

The Strength of Diversification

annual report • 2008



Alaska Permanent Fund Corporation

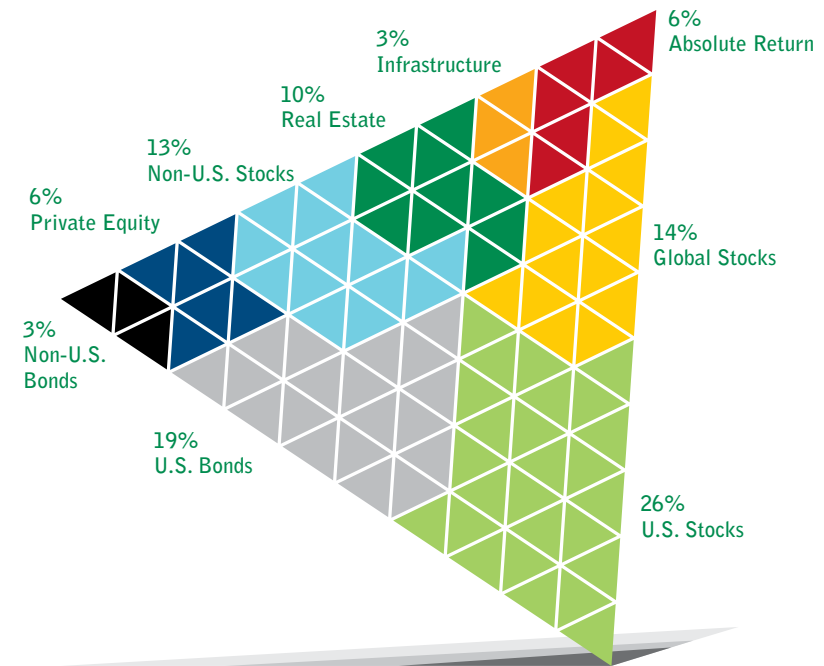


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APFC Target Asset Allocation

AS OF MAY 29, 2008



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.

03 LETTER FROM THE CHAIR

What a difference a year can make. Last September, the Board of Trustees had the pleasure of reporting that the Permanent Fund's investments had returned 17.1% for the fiscal year, and that every asset class had provided a positive return.

And then the storms came.

It is precisely because of times like these that the Board of Trustees takes a long-term view, building an all-weather portfolio for the Permanent Fund. We don't try to time the markets. Instead we build a portfolio that we believe will provide a more stable return under a variety of market conditions, to reach the conservative goal of a 5% rate of return over time above the rate of inflation.

Diversification is a very important part of building our portfolio. Last fiscal year's positive performance by every asset class was extremely unusual. Generally different types of investments work in disharmony with one another, and as market conditions favor one type of investment, other investments will cycle down. The strength of diversification lies in its ability to help the Permanent Fund make healthy gains during up markets and limit losses during financial turmoil like we have experienced for the last year.

The experts suggest that there is still some rough weather in the near term. Fortunately, the Permanent Fund has the advantage of being a long-term investor, and we will continue to press forward on our path. The Trustees are very deliberate in the investment decisions that we make, and we can hold on to those investments as long as we continue to have faith in their underlying value, regardless of how the markets are performing.

One of the Trustees who will be here helping guide the Permanent Fund is our newest Trustee, Nancy Blunck. Ms. Blunck is a Certified Financial Planner and owner of Blunck Financial, an Anchorage-based financial planning and investment management firm. She also has ties to the early days of the Fund, having worked for the Alaska Public Forum, which was established by Governor Hammond to provide a neutral mechanism for public participation regarding the Permanent Fund.

One final note - I believe that Alaskans will always be richer for having the foresight 30 years ago to create this Fund. It will have its ups and downs in the future, as it has in the past, but with prudent management it will be here to benefit Alaskans in the years to come.

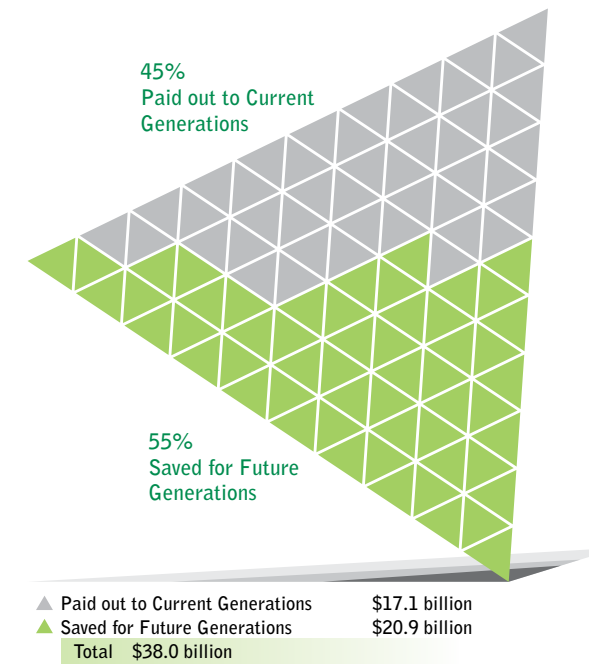
Sincerely,

Steve Frank
 Steve Frank
 Chair, APFC Board of Trustees

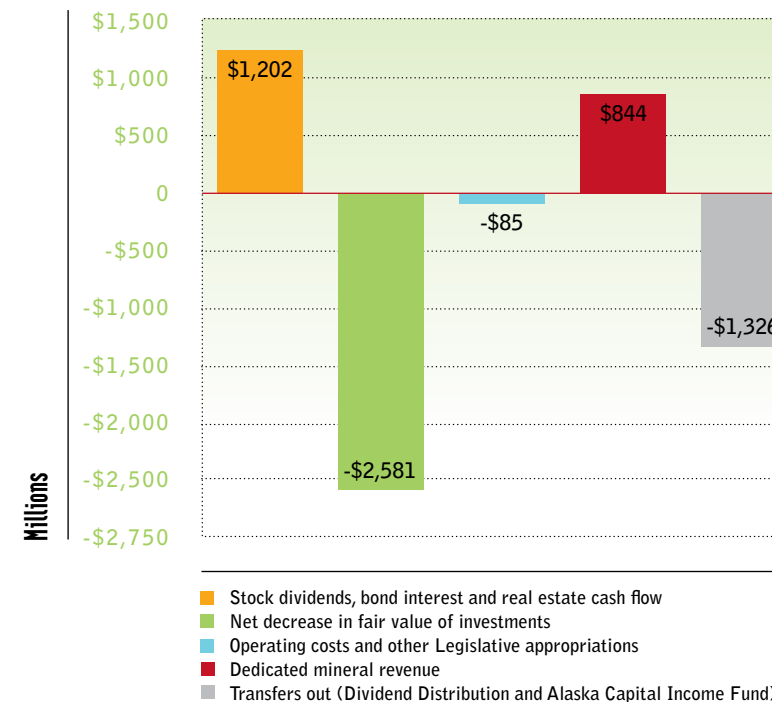


Board Members:
 (From left)
 Bill Moran,
 Vice Chair
 Emil Notti
 Steve Frank,
 Chair
 Nancy Blunck
 Patrick Galvin
 Carl Brady

Uses of Fund Income SINCE INCEPTION



Sources of Change in Fund Value, Fiscal 2008





Fiscal year 2008 will likely be remembered as one of the most challenging years for the world's financial markets. It certainly was for the Permanent Fund.

Widespread problems with subprime mortgages brought down individual funds and entire firms, including Countrywide Financial and Bear Stearns, tightening available credit and sending the markets into turmoil. This was transformational to the financial system. The Federal Reserve and the U.S. Treasury assumed historically new roles, specifically in their relationship with the investment banks and government-sponsored enterprises, like Fannie Mae and Freddie Mac.

Energy and commodity prices increased dramatically, and both the price of oil and the price of corn doubled over the course of the fiscal year, ending at around \$140 per barrel and \$7.50 per bushel, respectively. And above it all was the specter of inflation and fears of a recession, leaving investors tentative and nervous.

All of these factors created extremely volatile markets. An illustration of this volatility came in mid-March, when the Dow Jones industrial average jumped almost 417 points, at the time its fourth-biggest one-day point gain ever and the biggest one-day point gain since July 2002. That day the Permanent

Fund gained \$550 million in value. Later that week, volatility in the markets around the Bear Stearns collapse caused the Fund's portfolios to lose \$650 million in two days, and then make it all back on the third day when the Dow went up 420 points.

The fiscal year had shown a promising start. U.S. and global stock markets reached record highs in July before investors' concerns over problems in the subprime mortgage market caused them to turn sharply downward. The Federal Reserve Board took action in August and September, lowering the primary credit rate and the federal funds rate respectively, and stock markets started to turn upward again.

These rallies carried into October, but the continued effects of failures in the subprime mortgage market and rising oil prices caused markets to falter. Record commodity prices, along with continuing dismal news from the financial sector, contributed to the ongoing volatility in stock markets around the globe that carried through the end of fiscal 2008. The third quarter of the fiscal year was the worst quarter for the Dow Jones Industrial Average since the burst of the tech bubble, despite the large one-day climbs in March.

The end result of a year of volatility is that the Permanent Fund had a total return of -3.6%, in line with the benchmark return of -3.6%, and ended fiscal year 2008 with a fund balance of \$35.9 billion after transferring \$1.3 billion to the Permanent Fund Dividend Fund. The Fund's rate of return after inflation was -6.5%.

The Permanent Fund's bond investments were the bright spot in this difficult year, with the U.S. bond portfolio returning 6.1% and the non-U.S. portfolio returning 10.9%. The Fund's real estate investments also had a positive return of 0.5%, as did absolute return investments, which returned 1.0%.

The stock portfolios did not fare as well. U.S. stocks returned -11.7%, non-U.S. stocks returned -5.5% and our global stock portfolio returned -10.2%.

These returns help highlight the strength of a diversified portfolio. While the Permanent Fund would certainly see greater returns in good markets if we were to focus our attention on stocks, by maintaining a commitment to other asset classes, like bonds, that tend to perform well when stocks do poorly, we can help achieve a more stable return in the long run. The Fund experienced an overall loss this year, but that loss was tempered by the positive returns that our bond portfolio provided.

For the fiscal year the Permanent Fund received \$844 in mineral royalty deposits, and earned \$2.9 billion in statutory net income, the amount used to calculate the dividend. By contrast, the Fund's investments provided a \$1.5 billion loss under GAAP, which includes unrealized gains and losses.

We saw some changes in the staff over the year as well. Rose Duran was promoted to Manager of Real Estate Investments in July. Rose has worked for the Permanent Fund for 18 years, first as a real estate accountant in the Finance Department before she moved to Real Estate Investments.

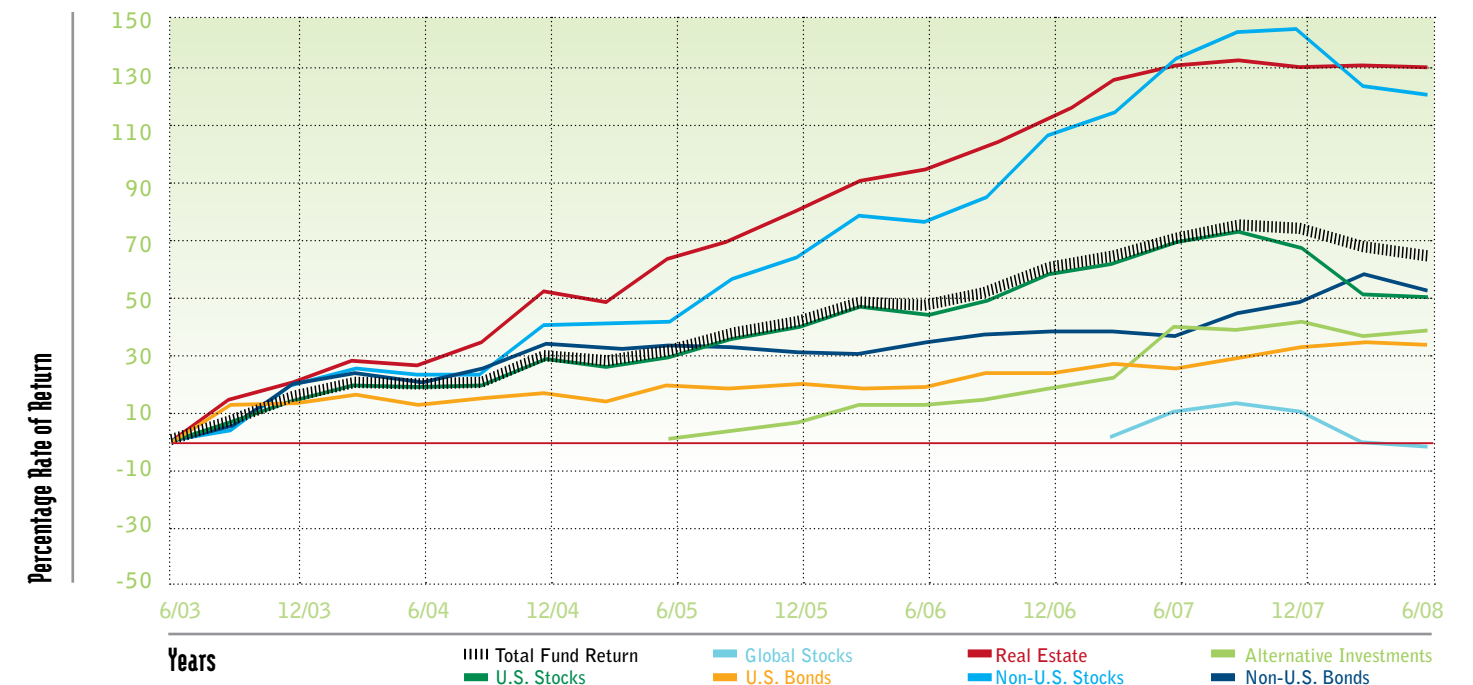
Maria Tsu left her position as Manager of Equities Investments in November, where she had served for four years. However, we are pleased that she rejoined the Corporation at the beginning of fiscal year 2009 as Manager of Alternative Investments. Melody Penner-Bryant came to the APFC in January to take on the role of Manager of Equity Investments. Marilyn San Miguel joined the Finance Department in March, and our first Internal Counsel, Bob Valer, joined the Corporation at the beginning of fiscal year 2009.

Finally, we said goodbye to Rick Shafer, a valued member of the APFC staff, shortly after the conclusion of the fiscal year. Rick arrived nine years ago as a member of the fixed income team, and after moving to Manager of Fixed Income Investments was promoted to Chief Investment Officer four years ago. He will be missed.

Sincerely,

Michael J. Burns
Chief Executive Officer

The Effects of Diversification FIVE-YEAR CUMMULATIVE RETURN



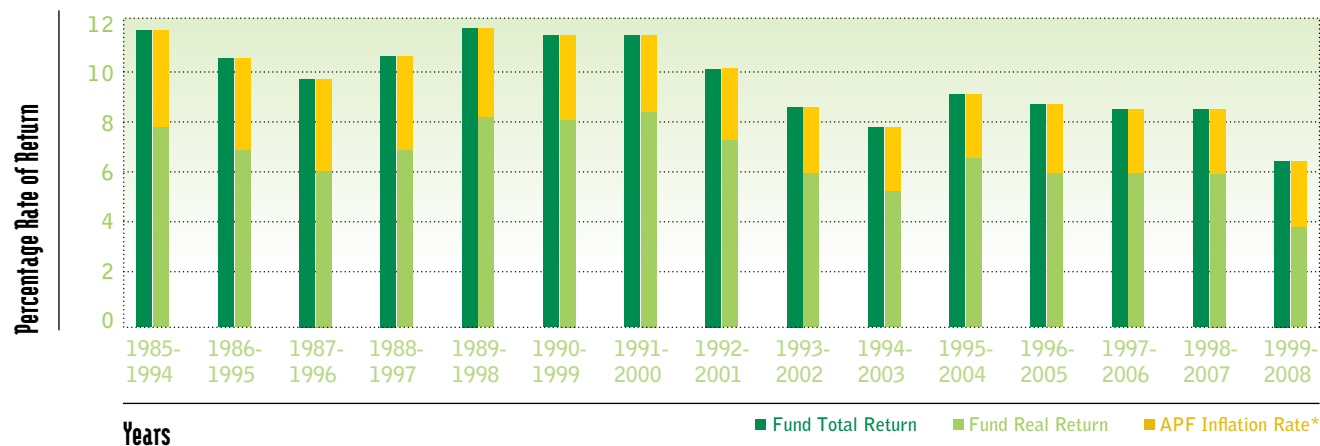
Each asset class that the Board invests in reacts differently under the same market conditions. Often when one asset class has strong returns, another will have lower or even negative returns. By diversifying the Fund's investments across a number of asset types, the Board better ensures a positive return under a range of market conditions, and lowers the total risk of the portfolio.

INVESTING FOR THE LONG RUN

The Board of Trustees' statutory direction is to generate the maximum return while protecting principal. In order to meet both of these objectives, the Board sets an asset allocation that is designed to provide a 5% real rate of return over time with a prudent level of risk.

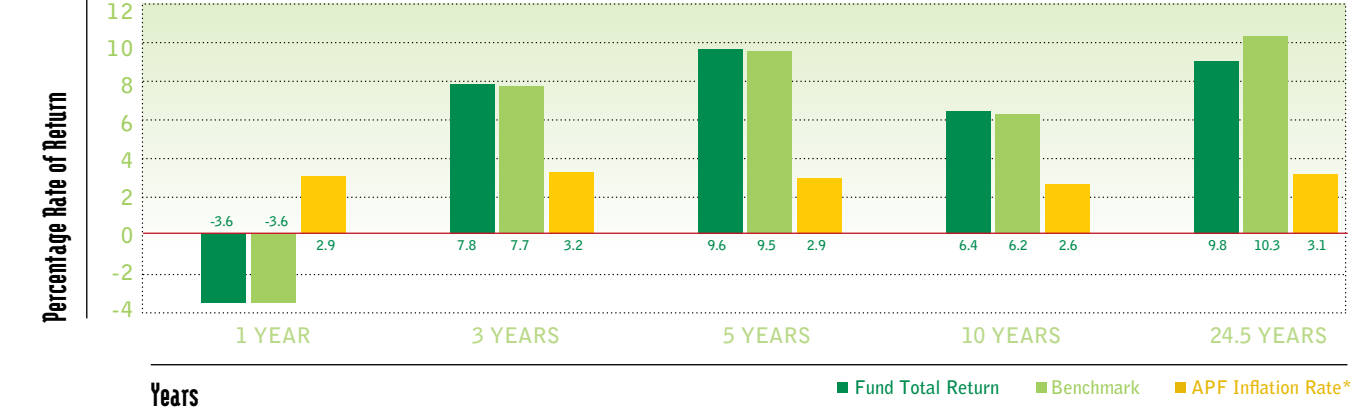
Rolling 10-year Returns

ANNUALIZED RETURNS FOR PERIOD ENDING JUNE 30, 2008



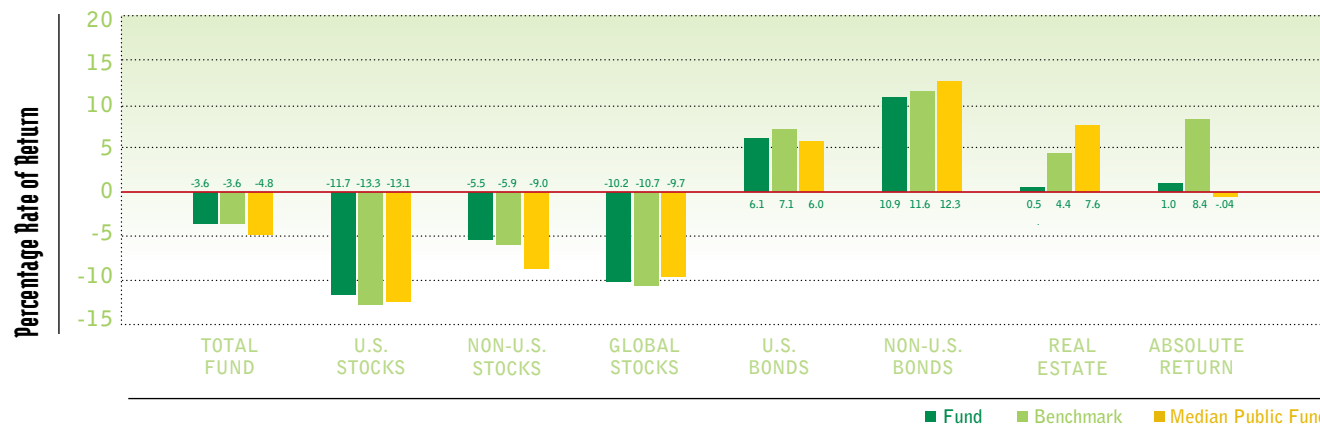
Fund's Long-Term Investment Performance

ANNUALIZED RETURNS FOR PERIOD ENDING JUNE 30, 2008



Fund Fiscal 2008 Performance

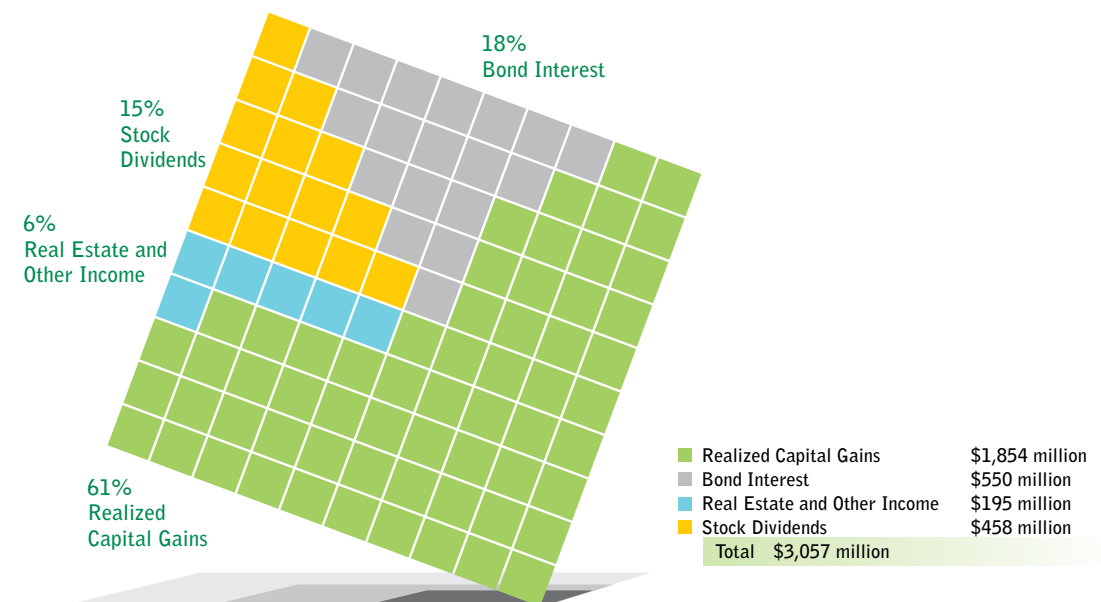
ANNUALIZED RETURN JUNE 30, 2008



* See page 25 for detailed information regarding the APF inflation rate.

Sources of Realized Net Income, Fiscal 2008

IN MILLIONS



Fiscal year 2008 was a difficult year for stock markets worldwide, as soaring commodity prices, the weak dollar, faltering residential real estate prices and related problems with subprime mortgages all had an adverse effect. A rally in the fall gave way to increasing volatility, and resulted in the Permanent Fund's stock portfolios moving down significantly for the year, ending on June 30 with a combined value of \$19.9 billion.

The U.S. portfolio returned -11.7%, ahead of the -13.3% return for the composite benchmark, and ended on June 30 with a value of \$9.8 billion. The Fund's U.S. large cap mandates, with a return of -11.6%, edged ahead of the small cap stocks, which returned -12.2%. And growth style managers significantly outperformed value style managers, though both groups had negative returns.

In 2005, the Board created the small cap manager pool, with each member having a relatively small allocation. A particular advantage of this program is the ability to utilize a greater number of managers, allowing for exposure across a broad range of investment styles. In the fall of 2007, the Board authorized a manager search and staff hired four new managers as a result: Columbus Circle Investors; Eagle Asset Management, Inc.; Fort Washington Investment Advisors; and Pzena Investment Management. As of June 30, the pool had 15 members and \$727 million in assets under management.

The non-U.S. stock portfolio returned -5.5%, ahead of the composite international stock benchmark of -5.9%, and ended the fiscal year with a value of \$4.9 billion. The emerging markets allocation was the bright spot among the

Permanent Fund's stocks, with each of the three emerging market accounts providing positive returns for the period. However, most of these gains came in the first part of the fiscal year, and returns began to turn downward in the spring.

Early in the fiscal year, the Board completed a redesign of the Fund's stock portfolios that began with the creation of the global portfolio in 2006. Some of the Fund's non-U.S. managers were shifted to a global allocation, requiring a review of the non-U.S. portfolio to ensure that it was sufficiently diversified, with a stable of managers that represented all of the necessary market niches.

After an exhaustive search, the Board hired eight managers in August to invest in non-U.S. developed and emerging markets. The Board hired five firms with initial allocations of \$500 million: Dodge & Cox; GE Asset Management; Goldman Sachs Asset Management; Artio Global Management; and State Street Global Advisors. The Board also hired three firms with initial allocations of \$250 million: Acadian Asset Management; Principal Global Investors; and Morgan Stanley Investment Management.

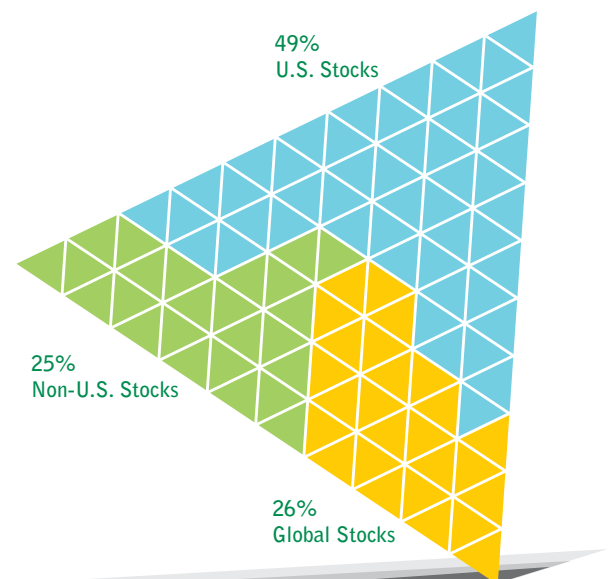
The global stock portfolio returned -10.2%, ahead of the MSCI World Index return of -10.7%, and ended with a value of \$5.3 billion. While the global portfolio does have exposure to emerging markets, the majority of the weight is in U.S. and EAFE stocks. These markets experienced significant losses during the fiscal year, providing a final return closer to that of the U.S. stock portfolio.

Breakdown of the Permanent Fund's Stock Portfolio

ALL DATA AS OF JUNE 30, 2008

Stock Portfolio

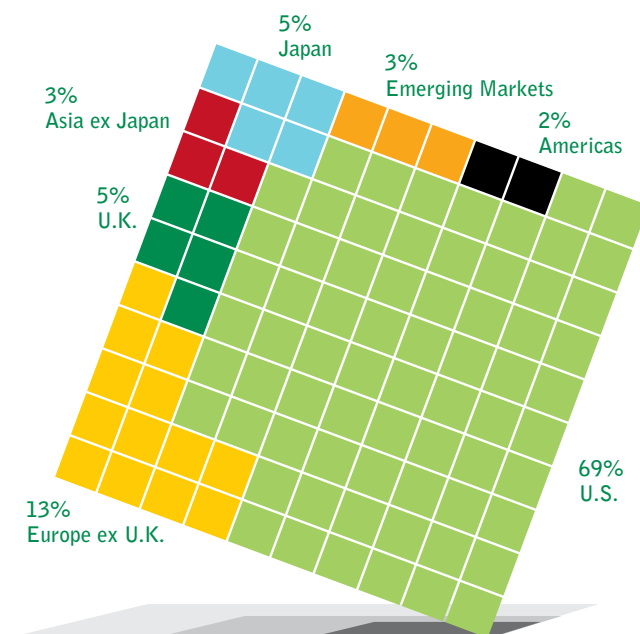
BY REGIONAL MANDATE



▲ U.S. Stocks	\$9.8 billion	▲ Non-U.S. Stocks	\$4.9 billion
▲ Global Stocks	\$5.2 billion		
Total	\$19.9 billion		

Stock Portfolio

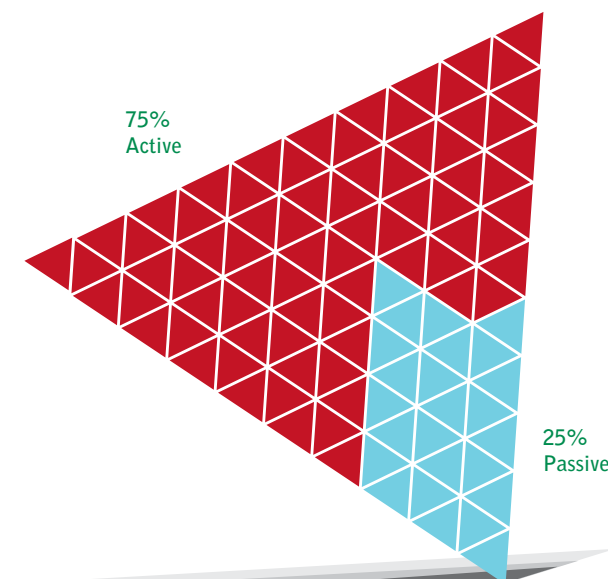
BY REGION



▲ Europe ex UK	\$2.7 billion	▲ United Kingdom	\$1.0 billion
▲ Asia ex Japan	\$0.5 billion	▲ Japan	\$1.1 billion
▲ Emerging Markets	\$0.5 billion	▲ Americas	\$0.3 billion
▲ U.S.	\$13.8 billion		
Total	\$19.9 billion		

Stock Portfolio

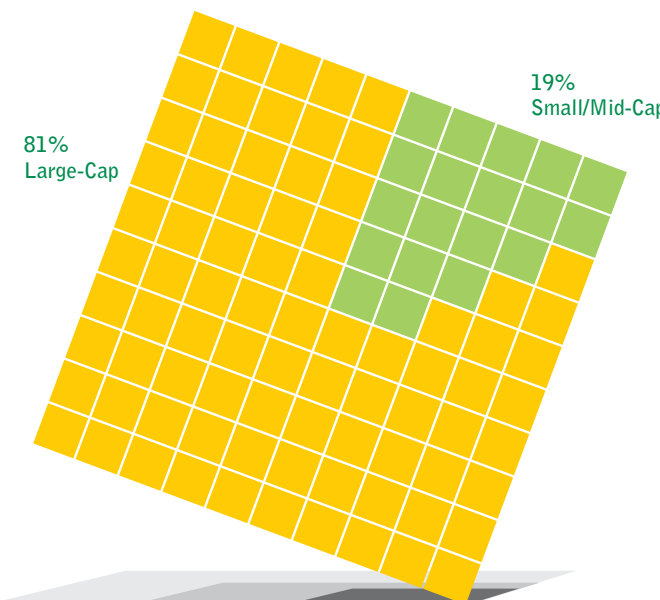
BY ACTIVE AND PASSIVE MANAGEMENT STYLES



▲ Active	\$14.9 billion
▲ Passive	\$5.0 billion
Total	\$19.9 billion

U.S. Stock Portfolio

BY COMPANY CAPITALIZATION



▲ Large-Cap	\$8.0 billion
▲ Small/Mid-Cap	\$1.8 billion
Total	\$9.8 billion

The Permanent Fund's bond portfolios were the positive performers for fiscal year 2008, helping mitigate some of the losses in stocks. The failure of securities based on subprime mortgages and the collapse of firms and funds that were solely invested in these securities dominated the news during the fiscal year. This created challenging markets for bond investors, and the Fund saw some subprime-related effects. However, the internal portfolio had very limited exposure in this area.

The U.S. portfolio returned 6.1% for the fiscal year, under the Lehman Aggregate Index return of 7.1%, while the non-U.S. portfolio was up 10.9%, compared to the Citigroup Non-U.S. World Government Bond Index return of 11.6%. The bond portfolio ended June 30 with a total value of \$9.7 billion.

\$7.4 billion of the Fund's U.S. bonds are in the internally managed bond portfolio, which returned 6.9% for the fiscal year. The market woes created by subprime mortgage meltdowns resulted in a credit crunch that began before the stock market turned down. The weaknesses in the market created opportunities that the internal bond staff was able to take advantage of through careful analysis and security selection. Over the year the portfolio shifted away from government bonds in order to make the most of the higher yields available in corporate bonds and asset backed securities.

The Fund's two high yield managers had mixed results, with Capital Guardian returning 1.6%, while Goldman Sachs returned -2.6%. The benchmark Lehman U.S. High Yield 2% Issuer Cap Index returned -1.7%. While the high yield returns for fiscal year 2008 are not inspiring, these investments are a good addition to the Permanent Fund, adding diversification and bringing the potential of solid future returns.

Beginning in February, fixed income staff increased the allocation to high yield bonds by \$600 million, spread over six months, part of a long-term plan to make high yield investments a more significant portion of the Fund's portfolio. The weaknesses in the market benefited the timing of the increase, which was aligned with the Board's policy of taking a long-term approach to creating the portfolio rather than basing decisions on current conditions.

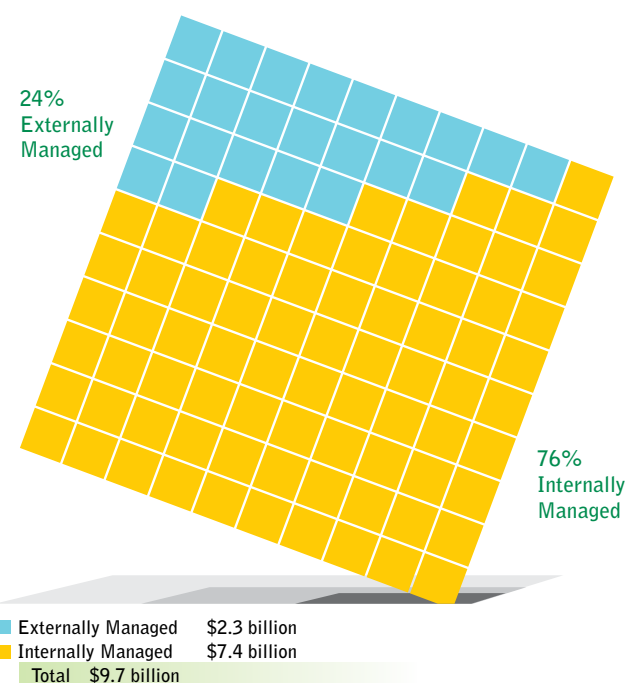
The Board authorized a commitment in March 2007 to a distressed debt fund created by Crestline Investors Inc., one of the Corporation's absolute return managers. Distressed investments typically arise when companies are in financial trouble, such as through bankruptcy, and can bring increased returns with some corresponding risk. While the full commitment is for \$500 million, Crestline only makes investments as opportunities arise. As of June 30, \$273 million had been invested on behalf of the Fund.

During the period July 2007 through May 2008, the distressed debt fund returned -3.9%. Typically, this type of fund will report slight losses during the beginning phase of the investment period with the expectation of higher returns later in the cycle. APFC fully expects to see positive returns in the future as these investments mature.

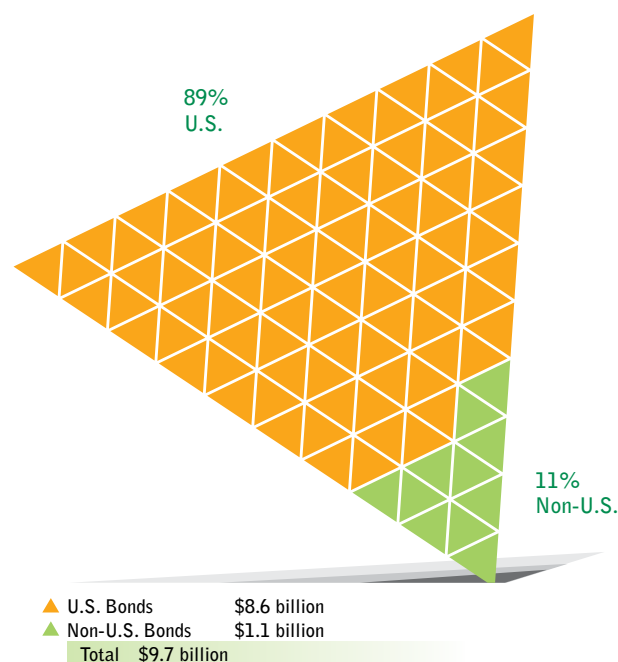
Breakdown of the Permanent Fund's Bond Portfolio

ALL DATA AS OF JUNE 30, 2008

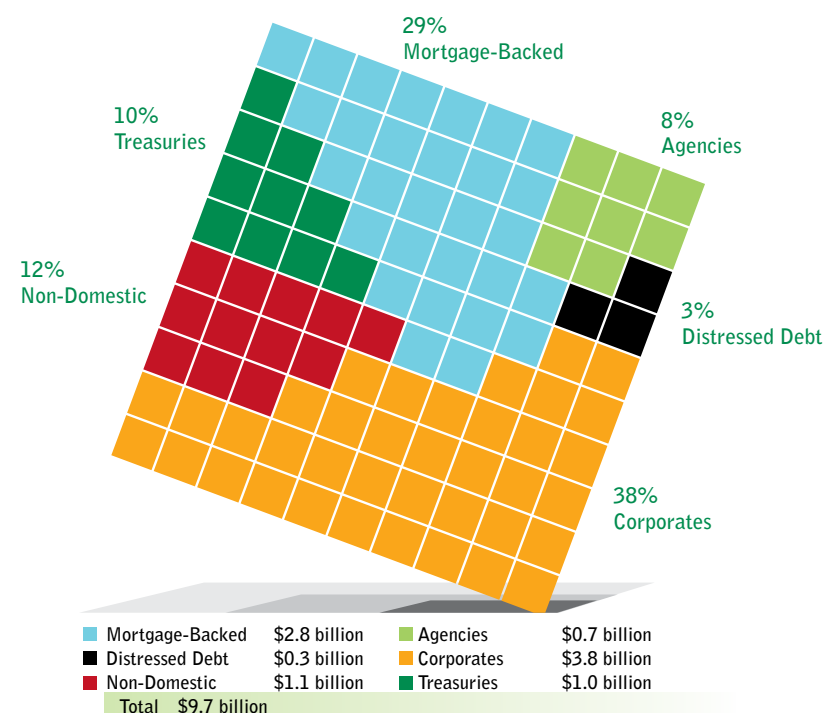
Internal vs. External Management



U.S. vs. Non-U.S.



Composition of Bonds





Independence Plaza is a 570,000-square-foot, 25-story office complex located in downtown Denver.



North Bridge is a 681,000-square-foot retail property located on Michigan Avenue, at the south end of "The Magnificent Mile."

14 REAL ESTATE

The Permanent Fund's real estate portfolio returned 0.5% for fiscal year 2008, ending on June 30 with a value of \$4.2 billion.

The directly owned real estate portfolio includes 65 individual properties, with a total value of \$3.5 billion, and returned 4.8% for the fiscal year. The benchmark NCREIF NPI Index returned 9.2% for the period. During fiscal 2008, the Permanent Fund acquired six properties.

One of the six properties added to the portfolio is The Shops at North Bridge in Chicago, Illinois. North Bridge is a 681,000-square-foot retail property located on Michigan Avenue, at the south end of "The Magnificent Mile." The Permanent Fund shares a half-interest in the \$515 million property, with its partner, the Macerich Company. North Bridge is the Permanent Fund's second largest single-property holding after Tysons Corner Center, which has an estimated total value of \$1.5 billion.

The Permanent Fund also acquired sole ownership of Independence Plaza in Denver, Colorado. Independence Plaza is a 570,000-square-foot, 25-story office complex located in downtown Denver, with retail tenants on the lower levels.

Other properties acquired in fiscal year 2008 include: Palm Terrace (an office building located in Mission Viejo, California), Hitachi Building (an office located in Chula Vista, California); Atria West (an office in Los Angeles, California), and the Northern Lights Industrial portfolio (located in Bloomington, Minnesota).

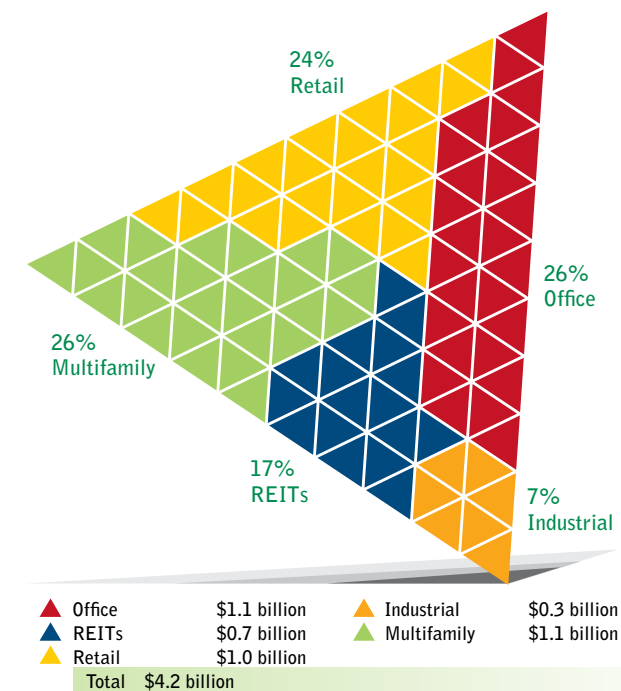
In addition to direct holdings, the Fund has also been a partner for two years in Simpson Housing, LLLP, a firm that owns and manages multi-family residential properties throughout the U.S. Simpson Housing returned 4.6% for the fiscal year, and the Fund's investment in this partnership was valued at \$656 million as of June 30.

The public equity portion of the real estate portfolio was valued at \$667 million on June 30 and returned -17.1% for the fiscal year. Two managers invest in real estate investment trusts (REITs) on the Fund's behalf. Wellington Capital Management's account returned -16.6% for the fiscal year, trailing the benchmark MSCI US REIT Index return of -14.2%. The AEW Global Real Estate Securities portfolio returned -17.5%, ahead of the UBS Global Real Estate Investors Index, which returned -19.4% for the period.

After strong and steady growth for a number of years, REITs recent performance has been very volatile. Sharp losses at the end of the prior fiscal year changed to small gains in the first quarter of fiscal 2008. But REITs turned down again in the fall with double-digit losses, holding flat for the third quarter before falling off again at the end of the fiscal year.

While sagging home sales dominated the news for the last year, this was not the source of REITs woes, as these securities are based on commercial properties, not single-family homes. More likely causes include the general market disturbances resulting from the subprime-created credit crunch, the sluggishness in the economy overall, and a correction related to the strong returns seen in REITs over the last few years.

Real Estate Diversification AS OF JUNE 30, 2008



ALTERNATIVE INVESTMENTS

Absolute Return

The Fund's absolute return portfolio returned 1.0% for the fiscal year, below the benchmark 8.4% return of LIBOR + 4%. Over the trailing three years, this segment of the portfolio has produced an annualized return of 8.5%. This result is very close to the target return objective (LIBOR + 4%).

This asset category is designed to provide results that are not highly correlated with equities or fixed income, while providing a risk level comparable to that of an investment grade bond portfolio. While investment grade bonds outperformed absolute return in fiscal year 2008, the program has been successful in providing downside protection in difficult markets while generating returns better than those provided by the bond market. Over the three-year span, the Lehman Aggregate Bond Index returned 4.09% annualized. This was well below the 8.5% return for the total absolute return allocation.

During fiscal year 2008, PAAMCO and Mariner Investment Group were the outlying managers, with returns of 11.1% and -3.8% respectively, while Crestline Investors, Lazard Investors and Lehman Brothers AMI had returns between -0.2% and -0.5%.

Infrastructure

The Board of Trustees created a new allocation to infrastructure investments shortly before the start of the fiscal year, and approved investments in Citi Infrastructure Investors Fund I and Global Infrastructure Partners Fund I in August.

Infrastructure investments can generally be described as assets that are usually publicly owned and operated, such as roads, airports, utilities and pipelines. They are attractive additions to the Permanent Fund, providing inflation protection and the backing of claims on real assets, but with higher expected returns than fixed income.

The initial commitments were \$500 million to Citi and \$350 million to Global, and as of June 30 the funds had drawn down \$140 million and \$99 million, respectively. There was not enough time in the new asset class to provide meaningful returns by the end of the fiscal year.

Private Equity

Pathway Capital Management continued to make investments in private partnerships on the Fund's behalf over fiscal year 2008. The partnerships in this "fund of one" generally focus on investments in large capitalization corporations with total enterprise values of more than \$1 billion.

Private equity is by nature an illiquid investment, and so a rapid deployment of the Fund's commitment to this asset class isn't possible. This is further impacted by Pathway's commitment to only investing in partnerships that they believe will add value to the Permanent Fund's portfolio. While the commitment to Pathway is 4% of the Fund's value, actual investments funded totaled \$709 million at the end of the fiscal year.

These investments can take years to come to fruition, although premium returns are expected in exchange for this illiquidity. As a result, while the private equity program is 4 years old, the Corporation has not seen enough private equity investments mature to provide a meaningful return estimate. The Trustees are encouraged by the early indications of underlying business progress.

APFC INTERNSHIP PROGRAM



APFC INTERNSHIP PROGRAM

APFC and the management firms that invest the Fund's 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 U.S. and in the United Kingdom. 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, 75% of the 260 interns have come from Alaska campuses: University of Alaska Anchorage, University of Alaska Fairbanks, University of Alaska Southeast and Alaska Pacific University.

We'd like to thank our 2008 participating managers who employed and mentored 10 college students from Alaska this summer.

Alaska Permanent Capital Management

Augustus Asset Managers Limited

Alaska Permanent Fund Corporation

Crestline Investors, Inc.

GE Asset Management

McKinley Capital Management

Rogge Global Partners

Interns:

(From left)

Patrick Hoke
Information Technology
intern

Theresa Harris
Finance intern

Krishna Ganapuram
Investments intern

17 MANAGEMENT'S DISCUSSION AND ANALYSIS

The State of Alaska Permanent Fund Corporation (APFC) management is pleased to provide the following discussion and analysis of the financial activities of the Alaska Permanent Fund (Fund) for the fiscal years ended June 30, 2008 and June 30, 2007. This discussion should be reviewed in conjunction with the financial statements and related notes which follow this section. This narrative is intended to provide management's insight into the results of operations from the past two fiscal years, and highlight specific factors that contributed to those results. This Management's Discussion and Analysis (MD&A) is comprised of three sections: financial highlights; discussion regarding use of the financial statements; and analysis of the financial statements.

Financial Highlights

- The financial markets during fiscal year 2008 were volatile. The Fund's investments hit a record high near the beginning of the year, reaching \$40 billion. However, by the end of the fiscal year, the Fund had lost over \$2.5 billion in asset value, and ended with approximately \$36 billion in net assets. The total rate of return for the Fund was a negative 3.6%, the largest negative return in the history of the Fund, while the prior fiscal year had a strong positive return of 17.1%.
- FY 2008's deficiency of revenues over expenditures of nearly \$1.5 billion was in sharp contrast to the prior fiscal year, which had an excess of revenues over expenditures greater than \$5.4 billion. FY 2007 had the highest dollar increase since the inception of the Fund in 1976, while FY 2008 had the largest dollar decrease.
- Despite the volatile markets in fiscal year 2008, statutory (realized) net income, which is used to calculate the annual Alaska Permanent Fund Dividend disbursement, was \$2.9 billion, the second highest in the history of the Fund, with FY 2007's \$3.5 billion being the highest. Because the annual dividend payout formula is a five-year average of statutory net income, this year the fiscal year 2003 amount is dropped from the formula and the fiscal year 2008 amount is added. The fiscal year 2008 amount was more than eight times that of fiscal year 2003, which in turn makes this fiscal year's dividend distribution approximately 25% greater than last year's dividend.
- The unreserved fund balance, which consists of historical unappropriated realized earnings, ended fiscal year 2008 at its highest level ever, at nearly \$5 billion.
- Fiscal year 2008 was a record year in the history of the Fund for receipt of State of Alaska mineral revenues, at \$844 million, a significant increase when compared to FY 2007's \$532 million. The previous record year was fiscal year 2006, which saw \$601 million in dedicated revenues.
- The APFC continued to expand into new investment areas during fiscal year 2008, adding infrastructure investments to its portfolio through two limited partnership investment vehicles.

Using the Financial Statements

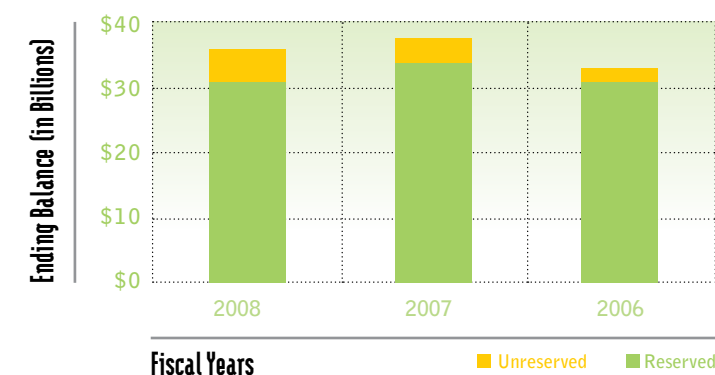
This section of the MD&A intends to provide an introduction to the Fund's required financial statement components, which include: Balance Sheets; Statements of Revenues, Expenditures and Changes in Fund Balances; and Notes to the Financial Statements.

BALANCE SHEETS

The Balance Sheets present all assets, liabilities and fund balances of the Fund as of June 30, 2008, as well as the prior fiscal year's ending balances at June 30, 2007.

Assets are grouped into broad categories for ease of readability and analysis. Readers of the Balance Sheets should be aware that receivables include cash not yet received from the sale of investments, as well as dividends and interest receivable from stock and bond holdings. Real estate assets shown on the Balance Sheets include both direct investments

Fund Balances



in real estate properties and stock holdings of real estate investment trusts (REITs). The alternative investments category consists of private equity investments as well as various strategies in absolute return investments and infrastructure. The securities lending collateral shown as an asset is cash received from stock and bond loans, which will be returned to the borrower at the conclusion of the loan.

Liabilities on the Balance Sheets consist mainly of obligations for investments purchased but not yet paid, shown in the accounts payable grouping, and for the annual dividend payable to the State of Alaska. Securities sold short is the market value of stocks sold by managers, but not yet owned. Securities lending collateral is the cash due to be returned to borrowers of the Fund's stocks and bonds, when those borrowed assets have been returned to the Fund.

In the above graph, fund balances are shown in two different categories: reserved and unreserved. The largest portion of the fund balances is reserved (86% as of June 30, 2008), and cannot be spent by the State of Alaska. The remaining balance, the realized earnings, is available for government appropriations. The unreserved balance has grown over the past three fiscal years, from \$2.6 billion in fiscal year 2006 to almost \$5 billion at the end of fiscal year 2008.

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

The Statements of Revenues, Expenditures and Changes in Fund Balances present the financial activity of the Fund over the 12 months ending June 30, 2008, as well as the activity for the prior fiscal year.

Revenues are shown in two different sections on the statement, separating cash receipts of various investment holdings such as interest, dividends, and real estate rental income, from the change in value of these same investment holdings. The first section of the revenues also includes miscellaneous income such as class action litigation proceeds and securities lending income. The second section of revenues includes both realized and unrealized gains and losses on investment holdings. Realized gains and losses are produced only through the sale of investments, while unrealized gains and losses are the result of market and fair value changes in investment holdings without a sale of those holdings. Realized and unrealized gains and losses are summarized by broad asset class, similar to the groupings shown on the Balance Sheets, and represent the total net increase or decrease for the year in each asset category.

Also included on the Statements of Revenues, Expenditures and Changes in Fund Balances are the expenditures of the Fund, and other sources and uses of funds, to derive the total net change in fund balances from the prior year to the current year. Operating expenditures include fees paid to external investment managers, as well as the salaries of APFC employees and other routine operating costs such as rent, travel and legal fees. Legislative appropriations are obligations for support services received from other State of Alaska departments, and are appropriated through the State's annual budget process.

Dedicated State revenues transferred into the Fund's principal are based on a percentage of mineral revenues received by the State, and transfers out are for two purposes: to pay the annual State of Alaska Permanent Fund Dividend per Alaska Statute 37.13.145(b); and to pay the annual deposit to the Alaska Capital Income Fund per Alaska Statute 37.13.145(d).

NOTES TO THE FINANCIAL STATEMENTS

The Notes to the Financial Statements are an essential element to assist the reader in fully understanding the financial aspects of the Fund, and to assist in the interpretation of all major components of the financial statements. The Notes to the Financial Statements can be found immediately following the Statements of Revenues, Expenditures and Changes in Fund Balances.

Financial Statement Analysis

This section of the MD&A is intended to provide an analysis of past fiscal years' activities and specific contributors to changes in the net assets of the Fund. The fund balance serves to provide a gauge of the financial strength of the entity. While assets

of the Fund exceeded liabilities each year by a ratio of more than 15-to-1 (excluding securities lending collateral, which is held separately by the custodian for repayment to the borrower upon a loan's completion), it is important to note that the reserved fund balance may not be spent, and therefore cannot be used to satisfy liabilities. The following table was derived from the Balance Sheets of the Fund, and provides a comparison of the change between balances at June 30 of 2007 and 2008.

Balance Sheets

JUNE 30,	2008	2007	NET CHANGE	PERCENT
ASSETS				
Cash and temporary investments	\$ 819,861,000	1,651,091,000	(831,230,000)	-50.34%
Receivables, prepaid expenses and other assets	1,089,255,000	394,248,000	695,007,000	176.29%
Investments	36,481,739,000	38,420,971,000	(1,939,232,000)	-5.05%
Securities lending collateral invested	2,282,400,000	4,881,893,000	(2,599,493,000)	-53.25%
Total Assets	\$ 40,673,255,000	45,348,203,000	(4,674,948,000)	-10.31%
LIABILITIES				
Accounts payable	\$ 998,883,000	1,374,663,000	(375,780,000)	-27.34%
Securities sold short	184,872,000	201,596,000	(16,724,000)	-8.30%
Income distributable to the State of Alaska	1,326,170,000	1,063,955,000	262,215,000	24.65%
Securities lending collateral	2,282,400,000	4,881,893,000	(2,599,493,000)	-53.25%
Total Liabilities	4,792,325,000	7,522,107,000	(2,729,782,000)	-36.29%
FUND BALANCES				
Reserved – principal				
Contributions and appropriations	29,148,930,000	27,496,893,000	1,652,037,000	6.01%
Unrealized appreciation-invested assets	1,763,226,000	6,197,582,000	(4,434,356,000)	-71.55%
Total Reserved	30,912,156,000	33,694,475,000	(2,782,319,000)	-8.26%
Unreserved				
Realized earnings	4,968,774,000	4,131,621,000	837,153,000	20.26%
Total Fund Balances	35,880,930,000	37,826,096,000	(1,945,166,000)	-5.14%
Total Liabilities and Fund Balances	\$ 40,673,255,000	45,348,203,000	(4,674,948,000)	-10.31%

The most notable changes in the Fund's assets from June 30, 2007, through June 30, 2008, were due to the volatile investment markets, which decreased the carrying value of invested assets. While the combined amount of cash and receivables did not change dramatically from FY 2007 to FY 2008 (less than 7%), investments decreased by nearly \$2 billion. In contrast, fiscal years 2007 and 2006 saw strong financial markets, and invested assets increased in those years by more than \$5 billion and \$3 billion, respectively. In FY 2008, equities had substantial negative returns, with each equity class – domestic, non-domestic, and global – decreasing 12%, 5%, and 10%, respectively. The prior year had seen large increases in equities, with returns of 19% in domestic and 32% in international. Every other asset class had positive returns in FY 2008; however, because equities comprise more than half of the total investments, their losses overshadowed the modest gains posted by other asset classes. The ending value of securities lending collateral invested and the related liability is dependent upon the amount of securities out on loan on a particular day. These values can change significantly from day to day, as well as from year to year, depending on the demand for loans by brokers. To illustrate, the balance of securities lending collateral at June 30, 2006, 2007, and 2008 was \$7.5, \$4.9, and \$2.3 billion, respectively. The securities lending collateral at the end of each fiscal year was being held as security for short term loans of stocks and bonds.

Accounts payable liabilities consist mainly of obligations due on securities purchased, but not yet settled in exchange for cash. Those open transactions at any date can vary widely, but are usually the largest portion of Fund payables, representing greater than 95% of the FY 2008 and FY 2007 payable balance. The balance of payables due on securities purchased at June 30, 2008, was \$280 million less than the prior year's ending balance. Certain money managers for the APFC can sell stocks short and reinvest the proceeds from those sales into additional stocks. The liability related to these types of investments is

for the market value of the stocks that were sold, but never owned. Income distributable to the State of Alaska increased from FY 2007 to FY 2008 by approximately \$260 million, which represents the change in the annual Alaska dividend distribution. This change stems from the dividend calculation, which is based on a five-year average of net income, excluding unrealized gains and losses. The FY 2008 figure replacing the FY 2003 amount in the average net income calculation was more than \$2.5 billion higher, resulting in the large increase of the dividend payable to the State for FY 2008. As a comparison, at the end of FY 2006, the balance due to the State of Alaska for the dividend payout was \$689 million, only slightly more than half the amount due at the end of FY 2008.

The total fund balance decrease between FY 2008 and FY 2007 is a reflection of the weakening financial markets. Contributions and appropriations increased, due to the annual inflation proofing transfer of \$808 million, plus dedicated mineral revenues from the State of \$844 million, the highest in the history of the Fund. The fund balance at the end of FY 2006 was not quite \$33 billion, so despite the weak markets in FY 2008, over the past two fiscal years the balance has grown by over 9%, even after paying out more than \$2.3 billion over two years for dividends. The growth was due mainly to the strong financial markets of FY 2007, which returned 17.1% on investments.

The following table is derived from the Statement of Revenues, Expenditures and Changes in Fund Balances, and shows the annual activity of the Fund. Changes from FY 2007 as compared to FY 2008 are shown in both dollars and percentages.

Statements of Revenues, Expenditures, and Changes in Fund Balances

YEARS ENDED JUNE 30,	2008	2007	NET CHANGE	PERCENT
REVENUES				
Interest, dividends, real estate and other income	\$ 1,202,310,000	1,184,900,000	17,410,000	1.47%
Increase in the fair value of investments	(2,580,869,000)	4,332,946,000	(6,913,815,000)	-159.56%
Total Revenues	(1,378,559,000)	5,517,846,000	(6,896,405,000)	-124.98%
EXPENDITURES				
Operating expenditures	(78,414,000)	(63,782,000)	(14,632,000)	22.94%
Other Legislative appropriations	(6,335,000)	(6,013,000)	(322,000)	5.36%
Total Expenditures	(84,749,000)	(69,795,000)	(14,954,000)	21.43%
Excess (Deficit) of Revenues over Expenditures	\$ (1,463,308,000)	5,448,051,000	(6,911,359,000)	-126.86%
OTHER FINANCING SOURCES (USES)				
Transfers in – dedicated State revenues	844,312,000	532,281,000	312,031,000	58.62%
Transfers out – appropriations	(1,326,170,000)	(1,063,955,000)	(262,215,000)	24.65%
Net Change in Fund Balances	(1,945,166,000)	4,916,377,000	(6,861,543,000)	-139.57%
FUND BALANCES				
Beginning of period	37,826,096,000	32,909,719,000	4,916,377,000	14.94%
End of period	\$ 35,880,930,000	37,826,096,000	(1,945,166,000)	-5.14%

During FY 2008, the main increase in cash flow revenue (interest, dividends, real estate, and other) was due to higher international stock dividend payments, with an increase of 8% over the prior year. The change in the fair value of investments was less in FY 2008 than in FY 2007 by more than 150%, due to the overall weakness of the financial markets, especially the equity markets. In contrast, the increase in the fair value of investments from FY 2006 to FY 2007 had nearly doubled due to the overall strength of the financial markets, changing from an increase of \$2.2 billion to an increase of \$4.3 billion. Operating expenditures increased from FY 2007 to FY 2008 almost entirely due to higher asset management fees paid to external investment management firms, which increased by \$13 million. Because virtually all management fees are based on asset market values, when the investment markets go up, as they did in the first half of FY 2008, fees increase as well. Similarly, operating expenditures increased from FY 2006 to FY 2007 by \$6.2 million, or 13%, due to increases in market values, which lead to increases in manager fees. Another factor contributing to increased fees in FY 2008 was the addition of several active equity managers. Assets can be managed passively to an index at a low fee, but active management will come with higher fees for the possibility of adding returns in the marketplace. FY 2008 had the highest transfer in of dedicated State revenues in the history of the Fund at \$844 million, more than a 50% increase over the prior year. FY 2006 was the second highest in the history of the Fund at \$601 million. While production of oil in Alaska continues to decline, continued high levels of revenues are due to the continuing increase in the average price of oil over the past few years. Transfers out of the Fund are for two purposes: 1) an appropriation to fund the annual dividend payment; 2) an appropriation to fund the Alaska Capital Income Fund. Because the dividend calculation is based on realized earnings over the past five years, and the FY 2003 amount was much less than the FY 2008 amount, the dividend distribution grew by \$272 million, approximately 27%. The Alaska Capital Income Fund transfer out declined slightly, because it is only based on one year of realized earnings, which had a decline of 14% from FY 2007 to FY 2008.

Economic and Investment Factors

The market value of and earnings from the Fund's assets are directly impacted by the volatility of the financial markets, as well as the changes in investment choices made by management, both internal and external to the Fund. Diversification of asset allocation and diversification of investments within each allocation is intended to mitigate the risk of volatility of the financial markets. The APFC, as a component unit of the State of Alaska, can be subject to changes in State statutes that govern the APFC and the Fund.

Additional Information

This financial report is designed to provide an overview of the Alaska Permanent Fund's ending net asset balances and fiscal year financial activities. This report does not include any other funds owned or managed by the State of Alaska. Due to the potential volatility of the financial markets, Fund values and income may vary greatly from time to time. For more information on the Fund, both current and historical, readers are encouraged to visit www.apfc.org on the Internet, or send specific information requests to the Alaska Permanent Fund Corporation at P.O. Box 115500, Juneau, AK, 99811-5500.

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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, 2008 and 2007, 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 (page 25), 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, 2008 and 2007, 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, 2008 and 2007, 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 17 through 21 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 29, 2008
Anchorage, Alaska

Balance Sheets

JUNE 30,	2008	2007
ASSETS		
Cash and temporary investments	\$ 819,861,000	1,651,091,000
Receivables, prepaid expenses and other assets	1,089,255,000	394,248,000
Investments –		
Marketable debt securities	9,706,445,000	10,324,896,000
Preferred and common stock	19,936,000,000	22,863,064,000
Real estate	3,514,057,000	3,155,699,000
Alternative investments	3,087,991,000	1,909,330,000
Alaska certificates of deposit	237,246,000	167,982,000
Total Investments	36,481,739,000	38,420,971,000
Securities lending collateral invested	2,282,400,000	4,881,893,000
Total Assets	\$ 40,673,255,000	45,348,203,000
LIABILITIES		
Accounts payable	\$ 998,883,000	1,374,663,000
Securities sold short	184,872,000	201,596,000
Income distributable to the State of Alaska	1,326,170,000	1,063,955,000
Securities lending collateral	2,282,400,000	4,881,893,000
Total Liabilities	4,792,325,000	7,522,107,000
FUND BALANCES		
Reserved – principal		
Contributions and appropriations	29,148,930,000	27,496,893,000
Unrealized appreciation on invested assets	1,763,226,000	6,197,582,000
Total reserved	30,912,156,000	33,694,475,000
Unreserved		
Realized earnings	4,968,774,000	4,131,621,000
Total Fund Balances	35,880,930,000	37,826,096,000
Total Liabilities and Fund Balances	\$ 40,673,255,000	45,348,203,000

See accompanying notes to the financial statements.

Statements of Revenues, Expenditures and Changes in Fund Balances

YEARS ENDED JUNE 30,	2008	2007
REVENUES		
Interest	\$ 549,499,000	539,902,000
Dividends	457,668,000	422,185,000
Real estate and other income	195,143,000	222,813,000
Total interest, dividends, real estate and other income	1,202,310,000	1,184,900,000
Net increase (decrease) in the fair value of investments –		
Marketable debt securities	228,671,000	68,243,000
Preferred and common stock	(2,631,227,000)	3,873,915,000
Real estate	(176,631,000)	206,910,000
Alternative investments	97,662,000	192,114,000
Foreign currency forward exchange contracts and futures	(95,108,000)	(9,377,000)
Currency	(4,236,000)	1,141,000
Total net increase (decrease) in the fair value of investments	(2,580,869,000)	4,332,946,000
Total Revenues	(1,378,559,000)	5,517,846,000
EXPENDITURES		
Operating expenditures	(78,414,000)	(63,782,000)
Other Legislative appropriations	(6,335,000)	(6,013,000)
Total Expenditures	(84,749,000)	(69,795,000)
Excess (Deficiency) of Revenues Over Expenditures	(1,463,308,000)	5,448,051,000
OTHER FINANCING SOURCES (USES)		
Transfers in - dedicated State revenues	844,312,000	532,281,000
Transfers out - statutory and Legislative appropriations	(1,326,170,000)	(1,063,955,000)
Net Change in Fund Balances	(1,945,166,000)	4,916,377,000
FUND BALANCES		
Beginning of period	37,826,096,000	32,909,719,000
End of period	\$ 35,880,930,000	37,826,096,000

See accompanying notes to the financial statements.

1. ENTITY

The Constitution of the State of Alaska (the “State”) was amended by public referendum in 1976 to dedicate a portion of certain natural resource revenues to the Alaska Permanent Fund (the “Fund”). 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 the annual realized earnings is transferred to the State’s dividend fund, (ii) a portion of the realized earnings sufficient to offset the effect of inflation on contributions and appropriations is transferred to the reserved balance of the Fund, and (iii) realized earnings on the balance of the North Slope royalty case settlement money (State v. Amerada Hess, et al.) is appropriated and transferred 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. Traditional investments include stocks and bonds (both domestic and non-domestic), and directly owned and publicly traded real estate. More recent allocations to alternative investments include private equity limited partnerships, absolute return fund of funds and infrastructure limited partnerships. 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 21% 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 to counteract the effect

of inflation. An annual intra-fund inflation proofing transfer (from unreserved to the reserved fund balance), can only occur by legislative appropriation. APFC measures inflation by the percent change in each of the two prior calendar years’ averages of the United States consumer price index for all urban consumers applied against the total of the reserved fund balance, excluding unrealized gains and losses, at the end of the fiscal year. The inflation rates were 2.85% and 3.23%, and were applied to the years ended June 30, 2008 and 2007, 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

Except for directly owned real estate investments, the Fund’s investments are reported at fair value in the financial statements. Unrealized gains and losses are reported as components of net income. For marketable debt and equity securities including real estate investment trusts, fair values are obtained from independent sources using published market prices, quotations from national security exchanges, and security pricing services. Fair values of alternative investments are determined by managers of such investments, who are under contract with the APFC to provide such services.

Directly owned 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 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’s 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, 2008, the APFC’s asset allocation policy (with acceptable ranges) is summarized as follows:

Total Equities	53%	(± 10%)
Domestic Equities	26%	(± 6%)
Large Capitalization	21%	
Small Capitalization	5%	
International Equities	13%	(± 3%)
Developed Markets	8%	
Emerging Markets	5%	
Global Equities	14%	(± 4%)
Total Fixed Income	22%	(± 5%)
Domestic Fixed Income	19%	(± 6%)
Non-Dollar Fixed Income	3%	(± 3%)
Total Infrastructure	3%	(± 3%)
Total Real Estate	10%	(± 3%)
Total Private Equity	6%	(± 5%)
Total Absolute Return	6%	(± 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 07-04 and 07-07, respectively, as well as investment manager contracts. Those resolutions and contracts specify concentration limits for issuers and types of investments, and place substantial limits on the use of leverage. Managers are not permitted, under any circumstances, to encumber assets beyond those held in each separate account that is managed.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The APFC requires that its core fixed income managers invest in domestic bonds and non-domestic bonds that have an implied investment grade rating as defined by the U.S. Lehman Aggregate Index and the Citigroup World Government Bond Index, respectively. 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 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 managers and the internal fixed income portfolios 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 internally managed long-term fixed income portfolio. The TBA Cash Management Account invests primarily in short-term asset-backed structured products. Such securities must have a AAA rating for asset backed bonds and either P1 or A1 for asset-backed commercial paper.

Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure the Fund's deposits may not be returned. 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 is the risk that 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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The APFC manages the Fund's exposure to interest rate risk by establishing effective duration guidelines in its fixed income investment policy. Duration, which is expressed as a number of years, is an indicator of a portfolio's market sensitivity to changes in interest rates. In general, the major factors affecting duration are, in order of importance: maturity, prepayment frequency, level of market interest rates, size of coupon, and frequency of coupon payments. Rising interest rates generally translate into decreasing duration and investment values of those investments declining. Similarly, falling interest rates are generally associated with increasing duration and investment values. Effective duration attempts to account for the price sensitivity of a bond to changes in prevailing interest rates, including the effect 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 cash management policy states that the weighted average day count cannot exceed 150 days, with a final maximum maturity of 14 months for non-securitized investments. The policy limits asset backed

securities held in cash management accounts to a maximum average life of 12 months at time of purchase.

At June 30, 2008, the Fund held fixed income investments with floating, step, and variable interest rates, valued at \$1,064,810,000. These fixed income investments were both domestic and non-domestic, and had current annual interest rates ranging from 1.32% to 12%.

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 typically intended to neutralize the effect of 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.

A minority of forward exchange contracts are intended to manage, rather than neutralize, foreign currency fluctuations. Certain managers seek to control foreign exchange effects within their overall portfolio strategy rather than on a security by security basis. They attempt to optimize their foreign currency exposure in a market rather than accept the natural geographical exposure of the market's currency.

EQUITY INDEX FUTURES

Certain equity managers for the Fund are permitted to buy and sell equity index futures. The notional cost and fair values of such futures are not required to be reported on the balance sheet of the Fund. Realized gains and losses on futures, as well as the net notional unrealized gains and losses, are included in the net increase or decrease in the fair value of investments.

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. TEMPORARY INVESTMENTS

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

	2008	2007
U.S. agencies	\$ 223,549,000	442,308,000
U.S. treasury bills	542,000	391,000
Commercial paper	167,964,000	345,061,000
Asset-backed securities	1,633,000	573,477,000
Total temporary investments	393,688,000	1,361,237,000
Cash and pooled funds	426,173,000	289,854,000
Total cash and temporary investments	\$ 819,861,000	1,651,091,000

At June 30, 2008, all commercial paper investments had A-1 ratings or better from Standard & Poor's, P-1 by Moody's, or an equivalent rating. Additionally, 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. Temporary investments held at the end of FY 2008 in the UCF and TBA Cash Management Accounts had a weighted average maturity of three days. At June 30, 2008, uninvested, uninsured cash of \$104,707,000 was held at the custodian or sub-custodian banks, mainly in interest bearing accounts. 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:

	2008	2007
Interest receivable	\$ 97,710,000	100,451,000
Dividends receivable	33,770,000	31,717,000
Sales receivable	859,602,000	229,801,000
Foreign exchange contracts	4,635,000	2,724,000
Futures receivable	90,000	1,159,000
Contributions receivable	93,088,000	28,254,000
Prepaid and other receivables	360,000	142,000
Total receivables, prepaid expenses and other assets	\$ 1,089,255,000	394,248,000

5. MARKETABLE DEBT SECURITIES

Marketable debt securities at June 30 are summarized as follows:

	COST	FAIR VALUE	UNREALIZED GAINS/(LOSSES)
2008			
Treasury notes/bonds	\$ 1,013,786,000	1,028,425,000	14,639,000
Mortgage-backed securities	2,803,028,000	2,796,604,000	(6,424,000)
Other federal agencies	726,994,000	733,583,000	6,589,000
Corporate bonds	3,880,577,000	3,738,415,000	(142,162,000)
Non-domestic bonds	1,112,834,000	1,136,510,000	23,676,000
Distressed debt	276,330,000	272,908,000	(3,422,000)
Total marketable debt securities	\$ 9,813,549,000	9,706,445,000	(107,104,000)

2007			
Treasury notes/bonds	\$ 1,914,224,000	1,911,793,000	(2,431,000)
Mortgage-backed securities	3,579,392,000	3,501,633,000	(77,759,000)
Other federal agencies	1,016,947,000	998,800,000	(18,147,000)
Corporate bonds	2,839,420,000	2,777,194,000	(62,226,000)
Non-domestic bonds	1,140,621,000	1,135,476,000	(5,145,000)
Total marketable debt securities	\$ 10,490,604,000	10,324,896,000	(165,708,000)

Distressed debt investments are held through a limited partnership, which invests in distressed debt type commingled limited liability funds. These investments are funded over time, as opportunities arise. The Fund has committed to investing approximately \$494 million in total in distressed debt type funds.

6. MARKETABLE DEBT CREDIT RATINGS

In order to manage credit risk for marketable debt securities, the APFC monitors fair values of all securities daily 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 Trustee resolutions, as further limited by the manager's contract. For purposes of this note, if credit ratings differ among Nationally Recognized Statistical Rating Organizations (NRSRO), the rating with the highest degree of risk (the lowest rating) is used. At June 30, 2008, the Fund's credit ratings for its marketable debt securities are as follows:

NRSRO QUALITY RATING	DOMESTIC	NON-DOMESTIC	TOTAL FAIR VALUE	PERCENT OF HOLDINGS
AAA	\$ 1,801,559,000	839,061,000	2,640,620,000	27.21%
AA	534,143,000	161,997,000	696,140,000	7.17%
A	852,157,000	72,261,000	924,418,000	9.52%
BBB	674,824,000	29,998,000	704,822,000	7.26%
BB	159,339,000	27,214,000	186,553,000	1.92%
B	200,429,000	5,980,000	206,409,000	2.13%
CCC	110,033,000	0	110,033,000	1.13%
CC	815,000	0	815,000	0.01%
D	1,358,000	0	1,358,000	0.01%
Total fair value of rated debt securities	4,334,657,000	1,136,511,000	5,471,168,000	56.36%
Not rated – distressed debt	272,908,000	0	272,908,000	2.81%
Not rated – publicly traded debt	7,004,000	0	7,004,000	0.07%
U.S. government explicitly backed by the U.S. government	1,273,988,000	0	1,273,988,000	13.13%
U.S. government implicitly backed by the U.S. government	2,681,377,000	0	2,681,377,000	27.63%
Total fair value debt securities	\$ 8,569,934,000	1,136,511,000	9,706,445,000	100.00%

7. MARKETABLE DEBT DURATION

In order to manage its interest rate risk on marketable debt securities, the APFC monitors fair values daily 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 duration range in relation to such benchmarks. At June 30, 2008, the effective duration by investment type, based on fair value, is as follows:

	PERCENT OF BOND HOLDINGS	DURATION
DOMESTIC BONDS		
Mortgages and other structured products	49.48%	4.39
Treasuries	12.40%	4.94
Corporate bonds	28.94%	5.96
Government sponsored	5.11%	3.76
Supra/Sovereign	4.07%	6.25
Total domestic bonds	100.00%	4.96
NON-DOMESTIC BONDS		
Government and agency	93.29%	6.28
Corporate and other non-government	6.71%	4.42
Total non-domestic bonds	100.00%	6.16

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 fair 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 1% 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, 2008, more than 5% of the Fund's total net assets were held in securities of the issuer listed below:

ISSUER OF SECURITIES	FAIR VALUE OF HOLDINGS	PERCENT OF TOTAL FUND
FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA)		
Mortgage-backed securities	\$ 1,749,078,000	4.87%
Senior debt	35,263,000	0.10%
Equity	23,689,000	0.07%
Total	\$ 1,808,030,000	5.04%

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 two commingled funds and the equity extension strategy investments, all investments in preferred and common stock are held by the APFC's custodian banks in the name of the Fund. Commingled fund investments include the Emerging Markets Growth Fund (EMGF), managed by Capital International, Inc., and the Dodge & Cox International Stock Fund (DODFX), managed by Dodge & Cox. Commingled fund investments are held by the custodian banks of the fund managers on behalf of fund investors.

The fair values of the Fund's shares in the EMGF were \$1,017,477,000 and \$980,792,000 as of June 30, 2008 and 2007, respectively, and are included in the non-domestic values shown below. The value of the Fund's investment in the commingled fund represented approximately 7.3% and 6.4% of the total EMGF value at June 30, 2008 and 2007, respectively.

The Fund made an initial investment in DODFX during the fiscal year ending June 30, 2008, at which time the fair value of the Fund's shares in DODFX was \$504,828,000. The value of the Fund's investment in DODFX represented approximately 1% of the total DODFX value at June 30, 2008.

The equity extension strategy differs from the traditional long-only equity strategy in that up to 50% of the account portfolio may be placed in short positions. These portfolios are held in custody in separate accounts in the name of the Fund at a prime broker. The fair value of the long positions in the equity extension portfolios was \$834,010,000 and \$981,117,000 as of June 30, 2008 and 2007, respectively, and are included in the domestic equity values shown in the table below. The fair value of the short positions in the equity extension portfolios as of June 30, 2008 and 2007 was (\$184,872,000) and (\$201,596,000), respectively and is shown on the balance sheet in the liabilities section.

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

	COST	FAIR VALUE	UNREALIZED GAINS
2008			
Domestic	\$ 11,491,981,000	12,592,007,000	1,100,026,000
Non-domestic	6,843,720,000	7,343,993,000	500,273,000
Total preferred and common stock	\$ 18,335,701,000	19,936,000,000	1,600,299,000
2007			
Domestic	\$ 11,065,757,000	14,430,696,000	3,364,939,000
Non-domestic	5,861,408,000	8,432,368,000	2,570,960,000
Total preferred and common stock	\$ 16,927,165,000	22,863,064,000	5,935,899,000

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, 2008, the Fund's cash holdings and 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):

CURRENCY	CASH	PUBLIC EQUITY	DEBT	PRIVATE EQUITY	TOTAL FOREIGN CURRENCY EXPOSURE
Argentine Peso	\$ 0	0	1,877,000	0	1,877,000
Australian Dollar	11,414,000	244,152,000	14,901,000	0	270,467,000
Brazilian Real	2,151,000	74,004,000	11,392,000	0	87,547,000
Canadian Dollar	6,756,000	309,817,000	0	0	316,573,000
Chinese Yuan Renminbi	0	3,434,000	0	0	3,434,000
Colombian Peso	0	0	7,063,000	0	7,063,000
Czech Koruna	0	28,338,000	6,302,000	0	34,640,000
Danish Krone	279,000	53,597,000	17,578,000	0	71,454,000
Egyptian Pound	0	9,853,000	0	0	9,853,000
Euro Currency	(3,112,000)	2,007,256,000	700,922,000	102,113,000	2,807,179,000
Hong Kong Dollar	5,071,000	200,855,000	0	0	205,926,000
Hungarian Forint	2,000	18,805,000	6,076,000	0	24,883,000
Indian Rupee	927,000	33,460,000	0	0	34,387,000
Indonesian Rupiah	643,000	3,598,000	3,842,000	0	8,083,000
Israeli Shekel	37,000	13,356,000	425,000	0	13,818,000
Japanese Yen	6,350,000	1,058,318,000	163,107,000	0	1,227,775,000
Malaysian Ringgit	558,000	17,547,000	0	0	18,105,000
Mexican Peso	(148,000)	23,664,000	8,293,000	0	31,809,000
New Zealand Dollar	137,000	1,859,000	0	0	1,996,000
Nigerian Naira	0	0	448,000	0	448,000
Norwegian Krone	2,188,000	101,589,000	0	0	103,777,000
Philippine Peso	132,000	881,000	0	0	1,013,000

FOREIGN CURRENCY CONT.	CASH	PUBLIC EQUITY	DEBT	PRIVATE EQUITY	TOTAL FOREIGN CURRENCY EXPOSURE
Polish Zloty	26,000	26,929,000	30,417,000	0	57,372,000
Pound Sterling	2,948,000	1,041,628,000	120,792,000	33,924,000	1,199,292,000
Romanian Leu	0	3,230,000	0	0	3,230,000
Russian Ruble	0	623,000	0	0	623,000
Singapore Dollar	292,000	64,639,000	0	0	64,931,000
South African Rand	2,000	51,972,000	0	0	51,974,000
South Korean Won	1,335,000	87,446,000	1,542,000	0	90,323,000
Swedish Krona	264,000	58,744,000	46,532,000	0	105,540,000
Swiss Franc	527,000	459,589,000	0	0	460,116,000
Taiwan Dollar	5,676,000	98,341,000	0	0	104,017,000
Thai Baht	388,000	16,354,000	769,000	0	17,511,000
Turkish Lira	3,000	18,000,000	14,286,000	0	32,289,000
Uruguayo Peso	0	0	1,774,000	0	1,774,000
Ukrainian Hryvna	0	1,940,000	0	0	1,940,000
Total foreign currency exposure	\$ 44,846,000	6,133,818,000	1,158,338,000	136,037,000	7,473,039,000

Cash amounts in the schedule above include receivables, payables, and cash balances in each related currency. If payables exceed receivables and cash balances in a currency, then the total cash balance for that currency will appear as a negative value.

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 directly owned 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 directly owned real estate investments.

The APFC routinely analyzes directly owned real estate holdings for permanent impairment, in accordance with APFC resolution 06-07. For the fiscal years ending June 30, 2008 and 2007, no real estate assets were at a fair value deemed necessary for permanent impairment analysis.

The carrying value of real estate at June 30, 2008 and 2007 was \$3,514,057,000 and \$3,155,699,000, respectively. Directly owned 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 fair 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	FAIR VALUE	UNREALIZED GAINS/(LOSSES)	FINANCIAL STATEMENT CARRYING VALUE
2008				
Real estate investment trusts	\$ 673,840,000	666,659,000	(7,181,000)	666,659,000
Alaska residential mortgage	41,000	41,000	0	41,000
Directly owned real estate -				
Retail	617,828,000	988,888,000	371,060,000	617,828,000
Office	995,931,000	1,110,018,000	114,087,000	995,931,000
Industrial	225,529,000	277,308,000	51,779,000	225,529,000
Multifamily	1,001,210,000	1,110,937,000	109,727,000	1,001,210,000
Developmental	6,859,000	6,859,000	0	6,859,000
Total real estate	\$ 3,521,238,000	4,160,710,000	639,472,000	3,514,057,000
2007				
Real estate investment trusts	\$ 612,281,000	822,276,000	209,995,000	822,276,000
Alaska residential mortgage	47,000	47,000	0	47,000
Property note receivable	3,492,000	3,492,000	0	3,492,000
Directly owned real estate -				
Retail	450,009,000	796,727,000	346,718,000	450,009,000
Office	722,057,000	835,658,000	113,601,000	722,057,000
Industrial	200,717,000	225,289,000	24,572,000	200,717,000
Multifamily	957,101,000	1,036,393,000	79,292,000	957,101,000
Total real estate	\$ 2,945,704,000	3,719,882,000	774,178,000	3,155,699,000

12. ALTERNATIVE INVESTMENTS

Alternative investments include absolute return strategies, private equity and infrastructure.

Absolute return strategies are investments in specialized funds with low market correlation. The Fund's absolute return strategies are managed through five distinct portfolios, each of which have the Fund as the only limited partner and investor ("fund-of-one"). External investment management services are provided by each fund-of-one general partner. Absolute return strategies invest in a diversified portfolio of underlying limited partnership interests or similar limited liability entities. The Fund obtains fair value estimates for its partnership interests from each fund-of-one general partner, which are subject to annual audits. Many absolute return investments do not have readily ascertainable fair 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 underlying general partners. General partners provide the Fund with fair value estimates of private equity investments utilizing the most current information available. Fair value estimates are further reviewed by the external advisor and are subject to annual audits.

The Trustees adopted resolution 07-05 governing infrastructure investments and the Fund made initial investments in the asset class during FY 2008. Investments in this asset class involve ownership or operating agreements in essential long-term service assets with high barriers to entry. Examples of infrastructure assets include toll roads, airports, deep-water ports, communication towers and energy generation, storage and transmission facilities. Investments in this class are expected to have inflation protection attributes and exhibit low correlations with other major asset classes in the Fund's investment

strategy. Resolution 07-05 establishes guidelines for diversification across sectors, geography, life cycles and vintage years. The Fund makes commingled infrastructure investments through limited partnership agreements. Infrastructure investment managers provide periodic fair value estimates, which are subject to annual independent audits.

Alternative investments at June 30 are summarized as follows:

	COST	FAIR VALUE	UNREALIZED GAINS/(LOSSES)
2008			
Absolute return strategy	\$ 1,932,780,000	2,165,153,000	232,373,000
Private equity	666,464,000	708,997,000	42,533,000
Infrastructure	212,866,000	213,841,000	975,000
Total alternative investments	\$ 2,812,110,000	3,087,991,000	275,881,000
2007			
Absolute return strategy	\$ 1,355,269,000	1,565,445,000	210,176,000
Private equity	336,776,000	343,885,000	7,109,000
Total alternative investments	\$ 1,692,045,000	1,909,330,000	217,285,000

As of June 30, 2008, the APFC, on behalf of the Fund, had outstanding private equity and infrastructure investment commitments of approximately \$900 million and \$626 million, respectively.

13. ALASKA CERTIFICATES OF DEPOSIT

The APFC is authorized by State regulations and Trustee resolution 08-01, 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 Mellon (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 102% of the fair value of the loaned securities for domestic securities and 105% of the fair 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, 2008, 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:

	2008	2007
Fair value of securities on loan	\$ 2,209,076,000	4,741,057,000
Cash collateral	\$ 2,282,400,000	4,881,893,000

The Fund receives 80% of earnings derived from securities lending transactions, and the Bank retains 20%. During the years ended June 30, 2008 and 2007, there were no losses incurred as a result of securities lending transactions. The Fund received income of \$18,764,000 and \$15,616,000 from securities lending for the years ended June 30, 2008 and 2007, 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:

	2008	2007
Accrued liabilities	\$ 19,979,000	17,312,000
Futures payable	19,845,000	0
Securities purchased	959,059,000	1,357,351,000
Total accounts payable	\$ 998,883,000	1,374,663,000

16. INCOME DISTRIBUTABLE TO THE STATE OF ALASKA

The Legislature appropriates portions of the Fund's statutory net income to the Permanent Fund Dividend Fund (Dividend Fund), a subfund of the State's general fund created in accordance with Alaska Statute 43.23.045 and administered by the Alaska Department of Revenue. The Dividend Fund is used primarily for the payment of dividends to qualified Alaska residents. In addition, the Legislature has appropriated a portion of the dividend distribution to fund various other agency activities. Per statute, 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:

	2008	2007
Dividends	\$ 1,254,861,000	989,489,000
Appropriation to the Departments of -		
Health and Social Services	13,585,000	12,885,000
Revenue	7,910,000	7,825,000
Corrections	9,126,000	6,211,000
Public Safety	5,568,000	3,790,000
Administration	1,569,000	1,068,000
Legislature	588,000	400,000
Total to Dividend Fund	1,293,207,000	1,021,668,000
Alaska Capital Income Fund	32,963,000	42,287,000
Total income distributable	\$ 1,326,170,000	1,063,955,000

17. RESERVED AND UNRESERVED FUND BALANCES

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

	2008	2007
RESERVED		
Balance, beginning of year	\$ 33,694,475,000	30,324,951,000
Dedicated State revenues	844,312,000	532,281,000
Inflation proofing transfer from realized earnings account	807,724,000	860,360,000
Change in unrealized fair value appreciation/ (depreciation) on invested assets	(4,434,355,000)	1,976,883,000
Balance, end of year	\$ 30,912,156,000	33,694,475,000
UNRESERVED		
Balance, beginning of year	\$ 4,131,621,000	2,584,768,000
Inflation proofing transfer to reserved fund balance	(807,724,000)	(860,360,000)
Settlement earnings payable to the Alaska Capital Income Fund	(32,963,000)	(42,287,000)
Dividends payable to the Permanent Fund Dividend Fund	(1,293,207,000)	(1,021,668,000)
Realized earnings, net of operating expenditures	2,971,047,000	3,471,168,000
Balance, end of year	\$ 4,968,774,000	4,131,621,000
TOTAL		
Balance, beginning of year	\$ 37,826,096,000	32,909,719,000
Dedicated State revenues	844,312,000	532,281,000
Settlement earnings payable to the Alaska Capital Income Fund	(32,963,000)	(42,287,000)
Dividends payable to the Permanent Fund Dividend Fund	(1,293,207,000)	(1,021,668,000)
Excess (deficiency) of investment revenues over expenditures	(1,463,308,000)	5,448,051,000
Balance, end of year	\$ 35,880,930,000	37,826,096,000

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

	2008	2007
Dedicated State revenues	\$ 10,537,361,000	9,693,048,000
Special appropriations	6,885,906,000	6,885,906,000
Inflation proofing	11,572,752,000	10,765,028,000
Settlement earnings	152,911,000	152,911,000
Total contributions and appropriations	\$ 29,148,930,000	27,496,893,000

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 \$32,963,000 in 2008 and \$42,287,000 in 2007. 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 (deficiency) 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:

	2008	2007
Excess (deficiency) of revenues over expenditures	\$ (1,463,308,000)	5,448,051,000
Unrealized (gains) / losses	4,434,355,000	(1,976,883,000)
Settlement earnings	(32,963,000)	(42,287,000)
Statutory net income	\$ 2,938,084,000	3,428,881,000

19. INVESTMENT INCOME BY SOURCE

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

	2008	2007
INTEREST		
Domestic marketable debt securities	\$ 458,049,000	406,032,000
Non-domestic marketable debt securities	47,747,000	41,980,000
Alaska certificates of deposit	7,327,000	8,924,000
Short-term domestic and other	37,797,000	82,966,000
Distressed debt, net of fees	(1,422,000)	0
Total interest	\$ 549,499,000	539,902,000
DIVIDENDS		
Domestic stocks	\$ 174,328,000	182,220,000
Non-domestic stocks	283,339,000	239,965,000
Total dividends	\$ 457,668,000	422,185,000
REAL ESTATE AND OTHER INCOME		
Directly owned real estate interest	\$ 402,000	280,000
Directly owned real estate net rental income	163,162,000	161,345,000
Real estate investment trust dividends	33,485,000	33,184,000
Absolute return management expenses, net of dividend and interest income	(19,367,000)	(14,746,000)
Infrastructure fees, net of dividends and interest	(15,441,000)	0
Private equity management expenses, net of dividend income	(4,168,000)	(5,019,000)
Class action litigation income	17,244,000	30,811,000
Loaned securities, commission recapture and other income	19,826,000	16,958,000
Total real estate and other income	\$ 195,143,000	222,813,000

20. FOREIGN EXCHANGE CONTRACTS, FUTURES, 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, 2008, ranged between 28 and 170 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, 2008, 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 years 2008 and 2007 are summarized as follows:

	2008	2007
BALANCES AT JUNE 30		
Face value of FX forward contracts	\$ 3,469,659,000	2,761,454,000
Net FX forward contracts (payable)/receivable	(10,758,000)	2,724,000
Fair value of FX forward contracts	<u>\$ 3,458,901,000</u>	<u>2,764,178,000</u>
ACTIVITY FOR FISCAL YEARS ENDING JUNE 30		
Unrealized losses	\$ (13,687,000)	(5,412,000)
Realized losses	(67,924,000)	(9,616,000)
Net decrease in fair value of FX forward contracts	<u>\$ (81,611,000)</u>	<u>(15,028,000)</u>

Certain equity investment managers for the Fund are permitted to trade in equity index futures. Equity index futures are traded in both domestic and non-domestic markets based on an underlying stock exchange value. Equity index futures are settled with cash for the net difference between the trade price and the settle price.

Activity and balances related to equity index futures for the fiscal year 2008 and 2007 is summarized as follows:

	2008	2007
BALANCES AT JUNE 30		
Face value of equity index futures	\$ 80,773,000	45,566,000
Net unrealized gain (loss) on futures	(4,362,000)	1,159,000
Fair value of equity index futures	<u>\$ 76,411,000</u>	<u>44,725,000</u>
ACTIVITY FOR FISCAL YEARS ENDING JUNE 30		
Unrealized gains (losses)	\$ (5,562,000)	1,155,000
Realized gains (losses)	(7,935,000)	4,496,000
Net increase (decrease) in fair value of FX futures	<u>\$ (13,497,000)</u>	<u>5,651,000</u>

The face value of FX forward contracts and futures 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:

	2008	2007
APFC OPERATING EXPENDITURES		
Salaries and benefits	\$ 4,558,000	4,242,000
Communications	1,412,000	908,000
Consulting fees	843,000	489,000
Other expenses	575,000	468,000
Rent	364,000	362,000
Legal and audit fees	361,000	299,000
Travel	229,000	207,000
Public information and subscriptions	170,000	134,000
Property and equipment	124,000	95,000
Subtotal APFC operating expenditures	<u>8,636,000</u>	<u>7,204,000</u>
INVESTMENT MANAGEMENT AND CUSTODY FEES		
Investment management fees	68,285,000	55,101,000
Custody and safekeeping fees	1,493,000	1,477,000
Subtotal investment management and custody fees	<u>69,778,000</u>	<u>56,578,000</u>
Total operating expenditures, investment management & custody fees	<u>78,414,000</u>	<u>63,782,000</u>
OTHER LEGISLATIVE APPROPRIATIONS FROM CORPORATE RECEIPTS		
Department of Natural Resources	4,781,000	4,462,000
Department of Law	1,477,000	1,477,000
Department of Revenue	77,000	74,000
Total other Legislative appropriations	<u>6,335,000</u>	<u>6,013,000</u>
Total expenditures	<u>\$ 84,749,000</u>	<u>69,795,000</u>

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). PERS is a multiple-employer public employee retirement system established and administered by the State to provide pension and postemployment health care benefits to eligible retirees. Benefit and contribution provisions are established by state law and may be amended only by the State Legislature.

PERS consists of both a Defined Contribution Retirement (PERS-DCR) and a Defined Benefit Retirement (PERS-DBR) plan. Employees who entered the system on or after July 1, 2006, participate in the PERS-DCR plan. Employees who entered the system prior to July 1, 2006, participate in the PERS-DBR plan. PERS-DBR employees contribute 6.75% of their annual salaries to PERS and PERS-DCR members contribute 8%. The APFC contributed a matching 22% and 22.65% to the PERS system for the benefit of each PERS-DBR member during the years ended June 30, 2008 and 2007, respectively. The APFC contributed a matching 22% to the PERS system for the benefit of each PERS-DCR member during the years ended June 30, 2008 and 2007. Total salaries subject to PERS for the years ended June 30, 2008 and 2007 amounted to \$2,997,000 and \$2,948,000, respectively.

The State of Alaska has recognized a net pension obligation (NPO) in the State's Comprehensive Annual Finance Report for the fiscal years ending June 30, 2008 and 2007. The NPO is the difference between the actuarially determined rate and the contributions actually paid into PERS. The Department of Administration has estimated an NPO amount attributable to the Fund, however, it is immaterial to the Fund. The 25th Alaska Legislature enacted into law Senate Bill 125, which changed the PERS system to an integrated cost-sharing plan whereby any unfunded liabilities under the plan will be shared among all employers, with each employer paying a uniform contribution rate of 22%.

In addition to the pension plan discussed above, all APFC employees and Trustees participate in the Alaska Supplemental Benefits System Supplemental Annuity Plan (SBS-AP). The SBS-AP is a defined contribution multiple-employer plan that was created pursuant to Internal Revenue Code section 401(a), to provide benefits in lieu of those provided by the Federal Social Security System. APFC employees and Trustees contribute 6.13% of salaries or honorariums to SBS-AP, up to a specified maximum each year. The APFC contributes a matching 6.13%. Participants are eligible to withdraw from SBS-AP 60 days after termination. Total salaries and honorariums for individuals subject to SBS-AP for the years ended June 30, 2008 and 2007 amounted to \$2,734,000 and \$2,519,000, respectively.



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