for the National Council of Real Estate Investment Fiduciaries (NCREIF) Classic index, which is the Fund's benchmark for private equity real estate. Rental income from the Fund's properties declined slightly from the prior fiscal year due to the sale of several APFC properties and continued economic weakness. Real estate tends to lag the general economy, and the Fund did not see some of the effects of the economic slowdown in the private real estate portfolio until now.

Real estate diversification

as of June 30, 2004



Excessive capital flows into the real estate markets and low interest rates continued to drive up prices despite weakened market fundamentals (e.g. occupancy rates, rental rates, leasing concessions). APFC did not acquire any new properties and instead took advantage of this "sellers market," disposing of eight properties with a total value of \$184 million. One of the Fund's largest multifamily properties, Island Club, in Miami, was sold as well as three other multifamily properties, two retail properties, one office and one industrial property.

The other 45 percent of the Fund's real estate portfolio consists mainly of publicly traded real estate investment trust securities (REITs). These are shares of portfolios



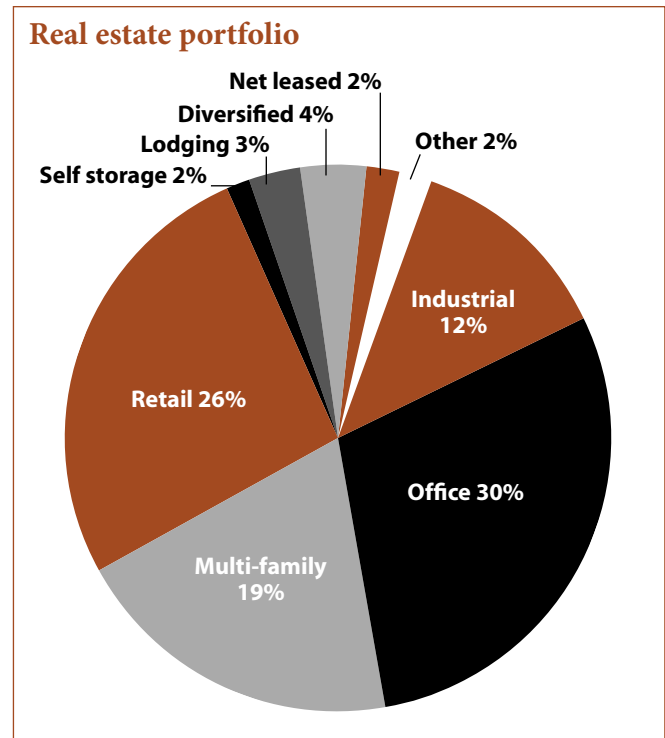
Providing balance

that are invested in multiple properties, similar to a stock mutual fund. As in past years, the allocation to REITs in the real estate portfolio increased as APFC continued to sell private real estate properties. APFC's REIT managers enjoyed a stellar year, returning 29.1 percent to the Fund and significantly outperforming the Morgan Stanley REIT index benchmark's 26.3 percent.

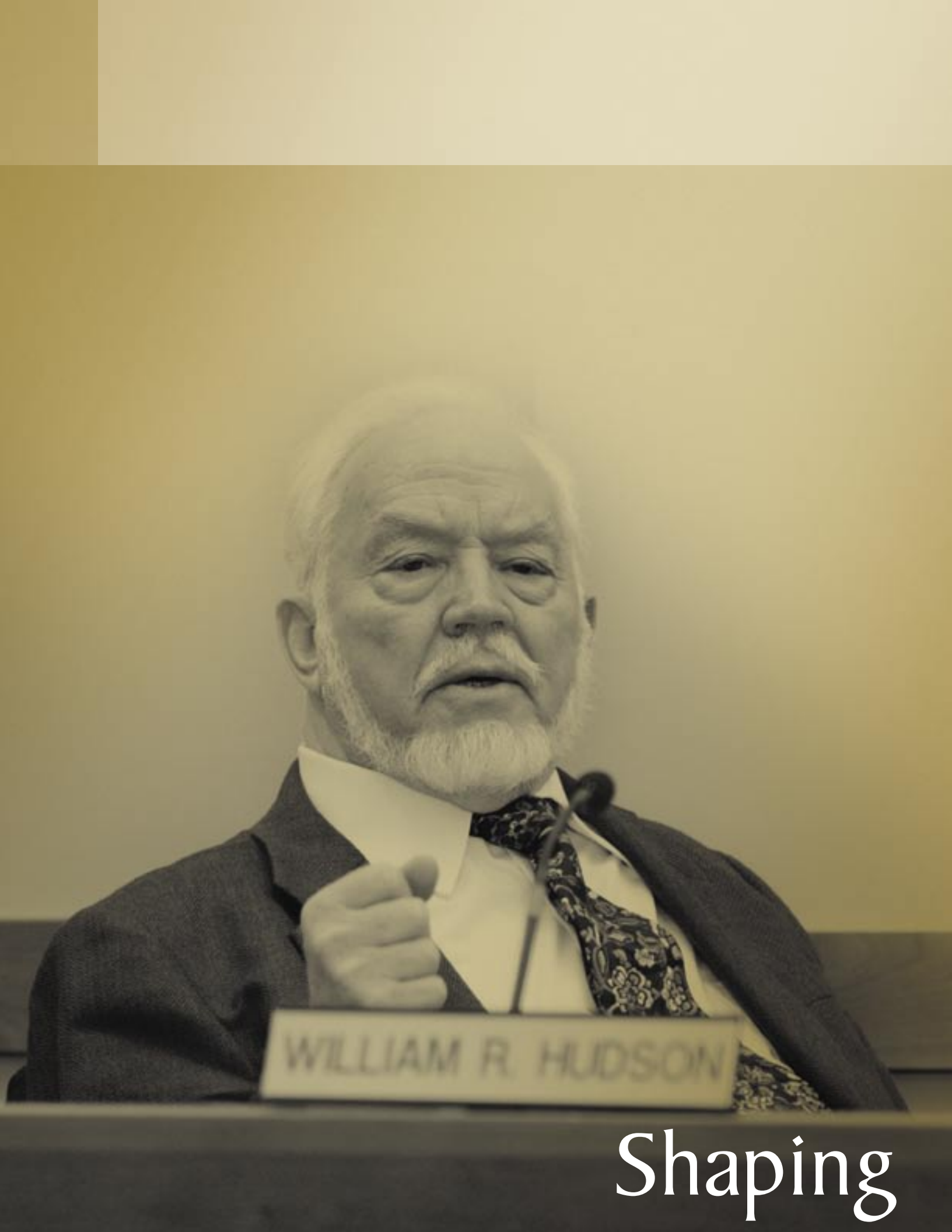
Returns from REIT securities have outpaced those of private equity real estate for the last five years. This is attributable to a variety of factors including the increased use of leverage by REIT managers while the private equity real estate benchmark excludes leveraged properties. While REITs have been good investments for the APFC in recent years, they are more volatile than private equity real estate.

The Fund's allocation to real estate remained below the Board's target allocation of 10 percent due to several factors. Because of the relative illiquidity of real estate assets, a change in real estate's portion of overall Fund assets is often the result of other assets changing in value at a different pace. While the selling of properties contributed to what is now an under weighting of real estate assets relative to the Board's target, another factor is that stocks appreciated at a greater rate than real estate.

With modestly improving market fundamentals, APFC's real estate advisors are guardedly optimistic regarding new investment opportunities. While remaining cautious and urging careful underwriting, advisors are beginning to consider recommending new acquisitions. APFC recently developed a comprehensive real estate planning framework, integrating the real estate investment policy, strategy and tactical plan. This new approach is expected to take advantage of private equity real estate investment opportunities.



and consistency



WILLIAM R. HUDSON

Shaping

This year the Alaska State Legislature approved two changes to APFC's guiding statutes. These new provisions will make it easier for the Fund to achieve both growth and stability.

Growth:

Alaska state law contains a list of guidelines and restrictions outlining what assets the Fund may invest in, and in some cases limiting how much of the Fund can be committed to those assets. In 1999 the Legislature created a "basket clause" allowing up to 5 percent of the Fund to be invested in non-traditional assets such as private equity and absolute return strategies. The basket clause may also be used to allow additional investment in asset classes that have reached statutory limits.

As the Trustees prepared to make initial investments in non-traditional assets, it became apparent that a 5 percent cap would be too restrictive. If the new assets performed as the Trustees hoped, they would quickly grow beyond 5 percent of the Fund's total value, requiring liquidation whether or not the timing was right to sell. In effect, the statutes would be making investment decisions instead of the Trustees.

The Legislative Budget and Audit Committee, chaired by Representative Ralph Samuels, sponsored Senate Bill 326 to clear up ambiguities regarding what assets were allowed under the basket clause, and to increase

the allocation limit to 10 percent. This will allow the Fund to grow by moving into new types of investments, and by allowing those investments to mature and increase in value.

Stability:

The governor of Alaska appoints a six-member Board of Trustees to manage the Permanent Fund. Four public members serve staggered four-year terms. One seat is reserved for the Commissioner of Revenue and the governor may appoint any other cabinet member to the sixth seat. State law allowed the governor to remove any of the sitting board members at his or her pleasure, and in the past some new administrations had replaced five of the six members.

As Trustees serve on the board, they build a knowledge base of investment theory, allowing them the background and experience to make good decisions. New board members lean heavily on the experience of their fellow Trustees and come up to speed faster when board members with some tenure surround them. This becomes increasingly important as markets and investment tools become more sophisticated and complex.

For a long time the Board has supported requiring that the governor show cause before removing a public board member. In fact, this stipulation was included in early drafts of the legislation creating the APFC. Previous attempts to establish this requirement had been unsuccessful, but the Board continued to encourage the Legislature and successive governors to make this necessary change.

This year, Governor Frank Murkowski sponsored Senate Bill 379, changing state law to require cause before a public member of the Board may be removed. The two cabinet members would be expected to change with a new administration, however, the four public members would remain in place. This will provide the Board, and as a result the Fund, with stability in the future and helps to insulate the Board from political pressures.

The Legislature passed both bills with strong support. On June 16, 2004, Governor Murkowski (pictured left) signed the bills into law at a meeting of the Board of Trustees.



the future

COMMITMENT TO ALASKANS



Adding value

With an average annual return of nearly 10 percent on the dollar over the past 20 years, the Permanent Fund's billions of dollars in investments across the world provide some pretty clear benefits to Alaska. Surely, the most well known example has always been the Permanent Fund Dividend program. Since 1982, the Alaska State Legislature has paid out over \$13 billion from Fund earnings in dividends to Alaskans.

Less well known to many Alaskans are the ways in which the APFC Trustees have taken advantage of the Fund's investment activities to add even more value – above and beyond investment income – to our state. The following programs and policies directly benefit participating Alaska businesses, college students, and universities.

APFC summer intern program

2004 was a banner year for the APFC's summer intern program. Recovering markets opened more opportunities and led to a record 22 students serving summer internships with the APFC, our money management firms and our custodian bank. Students got hands-on experience with various aspects of investment management, accounting and information technology in firms located in major cities throughout the country and in London. Now in its 17th season, the program has provided a total of 195 internships for Alaska students to date. Visit apfc.org to find out how to participate in the APFC's summer internship program for the summer of 2005.

Managing Fund money in Alaska

The APFC's fixed income investment staff directly manages an \$8 billion bond portfolio from the Fund's Juneau office, arriving at 4:30 a.m. to coincide with market trading hours. The APFC also contracts out portfolios with two Anchorage investment management firms, which together manage in excess of another half billion dollars of the Fund's money right here in Alaska. Those firms are:

Alaska Permanent Capital Management

In the fall of 1996, the APFC hired the firm Alaska Permanent Capital Management (APCM) to run an active, broad market domestic bond portfolio. As of June 30, 2004, APCM had \$287 million under management in their 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 valued at \$377 million on June 30, 2004.

Lending money to Alaska banks

To add to the amount of business loan capital available to Alaskans, the Trustees allocate up to \$300 million annually to Alaska's financial institutions in the form of certificates of deposit. The APFC purchases CDs at market rates of return that are tied to the U.S. Treasury market, plus a small premium. In 2004, Wells Fargo Bank and Northrim Bank both participated in the CD program, increasing the money they have available for loan programs that help grow Alaska.

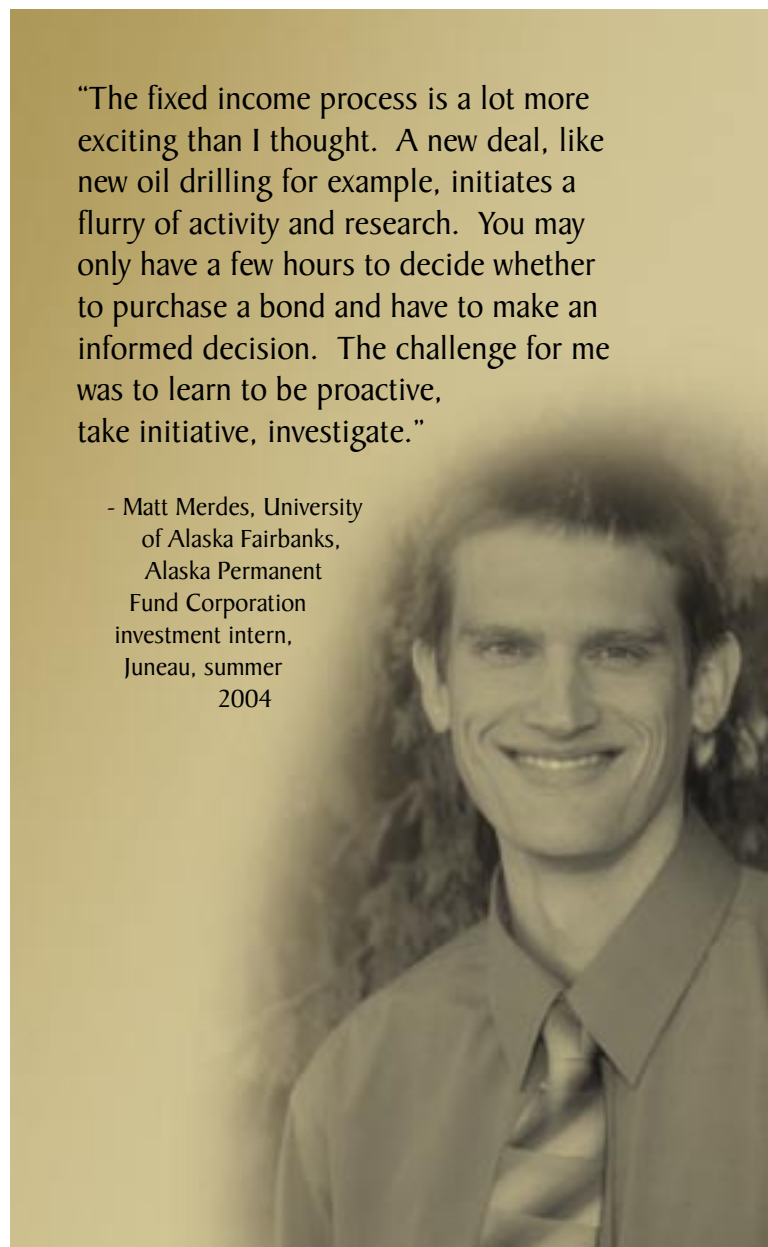
Alaska brokerage activities

Certain large brokerage firms have invested significant financial and human resources by having offices in Alaska. When the APFC's participating money managers execute trades using these brokerage firms, the firms conducting the trades then allocate a portion of their commissions to their Alaska offices, which typically use the revenue to meet wages and operating expenses. The APFC requires that the brokerage fees must be comparable in price and commission with the lowest cost options available to our managers.

"The fixed income process is a lot more exciting than I thought. A new deal, like new oil drilling for example, initiates a flurry of activity and research. You may only have a few hours to decide whether to purchase a bond and have to make an informed decision. The challenge for me was to learn to be proactive, take initiative, investigate."

- Matt Merdes, University
of Alaska Fairbanks,
Alaska Permanent
Fund Corporation
investment intern,
Juneau, summer
2004

to Alaska





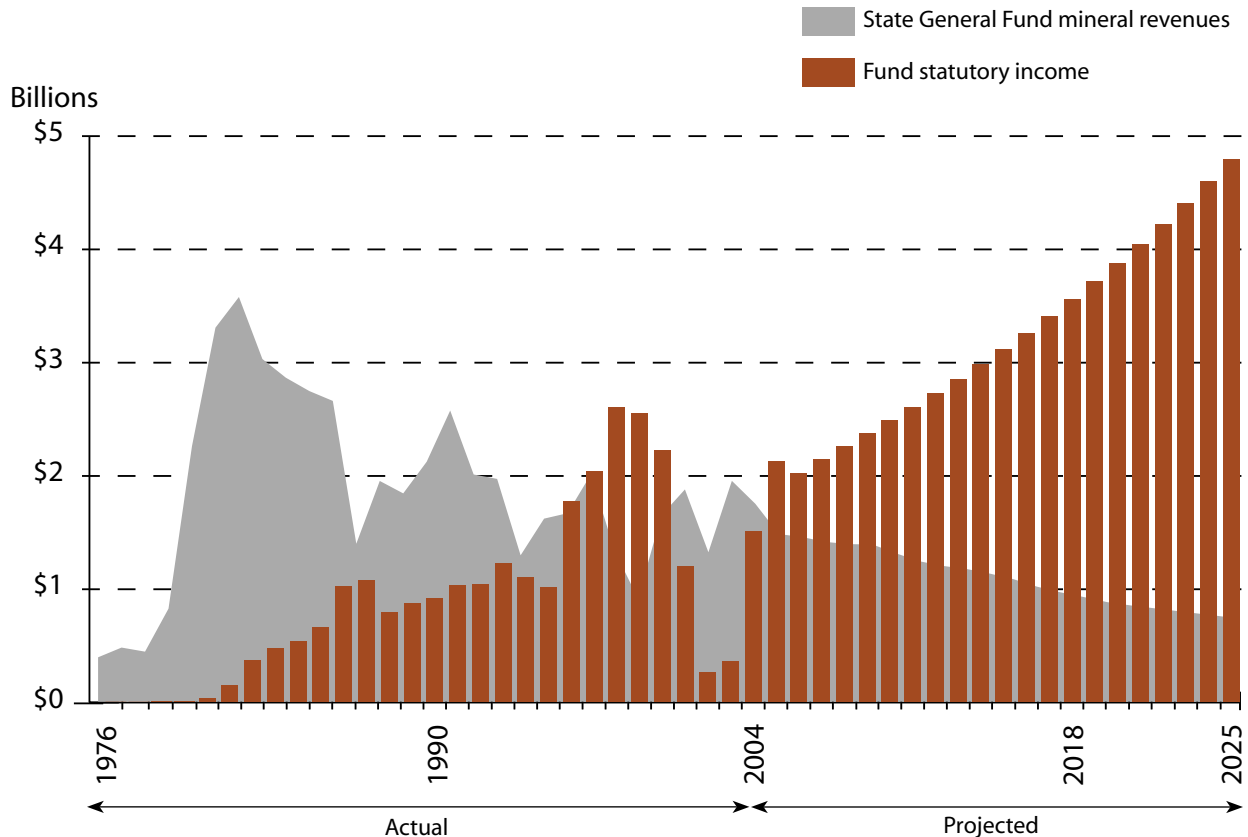
“Within the first two weeks I had learned at least the basics of just about every computer program. Very quickly I became a contributing member of the Finance team.”

- Amanda Chadwick,
University of Alaska Fairbanks
Alaska Permanent Fund Corporation
finance intern,
Juneau, summer 2004

Real estate investing in Alaska

The Permanent Fund diversifies its real estate property investments by market segment (public and private) property type (retail, industrial, multi-family and office) as well as by geographic regions throughout the United States – including Alaska. At present, the Permanent Fund is the sole owner of the Alaska Permanent Fund Corporation’s office building in Juneau. The Permanent Fund is also a co-investor in the Plaza Port West retail mall in Ketchikan.

The relationship between Permanent Fund statutory income and General Fund mineral revenues



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 accompanying notes. Together, they present the Fund's financial performance during the fiscal years ending June 30, 2004 and 2003. Fiscal year 2002 information also is shown here in the Management's Discussion and Analysis 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 net asset balances and fiscal year activities using accounting principles generally accepted in the United States of America.

Balance Sheets. Balance Sheets report assets, liabilities, and fund balances of the Fund as of the specific dates shown.

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, like stocks, bonds and real estate holdings, 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 private equity real estate holdings which are valued under the equity method of accounting, according to generally accepted accounting principles. The equity method of accounting is defined as historical cost of the asset plus the Fund's portion of the property's undistributed earnings.

Liabilities. Liabilities represent known claims against the Fund's assets, which were paid subsequent to June 30, 2004 and June 30, 2003.

Fund balances. Reserved fund balances, which are unavailable for appropriation, include all mineral revenues received by the Fund, inflation proofing transfers from the realized earnings account and special legislative appropriations. Also included in the reserved fund balances are the accumulated unrealized gains and losses of invested assets, which are not available for appropriation. (See 2003 Attorney General Opinion, June 18; 663-03-0153.)

The unreserved fund balances (the realized earnings account) is where all income available for appropriation is accounted for and retained until distributed in accordance with State of Alaska law. The values shown on this report for the realized earnings account are after recording the Fund's financial obligations and annual dividend transfers due at fiscal year end.

* Governmental Accounting Standards Board



AS OF JUNE 30

Balance sheets	2004 / 2003				
	2004	2003	\$ increase (decrease)	% change	2002
Assets					
Cash	\$ 1,496,994,000	637,752,000	859,242,000	134.7%	614,997,000
Receivables, prepaid expenses and other	243,562,000	381,587,000	(138,025,000)	(36.2)	355,261,000
Marketable debt securities	9,285,020,000	9,082,157,000	202,863,000	2.2	9,160,003,000
Preferred and common stock	15,836,268,000	12,750,289,000	3,085,979,000	24.2	12,052,016,000
Real estate	2,086,928,000	2,057,104,000	29,824,000	1.4	2,540,323,000
Alaska certificates of deposit	172,759,000	196,802,000	(24,043,000)	(12.2)	78,592,000
Total Assets	\$ 29,121,531,000	25,105,691,000	4,015,840,000	16.0%	24,801,192,000
Liabilities					
Accounts payable	1,140,445,000	220,275,000	920,170,000	417.7	345,626,000
Income distributable to State of Alaska	581,246,000	691,082,000	(109,836,000)	(15.9)	930,353,000
Total Liabilities	\$ 1,721,691,000	911,357,000	810,334,000	88.9%	1,275,979,000
Fund Balances					
Reserved – principal					
Contributions and appropriations	23,525,752,000	22,988,019,000	537,733,000	2.3	21,884,170,000
Unrealized appreciation on invested assets	3,015,548,000	1,106,315,000	1,909,233,000	172.6	505,255,000
Unreserved					
Realized earnings account	858,540,000	100,000,000	758,540,000	758.5	1,135,788,000
Total Fund Balances	\$ 27,399,840,000	24,194,334,000	3,205,506,000	13.2%	23,525,213,000

The above table shows the value of Fund assets by type as of June 30, 2004, 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, implemented by staff. The dollar and percentage changes in the value of the assets between 2004 and 2003 are due to three primary factors: an increase in total asset value due to the overall increase in the financial markets in fiscal year 2004, the additional mineral revenues to the Fund in fiscal year 2004 and the lower dividend distribution in fiscal year 2004 due to income averaging over the last five years. Changes in value from 2002 to 2003 reflect many of the same factors; mineral revenue contributions, the annual dividend distribution and a modest increase in the financial markets in fiscal year 2003. The Alaska certificates of deposit program reflects the year-end participation in the program, although at the end of fiscal year 2002, the program was implementing new collateral requirements and participation was low. The maximum Alaska certificate of deposit program level is \$300 million.

Liabilities represent known claims against the Fund's assets. Accounts payable typically represent pending trades at month end that have not yet been paid. Cash held to pay for outstanding trades is reflected in the assets section. The increase in cash and accounts payable at June 30, 2004 results from a higher level of pending trades by asset managers. Lower income distributable to the state at June 30, 2004 and June 30, 2003 results from the lower dividend liability owed to the Department of Revenue for the Permanent Fund dividend program. These lower dividend distributions are due to lower statutory realized earnings produced by the Fund in recent years. Fiscal year 2002 had a higher dividend distribution due to several years of higher statutory earnings in the late 1990 through early 2000 fiscal years.

Contributions and appropriations to the Fund increased in fiscal year 2004 by the dedicated mineral revenues deposited into the reserved fund balance and the annual inflation proofing transfer from the realized earnings account. In fiscal year 2003 the increase was also due to the dedicated mineral revenue deposited, the annual inflation proofing transfer from the realized earnings account, and a special appropriation by the Legislature in fiscal year 2003 that was subsequently redefined as a pre-inflation proofing transfer for fiscal year 2004. The increase in the value of the unrealized appreciation on invested assets reflects the net gains in the financial markets for each fiscal year.

The increase in the realized earnings account from fiscal year 2003 to fiscal year 2004 reflects higher realized earnings in fiscal year 2004 and a lower annual dividend distribution. A transfer of \$170 million in fiscal year 2004 from the realized earnings account, combined with the fiscal year 2004 pre-inflation proofing transfer in fiscal year 2003 of \$354 million, totaled the \$524 million needed to fully inflation proof the Fund's contributions and appropriations balance for fiscal year 2004. The reduction in the realized earnings account from fiscal year 2002 to fiscal year 2003 is a result, also, of the annual dividend transfer to the Department of Revenue, the annual 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 current and prior years' net investment revenues. These statements show the activity that occurred during each of the last two fiscal years. Fiscal year 2002 is shown for comparison purposes.

Revenues. Revenues include dividends from stocks, interest from bonds and the Alaska CD program, and net rental income from real estate investments. Also included in revenues is the change in the fair market value (appreciation or depreciation) of the investments held by the Fund.

Expenditures. The Corporation's operating costs include all expenditures required to manage the Permanent Fund. This includes internal expenses as well as external manager and custodial fees. Included in the Corporation's expenditures are additional appropriations approved by the Alaska Legislature to the Department of Law, Department of Revenue, and Department of Natural Resources. Expenditures are subtracted from revenues.

Other financing sources/uses. These lines account for the mineral revenues received by the Fund as well as appropriations out of the Fund, with transfers for the dividend liability being most of the distribution.

Changes in fund balances. This statement also shows the net effect of all the Fund's activities on fund balances during the year. In fiscal year 2004, for example, the Fund net assets were \$24.2 billion at the beginning of the year and \$27.4 billion at the end of the year. This statement accounts for the change in total Fund value.

Statutory income calculation. Statutory net income is accounting net income adjusted for any unrealized gains and losses of the Fund and other monies excluded by law. The statutory net income calculation is necessary to determine the annual dividend distribution.

YEARS ENDED JUNE 30

**Statements of revenues, expenditures
and changes in fund balances**

	2004	2003	2004 / 2003		2002
			\$ increase (decrease)	% change	
Revenues					
Dividends, interest, real estate and other income	\$ 813,093,000	859,850,000	(46,757,000)	(5.4%)	984,082,000
Total net increase in the fair value of investments	2,668,343,000	139,344,000	2,528,999,000	1814.9	(1,562,979,000)
Total revenues	\$ 3,481,436,000	999,194,000	2,482,242,000	248.4%	(578,897,000)
Less operating expenditures	42,171,000	36,633,000	5,539,000	15.1	38,124,000
Less other appropriations	5,585,000	0	5,585,000	N/A	0
Excess of revenues over expenditures	\$ 3,433,680,000	962,561,000	2,471,118,000	256.7%	(617,021,000)
Transfers in – mineral revenue	353,072,000	397,642,000	(44,569,000)	(11.2)	257,697,000
Transfers out – annual dividend distribution/other	581,246,000	691,082,000	(109,836,000)	(15.9)	930,353,000
Net change in fund balances	3,205,506,000	669,121,000	2,536,385,000	379.1	(1,289,677,000)
Fund balances end of prior period (beginning of period)	24,194,334,000	23,525,213,000	669,121,000	2.8	24,814,890,000
Fund balances end of period	\$ 27,399,840,000	24,194,334,000	3,205,506,000	13.2%	23,525,213,000
Statutory income calculation					
Excess of revenues over expenditures	3,433,680,000	962,561,000	2,471,118,000	256.7	(617,021,000)
Less settlement earnings and unrealized gains	(1,931,596,000)	(607,220,000)	(1,324,376,000)	218.1	874,003,000
Statutory net income	\$ 1,502,084,000	355,341,000	1,146,742,000	322.7%	256,982,000

Fiscal years 2002, 2003 and 2004, shown in the table above, are most notably marked by the large difference in the results of the financial markets. In fiscal year 2004, the Fund produced a 14.2 percent return, following a modest 4.6 percent return in fiscal year 2003 and a negative 2.2 percent for fiscal year 2002. Overall, dividends and real estate income were substantially the same in fiscal year 2004 as in the prior fiscal year. However, interest income on bonds trended lower over the two fiscal years due to a lower overall level of interest rates. Fiscal year 2004 showed a substantial gain in the value of common stocks and a slight loss in the value of bonds held. Conversely, fiscal year 2003 showed a substantial loss in value of common stocks and an increase in value of bonds and real estate, reflecting the positive aspects of asset diversification.

The operating expenditures of the Fund were higher in fiscal year 2004 than 2003 and lower in 2003 than 2002 due mainly to the fact that management fees paid on externally managed assets are based on market value. As asset values decrease, fees tend to fall and as assets values increase, fees tend to rise. Other appropriations from corporate receipts were \$5.5 million in fiscal year 2004. This type of distribution, shown as part of expenditures in fiscal year 2004, was previously classified as a transfer out to the State of Alaska.

Transfers into the Fund represent the Fund's share of Alaska mineral revenue. The Fund had a lower overall dedication

of mineral revenue in fiscal year 2004, due to the effects of House Bill 11, reducing the Fund's portion of revenue on certain leases from 50 percent to 25 percent; however, the reduction in dedicated mineral revenues was mitigated in fiscal year 2004 by the higher average oil price. Higher mineral revenues in fiscal year 2003 over 2002 were also due to the higher average price of oil. The lower dividend distributions from the Fund reflect the impact of the five-year averaging formula of the Fund's statutory net income, outlined in statutes AS 37.13.140 and AS 37.13.145. As the five-year formula replaces years of higher statutory net income (fiscal years 1998 and 1999) with years of lower statutory net income (fiscal years 2003 and 2004), lower dividend distributions will occur.

Investment and Economic Factors

The Trustees increased the diversity of the Permanent Fund's investments this year by the authorization of investments in two new asset classes: private equity and absolute return strategies. Managers have been selected and the contracts have been signed, but the first investments in these assets will take place in fiscal year 2005.

The market value of Fund assets is directly impacted by the activity of the various financial markets. However, diversification of investments in different asset types helps to mitigate volatility inherent in these financial markets.

Supplemental information

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

FY03 reserved fund balance (in millions)				FY03 unreserved fund balance (in millions)			
	Contributions and appropriations	Unrealized appreciation (depreciation)	Sub-total		Realized earnings account	Total Fund	
Beginning balance	\$ 21,884.2	505.2	22,389.4	Beginning balance	1,135.8	23,525.2	
Mineral revenue	397.6		397.6			397.6	
Change in unrealized appreciation		601.1	601.1			601.1	
				Income - dividends, interest,			
				real estate income	859.8	859.8	
				Realized gains (losses)	(461.7)	(461.7)	
				Dividend liability	(690.7)	(690.7)	
				Appropriations to state	(0.4)	(0.4)	
Inflation proofing	352.0		352.0	Inflation proofing transfers to reserved fund balance	(352.0)	-	
Special appropriation	354.2		354.2	Special appropriation to reserved fund balance	(354.2)	-	
				Fund operating expenditures	(36.6)	(36.6)	
Total year-end	\$ 22,988.0	1,106.3	24,094.3	Total year-end	100.0	24,194.3	

FY04 reserved fund balance (in millions)				FY04 unreserved fund balance (in millions)			
	Contributions and appropriations	Unrealized appreciation (depreciation)	Sub-total		Realized earnings account	Total Fund	
Beginning balance	\$ 22,988.0	1,106.3	24,094.3	Beginning balance	100.0	24,194.3	
Mineral revenue	353.1		353.1			353.1	
Change in unrealized appreciation		1,907.8	1,907.8			1,907.8	
				Income - dividends, interest,			
				real estate, and other income	813.1	813.1	
				Realized gains	760.5	760.5	
				Dividend liability	(581.2)	(581.2)	
Transfer from realized earnings account		1.5	1.5	Transfer to unrealized earnings account	(1.5)		
Inflation proofing	169.9		169.9	Inflation proofing transfers to reserved fund balance	(169.9)	-	
Settlement earnings transfer	14.7		14.7	Settlement earnings transfer, State v Am Hess et al	(14.7)	-	
				Fund operating expenditures and other	(47.8)	(47.8)	
Total year-end	\$ 23,525.7	3,015.6	26,541.3	Total year-end	858.5	27,399.8	

Visit www.apfc.org



The Alaska Permanent Fund Corporation provides complete financial and investment information on the Internet. Click on apfc.org for additional financial data, news and APFC publications.

Growth and stability for Alaska's future

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SECTIONS

- Financials Investments Publications The APFC Fund Law POMV Internships

APFC Board will meet on September 8

AUGUST 30 - The Alaska Permanent Fund Corporation Board of Trustees will meet on September 8 in Juneau for a worksession on the fiscal year 2006 budget, in addition to other business. The meeting is open to the public.

Fund returns 14.1 percent for fiscal year

JULY 27 - The Permanent Fund ended fiscal year 2004 on June 30 with a 14.1 percent return and a total value of more than \$27.4 billion, according to preliminary Alaska Permanent Fund Corporation figures.

Board gives Real Estate managers greater authority

Fourth Quarter Report Continue

DAILY FUND POSITION
unaudited, as of August 31, 2004

U.S. Bonds	29%	\$7,880,000,000
Non-U.S. Bonds	5%	\$1,250,000,000
U.S. Stocks	38%	\$10,385,000,000
Non-U.S. Stocks	18%	\$5,038,200,000
Real Estate	8%	\$2,308,600,000
Alternative Invest.	1%	\$247,800,000
Alaska C.D.s	1%	\$173,300,000
TOTAL	100%	\$27,291,700,000

PERCENT OF MARKET VALUE (POMV)

The APFC Board of Trustees proposes a constitutional amendment to limit annual spending from the Permanent Fund to five percent of the Fund's total market value (POMV).

Up-to-date information on POMV

FINANCIAL PROJECTIONS

- Financial projections
- 5-year outlook

APFC MISSION STATEMENT

To maximize the value of Alaska's Permanent Fund through prudent long-term

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, 2004 and 2003, 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, 2004 and 2003, 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, 2004 and 2003, 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 23 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 6, 2004
Anchorage, Alaska

JUNE 30

	2004	2003
Assets		
Cash and temporary investments	\$ 1,496,994,000	637,752,000
Receivables, prepaid expenses and other assets	243,562,000	381,587,000
Investments —		
Marketable debt securities	9,285,020,000	9,082,157,000
Preferred and common stock	15,836,268,000	12,750,289,000
Real estate	2,086,928,000	2,057,104,000
Alaska certificates of deposit	172,759,000	196,802,000
Total investments	27,380,975,000	24,086,352,000
Total assets	\$ 29,121,531,000	25,105,691,000
Liabilities		
Accounts payable	\$ 1,140,445,000	220,275,000
Income distributable to the State of Alaska	581,246,000	691,082,000
Total liabilities	1,721,691,000	911,357,000
Fund Balances		
Reserved – principal		
Contributions and appropriations	23,525,752,000	22,988,019,000
Unrealized appreciation on invested assets	3,015,548,000	1,106,315,000
Total reserved	26,541,300,000	24,094,334,000
Unreserved		
Realized earnings account	858,540,000	100,000,000
Total fund balances	27,399,840,000	24,194,334,000
Total liabilities and fund balances	\$ 29,121,531,000	25,105,691,000

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

YEARS ENDED JUNE 30

	2004	2003
Revenues		
Interest	\$ 387,762,000	468,095,000
Dividends	258,029,000	214,602,000
Real estate and other income	167,302,000	177,153,000
Total interest, dividends, real estate and other income	813,093,000	859,850,000
Net increase (decrease) in the fair value of investments —		
Marketable debt securities	(262,987,000)	533,020,000
Preferred and common stock	2,777,126,000	(316,460,000)
Real estate	187,069,000	(12,485,000)
Foreign exchange contracts	(32,499,000)	(67,361,000)
Currency	(366,000)	2,630,000
Total net increase in the fair value of investments	2,668,343,000	139,344,000
Total revenues	3,481,436,000	999,194,000
Expenditures		
Operating expenditures	(42,171,000)	(36,633,000)
Other legislative appropriations	(5,585,000)	0
Total expenditures	(47,756,000)	(36,633,000)
Excess of revenues over expenditures	\$ 3,433,680,000	962,561,000
Other financing sources (uses)		
Transfers in	353,072,000	397,642,000
Transfers out	(581,246,000)	(691,082,000)
Net changes in fund balances	3,205,506,000	669,121,000
Fund balances		
Beginning of period	24,194,334,000	23,525,213,000
End of period	\$ 27,399,840,000	24,194,334,000

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003

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, and subsequent appropriation, (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 on contributions and appropriations is transferred to the reserved balance of the Fund. The balance of the Fund’s realized 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 statutes and internal investment policies of the Corporation. The investments include stocks and bonds, both domestic and non-domestic, as well as real estate investments, both private equity and public equity real estate. The Fund’s results of operations rely largely on the success of the 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, liabilities, revenues, and expenses for the period. Actual results could differ from those estimates.

Dividend appropriations

Statutory net income excludes realized earnings from contributions made in the North Slope royalty case settlements (*State v. Amerada Hess, et al.*), and recorded unrealized gains and losses on the Fund’s investments. Current statutes require that one-half of twenty-one percent of the Fund’s statutory net income be made available for the payment of dividend appropriations each year. However, amounts available for the dividend appropriations are further limited to no more than one-half of the realized earnings account balance.

Forward exchange contracts

The Corporation, on behalf of 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 is closed or matures, and are determined based on the difference between the contract rate and the market rate at the time of maturity or closing. Unrealized gains and losses are calculated based on the difference between the contract rate and the foreign currency market rates at the balance sheet date.

Fund balances

Reserved fund balances consist of historical mineral revenues, special appropriations, and inflation proofing transfers within 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 annually for the impact of inflation. The annual inflation proofing transfer within the Fund each year can only be done through legislative appropriation. The impact of inflation is measured by the percent change in each of the two prior 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 2.28 percent and 1.58 percent, and were applied to the years ended June 30, 2004 and 2003 respectively.

Interest income

Interest income is accrued daily as earned and is recorded monthly on the books of the Fund.

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 also exempt from federal income taxes under that provision.

Investments

The Fund's investments, excluding certain 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 public equity real estate investments.

Real estate commingled funds, private equity real estate investments, and direct mortgages are carried at the equity value, which is historical cost plus the Fund's share of undistributed earnings. If, upon analysis by management under applicable accounting rules, a permanent impairment of value has occurred, the investment is written down to fair market value by a charge to operations.

Per Alaska Statute, the Corporation may invest Fund assets in (i) equity securities up to fifty-five percent (55%) of total Fund investments, and (ii) up to ten percent (10%) of total Fund investments, in additional investments that meet the test of prudence, including those currently authorized by law.

In late fiscal year 2004 and early fiscal year 2005, the Trustees of the Corporation authorized two new asset classes as Fund investment types: private equity and absolute return strategies. In July of 2004, an initial private equity investment of approximately \$1,000,000 was made. This asset type is typically funded slowly over time, as opportunities arise. The private equity allocation is approximately two percent (2%) of the total market value of the Fund's assets. It is anticipated that this asset class will not be fully funded for approximately five years. In July of 2004, the absolute return manager was fully funded with \$250,000,000. The funding of these new investments, was obtained through sales of marketable debt securities.

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:

	2004	2003
Cash ^(a)	\$ 144,818,000	106,720,000
U.S. agencies ^(b)	98,384,000	104,067,000
Treasury bills ^(b)	986,067,000	11,026,000
Commercial paper ^(c)	267,725,000	415,939,000
Total cash and temporary investments	\$ 1,496,994,000	637,752,000

a) *The majority of cash represents share ownership in a money market fund, payable on demand, which is 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:

	2004	2003
Interest receivable	\$ 92,810,000	93,633,000
Dividends receivable	28,337,000	23,066,000
Sales receivable	87,503,000	204,239,000
Foreign exchange contracts	0	7,176,000
Contributions receivable	34,231,000	49,985,000
Other receivables	681,000	3,488,000
Total receivables, prepaid expenses and other assets	\$ 243,562,000	381,587,000

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 Fund.

Marketable debt securities at June 30 are summarized as follows:

	Cost	Market	Unrealized gains/(losses)
2004			
Treasury notes/bonds	\$ 2,635,951,000	2,621,146,000	(14,805,000)
Mortgage-backed securities	2,860,776,000	2,872,492,000	11,716,000
Other federal agencies	447,406,000	451,533,000	4,127,000
Corporate bonds	2,115,578,000	2,155,807,000	40,229,000
Non-domestic bonds	1,137,454,000	1,184,042,000	46,588,000
Total marketable debt securities	\$ 9,197,165,000	9,285,020,000	87,855,000
2003			
Treasury notes/bonds	\$ 3,349,451,000	3,402,438,000	52,987,000
Mortgage-backed securities	1,974,779,000	2,031,963,000	57,184,000
Other federal agencies	264,219,000	295,573,000	31,354,000
Corporate bonds	2,067,496,000	2,264,136,000	196,640,000
Non-domestic bonds	1,003,793,000	1,088,047,000	84,254,000
Total marketable debt securities	\$ 8,659,738,000	9,082,157,000	422,419,000

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 investments in preferred and common stock, except for one, are held by custodian banks in the name of the Fund. The exception is a commingled fund investment in the Emerging Markets Growth Fund (EMGF), managed by Capital International, Inc. The assets of this fund are held by the custodian bank of the fund manager, on behalf of the commingled fund's investors. The market value of the Fund's shares in the EMGF was \$351,860,000 and \$275,141,000 as of June 30, 2004 and 2003, respectively. The value of the Fund's investment in the commingled fund represented approximately 2.2 percent and 1.7 percent of the total EMGF value at June 30, 2004 and 2003, respectively.

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

	Cost	Market	Unrealized gains/(losses)
2004			
Domestic	\$ 8,895,449,000	10,856,996,000	1,961,547,000
Non-domestic	4,257,875,000	4,979,272,000	721,397,000
Total preferred and common stock	\$ 13,153,324,000	15,836,268,000	2,682,944,000
2003			
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)
Total preferred and common stock	\$ 12,198,957,000	12,750,289,000	551,332,000

7. REAL ESTATE

The Corporation is authorized by statute to invest Fund assets in real estate improved by completed and substantially rented buildings located in the United States. Real estate investments may take the form of private equity real estate 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. Private equity real estate investments are managed by professional real estate management firms. Real estate investment trusts are held by custodian banks in the name of the Fund.

The Corporation routinely analyzes private equity real estate holdings for permanent impairment, in accordance with Corporate resolution 00-10 and Financial Accounting Standard 144 (Accounting for the Impairment or Disposal of Long-Lived Assets). During the fiscal year ending June 30, 2004, four private equity real estate holdings were analyzed for permanent impairment. This review indicated all four of the assets were impaired, as determined based on projected cash flows from each asset over their expected holding periods. Consequently, the carrying values of these assets were written down to their market values, based on the most recent independent appraisal. The charge to the asset carrying value and operating income for all impaired assets totaled \$17,250,000. 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, 2004 and 2003 was \$2,086,928,000 and \$2,057,104,000, respectively. Private equity real estate investments, commingled funds, property notes receivable, 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. Public equity real estate investments (real estate investment trusts) 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 value	Unrealized gains/(losses)	Financial stmt. carrying value
2004				
Commingled funds	\$ 1,043,000	853,000	(190,000)	1,043,000
Real estate investment trusts	714,941,000	969,220,000	254,279,000	969,220,000
Alaska residential mortgages	84,000	84,000	0	84,000
Property note receivable	3,273,000	3,273,000	0	3,273,000
Direct investments -				
Retail	257,320,000	274,861,000	17,541,000	257,320,000
Office	464,845,000	499,128,000	34,283,000	464,845,000
Industrial	135,964,000	148,869,000	12,905,000	135,964,000
Residential	255,179,000	291,352,000	36,173,000	255,179,000
Total real estate	\$ 1,832,649,000	2,187,640,000	354,991,000	2,086,928,000
2003				
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
Total real estate	\$ 1,931,654,000	2,160,962,000	229,308,000	2,057,104,000

8. ALASKA CERTIFICATES OF DEPOSIT

The Corporation is authorized by statute and Corporate resolution 04-03, 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, secures these investments.

9. ACCOUNTS PAYABLE

Accounts payable at June 30 are summarized as follows:

	2004	2003
Accrued liabilities	\$ 12,039,000	10,141,000
Foreign exchange contracts	9,401,000	0
Securities purchased	<u>1,119,005,000</u>	210,134,000
Total accounts payable	<u>\$ 1,140,445,000</u>	<u>220,275,000</u>

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 has appropriated a portion of the Fund's realized earnings to fund various other agency activities. Income distributable to the State of Alaska at June 30 is summarized as follows:

	2004	2003
Dividends	\$ 550,099,000	657,064,000
Appropriation to the Departments of -		
Corrections	5,092,000	6,895,000
Health and Social Services	15,950,000	15,406,000
Revenue	5,794,000	5,444,000
Public Safety	3,107,000	4,209,000
Legislature	329,000	462,000
Administration	875,000	1,178,000
Total to dividend fund	<u>581,246,000</u>	690,658,000
Other agencies	<u>0</u>	424,000
Total income distributable	<u>\$ 581,246,000</u>	<u>691,082,000</u>

11. RESERVED AND UNRESERVED FUND BALANCES

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

	2004	2003
Reserved		
Balance, beginning of year	\$ 24,094,334,000	22,389,425,000
Dedicated state revenues	353,072,000	397,642,000
Inflation proofing transfer from realized earnings account	524,102,000	352,052,000
Liquidation of RSTEF/ITBEF assets	1,484,000	0
Special appropriation from realized earnings	(354,155,000)	354,155,000
Settlement earnings, net of inflation	14,713,000	0
Change in market value appreciation on invested assets	1,907,750,000	601,060,000
Balance, end of year	\$ 26,541,300,000	24,094,334,000
Unreserved		
Balance, beginning of year	\$ 100,000,000	1,135,788,000
Appropriation to other state agencies	0	(424,000)
Inflation proofing transfer to reserved fund balance	(169,947,000)	(352,052,000)
Liquidation of RSTEF/ITBEF assets	(1,484,000)	0
Special appropriation to reserved fund balance	0	(354,155,000)
Settlement earnings, net of inflation	(14,713,000)	0
Dividends to Department of Revenue	(581,246,000)	(690,658,000)
Realized earnings	1,525,930,000	361,501,000
Balance, end of year	\$ 858,540,000	100,000,000
Total		
Balance, beginning of year	\$ 24,194,334,000	23,525,213,000
Dedicated state revenues	353,072,000	397,642,000
Appropriation to other state agencies	0	(424,000)
Dividends to Department of Revenue	(581,246,000)	(690,658,000)
Excess of revenues over expenditures	3,433,680,000	962,561,000
Balance, end of year	\$ 27,399,840,000	24,194,334,000

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 as part of the reserved portion of fund balances, making them unavailable for appropriation. Based on the Opinion, the recorded unrealized earnings of the fund balance were 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. See 2003 Attorney General Opinion (June 18; 663-03-0153).

In fiscal year 2003, the legislature made a special appropriation (through Senate Bill 100) of \$354,155,000 from the Fund's realized earnings account to its contributions and appropriations reserved fund balance. In fiscal year 2004, the legislature further defined this special appropriation (through Senate Bill 283) as inflation proofing related to the 2004 fiscal year. Therefore, in fiscal year 2004, the \$354,155,000 was moved from the special appropriations section of contributions and appropriations to the inflation proofing section. An additional \$169,947,000 was appropriated through Senate Bill 283, to fully inflation proof the contributions and appropriations of the Fund in fiscal year 2004.

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

	2004	2003
Dedicated state revenues	\$ 8,079,153,000	7,726,080,000
Special appropriations	6,885,906,000	7,240,061,000
Inflation proofing	8,407,782,000	7,883,680,000
Settlement earnings	152,911,000	138,198,000
Total contributions and appropriations	\$ 23,525,752,000	22,988,019,000

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 \$23,846,000 in 2004 and \$6,160,000 in 2003. Of these amounts, \$9,133,000 and \$6,160,000 was added to inflation proofing. The additional earnings of \$14,713,000 was transferred to principal in fiscal year 2004. There were no additional realized earnings in excess of inflation for fiscal year 2003. Accumulated settlement related activity, which is included in the contributions and appropriations balance of the Fund at June 30, is shown as follows:

	2004	2003
Settlement -		
Principal	\$ 194,083,000	194,083,000
Earnings	152,911,000	138,198,000
Inflation proofing	77,405,000	68,272,000
Total settlement principal	\$ 424,399,000	400,553,000

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:

	2004	2003
Excess of revenues over expenditures	\$ 3,433,680,000	962,561,000
Unrealized gains	(1,907,750,000)	(601,060,000)
Settlement earnings	(23,846,000)	(6,160,000)
Statutory net income	\$ 1,502,084,000	355,341,000

13. INVESTMENT INCOME BY SOURCE

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

	2004	2003
Interest		
Marketable debt securities	\$ 373,842,000	454,920,000
Alaska certificates of deposit	2,635,000	3,220,000
Cash and other interest	11,285,000	9,955,000
Total interest	\$ 387,762,000	468,095,000
Dividends		
Domestic preferred and common stock	\$ 144,743,000	124,252,000
Non-domestic preferred and common stock	113,286,000	90,350,000
Total dividends	\$ 258,029,000	214,602,000
Real estate and other income		
Private equity real estate interest	\$ 265,000	2,505,000
Public equity real estate dividends	46,746,000	43,287,000
Private equity real estate net rental income	106,101,000	122,082,000
Loaned securities and other income	14,190,000	9,279,000
Total real estate and other income	\$ 167,302,000	177,153,000

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. Since the Corporation does not have the ability to pledge or sell the collateral, no assets or liabilities are recorded on the financial statements. There is limited credit risk associated with the lending transactions since the Corporation is indemnified by the Bank against any loss resulting from counter party failure, default on collateral investments, or default on loaned securities.

The Bank receives twenty percent (20%) of the earnings derived from securities lending. There were \$3,850,574,000 and \$3,319,408,000 in loaned securities outstanding as of June 30, 2004 and 2003, respectively. During the years ended June 30, 2004 and 2003, there were no losses incurred as a result of securities lending transactions. The Fund received \$9,092,000 and \$7,325,000 in income from securities lending for the years ended June 30, 2004 and 2003, respectively.

14. NET REALIZED GAINS AND LOSSES ON CURRENCY

There was a net realized loss on foreign currency for the year ended June 30, 2004 of \$366,000, and a net realized gain on foreign currency of \$2,630,000 for the year ended June 30, 2003. 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 investments.

15. FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

Asset managers for the Corporation entered into foreign currency forward exchange contracts (FX forward 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 counter parties to the FX 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 counter parties; 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 payable totaling \$9,401,000 as of June 30, 2004 and net sale contracts receivable totaling \$7,176,000 as of June 30, 2003. FX forward contracts resulted in net unrealized losses of \$16,608,000 for the year ended June 30, 2004, and net unrealized gains of \$25,405,000 for the year ended June 30, 2003, including prior year reversals in each year. FX forward contracts resulted in realized losses of \$15,891,000 and \$92,766,000 for the years ended June 30, 2004 and June 30, 2003, respectively.

16. EXPENDITURES

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

	2004	2003
Operating expenditures		
Salaries and benefits	\$ 2,779,000	2,954,000
Travel	271,000	203,000
Communications	761,000	799,000
Custody and safekeeping fees	1,709,000	1,694,000
Consulting fees	427,000	651,000
Investment management fees	34,402,000	28,581,000
Legal and audit fees	441,000	308,000
Public information and subscriptions	390,000	291,000
Rent	305,000	472,000
Property and equipment	191,000	136,000
Other expenses	495,000	544,000
Total operating expenditures	42,171,000	36,633,000
Other appropriations from corporate receipts	5,585,000	0
Total expenditures	\$ 47,756,000	36,633,000

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 Annuity Plan (SBS-AP). 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 the years ended June 30, 2004 and 2003. The Corporation contributed a matching 7.20 percent to the PERS system for the benefit of each employee during the years ended June 30, 2004 and 2003. The SBS-AP is a defined contribution multiple-employer plan that was created under Alaska statutes effective January 1, 1980, pursuant to Internal Revenue Code section 401(a), to provide benefits in lieu of those provided by the Federal Social Security System. All Corporate employees are required to contribute 6.13 percent of their annual salaries to SBS-AP, 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, 2004 and 2003 amounted to \$2,136,000 and \$2,301,000, respectively. Total salaries for employees covered by SBS-AP for the years ended June 30, 2004 and 2003 amounted to \$2,161,000 and \$2,323,000, respectively.

ALASKA PERMANENT FUND CORPORATION

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