

2006 Annual Report





Thirty years and growing

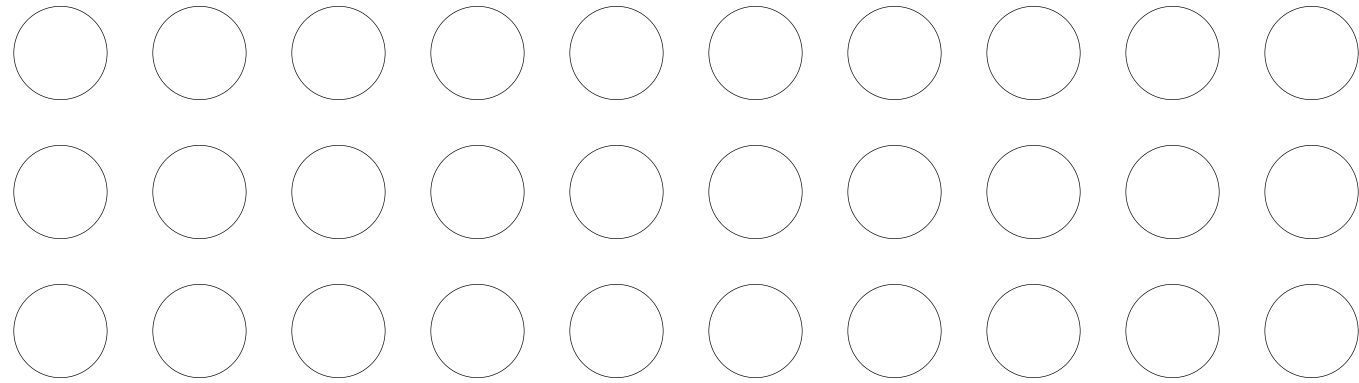


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▶ The Alaska Permanent Fund (Fund) is an investment savings account that belongs to the State of Alaska. It was created in 1976 by a voter-approved amendment to the Alaska Constitution. The beneficiaries of the Fund are the State of Alaska and all present and future generations of Alaskans.

The Permanent Fund is made up of two parts: reserved (principal) and unreserved (realized income). 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.

Board of Trustees

from front left to right:

Chair Carl Brady

Eric E. Wohlforth

Bill Hudson

Vice Chair Steve Frank

David Márquez

William A. Corbus



Letter from the Chair

▶ Since its inception, the Alaska Permanent Fund Corporation's Board of Trustees has shown a commitment to making prudent investments with a long-term view. Investment allocations are based on how we expect asset classes to perform over several years, not whether they will generate returns in the short term. The health and ability of the Fund to provide steady returns in the years to come has been our goal.

The decisions made in the past have laid a foundation for the future, not only from a financial perspective, but by setting a precedence. The Board has always been cautious and deliberate in our decisions, including the incorporation of new asset classes, and has never speculated or tried to time the market. We've always kept our focus on the long term, clearly laying the path for Boards to follow in the future.

An important part of investing for the long term is to evolve the Fund's asset allocation as markets change and expand. From an initial investment in domestic bonds, we have moved into the domestic and international bond, stock and real estate markets. And in the last few years the Trustees have made the Fund's first investments in private equity and absolute return strategies. These additions were made because they brought diversity to the Fund's investments, lowering risk and helping ensure it will be here to serve generations to come.

This evolution can be seen in our operations as well, especially in the technology we use. Through the Internet, our staff in Juneau has access to information at the same time as investors in London, New York or Tokyo. And as the scope of our investments has expanded, the complexity of our accounting systems has had to grow.

We've also seen an evolution in the responsibilities and trust given to the Board. Legislation passed in 2004 requires cause before a public member of the Board may be removed, increasing the ability

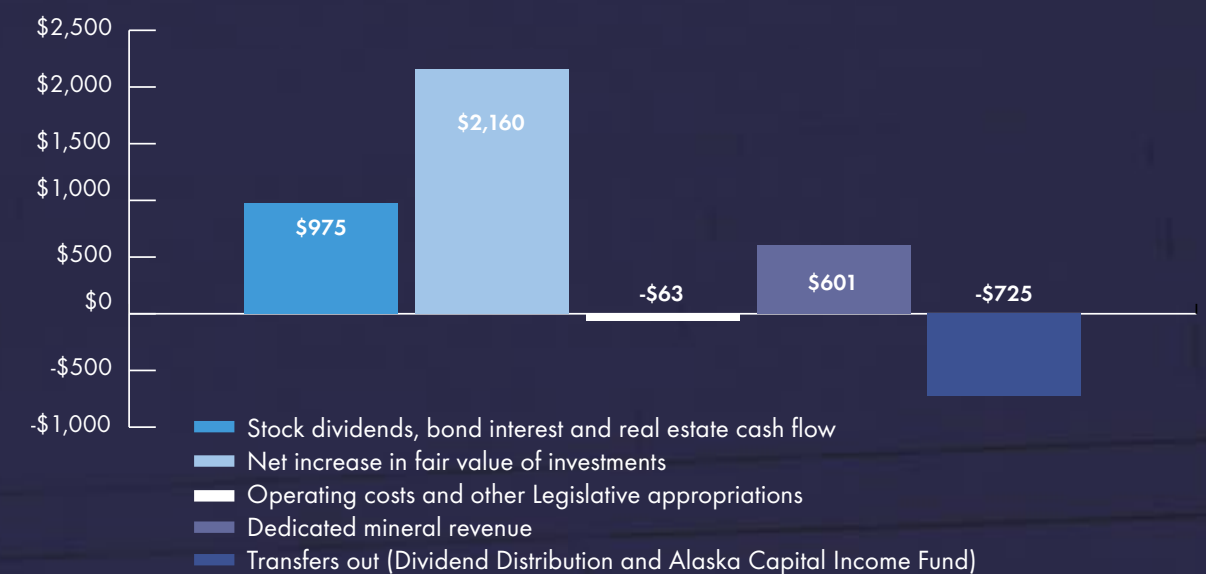
of the Board to retain institutional knowledge and providing insulation from political pressures. The decision by the Legislature in 2005 to remove the statutory list of allowed investments granted the Board the authority to invest the Fund under the simple guidelines of the Prudent Investor Rule.

From an experiment in public policy, the Permanent Fund has grown into a model of how to convert one-time resources into a renewable source of wealth. Other governments study our procedures, investments and payout structure and it has been suggested that oil-rich states such as Iraq form similar funds to benefit their people.

Since 1980 when the corporation was created, 42 Alaskans have served on the Board of Trustees. Over the years we have all committed to prudently invest the Fund, balancing risk and return, and incorporating new asset classes when we believed that they would enhance the Fund and keep it current with modern investment philosophies. I am certain that the Board of Trustees will continue to give the same level of care to our fiduciary responsibility to the people of Alaska for the next 30 years and beyond.

Carl Brady, Chairman
Board of Trustees

Sources of change in Fund value, fiscal 06 in millions



Letter from the Executive Director



► Fiscal 2006 was an exciting year for the Permanent Fund and the Alaska Permanent Fund Corporation. In addition to reaching our 30th Anniversary, the Permanent Fund saw the following high water marks during the fiscal year:

- For the first time the Fund reached \$31, \$32, \$33, \$34 and \$35 billion in value
- Statutory net income, the amount used to calculate the dividend, was the greatest amount ever at \$2.7 billion
- The inflation proofing transfer to principal reached a new high at \$856 million
- Mineral royalty deposits to the Fund's principal were the greatest ever received, at \$601 million

Contributions from oil make up the vast majority of our royalties, and high oil prices produced the largest royalty deposits to the Fund over the last two years. I think it is interesting that to find the third highest deposit, you have to look all the way back to 1991. At that time, prices substantially lower than today, but much higher production combined to produce a \$435 million deposit. Declining production over the years has caused the deposits to the Fund to decrease until recently.

The Fund's total return for fiscal 2006 was 11.0%, higher than our targeted benchmark of 10.5%. Overall, the year was one of strong growth for the first three quarters, despite concerns that Hurricane Katrina, rising fuel prices and global issues would dampen the U.S. economy. The anticipated slowdown came in the final quarter, as stocks took a sharp downturn and the total fund returned -0.9% for the period.

The Fund's non-domestic stock and real estate portfolios had the strongest returns, at 26.1% and 20.0% respectively. Domestic stocks also performed well, returning 10.0% for the year and the absolute return strategy investments returned 11.3%. The bond portfolios did not perform as well, with domestic bonds returning -0.3% and non-domestic bonds returning 0.6%. However, both portfolios performed better than their benchmarks. You can read more about the performance and structure of the Fund's asset classes in the individual investment sections of this report.

This year brought a big change for the APFC - the list of allowed investments was moved from state law to regulations, where it will be managed by the Board of Trustees. The Legislature authorized this increase in investment authority to the Board in a bill that passed in May of 2005, and the new regulations took effect on January 1, 2006. Trustee, staff, legal counsel, investment managers', advisors' and our board consultant's input lead to the adoption of new investment regulations at the November 2005 board meeting.

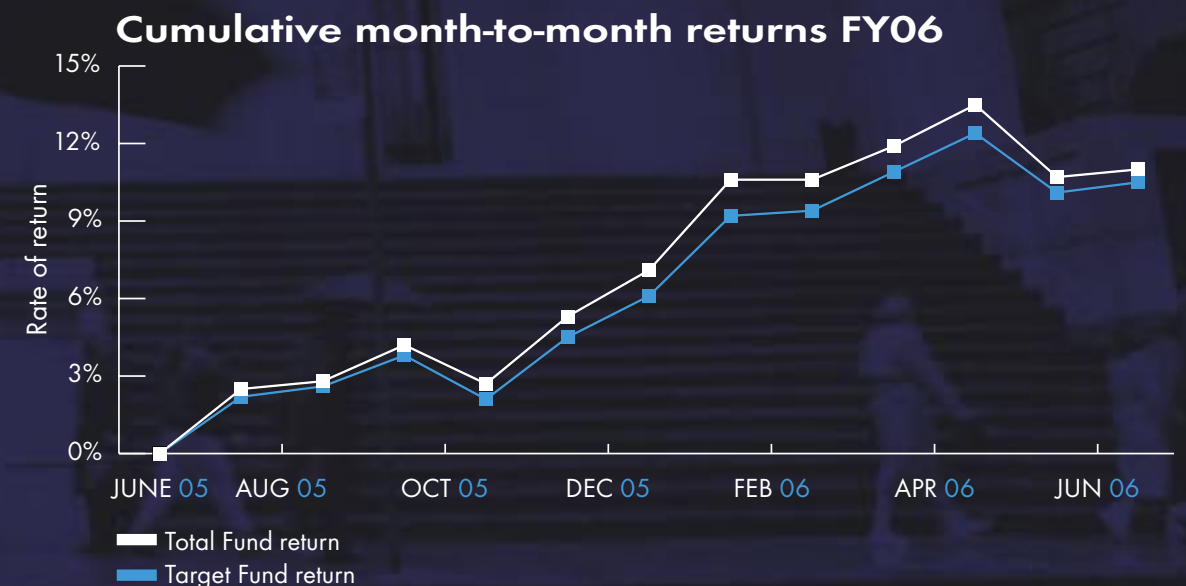
Our goal was to create a comprehensive list of all of the prudent asset classes and strategies in which the Board might invest in the near future. This doesn't mean that the Board will use every

investment on the list, or that new investments can't be added. But we believed it was important to make the list as comprehensive as possible to allow Alaskans to understand the types of investments the Board may use.

After six years of service to the Fund, our Chief Operating Officer, Bob Bartholomew recently decided to move on to full-time sailing and mountain climbing. His departure created the opportunity to reexamine our management structure. Chris Phillips was promoted to Chief Financial Officer, and Marshal Kendziorek was promoted to Director of Administration and IT. They, along with Chief Investment Officer, Rick Shafer, form our senior management team.

I continue to be impressed with the commitment to excellence shown every day by the Corporation's employees. They bring a level of dedication and a sense of responsibility to their work that has brought about the success of this institution over the last 30 years. I am proud to be part of this team.

Michael J. Burns
Executive Director



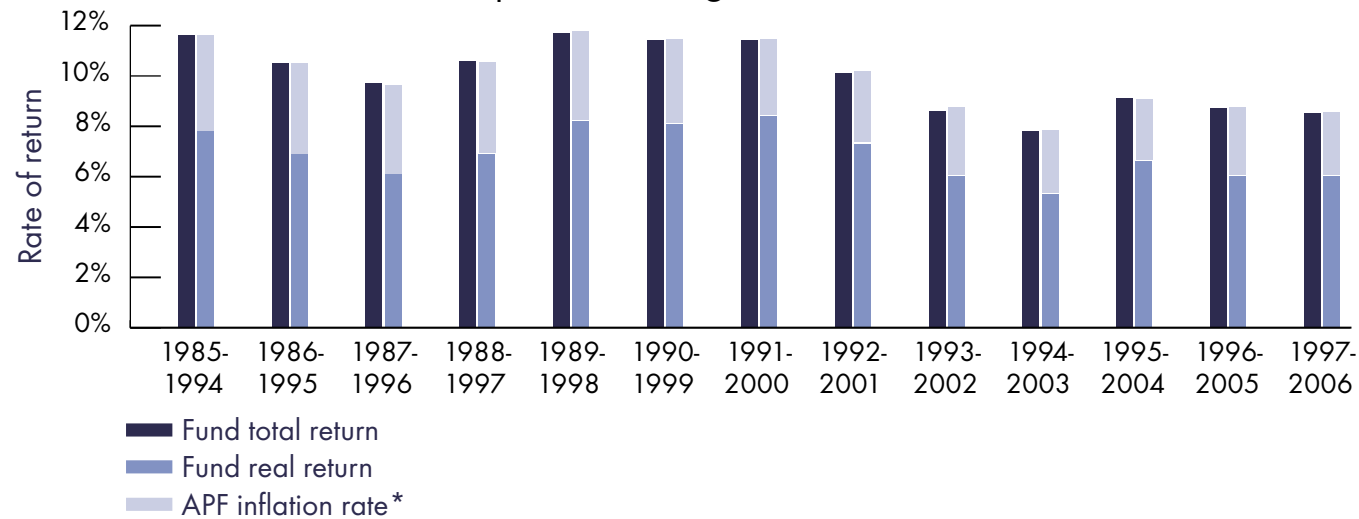
Investing for the long run

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, real estate and recently, alternative 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 as shown in the graph on the following page.

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 (the return after inflation) of the Fund should be around 5 percent. The charts below illustrate how the Fund has been doing.

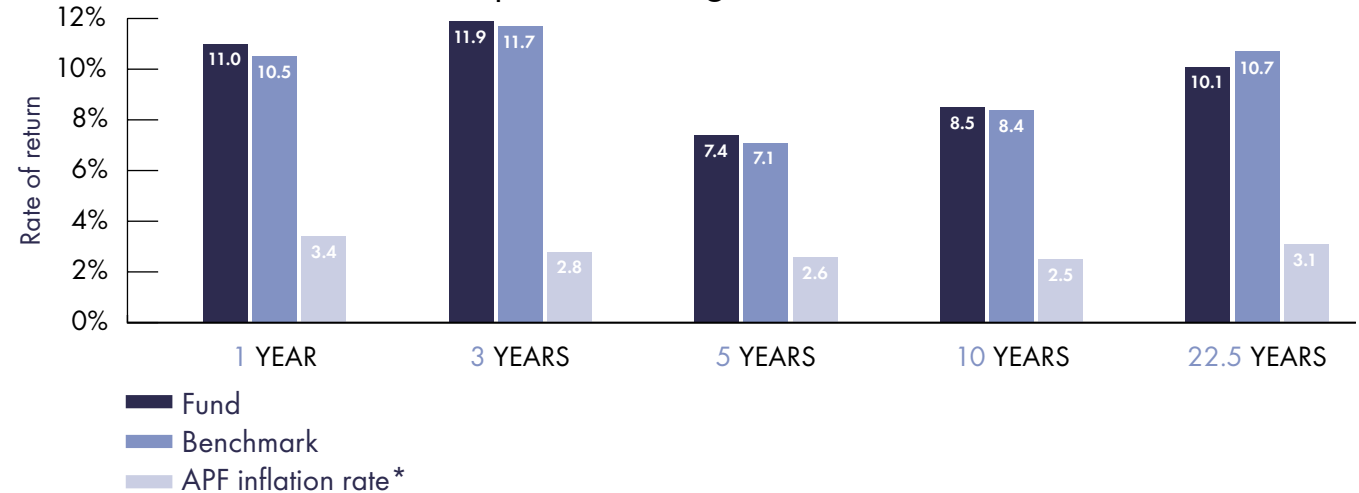
Rolling 10-year returns

annualized returns for period ending June 30, 2006



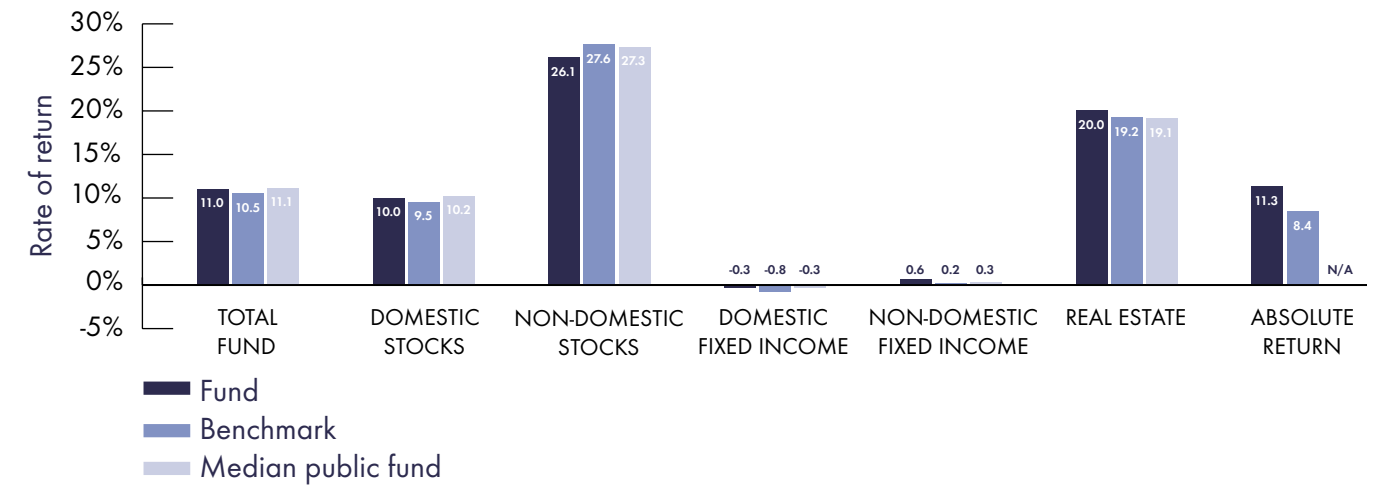
Fund's long-term investment performance

annualized returns for period ending June 30, 2006



* See page 27 for detailed information regarding the APF inflation rate.

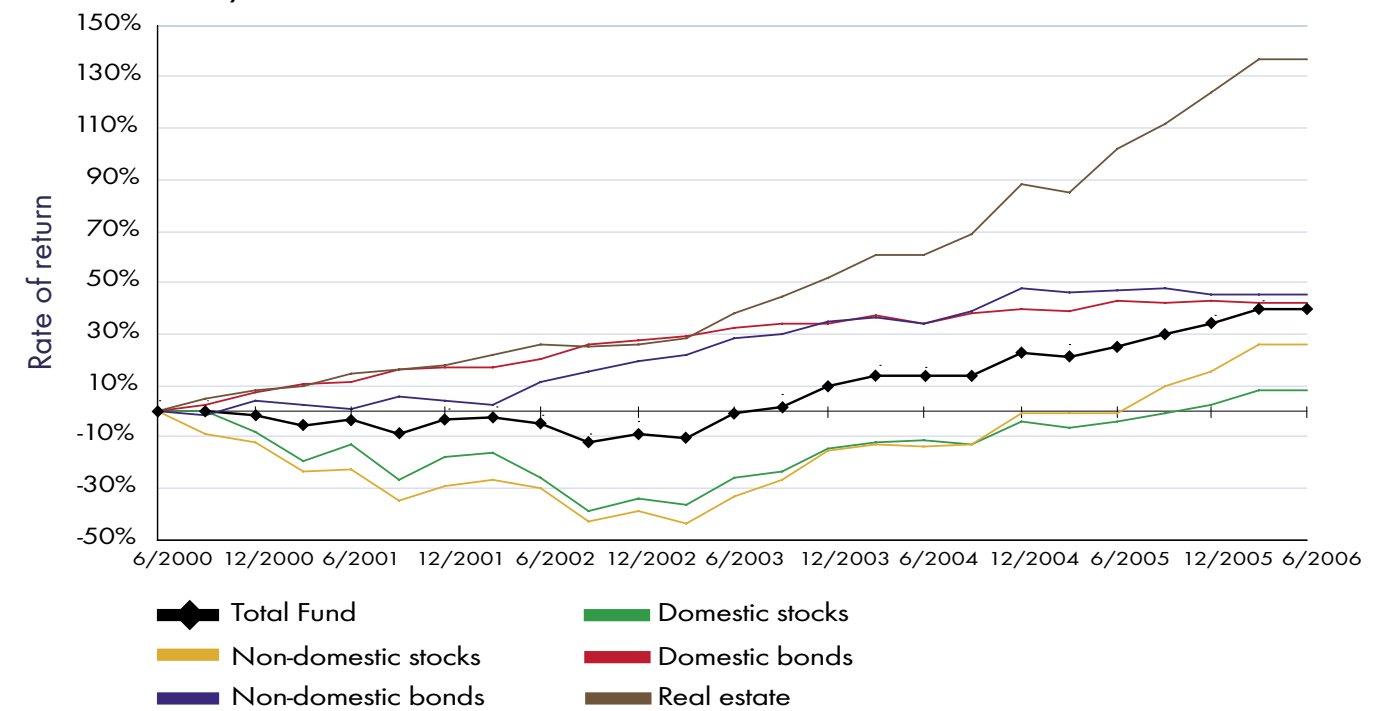
Fiscal 2006 performance



In prior years, this performance comparison of the Fund to our public fund peer group was adjusted to account for asset allocation restrictions imposed by the statutory investment list. As these restrictions were removed January 1, 2006, we will no longer adjust the public fund peer group's returns.

Diversification

Five year cumulative return





David Rose
1937 - 2006

▶ A key part of the Permanent Fund's success, now and into the future, was the creation of a solid corporation to prudently invest and accurately account for the Fund under the guidance of its Trustees. David Rose is one of a select few who Alaskans can thank for this achievement.

On November 4, 1982, the APFC Board of Trustees hired David as the Corporation's first executive director, and first employee.

David's first duty was to hire the Corporation's staff. He believed that managing the Permanent Fund for the people of Alaska was a great responsibility, and he exemplified integrity, hard work and commitment to the Fund's success. David encouraged his staff to do the same, laying the foundation for a corporate culture of excellence that extends to this day.

During his decade-long tenure, David helped to set long-term goals for the Permanent Fund, and recommended to the Trustees policies for the long-term management of Fund investments. He also established the APFC's reporting and accounting systems. The Fund's assets grew from \$3.3 billion to \$14.0 billion under his watchful eye.

David's conservative approach, professionalism, and commitment to Alaska and the Permanent Fund created a strong institution. Because of the structure and procedures that he put into place, Alaskans can continue to have faith in the management of the Permanent Fund.

David Rose died on Saturday, May 27, 2006 in Anchorage, Alaska.

Stocks

▶ The Permanent Fund's stock portfolio contributed significantly to the Fund's total return, with domestic stocks returning 10.0% and non-domestic stocks returning 26.1% for the fiscal year. The stock portfolio ended the year with a value of \$19.3 billion.

The fiscal year in review

▶ Stocks in the U.S. started with a rally in the first quarter of the fiscal year, fueled by strength in the energy sector as oil prices reached \$70 per barrel following Hurricane Katrina. As oil prices eased back below \$60 in October, stocks retreated during the second quarter but managed to finish the quarter with another modest gain. Overseas, despite weakening of foreign currencies versus the dollar, non-U.S. stocks exhibited strong performance during the first two quarters. Signs of a growth pick-up in Japan drove stocks in that market higher by 40%. Europe also posted solid returns during the first half of the fiscal year, although the oil-dominated U.K. market pulled back in October as oil prices retreated. Stocks in developing countries finished the first half of the fiscal year with high double-digit returns, helped by their rapidly growing economies and rising commodity prices.

The third fiscal quarter was also a period of solid returns for the Fund's stock portfolios. Continued strong investor inflows into stocks of smaller companies and developing markets helped stocks of these more risky markets to outpace their larger-cap, developed-market brethren. The strong third quarter returns came despite signs that rising oil prices, higher interest rates, a cooling housing market and slowing Chinese economy could have had a dampening effect on global growth. Investors, hoping for an end to interest rate hikes, were disappointed in early May when the U.S. Federal Reserve indicated that interest rates may need to rise further. Stocks declined sharply, particularly stocks of smaller companies and developing countries, as investors feared that a slowdown in global growth would have a greater impact on such stocks. Thus, both domestic and non-domestic stocks provided negative returns for the quarter.

Domestic stock managers

- Alliance Capital Management
- Dodge & Cox
- DuPont Capital Management
- ForstmannLeff Associates
- GE Asset Management
- Jennison Associates
- Kalmar Investments
- Lazard Asset Management
- Luther King Capital Management
- Martingale Asset Management
- McKinley Capital Management
- Mellon Capital Management
- Penn Capital Management
- Peregrine Capital Management
- RCM Global Investors
- T. Rowe Price Associates
- Tukman Capital Management
- Turner Investment Management
- UBS Global Asset Management
- Voyageur Asset Management
- Washington Capital Management

Non-domestic stock managers

- Capital Guardian Trust Company
- Clay Finlay
- Lazard Asset Management
- Mellon Capital Management
- Mondrian Investment Partners
- Schroders Capital Management
- T. Rowe Price International
- UBS Global Asset Management

Domestic stocks

▶ The domestic stock portfolio's return of 10.0% for the fiscal year was ahead of its benchmark's 9.5% return. The small-cap stock portfolio returned 15.4%, almost double that of the large-cap stock portfolio, which returned 8.9%. While the value-style outperformed the growth-style for the sixth year in a row, three of the Fund's large-cap growth managers posted above-benchmark returns for the fiscal year.

In February, the Board of Trustees approved adding enhanced alpha strategies to the domestic portfolio. Enhanced alpha strategies allow a limited amount of a traditional long-only portfolio to be placed in short positions. This helps offset some investment risk by allowing managers to take advantage of expected downturns in the value of certain stocks. The Board approved allocations of \$200 million each to Martingale Asset Management and UBS Global Asset Management for enhanced alpha strategy portfolios. These managers intend to place between 20% and 40% of their portfolios in short positions.

In order to accommodate larger investments in both emerging market equities and private equities, the Fund began to trim its weighting in the domestic small cap market segment. As part of this effort, the Fund's passive small-cap portfolio was converted to a passive mid-cap portfolio, retaining exposure to medium sized companies in the U.S. market.

Non-domestic stocks

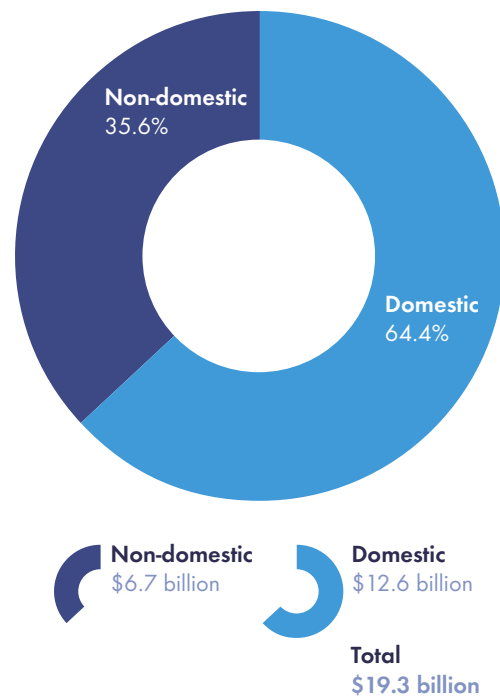
▶ The non-domestic stock portfolio slightly lagged its benchmark, returning 26.1% compared to the benchmark's return of 27.6%. The portfolio lost ground relative to its benchmark in the fourth fiscal quarter due in part to an overweighting in emerging markets coupled with a sharp downturn in those markets. Nevertheless, the developed countries portfolio returned 25.2%, and the emerging countries portfolio returned 33.5% for the fiscal year.

The Board of Trustees expanded the Fund's emerging markets portfolio in September by adding a new manager, T. Rowe Price International, with an initial allocation of \$50 million. This brought the number of emerging market managers to three. In addition, given the long-term growth prospects for developing countries, the Board increased its allocation to this market segment by 1% in May.

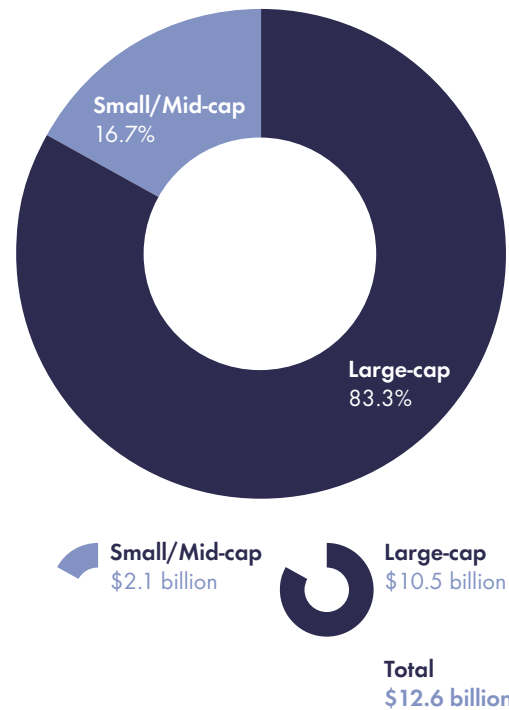
Breakdown of the Permanent Fund's stock portfolio

all data as of June 30, 2006

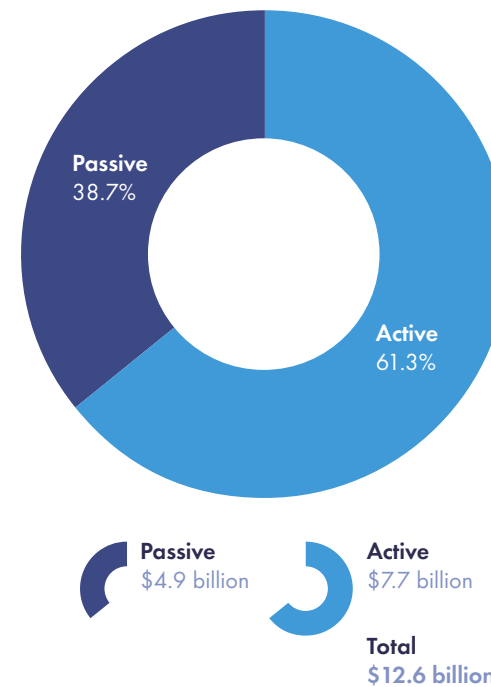
Domestic vs. non-domestic stocks



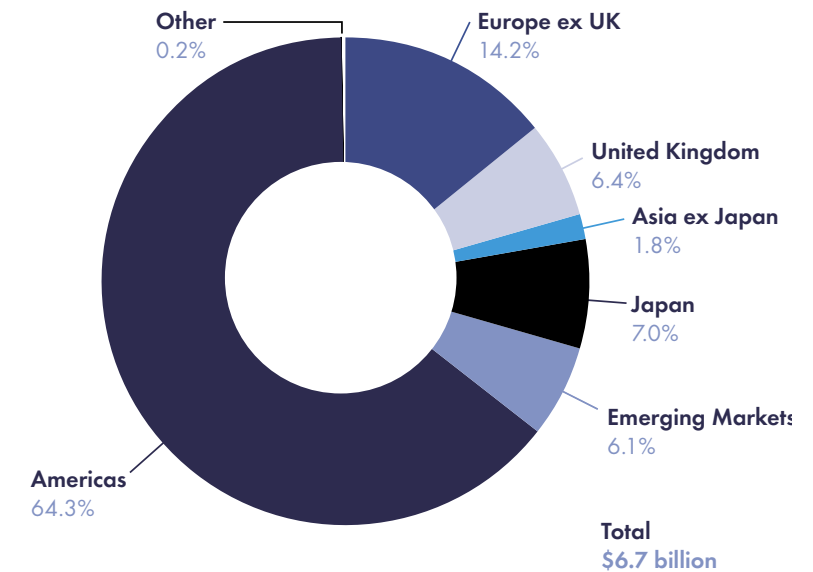
Domestic stock portfolio by company capitalization



Domestic stock portfolio by active and passive management styles



Non-domestic stocks by region



Bonds

▶ Because of rising interest rates, which erode the value of bond holdings, the fixed income sector of the portfolio ended in negative territory. However, the APFC portfolio returned -0.3%, ahead of the Lehman Aggregate Index benchmark of -0.8%. The non-domestic bond portfolio returned 0.6%, also ahead of its benchmark of 0.2%.

Domestic bonds

▶ The portion of the domestic bond portfolio managed in-house by the APFC outperformed its benchmark by 50 basis points, returning -0.3% versus -0.8% for the Lehman Aggregate Index. The portfolio finished the fiscal year with a value of \$7.9 billion. Alaska Permanent Capital Management returned -0.6% on their portion of the domestic allocation, ending the year with a value of \$308 million. The new core plus mandate managed by UBS Asset Management outperformed its index by 150 basis points, returning 0.7% versus -0.8% for the Lehman Aggregate Index. They ended the fiscal year with a value of \$396 million.

In November, the Board of Trustees authorized UBS to expand their existing core domestic bond portfolio to a core plus strategy. This allows UBS to place up to 20% of the assets they manage in high-yield bonds and emerging market debt securities, which are rated at below investment grade levels by the major rating agencies, and provide higher yields to compensate for the higher risk represented by their low investment rating.

High-yield bonds have characteristics which can make them behave similarly to stocks, but do not correlate directly with either core bonds or stocks. When incorporated in prudent amounts, they can enhance a portfolio's return and help mitigate overall risk through increased diversification, as they did for APFC's bond portfolio this year. At the end of the fiscal year, high-yield bonds made up 9.9% of the UBS portfolio. UBS' core plus mandate also permits international bonds to comprise up to 20% of the portfolio.

The Board added to this program in May, hiring two new high-yield bond managers, giving them mandates of \$100 million each. Goldman Sachs Asset Management oversees a domestic portfolio, while Capital Guardian will invest in global high-yield bonds.

Non-domestic bonds

▶ Both of the APFC's external non-domestic bond managers outperformed the benchmark of 0.2%. The bonds managed by Julius Baer returned 0.4% and ended the fiscal year with a value of \$549 million. Rogge Global Partners performed better, returning 0.8% on the portfolio it manages, which ended the year at \$571 million.

The inverted yield curve

▶ In December and January there were brief periods when the yield on long-term Treasury bonds dropped below

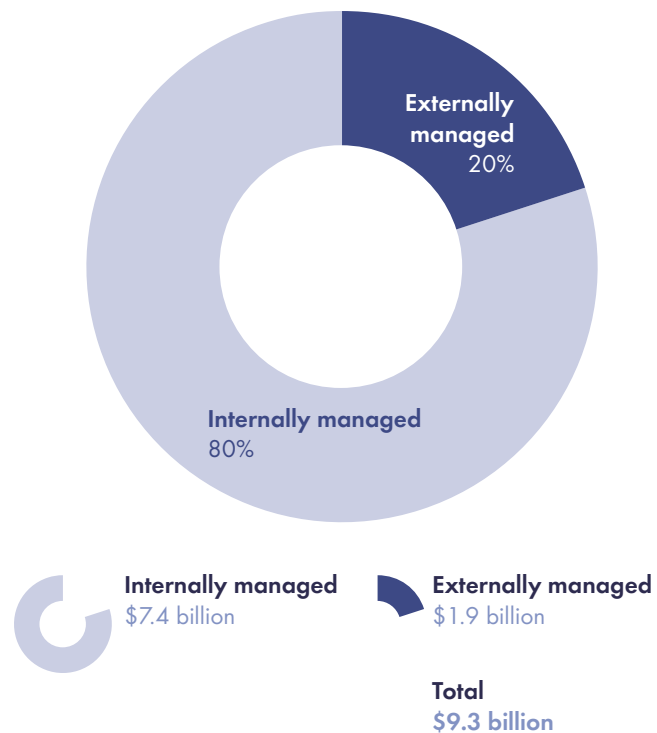
the yield for short-term bonds, creating what is known as an "inverted yield curve." Inverted yield curves have often preceded recessions, so their appearance acts as a warning sign to investors and market observers. But while the inverted yield curves at the start of 2006 were noted, they didn't raise undue concern in the market. The U.S. economy still showed signs of strength and continued inflation, rather than recession. In addition, pre-recession inversions have usually been much steeper and lasted for months, rather than days.

In the final two quarters of the fiscal year, inflation concerns continued and the Federal Reserve maintained their course of raising short-term interest rates. While the end of the fiscal year showed the possible beginnings of an economic slowdown, it still remains to be seen whether a recession is in the near future.

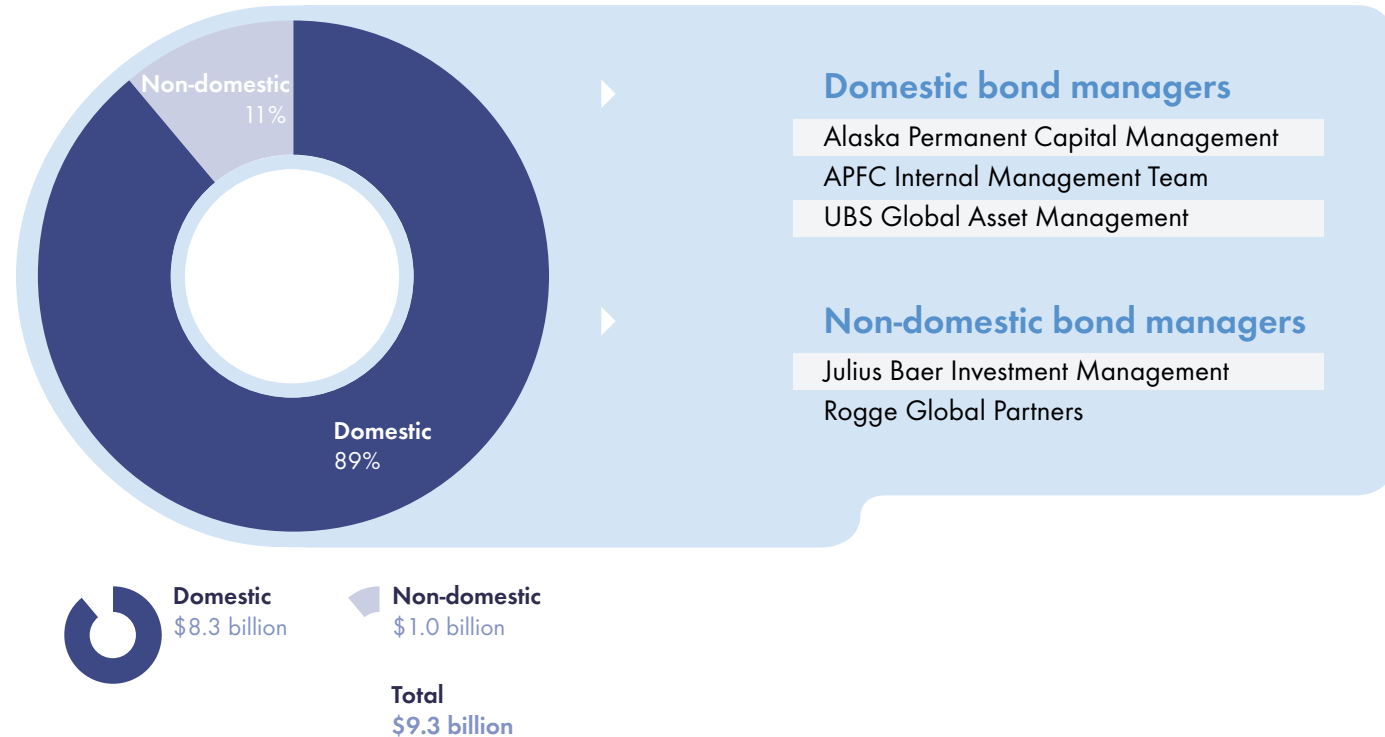
Breakdown of the Permanent Fund's bond portfolio

all data as of June 30, 2006

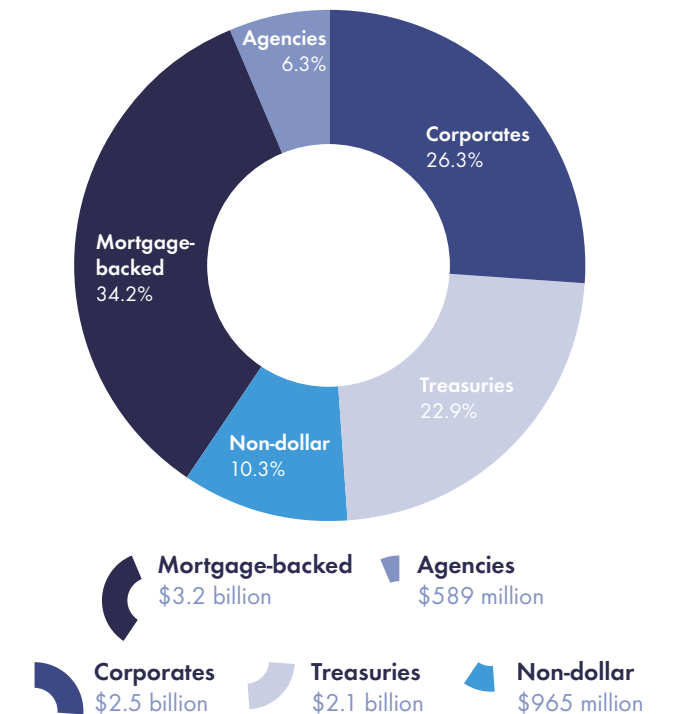
Internal vs. external management



Domestic vs. non-domestic



Composition of bonds





120 East 87th Street, New York, New York is part of the AFPC's \$4.1 billion real estate portfolio.



Fashion Court at Tyson's Corner Center, McLean, Virginia.

Real estate

▶ The Permanent Fund's real estate results contributed strongly to the Fund's overall performance in fiscal year 2006, returning 19.96%. The Fund had approximately \$4.1 billion invested in real estate on June 30.

Public equity real estate

▶ Approximately one-quarter of the real estate portfolio is invested in real estate investment trusts (REITs). Two managers oversee the domestic portion of the portfolio and both had returns well above the MSCI US REIT Index benchmark of 19.7%. AEW Capital Management returned 26.4% for the fiscal year, and Wellington Management Company returned 24.4%.

This year brought a significant change for the real estate portfolio with the first investments in international real estate. In September, the Board of Trustees hired AEW Capital Management to oversee a \$300 million portfolio of global real estate securities. This addition brings greater diversification to the portfolio, demonstrated when the global portfolio generated a positive return while domestic REITs fell slightly in the final quarter of the year.

Private equity real estate

▶ At the end of the fiscal year, the Permanent Fund had \$3.1 billion invested in direct property investments across the U.S. This portfolio also contributed significantly to the Fund's growth, returning 17.4% for the year.

In July of 2004, the Board of Trustees granted increased discretion to several select real estate managers to purchase property on the Fund's behalf. This was part of a strategy to increase investments in real estate to the 10% of the Fund called for in the Trustees' asset allocation. The successful implementation of this program continued through fiscal 2006 with the addition of \$339 million in real estate holdings. These purchases include 15 new acquisitions, as well as buying out an existing partner in one of the properties in the Fund's portfolio. While the focus for the fiscal year was to increase the Fund's holdings, four properties, deemed to no longer be beneficial to the portfolio, were identified to be sold. By the end of the fiscal year, two of these properties were sold with two sales pending.

March brought another change for the Permanent Fund's real estate portfolio, when the Fund acquired a \$585 million co-controlling stake in Simpson Housing Limited Partnership, L.L.P., one of the largest private multifamily development and operating companies in the country. As of March 31, 2006, there were 63 communities in Simpson's core rental portfolio consisting of 19,241 units with a development pipeline of over 2,000 units. Prior to the investment in Simpson, the Fund had only purchased existing properties, so this partnership provided the Fund's entry into multi-family property development.

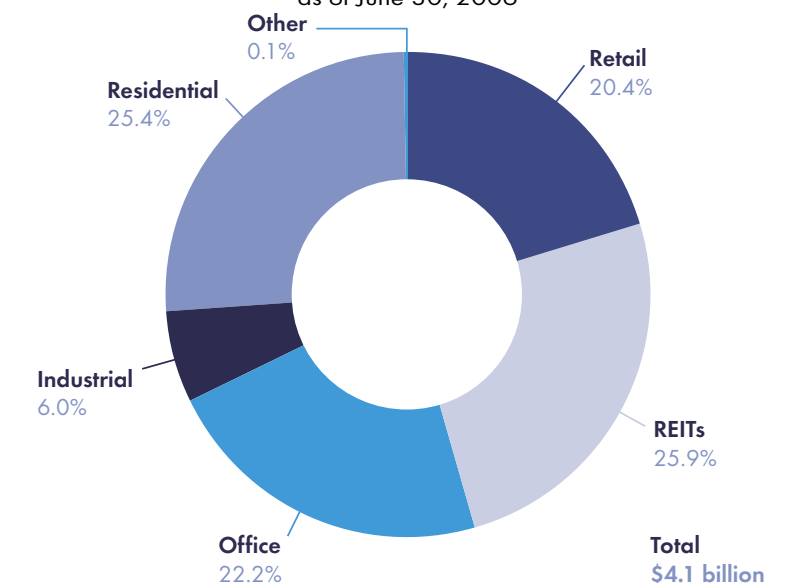
Real Estate Investment Trust (REIT) advisors

AEW Capital Management
Wellington Management Company

Private equity real estate advisors

CB Richard Ellis Investors
Kennedy Associates
L&B Realty Advisors, Inc.
LaSalle Investment Management
Sentinel Realty Advisors, Inc.
Simpson Housing REOC

Real estate diversification as of June 30, 2006



Alternative investments

Private equity

- ▶ Private equity investments include such categories as venture capital, buy-out funds, and distressed debt. By nature, these are long-term, illiquid investments that offer the potential of earning returns that are higher than those of public market investments, as well as adding diversification to the Fund's investment portfolio.

The illiquidity affects not only the ability to move out of investments, but also the ability to move into them. Allocations to this asset class often take years to completely fill as managers seek out corporations that have a need for private equity capital and meet the necessary investment criteria. This has been clearly demonstrated in the Permanent Fund's portfolio, where despite commitments to private equity partnerships of \$724 million, only \$110 million was actually invested at fiscal year-end.

The Fund uses an external manager, Pathway Capital Management, to seek out successful partnerships with proven track records in which to invest, subject to Board-imposed guidelines and APFC approval of Pathway's annual tactical plan. And these partnerships in turn select the investments that meet the general partner's criteria. Even after close to two years, the private equity portfolio is still too new to have provided meaningful return statistics.

Absolute return

- ▶ The vast majority of our assets measure their success compared relative to an index or benchmark. As opposed to this relative return style, absolute return managers target a specific rate of return. Thus, they have an absolute target for their style as opposed to a relative return measurement.

Crestline Investors, Inc. was the first absolute return manager hired by the Board in 2004, and their portfolio returned 11.5%, ending the fiscal year at \$553.6 million. In February, 2006, the Board hired two new absolute return managers. A \$200 million allocation was made to Mariner Investment Group and a \$100 million allocation was made to Lazard Alternatives, LLC. These additions brought the total value of the absolute return strategies portfolio to \$854 million on June 30, 2006

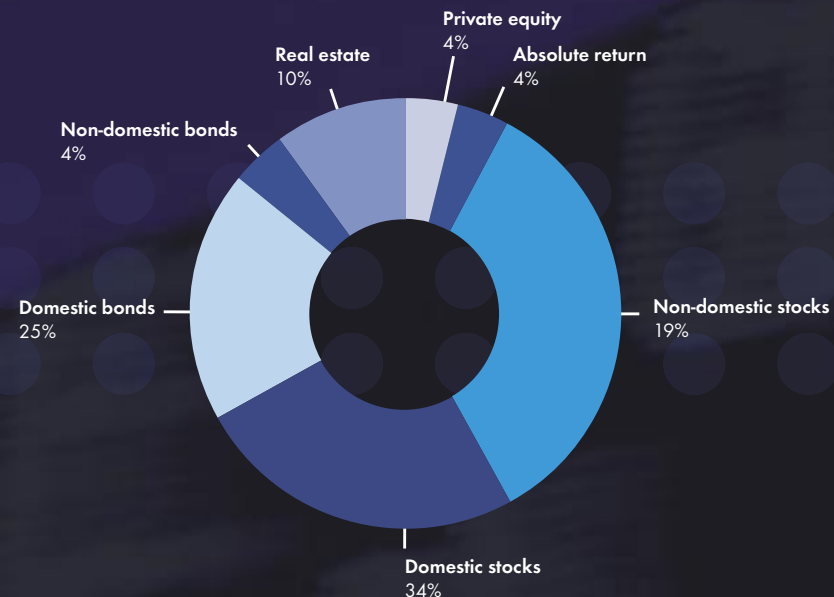
Absolute return managers

- Crestline Investors, Inc.
- Lazard Asset Management
- Mariner Investment Group

Private equity managers

- Pathway Capital Management

Permanent Fund target asset allocation



▶ Lijie Zhu of UAF spent the summer in London as an intern for Rogge Global Partners.



▶ UAF graduate Jane Pitakkoshkorn (left) and current UAF student intern Hongxian Zhang at Mellon Capital Management in San Francisco.



▶ Josh Adams enjoyed a summer internship in Seattle working with Kennedy Associates Real Estate Counsel.

APFC intern program

- ▶ APFC and the management firms that invest Fund portfolios offer internships exclusively for qualified Alaska undergraduate and graduate students. Students attending school in Alaska and Alaskans attending school out of state may qualify for these opportunities, which are located throughout the US and in the UK as well. The intern program extends the benefits of Alaska's Permanent Fund to our students and our state universities, whose faculty and staff work closely with APFC to prepare their students to take advantage of the internships and contribute valuable work to the companies that hire them. Since the program's inception in 1988, 80% of the 240 interns have come from Alaska campuses: UAA, UAF, UAS and APU.

Over the years, many of these internships have led to careers in the investment field. Supatcharee (Jane) Pitakkoshkorn's experience is a great example. Jane attended undergraduate and later a graduate school in Finance at the University of Alaska, Fairbanks, where she helped to manage the UAF Student Investment Fund. At UAF, Jane learned about the APFC intern program and obtained internships at T. Rowe Price in 2002, Putnam Investments in 2003 and finally at Mellon Capital Management in San Francisco, where she was hired as a permanent employee following her summer 2004 internship. And in 2006, Jane was on hand at Mellon to greet another UAF student, Hongxian Zhang. "I am very fortunate to have gotten the internship at Mellon Capital Management through the APFC internship program," says Hongxian. "After being exposed to fixed income, equity, and derivatives in Mellon's trade operations group, I have gotten to know the 'real' side of the finance field. My coworkers at Mellon have given me such excellent learning opportunities. I hope that this internship will be a jump start for my career!"

Josh Adams, also of UAF, is learning about the real estate asset class at Kennedy Associates Real Estate Counsel in Seattle. "At Kennedy I have had the excellent opportunity to gain a unique exposure into the investment advisory and management side of the commercial real estate industry. I have been involved with various assignments and projects including everything from routine monthly and quarterly reports on property performance to more advanced projects involving analysis of lease buyouts, disposition of properties and scrubbing of the database to get an accurate picture of Kennedy's debt and leverage."

UAF Finance major Lijie Zhu takes a ferry and a stroll through London to her internship job at Rogge Global Partners, which she describes as looking like a castle by the River Thames. Lijie reports, "Through the APFC summer internship at Rogge, I have improved my fundamental fixed income knowledge and learned some practical credit analysis skills. More importantly, I have also learned about good business ethics and kind ways to treat people. The whole internship experience is full of interesting tasks and happiness from learning new skills. I really appreciate APFC for providing us Alaska students this great opportunity."

Management's Discussion and Analysis

▶ 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 financial performance of the Alaska Permanent Fund (Fund) during the fiscal years ending June 30, 2006 and 2005. Fiscal year 2004 information is also shown here in the *Management's Discussion and Analysis* for comparative purposes.

Required financial statements

▶ Governmental Accounting Standards Board statement number 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. Assets are the investments that generate revenue for the Fund, such as stocks, bonds and real estate holdings, and other alternative investments. Assets 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 are paid subsequent to fiscal year end.

Fund balances. Reserved fund balances are unavailable for appropriation and include all mineral revenues received by the Fund, inflation proofing transfers from realized earnings 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 (realized earnings) is where all income available for appropriation is recorded, retained and reinvested until distributed in accordance with State of Alaska law. The values shown on this report for the realized earnings are after recording the Fund's fiscal year end financial obligations, primarily the annual dividend transfers and the transfers from realized earnings to the reserved section for inflation proofing the accumulated contributions and appropriations.

▶ The table on the next page shows the value of Fund assets by type as of June 30, 2006, 2005, and 2004, as well as liabilities and fund balances. The mix of Fund assets reflects the asset allocation decisions made by the Board of Trustees (Trustees) of the Alaska Permanent Fund Corporation (APFC) as implemented by staff. The dollar and percentage change in the value of the assets between 2006 and 2005 are due to many factors: asset allocation changes, increases in asset value due to the overall increase in the real estate and equity markets in fiscal year 2006, an increase in securities lending cash collateral, the additional mineral revenues to the Fund in fiscal year 2006 and the higher dividend distribution in fiscal year 2006. The market gains for marketable debt securities were minimal in FY06, however, the higher value reflects the beginning plans to move assets into bonds to prepare for the annual dividend transfer and the larger overall size of the Fund. Changes in value from 2004 to 2005 reflect many of the same factors: mineral revenue contributions, the annual dividend distribution, and a significant increase in the major financial markets in fiscal year 2005.

Balance Sheets

2006 / 2005

As of June 30,	2006	2005	\$ increase (decrease)	% change	2004
ASSETS					
Cash	\$ 1,717,350,000	1,298,571,000	418,779,000	32.2	1,496,994,000
Receivables, prepaid expenses and other	375,839,000	648,000,000	(272,161,000)	(42.0)	243,562,000
Marketable debt securities	9,343,451,000	9,006,628,000	336,823,000	3.7	9,285,020,000
Preferred and common stock	19,256,381,000	17,630,359,000	1,626,022,000	9.2	15,836,268,000
Real estate	3,367,049,000	2,694,595,000	672,454,000	25.0	2,086,928,000
Alternative investments	951,296,000	266,000,000	685,296,000	257.6	0
Alaska certificates of deposit	197,564,000	157,953,000	39,611,000	25.1	172,759,000
Securities lending collateral invested	7,466,539,000	4,569,049,000	2,897,490,000	63.4	1,431,224,000
TOTAL ASSETS	\$ 42,675,469,000	36,271,155,000	6,404,314,000	17.7	30,552,755,000
LIABILITIES					
Accounts payable	1,573,845,000	1,181,556,000	392,289,000	33.2	1,140,445,000
Income distributable to State of Alaska	725,366,000	558,882,000	166,484,000	29.8	581,246,000
Securities lending collateral	7,466,539,000	4,569,049,000	2,897,490,000	63.4	1,431,224,000
TOTAL LIABILITIES	\$ 9,765,750,000	6,309,487,000	3,456,263,000	54.8	3,152,915,000
FUND BALANCES					
Reserved - principal Contributions and appropriations	26,104,252,000	24,647,217,000	1,457,035,000	5.9	23,525,752,000
Unrealized appreciation on invested assets	4,220,699,000	3,874,602,000	346,097,000	8.9	3,015,548,000
Unreserved - realized earnings	2,584,768,000	1,439,849,000	1,144,919,000	79.5	858,540,000
TOTAL FUND BALANCES	\$ 32,909,719,000	29,961,668,000	2,948,051,000	9.8	27,399,840,000

Values rounded to the nearest thousand

The Alaska certificates of deposit balance reflects the year-end participation in the program. Participation in this program by Alaska banks is voluntary and fluctuates depending on their needs. The program is subject to a maximum Alaska certificate of deposit program level of \$300 million.

Securities lending cash collateral has trended higher over the last two fiscal years. Securities lending collateral invested represents cash collateral received for loaning Fund securities to borrowers approved for the program. This is offset by a corresponding liability representing the Fund's obligation to return the cash collateral upon termination of the loan and subsequent return of the loaned securities. Changes in the invested collateral recorded for securities lending from day to day is a function of the type of collateral received and level of borrowing activity.

In fiscal year 2006 the Fund produced an 11.0 percent return, following a 10.4 percent return in fiscal year 2005 and a 14.2 percent return in fiscal year 2004. Fiscal year 2006 produced significant gains in the equity, alternative investments and real estate markets and modest to flat gains in the marketable debt markets. Debt markets were affected by several interest rate increases by the Federal Reserve. As interest rates rise debt values tend to fall. Conversely, fiscal year 2005 showed significant market gains in all the major asset types.

Liabilities represent known claims against the Fund's assets. Accounts payable primarily represent pending trades by asset managers at month end that have not yet been paid. Cash held to pay for pending trades is reflected in the

assets section. The level in cash and accounts payable at June 30, 2006 is dependent on month end trading decisions by asset managers. Higher income distributable to the State at June 30, 2006 results from the higher dividend liability owed to the Department of Revenue for the Permanent Fund dividend program. Dividend distributions are determined by specific income and formula, both defined in Alaska statute. The formula averages certain income results over five years. This averaging resulted in a higher dividend distribution in 2006 and a slightly lower dividend in 2005 versus 2004. Fiscal year 2006 and 2005 income distributable also includes, for the first time, an additional liability of \$36.7 and \$26.8 million, respectively, from realized income paid out of the segregated Amerada Hess settlement assets. Income from Amerada Hess settlement assets, by law, cannot be used in the dividend calculation and were previously deposited into the reserved fund balance. Beginning in FY05, this income has been appropriated to the newly created Alaska Capital Income Fund.

Contributions and appropriations to the Fund increased in fiscal year 2006 and 2005 by the dedicated mineral revenues deposited into the reserved fund balance and the annual inflation proofing transfer from realized earnings. Fiscal year 2006 had the overall highest inflation proofing transfer from realized earnings due to a higher inflation rate and an increase in the overall size of that portion of the Fund which is protected from inflation. Mineral revenue received this fiscal year was also greater than the prior year due to higher oil prices. The increase in the value of the unrealized appreciation on invested assets reflects the net unrealized gains in the financial markets for each fiscal year.

The increase in the realized earnings balance from fiscal year 2005 to fiscal year 2006 reflects significant realized earnings in fiscal year 2006 offset by a higher annual dividend distribution and inflation proofing. The realized earnings balance from fiscal year 2004 to fiscal year 2005 and 2006 is reflective of realized earnings for each fiscal year, the deduction for the annual dividend transfer to the Department of Revenue and the annual inflation proofing transfer to the reserved fund balance section.

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 2004 is shown for comparison purposes.

Revenues. Revenues include dividends from stocks, interest from bonds and the Alaska CD program, net rental income from real estate investments and other miscellaneous revenue. Also included in revenues is the change in the fair market value (realized and unrealized gains and losses) of all investments held by the Fund.

Expenditures. The Fund's operating costs include all expenditures required by the APFC to manage the Permanent Fund. This includes internal operating expenses as well as external manager and custodial fees. Also included in the Fund's expenditures are additional appropriations related to Fund matters, 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 the annual dividend and Alaska Capital Income Fund appropriations out of the Fund.

Net changes in fund balances. This section shows the net effect of all the Fund's activities on fund balances during the year. In fiscal year 2006, for example, the Fund net assets were \$30.0 billion at the beginning of the year and \$32.9 billion at the end of the year.

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.

Fiscal years 2006, 2005 and 2004 activity, shown in the table below, are most notably marked by the large increase in Fund value due to the financial markets. Overall, interest income, dividends and real estate income were higher in fiscal year 2006 than in prior fiscal years. The net increase in fair value of investments reflects the market appreciation of our assets sold throughout the year and also those assets continued to be held at fiscal year end.

The operating expenditures of the Fund were higher in fiscal year 2006 than 2005 and 2004 since management fees paid on externally managed assets are based on market value. Management fees also increase when more complex asset types are added to the Fund's portfolio allocation. Other legislative appropriations to State departments from corporate receipts were \$5.8 million in fiscal year 2006 and \$6.8 million in fiscal year 2005.

Transfers into the Fund represent the Fund's share of Alaska mineral revenues. Higher mineral revenues in fiscal year 2006 over 2005 were primarily due to the higher average price of oil. In general, the Fund had a lower overall dedication of mineral revenue in fiscal years 2006, 2005, and 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 all fiscal years by the higher average oil price. The differences in dividend distributions from the Fund reflect the year to year statutory net income, the volatility of which is mitigated by the five-year averaging formula, outlined in statutes AS 37.13.140 and AS 37.13.145. In fiscal year 2006 and 2005, the transfer out includes \$36.7 million and \$26.7 million, respectively, to the newly created Alaska Capital Income Fund.

Statements of Revenues, Expenditures and Changes in Fund Balances

2006 / 2005

Years Ended June 30,	2006	2005	\$ increase (decrease)	% change	2004
Revenues					
Dividends, interest, real estate and other income	\$ 975,446,000	869,635,000	105,811,000	12.2	813,093,000
Total net increase in the fair value of investments	2,159,884,000	1,825,133,000	334,751,000	18.3	2,668,343,000
Total revenues	\$ 3,135,330,000	2,694,768,000	440,562,000	16.3	3,481,436,000
Less operating expenditures	(57,230,000)	(47,735,000)	(9,495,000)	19.9	(42,171,000)
Less other legislative appropriations	(5,800,000)	(6,821,000)	1,021,000	(15.0)	(5,585,000)
Excess of revenues over expenditures	\$ 3,072,300,000	2,640,212,000	432,088,000	16.4	3,433,680,000
Other financing sources/uses					
Transfers in - mineral revenue	601,117,000	480,498,000	120,619,000	25.1	353,072,000
Transfers out - annual dividend distribution/other	(725,366,000)	(558,882,000)	(166,484,000)	29.8	(581,246,000)
Net changes in fund balances	2,948,051,000	2,561,828,000	386,223,000	15.1	3,205,506,000
Fund balances end of prior					
period (beginning of period)	29,961,668,000	27,399,840,000	2,561,828,000	9.3	24,194,334,000
Fund balances end of period	\$ 32,909,719,000	29,961,668,000	2,948,051,000	9.8	27,399,840,000
Statutory income calculation					
Excess of revenues over expenditures and unrealized gains	3,072,300,000	2,640,212,000	432,088,000	16.4	3,433,680,000
Less settlement earnings	(382,845,000)	(885,804,000)	502,959,000	(56.8)	(1,931,596,000)
Statutory net income	\$ 2,689,455,000	1,754,408,000	935,047,000	53.3	1,502,084,000

Values rounded to the nearest thousand

INVESTMENT AND ECONOMIC FACTORS

- ▶ At the end of fiscal year 2004 and continuing into fiscal year 2005, the APFC Trustees increased the diversification of the Permanent Fund's investments by authorization of investments in two new asset classes: private equity and absolute return strategies. Additional absolute return managers were selected and funded in late fiscal year 2006. An increase in the allocation to these asset classes followed the Trustees newly adopted investment regulations as directed by House Bill 215, passed by the Legislature in May 2005. The bill removed the list of allowed Fund investments from Alaska statutes, and required the Trustees to maintain the investment list in regulation, guided by the prudent-investor rule.

The market value of Fund assets is directly impacted by the volatility and direction of the financial markets. Diversification of investment types is intended to mitigate these factors.

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, 2006 and 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Alaska Permanent Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2006 and 2005, and changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

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, 2006 and 2005, and its changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 18 through 22 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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 4, 2006

Balance sheets

June 30,	2006	2005
Assets		
Cash and temporary investments	\$ 1,717,350,000	1,298,571,000
Receivables, prepaid expenses and other assets	375,839,000	648,000,000
Investments		
Marketable debt securities	9,343,451,000	9,006,628,000
Preferred and common stock	19,256,381,000	17,630,359,000
Real estate	3,367,049,000	2,694,595,000
Alternative investments	951,296,000	266,000,000
Alaska certificates of deposit	197,564,000	157,953,000
Total investments	33,115,741,000	29,755,535,000
Securities lending collateral invested	7,466,539,000	4,569,049,000
Total assets	\$ 42,675,469,000	36,271,155,000
Liabilities		
Accounts payable	\$ 1,573,845,000	1,181,556,000
Income distributable to the State of Alaska	725,366,000	558,882,000
Securities lending collateral	7,466,539,000	4,569,049,000
Total liabilities	9,765,750,000	6,309,487,000
Fund balances		
Reserved – principal		
Contributions and appropriations	26,104,252,000	24,647,217,000
Unrealized appreciation on invested assets	4,220,699,000	3,874,602,000
Total reserved	30,324,951,000	28,521,819,000
Unreserved		
Realized earnings	2,584,768,000	1,439,849,000
Total fund balances	32,909,719,000	29,961,668,000
Total liabilities and fund balances	\$ 42,675,469,000	36,271,155,000

See accompanying notes to the financial statements.

Statements of revenues, expenditures and changes in fund balances

Years Ended June 30,	2006	2005
Revenues		
Interest	\$ 454,918,000	389,825,000
Dividends	342,570,000	333,372,000
Real estate and other income	177,958,000	146,438,000
Total interest, dividends, real estate and other income	975,446,000	869,635,000
Net increase (decrease) in the fair value of investments		
Marketable debt securities	(446,683,000)	258,917,000
Preferred and common stock	2,338,113,000	1,241,205,000
Real estate	236,974,000	298,882,000
Alternative investments	43,980,000	14,098,000
Foreign currency forward exchange contracts	(10,135,000)	11,950,000
Currency	(2,365,000)	81,000
Total net increase in the fair value of investments	2,159,884,000	1,825,133,000
Total revenues	3,135,330,000	2,694,768,000
Expenditures		
Operating expenditures	(57,230,000)	(47,735,000)
Other Legislative appropriations	(5,800,000)	(6,821,000)
Total expenditures	(63,030,000)	(54,556,000)
Excess of revenues over expenditures	\$ 3,072,300,000	2,640,212,000
Other financing sources (uses)		
Transfers in - dedicated State revenues	601,117,000	480,498,000
Transfers out - statutory and Legislative appropriations	(725,366,000)	(558,882,000)
Net change in fund balances	2,948,051,000	2,561,828,000
Fund balances		
Beginning of period	29,961,668,000	27,399,840,000
End of period	\$ 32,909,719,000	29,961,668,000

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

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 "APFC"), 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 realized earnings is transferred to the State's dividend fund, (ii) a portion of the realized earnings sufficient to offset the impact of inflation on contributions and appropriations is transferred to the reserved balance of the Fund, and (iii) beginning in fiscal year 2005, the realized earnings on the balance of the North Slope royalty case settlement money (*State v. Amerada Hess, et al.*) is appropriated to the Alaska Capital Income Fund. The balance of the Fund's realized earnings is held in the realized earnings account, and is subject to 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. All assets are aggregated for investment purposes.

The Fund's assets are held in a wide variety of investments, in accordance with Alaska statutes and regulations, and investment policies of the APFC. The majority of investments are in stocks and bonds, both domestic and non-domestic, private equity and public equity real estate, as well as alternative investments in private equity limited partnerships, and absolute return strategies. The Fund's results of operations rely largely on the success of the financial markets. However, the volatility of markets, especially that of public and private equity markets, can cause substantial period-to-period fluctuations in operating results. Diversification by asset type can help to mitigate the volatility of operating results.

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 five year rolling average of 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 at fiscal year end.

Reserved fund balances

On June 18, 2003, the APFC received an Alaska Attorney General's Opinion, clarifying the portion of Fund assets that is legally reserved. Based on that opinion, reserved fund balances consist of historical mineral revenue deposits to the Fund, special appropriations, and inflation proofing transfers within the Fund, as well as recorded unrealized appreciation or depreciation of invested assets.

Inflation proofing

Alaska statutes require 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, from unreserved to the reserved fund balance, 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 3.39 percent and 2.67 percent, and were applied to the years ended June 30, 2006 and 2005, respectively.

Income taxes

In the opinion of legal counsel, as integral parts of the State, the Fund and the APFC 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 earned by a state or any subdivision thereof, which is derived from the exercise of any essential governmental function. The Fund and the APFC perform an essential governmental function and are therefore also exempt from federal income taxes under that provision.

Investments and related policies

Carrying value of investments

The Fund's investments, excluding certain real estate investments, are reported at fair market value in the financial statements. Unrealized gains and losses are reported as components of net income. Fair market values are obtained from independent sources for marketable debt and equity securities and real estate investment trusts. Fair market values of alternative investments are determined by managers of such investments, who are under contract with the APFC to provide such services.

Private equity real estate investments 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 recording a permanent impairment loss on invested assets.

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

Investment policy

The Trustees have established a long-term goal of achieving a 5% real rate of return on the investment portfolio. To achieve this target, the Trustees allocate the Fund investments among various asset classes. In order to allow for market fluctuations and to minimize transaction costs, the Trustees also have adopted acceptable ranges around the targets. At June 30, 2006, the APFC's asset allocation policy (with acceptable ranges) is summarized as follows:

Domestic equities	34% (± 6%)
International equities	19% (± 4%)
Domestic fixed income	25% (± 6%)
Non-domestic fixed income	4% (± 3%)
Real estate	10% (± 3%)
Private equity	4% (± 4%)
Absolute return	4% (± 3%)

In accordance with Alaska Statute 37.13.120, the Trustees have adopted regulations designating the types of assets eligible for investment. Those regulations follow the prudent-investor rule, requiring the exercise of judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the designation and management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering preservation of the purchasing power of the Fund over time while maximizing the expected total return from both income and the appreciation of capital.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributable to holding investments from a single issuer. The Fund manages its concentration of credit risk by following its asset allocation resolution, and by diversifying investments among managers with varying investment styles and mandates. The APFC's policy for mitigating this risk of loss for fixed income and equity investments is to ensure compliance with Trustee resolutions 06-04 and 06-02, respectively, as well as investment manager contracts. Those resolutions and contracts specify concentration limits for issuers and types of investments.

Credit risk

The APFC requires that its core fixed income managers invest in corporate bonds and non-domestic bonds that are rated investment grade by at least two of the following three ratings agencies: Moody's, Standard & Poor's, and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine eligibility for purchase. If only one of the three agencies rates a security, the rating must be investment grade. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within seven months. Certain non-core investment managers are allowed to opportunistically invest a specified amount of funds in bonds rated below investment grade.

The APFC does not have an allocation to cash. Managers are encouraged to limit the amount of cash they hold, and most cash reflects pending transactions yet to settle. The APFC manages the aggregate cash position of all domestic equity, a majority of REIT managers, and the internal fixed income portfolio in a Unitized Cash Fund (UCF). The UCF is primarily intended to serve as an efficient mechanism for investing daily transactional cash. UCF securities must be rated by either Moody's or Standard & Poor's equivalents of P1 or A1 for short-term investments. A second internal cash management account is maintained to invest cash balances needed for pending settlements of to-be-announced (TBA) mortgage securities in the internal fixed income portfolio. The TBA Cash Management Account invests primarily in short-term asset-backed structured products. Such securities must have a minimum rating of AAA for asset-backed bonds and either P1 or A1 for asset backed commercial paper.

Custodial credit risk

The APFC generally requires that all investment securities at custodian banks be held in the name of the Fund. For non-domestic securities held by sub-custodians, the APFC is indemnified against custodial credit risk by its primary custodian.

Foreign currency risk

Foreign currency risk arises when a loss could result from adverse changes in foreign currency exchange rates. Foreign currency risk is managed by the international investment managers in part through their decisions to enter into foreign currency forward contracts. Foreign currency risk is also managed through the diversification of assets into various countries and currencies.

Interest rate risk

The APFC manages the Fund's exposure to fair value losses arising from changing interest rates by establishing effective duration guidelines in its fixed income investment policy. Duration is used to explain a portfolio's sensitivity to changes in interest rates. The duration of a portfolio is the average market value weighted duration of all bonds in the portfolio. In general, the major factors affecting duration are, in order of importance: maturity, prepayment frequency, size of coupon, level of market interest rates, and frequency of coupon payments. Duration will fall as interest rates rise. Effective duration attempts to account for the price sensitivity of a bond, including the impact of embedded options. As an example, for a bond portfolio with a duration of 5.0, a one percentage point parallel decline in interest rates would result in an approximate price increase on that bond portfolio of 5.0%.

The APFC's investment policy specifies an effective duration range for each long-term fixed income mandate (based on the respective portfolio's benchmark index duration) as follows: core domestic and core plus fixed income portfolios 80%-120%; non-domestic fixed income 50%-150%; and high yield fixed income 50%-200%. The APFC uses industry-standard analytical software to calculate effective duration. The software takes into account various possible interest rates, historical and estimated prepayment rates, call and put options, and other variable cash flows for the effective duration calculation.

For short-term debt investments, the APFC's policy states that the weighted average day count of the short-term UCF cannot exceed 150 days, with a final maximum maturity of 14 months for any single investment. The policy further limits asset-backed securities held in cash management accounts to a maximum average life of 12 months at time of purchase.

Forward exchange contracts

Fund managers hold a variety of forward currency contracts in their trading activities, and in the management of their foreign currency exchange rate risk exposure. These contracts are intended to guard against foreign currency fluctuations, and the contract amounts do not appear on the balance sheet. Realized gains and losses are included in the net increase in the fair value of investments 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 also included in the net increase in the fair value of investments, and are calculated based on the difference between the contract rate and a forward market rate determined as of the balance sheet date.

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. SHORT-TERM INVESTMENTS

All short-term investments bear interest at competitive rates and are summarized as follows at June 30:

	2006	2005
U.S. agencies	\$ 540,853,000	216,772,000
U.S. treasury bills	0	591,048,000
Domestic certificates of deposit	0	3,060,000
Commercial paper	242,836,000	312,753,000
Asset-backed securities	833,980,000	0
Total short-term investments	1,617,669,000	1,123,633,000
Cash and pooled funds	99,681,000	174,938,000
Total cash and short-term investments	\$ 1,717,350,000	1,298,571,000

▶ At June 30, 2006, all commercial paper investments were rated A-1 by Standard & Poor's, P-1 by Moody's, or an equivalent rating, and all asset-backed securities were rated AAA by either Moody's or Standard & Poor's. U.S. agencies and treasury bills are either explicitly or implicitly guaranteed by the U.S. government and are not rated. Short-term investments held at fiscal year end 2006 in the UCF and TBA Cash Management Account had weighted average maturities of 22 and 18 days, respectively. At June 30, 2006, uninvested, uninsured cash of \$40,451,000 was held at the custodian or sub-custodian banks. All remaining cash balances either were insured or were invested in short-term pooled investment funds, which were rated AAA by Standard & Poor's.

4. RECEIVABLES, PREPAID EXPENSES AND OTHER ASSETS

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

	2006	2005
Interest receivable	\$ 89,084,000	89,303,000
Dividends receivable	28,727,000	31,030,000
Sales receivable	190,530,000	479,224,000
Foreign exchange contracts	8,172,000	3,969,000
Contributions receivable	58,973,000	44,474,000
Prepaid and other receivables	353,000	0
Total receivables, prepaid expenses and other assets	\$ 375,839,000	648,000,000

5. MARKETABLE DEBT SECURITIES

Marketable debt securities at June 30 are summarized as follows:

	Cost	Market	Unrealized gains/(losses)
2006			
Treasury notes/bonds	\$ 2,171,304,000	2,141,787,000	(29,517,000)
Mortgage-backed securities	3,275,690,000	3,195,957,000	(79,733,000)
Other federal agencies	608,790,000	588,970,000	(19,820,000)
Corporate bonds	2,532,048,000	2,451,703,000	(80,345,000)
Non-domestic bonds	959,337,000	965,034,000	5,697,000
Total marketable debt securities	\$ 9,547,169,000	9,343,451,000	(203,718,000)
2005			
Treasury notes/bonds	\$ 2,323,651,000	2,364,077,000	40,426,000
Mortgage-backed securities	2,706,094,000	2,715,279,000	9,185,000
Other federal agencies	431,774,000	440,468,000	8,694,000
Corporate bonds	2,176,551,000	2,237,612,000	61,061,000
Non-domestic bonds	1,230,579,000	1,249,192,000	18,613,000
Total marketable debt securities	\$ 8,868,649,000	9,006,628,000	137,979,000

6. MARKETABLE DEBT CREDIT RATINGS

In order to manage credit risk for marketable debt securities, the APFC monitors daily market values of all securities and routinely reviews its investment holdings' credit ratings. For accounts with a core mandate, issues falling below the minimum standards are required to be sold within seven months of the downgrade date. Account managers with non-core mandates are allowed to hold positions in assets with below investment grade ratings (high-yield bonds, rated BB+ or below) based on the terms of their contract. For purposes of this note, if credit ratings differ between Nationally Recognized Statistical Rating Organization's (NRSRO), the rating with the highest degree of risk (the lowest rating) is used. At June 30, 2006, the Fund's credit ratings for its marketable debt securities issued by NRSROs are as follows:

NRSRO Quality rating	Domestic	Non-domestic	Total market value	Percent of holdings
AAA	\$ 905,315,000	791,202,000	1,696,517,000	18.16%
AA	420,288,000	12,300,000	432,588,000	4.63%
A	665,008,000	127,732,000	792,740,000	8.48%
BBB	647,535,000	33,800,000	681,335,000	7.29%
BB	13,733,000	0	13,733,000	.15%
B	20,319,000	0	20,319,000	.22%
CCC	3,912,000	0	3,912,000	.04%
Total market value of				
rated debt securities	2,676,110,000	965,034,000	3,641,144,000	38.97%
U.S. government explicitly				
backed by the U.S. government	2,176,640,000	0	2,176,640,000	23.30%
U.S. government implicitly				
backed by the U.S. government	3,525,667,000	0	3,525,667,000	37.73%
Total market value				
debt securities	\$ 8,378,417,000	965,034,000	9,343,451,000	100%

7. MARKETABLE DEBT DURATION

In order to manage its interest rate risk on marketable debt securities, the APFC monitors daily market values and routinely reviews portfolio effective duration in comparison to an established benchmark. At fiscal year end, the aggregate holdings of debt securities were within the required range in relation to such benchmarks. At June 30, 2006, the effective duration by investment type, based on market value, is as follows:

	Percent of bond holdings	Duration
Domestic bonds		
Mortgages (agency and corporate)	32.72%	4.00
Treasuries	29.53%	4.54
Corporate bonds	24.74%	5.73
Government sponsored	10.55%	4.36
Supra/Sovereign	2.46%	3.29
Total domestic bonds	100.00%	4.61
Non-domestic bonds		
Government and agency	92.45%	5.73
Corporate and other non-government	7.55%	4.77
Total non-domestic bonds	100.00%	5.65

The APFC manages the Fund's exposure to fair value losses arising from changing interest rates by establishing effective duration guidelines in its fixed income investment policy. Duration is used to explain a portfolio's sensitivity to changes in interest rates. The duration of a portfolio is the average market value weighted duration of all bonds in the portfolio. In general, the major factors affecting duration are, in order of importance: maturity, prepayment frequency, size of coupon, level of market interest rates, and frequency of coupon payments. Duration will fall as interest rates rise. Effective duration attempts to account for the price sensitivity of a bond, including the impact of embedded options. As an example, for a bond portfolio with a duration of 5.0, a one percentage point parallel decline in interest rates would result in an approximate price increase on that bond portfolio of 5.0%.

8. CONCENTRATION OF CREDIT RISK

At June 30, 2006, more than 5% of the Fund's total net investments were held in securities of the issuer listed below:

Issuer of securities	Market value of holdings	Percent of total Fund
Federal National Mortgage Association (FNMA)		
Mortgage-backed securities	\$ 2,048,255,000	6.23%
Senior debt	181,812,000	.55%
Equity	27,084,000	.08%
Total	\$ 2,257,151,000	6.86%

- ▶ Mortgage-backed securities represent pooled debt obligations of homeowners throughout the U.S. Although a large percentage of holdings of the Fund are aggregated through FNMA mortgages, the actual risk remains with the underlying loans, and the ability or inability to recover balances of loans in default from the underlying loan collateral. Risk is mitigated by the FNMA's guarantee of the underlying debt, and its implicit guarantee from the U.S. government.

9. PREFERRED AND COMMON STOCK

- ▶ Except for one commingled fund investment, all investments in preferred and common stock are held by custodian banks in the name of the Fund. The commingled fund investment, the Emerging Markets Growth Fund (EMGF), managed by Capital International, Inc., is held by the custodian bank of the fund manager on behalf of the commingled fund's investors. The market values of the Fund's shares in the EMGF were \$645,014,000 and \$468,106,000 as of June 30, 2006 and 2005, respectively, and are included in the non-domestic values shown below. The value of the Fund's investment in the commingled fund represented approximately 5.9 percent and 3.4 percent of the total EMGF value at June 30, 2006 and 2005, respectively.

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

	Cost	Market	Unrealized gains
2006			
Domestic	\$ 10,297,205,000	12,617,686,000	2,320,481,000
Non-domestic	4,939,026,000	6,638,695,000	1,699,669,000
Total preferred and common stock	\$ 15,236,231,000	19,256,381,000	4,020,150,000
2005			
Domestic	\$ 9,743,814,000	11,929,688,000	2,185,874,000
Non-domestic	4,605,882,000	5,700,671,000	1,094,789,000
Total preferred and common stock	\$ 14,349,696,000	17,630,359,000	3,280,663,000

10. FOREIGN CURRENCY EXPOSURE

- ▶ Foreign currency risk arises when a loss could result from adverse changes in foreign currency exchange rates. Foreign currency risk is managed by the international investment managers in part through their decisions to enter into foreign currency forward contracts. Foreign currency risk is also managed through the diversification of assets into various countries and currencies. At June 30, 2006, the Fund's non-domestic public and private equity and debt securities had exposure to foreign currency risk as follows (shown in U.S. dollar equivalent at market value):

Foreign currency	Public equity	Debt	Private equity	Total foreign currency exposure
Australian Dollar	\$ 266,235,000	27,359,000	0	293,594,000
Brazilian Real	34,739,000	0	0	34,739,000
British Pound Sterling	1,233,675,000	196,965,000	11,554,000	1,442,194,000
Canadian Dollar	102,110,000	94,791,000	0	196,901,000
Czech Koruna	4,726,000	0	0	4,726,000
Danish Krone	18,262,000	68,156,000	0	86,418,000
Egyptian Pound	5,753,000	0	0	5,753,000
Euro Currency	2,130,754,000	355,482,000	11,406,000	2,497,642,000
Hong Kong Dollar	110,788,000	0	0	110,788,000
Hungarian Forint	5,183,000	0	0	5,183,000
Indian Rupee	9,137,000	0	0	9,137,000
Indonesian Rupiah	7,135,000	0	0	7,135,000
Israeli Shekel	11,504,000	0	0	11,504,000
Japanese Yen	1,337,461,000	114,724,000	0	1,452,185,000
Malaysian Ringgit	25,888,000	0	0	25,888,000
Mexican Nuevo Peso	11,434,000	23,398,000	0	34,832,000
New Taiwan Dollar	63,446,000	0	0	63,446,000
New Zealand Dollar	3,683,000	0	0	3,683,000
Norwegian Krone	39,408,000	37,235,000	0	76,643,000
Philippines Peso	436,000	0	0	436,000
Polish Zloty	6,888,000	10,361,000	0	17,249,000
Renminbi Yuan	1,139,000	0	0	1,139,000
Russian New Ruble	1,867,000	0	0	1,867,000
Singapore Dollar	36,520,000	26,952,000	0	63,472,000
South African Rand	54,074,000	0	0	54,074,000
South Korean Won	82,367,000	9,820,000	0	92,187,000
Swedish Krona	115,849,000	0	0	115,849,000
Swiss Franc	439,963,000	0	0	439,963,000
Thai Baht	23,758,000	0	0	23,758,000
Turkish Lira	9,055,000	0	0	9,055,000
Total foreign currency exposure	\$ 6,193,237,000	965,243,000	22,960,000	7,181,440,000

Amounts in the schedule above include receivable, payable, and cash balances in the related currency of each investment type.

11. REAL ESTATE

▶ The APFC is authorized by State regulations to invest Fund assets in various forms of real estate, which generally 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 APFC invests Fund assets in direct real estate through its ownership of interests in corporations, limited liability companies, and partnerships that own title to the real estate. External real estate management firms administer the Fund's private equity real estate investments.

The APFC routinely analyzes private equity real estate holdings for permanent impairment, in accordance with Corporate resolution 05-08 and Governmental Accounting Standards Board Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." At fiscal year ending June 30, 2005, no real estate assets were at a market value deemed necessary for permanent impairment analysis. At fiscal year end June 30, 2006, one property was analyzed for permanent impairment, and it was determined that a write-down of value due to impairment was not warranted.

The carrying value of real estate at June 30, 2006 and 2005 was \$3,367,049,000 and \$2,694,595,000, respectively. Private equity real estate investments, 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 APFC 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	Financial statement carrying value
2006				
Real estate				
investment trusts	\$ 668,908,000	1,008,067,000	339,159,000	1,008,067,000
Alaska residential				
mortgages	60,000	60,000	0	60,000
Property note receivable	3,414,000	3,414,000	0	3,414,000
Private equity real estate -				
Retail	438,408,000	793,679,000	355,271,000	438,408,000
Office	756,211,000	865,242,000	109,031,000	756,211,000
Industrial	212,217,000	233,682,000	21,465,000	212,217,000
Multifamily	948,672,000	987,778,000	39,106,000	948,672,000
Total real estate	\$ 3,027,890,000	3,891,922,000	864,032,000	3,367,049,000
2005				
Real estate				
investment trusts	\$ 772,613,000	1,210,469,000	437,856,000	1,210,469,000
Alaska residential				
mortgages	72,000	72,000	0	72,000
Property note receivable	3,340,000	3,340,000	0	3,340,000
Private equity real estate -				
Retail	399,239,000	603,388,000	204,149,000	399,239,000
Office	559,760,000	628,174,000	68,414,000	559,760,000
Industrial	208,038,000	222,852,000	14,814,000	208,038,000
Multifamily	313,677,000	351,073,000	37,396,000	313,677,000
Total real estate	\$ 2,256,739,000	3,019,368,000	762,629,000	2,694,595,000

Subsequent to fiscal year end 2006, two real estate properties were sold. An office building in Washington D.C., with a carrying value of \$50,512,000 was sold at a gain of \$42,659,000. Another office building in Kentucky with a carrying value of \$36,018,000 was sold at a gain of \$3,498,000.

12. ALTERNATIVE INVESTMENTS

▶ Alternative investments include absolute return strategies and private equity.

Absolute return strategies are investments in non-market correlated strategies through specialized investment funds. The Fund's absolute return strategies are managed through three separate portfolios, each being comprised of a single-investor limited partnership ("fund of one") that invests in a diversified portfolio of underlying limited partnership interests (or similar type entity), with the general partner providing essential investment management services. The Fund obtains fair value for its limited partnership interests from the general partner, which is then reviewed by the investment advisor, and subject to annual audits. Most of the absolute return investments do not have readily ascertainable market values and may be subject to withdrawal restrictions and/or additional expenses upon early withdrawal of invested funds.

Private equity investments involve the purchase of limited partnership interests which typically invest in unlisted, illiquid common and preferred stock and to a lesser degree, subordinated and senior debt of companies that are in most instances privately held. The APFC has hired an external advisor to select limited partnership interests which are diversified by geography and strategy. This investment type is characteristically funded slowly over time as opportunities are identified by the external advisor and general partners. The Fund obtains fair value for its investments in private equity utilizing the most current information provided by the general partner, as reviewed by the external advisor, and subject to annual audits.

Alternative investments at June 30 are summarized as follows:

	Cost	Market	Unrealized gains/(losses)
2006			
Absolute return strategy	\$ 784,290,000	844,732,000	60,442,000
Private equity	110,575,000	106,564,000	(4,011,000)
Total alternative investments	\$ 894,865,000	951,296,000	56,431,000
2005			
Absolute return strategy	\$ 244,133,000	259,531,000	15,398,000
Private equity	7,756,000	6,469,000	(1,287,000)
Total alternative investments	\$ 251,889,000	266,000,000	14,111,000

As of June 30, 2006, the APFC, on behalf of the Fund, had outstanding private equity investment commitments of approximately \$614 million.

13. ALASKA CERTIFICATES OF DEPOSIT

▶ The APFC is authorized by State regulations and Trustee 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 securing these investments is either letters of credit from the Federal Home Loan Bank or pooled mortgage securities issued by U.S. government sponsored agencies.

14. SECURITIES LENDING

Under State regulation 15 AAC 137.510, the APFC is authorized to enter into securities lending transactions on behalf of the Fund. The APFC, through an agreement with the Bank of New York (the Bank), lends marketable debt and equity securities. These loans are fully collateralized with cash or U.S. government guaranteed marketable securities at not less than one hundred two percent (102%) of the market value of the loaned securities for domestic securities and one hundred five percent (105%) of the market value for non-domestic loaned securities. The APFC is able to sell any securities out on loan. Upon borrower default, the Bank may hold cash collateral or sell non-cash collateral. The APFC is protected from credit risk associated with the lending transactions through indemnification by the Bank against any loss resulting from counterparty failure, loss resulting from the reinvestment of collateral, default on collateral investments, or failure to return loaned securities.

Cash collateral received for securities on loan, which is required to be reported on the balance sheet of the Fund, is invested by the Bank in the name of the Fund. As of June 30, 2006, such investments were in overnight repurchase agreements, and had a weighted-average maturity of one day. The average term of the loans was also one day. At June 30, the value of securities on loan and related collateral is as follows:

	2006	2005
Market value of securities on loan	\$ 7,251,052,000	4,508,284,000
Collateral		
Cash collateral	7,466,539,000	4,569,049,000
Non-cash collateral	0	44,477,000
Total collateral	\$ 7,466,539,000	4,613,526,000

The Fund receives 80% of earnings derived from securities lending transactions, and the Bank receives 20%. During the years ended June 30, 2006 and 2005, there were no losses incurred as a result of securities lending transactions. The Fund received income of \$15,836,000 and \$10,413,000 from securities lending for the years ended June 30, 2006 and 2005, respectively.

15. ACCOUNTS PAYABLE

Accounts payable include trades entered into on or before June 30 that will settle after fiscal year end. Cash held for trade settlements is included in cash and short-term investments. Accounts payable at June 30 are summarized as follows:

	2006	2005
Accrued liabilities	\$ 14,338,000	12,961,000
Securities purchased	1,559,507,000	1,168,595,000
Total accounts payable	\$ 1,573,845,000	1,181,556,000

16. INCOME DISTRIBUTABLE TO THE STATE OF ALASKA

The Legislature appropriates portions of the Fund's statutory net income for various purposes, including the payment of dividends to qualified residents of the state. In addition, the Legislature has appropriated a portion of the dividend distribution to fund various other agency activities. Per statute, for fiscal year 2005 and subsequent years, realized earnings on the principal balance of the dedicated State revenues from the North Slope royalty case settlements (*State v. Amerada Hess, et al.*) have been appropriated out of the Fund to the Alaska Capital Income Fund (ACIF), and managed by the State treasury. Income distributable to the State at June 30 is summarized as follows:

	2006	2005
Dividends	\$ 660,626,000	505,203,000
Appropriation to the Departments of -		
Corrections	4,552,000	4,238,000
Health and Social Services	12,885,000	12,885,000
Revenue	6,702,000	6,105,000
Public Safety	2,777,000	2,585,000
Legislature	294,000	273,000
Administration	782,000	842,000
Total to dividend fund	688,618,000	532,131,000
Alaska Capital Income Fund	36,748,000	26,751,000
Total income distributable	\$ 725,366,000	558,882,000

17. RESERVED AND UNRESERVED FUND BALANCES

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

	2006	2005
Reserved		
Balance, beginning of year	\$ 28,521,819,000	26,541,301,000
Dedicated State revenues	601,117,000	480,498,000
Inflation proofing transfer from realized earnings account	855,918,000	640,967,000
Change in unrealized market value appreciation on invested assets	346,097,000	859,053,000
Balance, end of year	\$ 30,324,951,000	28,521,819,000
Unreserved		
Balance, beginning of year	\$ 1,439,849,000	858,539,000
Inflation proofing transfer to reserved fund balance	(855,918,000)	(640,967,000)
Settlement earnings payable to ACIF	(36,748,000)	(26,751,000)
Dividends payable to Department of Revenue	(688,618,000)	(532,131,000)
Realized earnings, net of operating expenditures	2,726,203,000	1,781,159,000
Balance, end of year	\$ 2,584,768,000	1,439,849,000
Total		
Balance, beginning of year	\$ 29,961,668,000	27,399,840,000
Dedicated State revenues	601,117,000	480,498,000
Settlement earnings payable to ACIF	(36,748,000)	(26,751,000)
Dividends payable to Department of Revenue	(688,618,000)	(532,131,000)
Excess of investment revenues over expenditures	3,072,300,000	2,640,212,000
Balance, end of year	\$ 32,909,719,000	29,961,668,000

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

	2006	2005
Dedicated State revenues	\$ 9,160,768,000	8,559,651,000
Special appropriations	6,885,906,000	6,885,906,000
Inflation proofing	9,904,667,000	9,048,749,000
Settlement earnings	152,911,000	152,911,000
Total contributions and appropriations	\$ 26,104,252,000	24,647,217,000

During the fiscal years 1990 through 1999, the Fund received dedicated State revenues from North Slope royalty case settlements (*State v. Amerada Hess, et al.*). Accumulated settlement related activity, which is included in the contributions and appropriations balance of the Fund at June 30, is \$424,399,000. By statute, realized earnings from these settlement payments 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 beginning in 2005 are to be appropriated to the ACIF managed by the State treasury. Prior to 2005, statute required such earnings to be appropriated to Fund principal of the reserved fund balance. Total realized earnings on settlement principal were \$36,748,000 in 2006 and \$26,751,000 in 2005. These earnings were accrued and subsequently transferred to the ACIF.

18. 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, the excess of revenues over expenditures is required by GAAP to include certain unrealized gains and losses and income, regardless of source. Consequently, GAAP excess of revenues over expenditures 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:

	2006	2005
Excess of revenues over expenditures	\$ 3,072,300,000	2,640,212,000
Unrealized gains	(346,097,000)	(859,053,000)
Settlement earnings	(36,748,000)	(26,751,000)
Statutory net income	\$ 2,689,455,000	1,754,408,000

19. INVESTMENT INCOME BY SOURCE

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

	2006	2005
Interest		
Domestic marketable debt securities	\$ 347,679,000	304,332,000
Non-domestic marketable debt securities	39,590,000	49,935,000
Alaska certificates of deposit	6,835,000	3,692,000
Short-term domestic and other	60,814,000	31,866,000
Total interest	\$ 454,918,000	389,825,000
Dividends		
Domestic stocks	\$ 179,178,000	190,443,000
Non-domestic stocks	163,392,000	142,929,000
Total dividends	\$ 342,570,000	333,372,000
Real estate and other income		
Private equity real estate interest	\$ 340,000	268,000
Private equity real estate net rental income	114,142,000	81,712,000
Real estate investment trust dividends	46,784,000	51,696,000
Absolute return management expenses, net of dividend and interest income	(4,979,000)	(2,753,000)
Private equity dividends	89,000	0
Loaned securities and other income	21,582,000	15,515,000
Total real estate and other income	\$ 177,958,000	146,438,000

20. FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

- Public equity and bond asset managers for the APFC enter 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 protecting existing or anticipated positions in these currencies. The maturity periods for outstanding contracts at June 30, 2006 ranged between eleven days and one hundred forty-five days.

The counterparties 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 counterparties; however, the APFC considers the risk of default to be remote. The Fund's market risk as of June 30, 2006 is limited to the difference between contractual rates and forward market rates determined at the end of the fiscal year.

Activity and balances related to FX forward contracts for fiscal year 2005 and 2006 are summarized as follows:

	2006	2005
Balances at June 30		
Face value of FX forward contracts	\$ 1,507,176,000	1,638,338,000
Net FX forward contracts receivable	8,172,000	3,969,000
Market value of FX forward contracts	\$ 1,515,348,000	1,642,307,000
Activity for fiscal years ending June 30		
Unrealized gains	\$ 4,184,000	13,352,000
Realized losses	(14,319,000)	(1,402,000)
Net increase (decrease) in fair value of FX forward contracts	\$ (10,135,000)	11,950,000

The face value of FX forward contracts shown in this schedule is not required to be included in the balance sheet of the Fund. All other balance and activity amounts shown above are included in the financial statements of the Fund.

21. EXPENDITURES

Fund expenditures for the years ended June 30 are summarized as follows

	2006	2005
APFC expenditures paid by the Fund		
Salaries and benefits	\$ 3,710,000	3,149,000
Communications	849,000	786,000
Consulting fees	593,000	539,000
Other expenses	446,000	548,000
Property and equipment	345,000	152,000
Legal and audit fees	320,000	374,000
Rent	254,000	324,000
Public information and subscriptions	210,000	232,000
Travel	192,000	221,000
Sub total APFC expenditures	6,919,000	6,325,000
Investment management and custody fees		
Investment management fees	48,902,000	39,658,000
Custody and safekeeping fees	1,409,000	1,752,000
Sub total investment management and custody fees	50,311,000	41,410,000
Total operating expenditures	57,230,000	47,735,000
Other Legislative appropriations from corporate receipts		
Department of Natural Resources	4,252,000	4,977,000
Department of Law	1,477,000	1,477,000
Department of Revenue	71,000	367,000
Total other Legislative appropriations	5,800,000	6,821,000
Total expenditures	\$ 63,030,000	54,556,000

Appropriations from corporate receipts to other State departments are allocated by the Legislature through the budget process, and are considered compensation to these departments for work done on behalf of the Fund throughout the year.

22. PENSION PLAN

- ▶ All full-time, regular employees of the APFC participate in the State of Alaska Public Employees Retirement System (PERS), and all employees of the APFC 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, 2006 and 2005. The APFC contributed a matching 17.65 and 12.65 percent to the PERS system for the benefit of each employee during the years ended June 30, 2006 and 2005, respectively. 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 APFC employees are required to contribute 6.13 percent of their annual salaries to SBS-AP, and the APFC contributes a matching 6.13 percent to the plan for the benefit of each employee, up to a specified maximum each year. Total salaries for employees covered by PERS for the years ended June 30, 2006 and 2005 amounted to \$2,639,000 and \$2,304,000, respectively. Total salaries for employees covered by SBS-AP for the years ended June 30, 2006 and 2005 amounted to \$2,656,000 and \$2,329,000, respectively.

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 Laura Achee, Director of Communications
 Joyce Andrews, Executive Assistant

Investments

Richard D. Shafer, Chief Investment Officer
 Lisa Flores, Executive Secretary

Fixed income

Jim Parise, Manager of Fixed Income Investments
 Josh Burger, Investment Officer, Fixed Income
 Bryan Johnson, Investment Analyst, Fixed Income

Equity Investments

Maria Tsu, Manager of Equity Investments
 Jiangning (Jen) Ma, Investment Analyst, Equity Investments

Real Estate

David Stuart, Manager of Real Estate Investments
 Christi Grussendorf, Investment Officer, Real Estate
 Rosemarie Duran, Investment Officer, Real Estate

Finance and Human Resources

Chris Phillips, Chief Financial Officer
 Valeria Martinez, Administrative Assistant

Finance

Julie Hamilton, Controller
 Kevin Buckland, Senior Accountant
 Ruth Danner, Portfolio Accountant
 Karen Emberton, Portfolio Accountant
 Chris LaVallee, Accountant
 Patricia Hendry, Accountant

Human Resources

Joan Cahill, Human Resource Manager
 Shawn Lew, Administrative Assistant

Administration and IT

Marshal Kendziorek, Director of Administration and IT

Administration

Kathy Thatcher, Administrative Manager
 Lori Van Steenwyk, Administrative Specialist
 Moctar Diouf, Procurement Specialist
 Kaitlin Kreuzenstein, Administrative Support Technician/Receptionist

Information Technology

Robert McKnight, Senior Information Technology Specialist
 Andrew Loney, Information Technology Specialist
 Charlie Cardwell, Information Technology Specialist

Photo Captions: Pg. 2: Carl Brady, Chairman; Eric E. Wohlforth, Trustee; Bill Hudson, Trustee; Steve Frank, Vice Chair; David Márquez, Trustee; William A. Corbus, Trustee; Pg. 4: Michael J. Burns, Executive Director; Pg. 8: David Rose; Pg. 18: Lijie Zhu, Jane Pitakkoshkorn (former APFC summer intern), Hongxian Zhang, Josh Adams, APFC summer interns

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