

# DESIGNED for SUSTAINABILITY

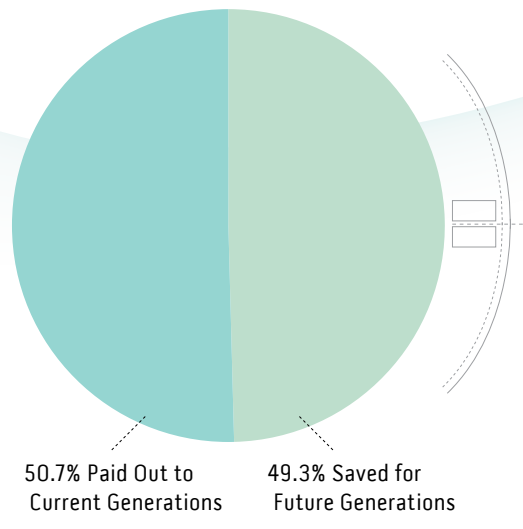
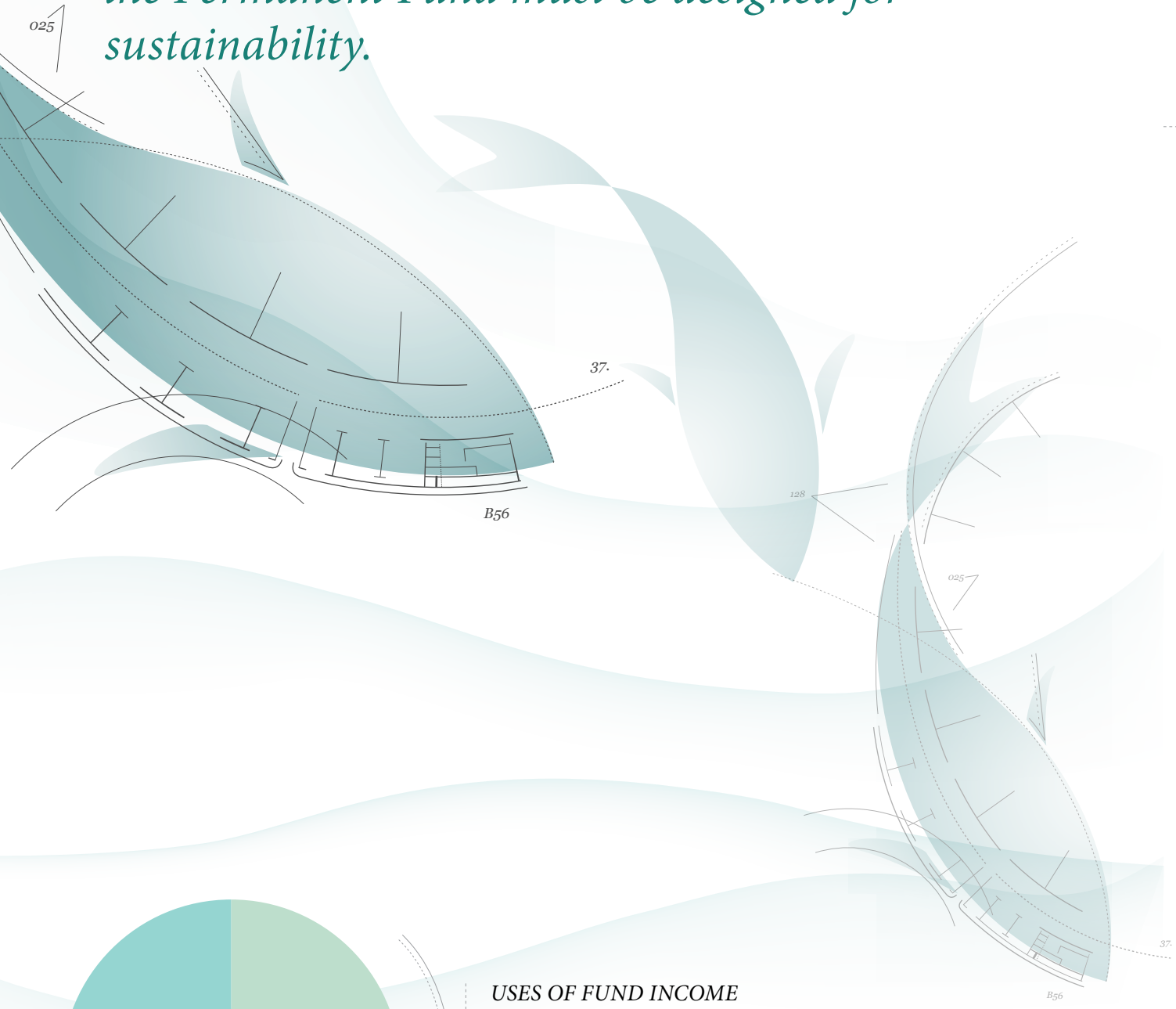


2010 ANNUAL REPORT  
Alaska Permanent Fund Corporation



2010 ANNUAL REPORT  
*Alaska Permanent Fund Corporation*

*In order to be a renewable financial resource, the Permanent Fund must be designed for sustainability.*

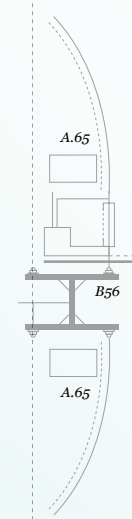


**USES OF FUND INCOME**  
Since Inception  
(In Billions)

Paid Out to Current Generations	\$18.8
Saved for Future Generations	\$18.3
<b>Total:</b>	<b>\$37.1</b>

# DESIGNED for SUSTAINABILITY

2010 ANNUAL REPORT Alaska Permanent Fund Corporation



## The Alaska Permanent Fund

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

of the assigned 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.

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

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## LETTER FROM THE CHAIR

DESIGNED FOR SUSTAINABILITY

After two years of negative returns, markets began to recover last year, providing the Permanent Fund with a positive return of 11.7 percent for the Fiscal Year 2010. While it is certainly good to see gains instead of losses, it is important to keep in mind that markets are volatile and economic conditions remain uncertain. That is why it is so important for the Board of Trustees to remain focused on the long-term goals of the Fund and maintaining a well diversified portfolio.

Alaska state law says that the Fund should be managed to serve Alaskans of all generations, including the generations to come. The Fund's portfolio must be designed for sustainability over time. The Trustees must be equally mindful of keeping the investment risk in the portfolio within acceptable limits while seeking positive returns.

Immediately before the start of the fiscal year, we adopted a new method of categorizing the Fund's assets. This didn't change what the Fund was invested in; it simply changed how we view the Fund's investments to better understand

the investment risk in the portfolio. For example, in difficult economic conditions, corporate bonds will have the same negative performance as stocks. So it is more appropriate to look at all of the exposure that the Fund has to corporations when assessing risk, rather than looking at stocks and corporate bonds separately. The Fund's target asset allocation by both traditional asset classes and the new risk categories are shown below.

The two percent allocation to cash is new for the Fund, and it is also designed to help manage risk. In the past, we have waited until there was a need for funds, either to pay the dividend or to fund the portfolio of a new investment manager. Then the Corporation's staff would selectively liquidate the Fund's investments to make that payment. In a volatile market, that could cause the Fund to take significant losses. As a result, the more prudent course of action is for the Fund to gradually accumulate some of the cash it receives over the course of the fiscal year to fund these expected transfers and liabilities.

Another way that the APFC is managing risk is through the creation of a risk dashboard. Our Director of Asset Allocation and Risk, Max Giolitti, with the assistance of Valeria Martinez, regularly puts together the dashboard, a visual representation of the overall investment risk of the portfolio, as well as the individual sections of the Fund. The Trustees can easily see when risk levels are heading toward the edges of the acceptable range and take any necessary steps to adjust the underlying investments.

This year we welcomed a new member to the Board of Trustees: Larry Hartig, Commissioner of the Department of Environmental Conservation. Commissioner Hartig brings a great deal of legal experience to the Fund, and, as an attorney, his natural inclination is to manage risk. He replaced Trustee Emil Notti, who recently retired from his post as Commissioner of the Department of Commerce, Community and Economic Development. Commissioner Notti served a total of four years on the Alaska Permanent Fund Corporation Board. First appointed by Gov. Bill Sheffield in

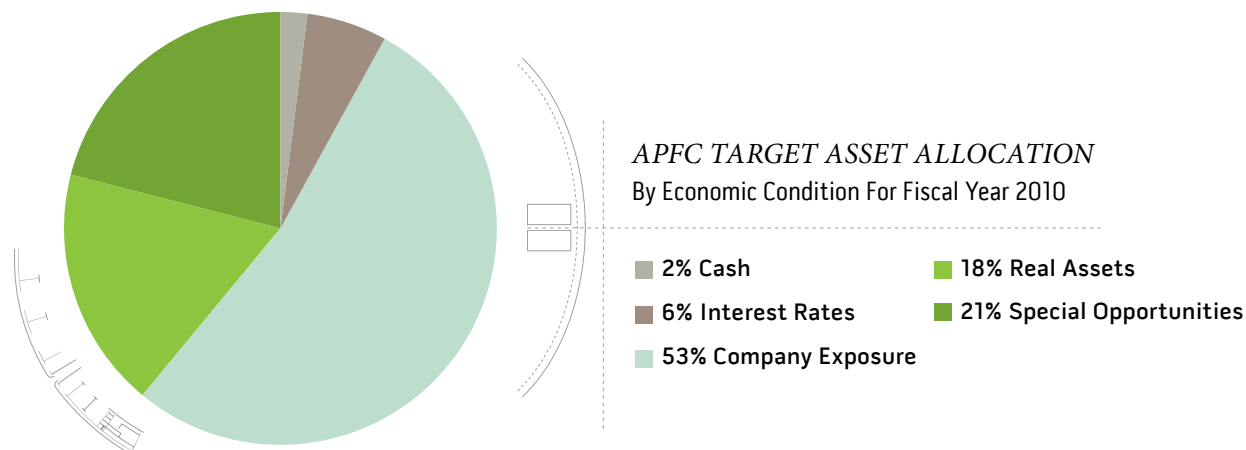
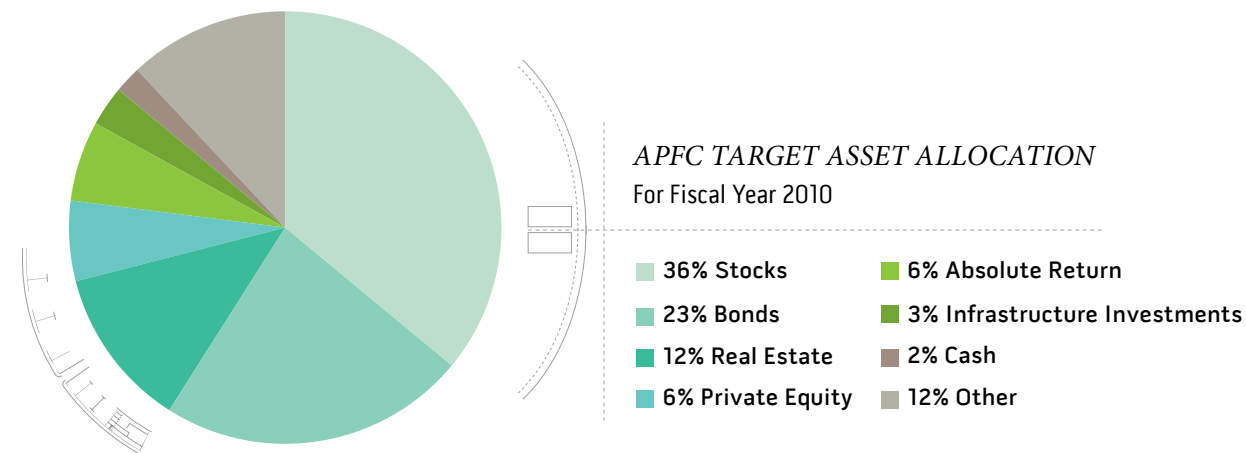
1985, he was appointed to the Board a second time by Gov. Sarah Palin. We appreciate his service to the Fund over the years and wish him well.

*Steve Frank*  
Steve Frank



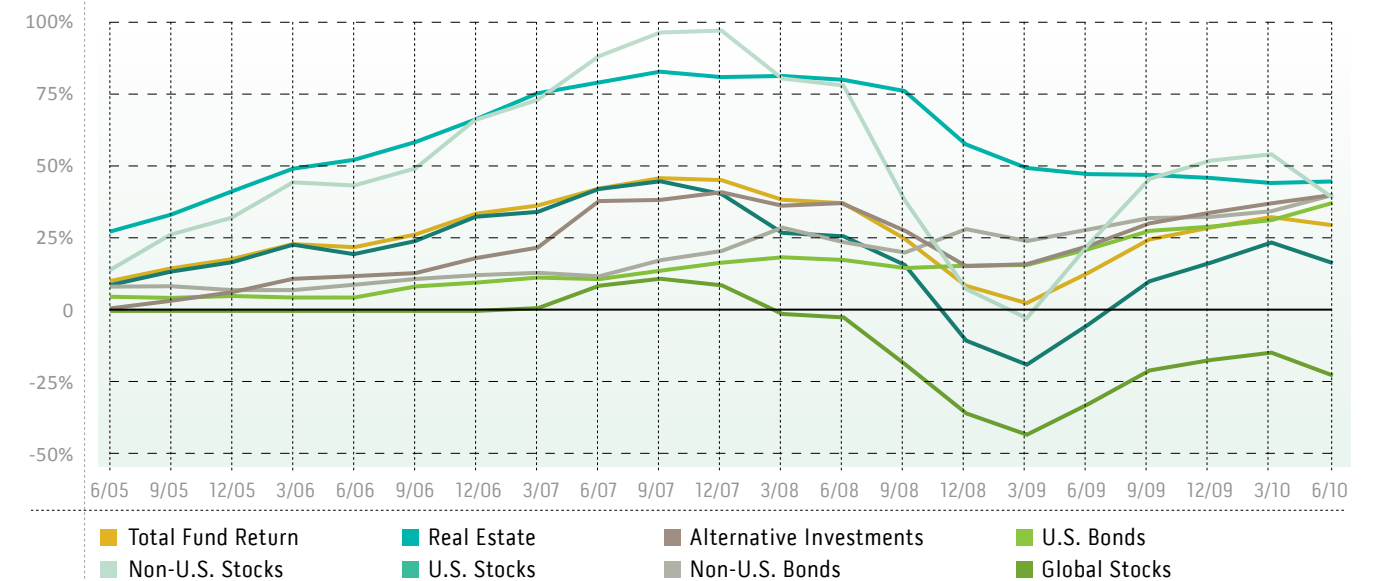
Board Members: (from left)

Larry Hartig, Steve Rieger, Steve Frank (Chair), Nancy Blunck, Bill Moran (Vice Chair), Patrick Galvin



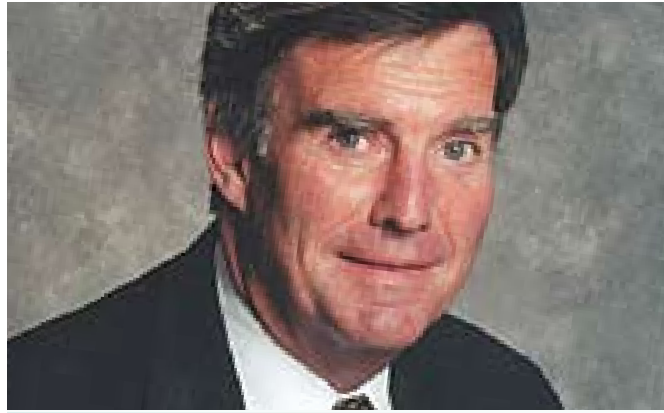
### THE EFFECTS OF DIVERSIFICATION

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.

# LETTER FROM THE EXECUTIVE DIRECTOR



**Michael J. Burns**, Executive Director

After the difficult environment of the prior year, fiscal year 2010 was a welcome relief. Investors regained their confidence and began to return to the markets, stabilizing performance and increasing liquidity.

The first quarter was the strongest for all of the Fund's publicly traded assets, and the gain was 10.7 percent for the period. The stock market rally that began in March carried through the fall, leading to a 19 percent return in the Dow Jones Global Index and the best quarter since 1998 for the U.S. market. The performance of the Fund's stock portfolios was the primary contributor to the \$3.4 billion increase in value for the quarter. Bond markets had a positive quarter as well, and the Fund's bond portfolios had solid performance. While the global economy may have still had some issues to work through, it appeared that the worst of the recession was over.

The stock market rally that began before the start of the fiscal year carried through the end of the second quarter, although at a much slower pace. In January, markets were rattled by China's economic policy changes, year-end earnings and bank restrictions, leading to a drop in performance. The Greek crisis added to the downward pressure before markets turned around in mid-February, climbing back into positive territory for the third quarter overall.

However, jitters in the market over the strength of the recovery caused a fall off in the stock markets in the final quarter, and the Fund's stock portfolios lost between 11 and 12 percent for the period. Fortunately, the sharp downturn

wasn't enough to erase all of the earlier gains, and the Fund's stock and absolute return portfolios were still up significantly at the year-end. And bonds benefitted from the stock markets' woes as investors turned toward lower-risk investments.

The Alaska Permanent Fund returned 11.7 percent for the fiscal year 2010 ended June 30, with a closing balance of \$33.3 billion. The Fund's return was ahead of the target return of 9 percent, and all but one of the Fund's asset classes had positive returns for fiscal year 2010. The U.S. stock portfolio returned 15.9 percent, the non-U.S. portfolio returned 11.8 percent and the global portfolio returned 11.6 percent. The Fund's absolute return portfolio was up 12.2 percent for the fiscal year.

We're especially pleased with the Fund's bond performance this year, as our portfolio beat the Barclays Aggregate. Last year our in-house team rebalanced into high quality non-government bonds when the markets were still uneasy. As investors' confidence returned and spreads narrowed, the team sold these bonds, harvesting the underlying gains and producing the outstanding returns that we see in the portfolio. The Permanent Fund's U.S. bond portfolio returned 11.5 percent for the fiscal year, well ahead of the Barclays Aggregate Bond Index return of 9.5 percent. The non-U.S. portfolio returned 7.9 percent, compared with the benchmark return of 4.9 percent.

The Fund's real estate performance was flat for the fiscal year, which is a good outcome compared with the commercial real estate industry overall. The strong outperformance is attributable to several factors, one of which is the limited use of leveraging in the Fund's portfolio. The Fund's properties are well diversified by region across the U.S., and many of them are in regions that were not as impacted by the recession.

The Fund earned \$1.6 billion in statutory net income for the fiscal year. The average of the statutory net income over five years is used to calculate the dividend distributed to eligible Alaskans each year. Based on this calculation, \$858 million will be transferred to the

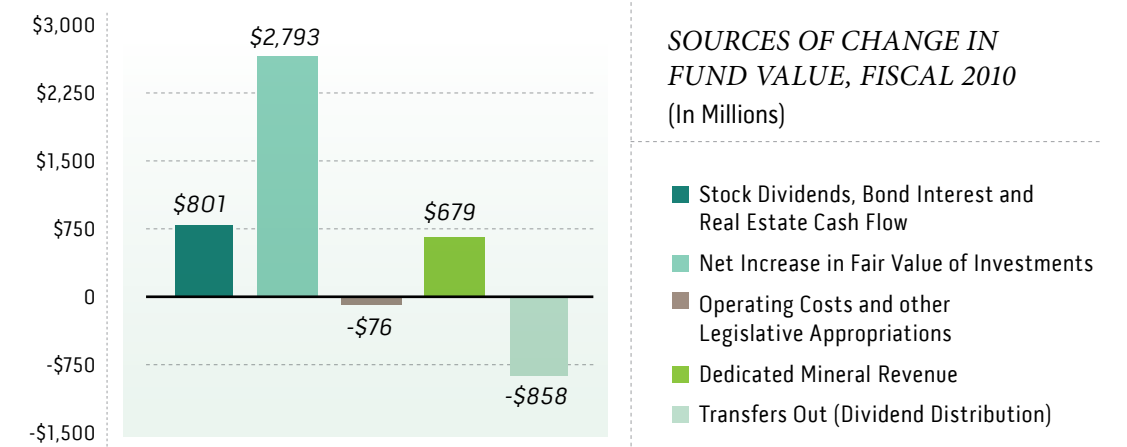
Permanent Fund Dividend Division to pay this fall's dividend. The 2009 dividend transfer was \$875 million.

This year we welcomed four new members to the APFC team. Jay Klinger and Ann Dombowski are new additions to our finance department in the positions of Accountant and Administrative Specialist. Brian Duncan joined us as an IT Specialist. And Suzanne Bavard came on board as an Administrative Assistant, our first point of contact for callers or visitors to the Corporation.

Following the nearly unprecedented turmoil of the past few years, it is a preferable change to report this year's results.

Sincerely,

Michael J. Burns  
Executive Director

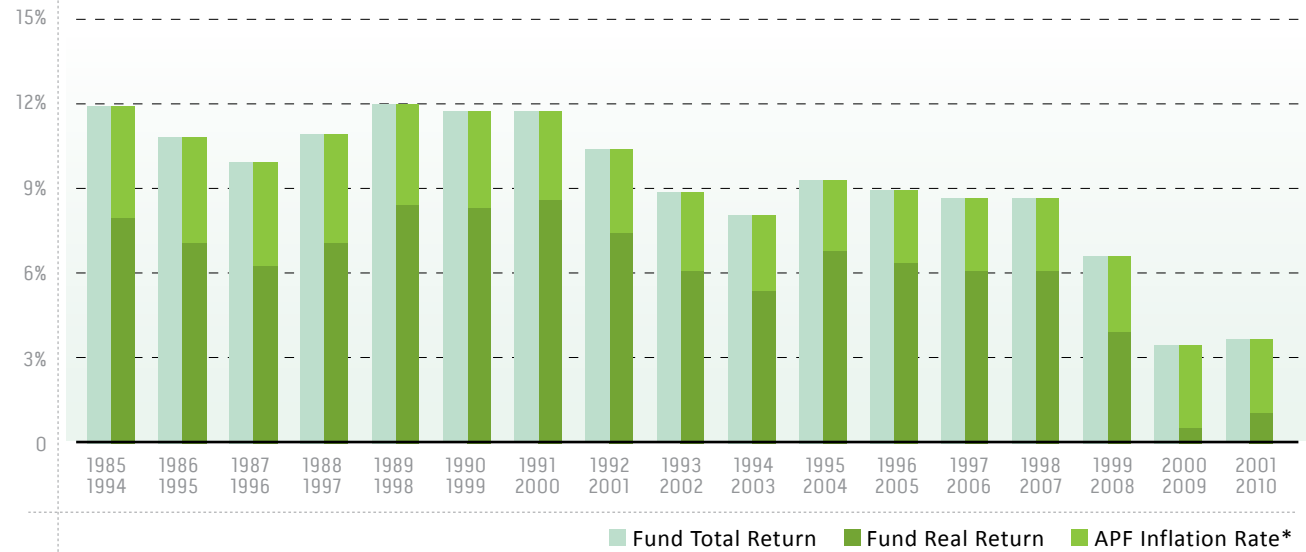


# INVESTING FOR THE LONG RUN

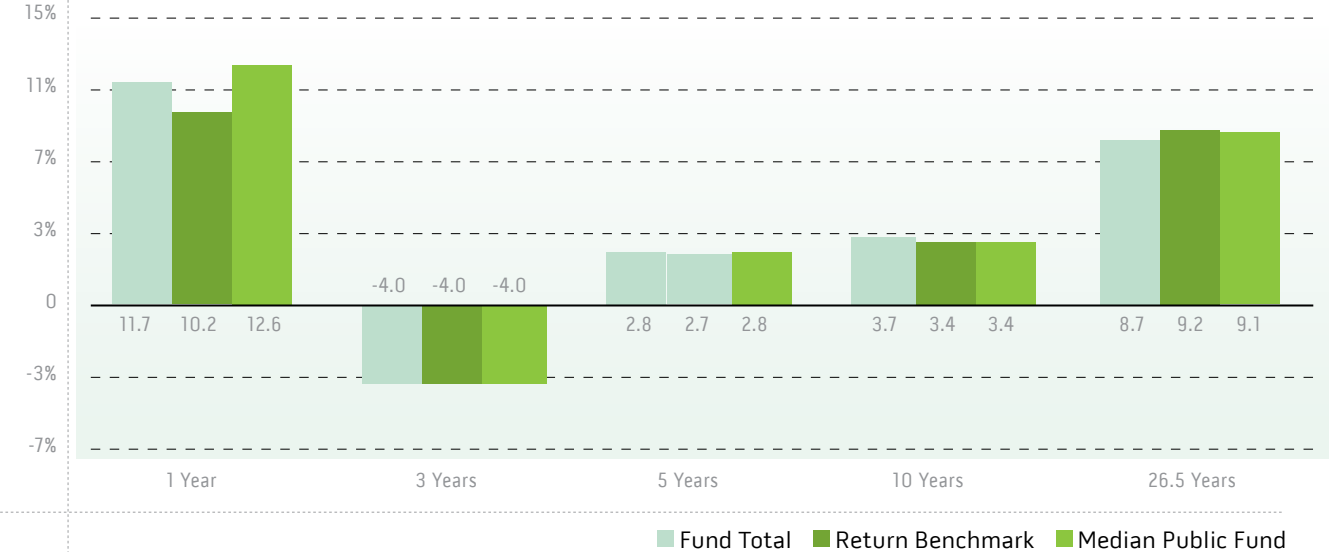
The Board of Trustees' statutory direction is to generate the maximum return while protecting principal. To meet both of these objectives, the Board sets an asset allocation that is designed to provide a 5 percent real rate of return over time with a prudent level of risk.



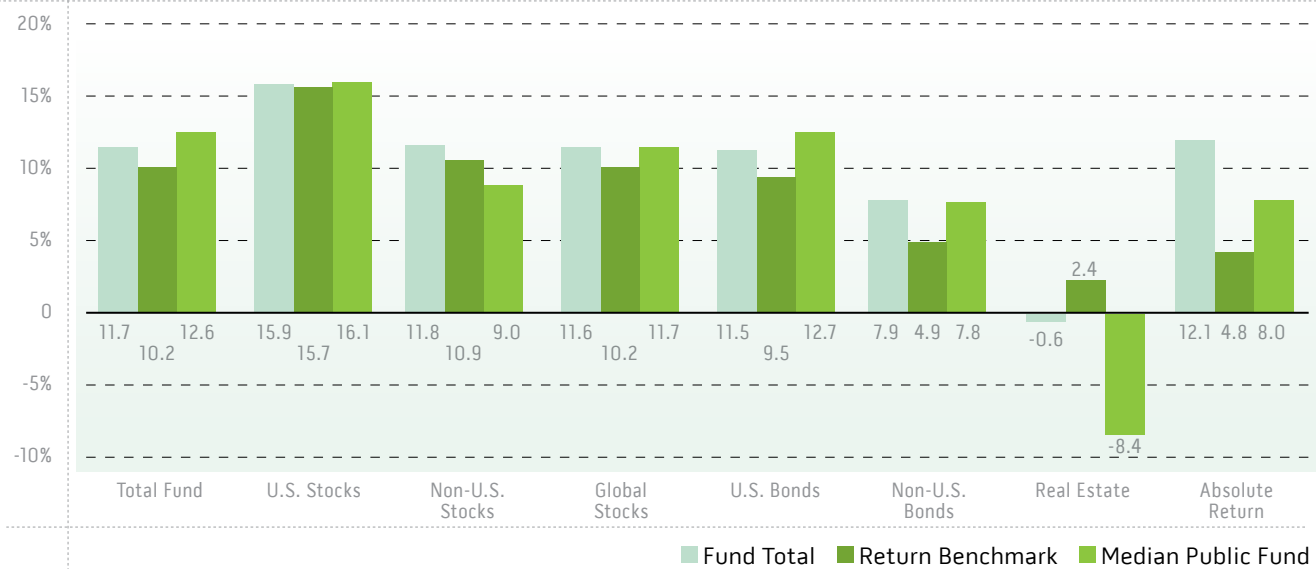
**ROLLING 10-YEAR RETURNS, FISCAL 2010**  
Annualized Returns for Periods Ending June 30



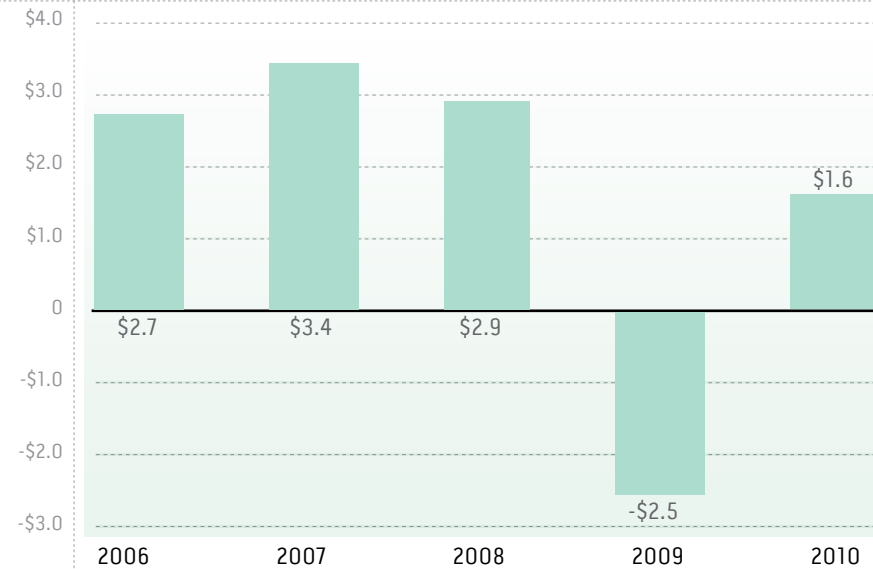
**FUND'S LONG-TERM INVESTMENT PERFORMANCE**  
Annualized Returns for Periods Ending June 30, 2010



**FUND FISCAL 2010 PERFORMANCE**



**STATUTORY NET INCOME BY FISCAL YEAR**  
(In Billions)



Statutory net income is used to calculate the annual Permanent Fund Dividend distribution. Statutory net income excludes any settlement income from the North Slope royalty case (State v. Amerada Hess, et al.) and any unrealized gains or losses.

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

# STOCKS

Global stock markets saw large gains for the fiscal year, a welcome relief after last year's financial crisis. U.S. large-cap stocks, as measured by the S&P 500, gained 14.4 percent for the year. Small-cap stocks and emerging markets did even better, while non-U.S. developed market stocks finished the year with a modest gain of 5.9 percent based on the MSCI EAFE Index.

Extending the rally that began in March 2009, stocks posted strong gains during the first fiscal quarter as corporate earnings beat expectations and investors' appetite for risk returned. During that quarter, beaten-down value stocks, small-cap stocks and international stocks were among the best performers. The rally continued through the second fiscal quarter on signs that the U.S. economy was improving.

However, international stocks started to falter during the third quarter on concerns about Greece's sovereign debt and a potential slowdown in China's economy. By the final quarter, the Greek sovereign debt situation had evolved into a crisis of confidence, sending the Euro and international stock markets

into a steep decline. U.S. stocks also suffered that quarter, as investors worried that the European debt crisis could send the relatively fragile U.S. economy into a double-dip recession.

### Portfolio Performance

The losses of the final quarter were not enough to erase all of the gains of the prior three quarters, and the performance overall for the Permanent Fund's stock portfolio was strong for the fiscal year. The U.S. stock portfolio returned 15.9 percent, compared with the Russell 3000 return of 15.7 percent, ending the fiscal year with a value of \$6.5 billion.

In general, Fund managers that had more exposure to cyclical sectors outperformed managers that were more defensively positioned. This resulted in managers with a deep-value style outperforming managers holding high-quality growth stocks. The Fund's U.S. small-cap managers also fared well, returning 25.3 percent, outperforming the large cap portfolio's return of 13.8 percent.

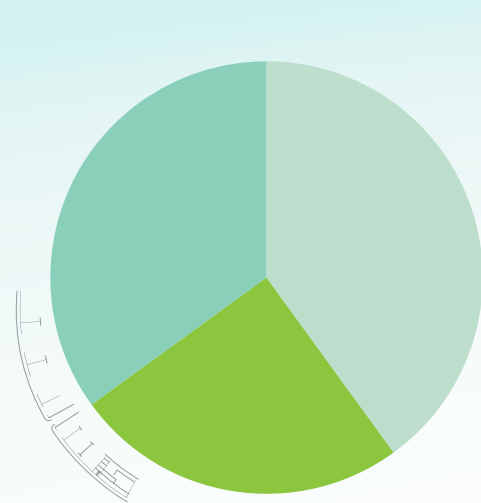
The non-U.S. portfolio gained 11.8 percent, compared with the MSCI All Country World-ex-USA Index return of 10.9 percent, ending the fiscal year with a value of \$5.8 billion. The global portfolio returned 11.6 percent, outperforming the 10.2 percent return of the MSCI World Index, and was valued at \$4.1 billion on June 30. Despite the fourth-quarter sell-off in non-U.S. developed markets, the Fund's emerging markets portfolios returned 22.4 percent for the year, giving a boost to the Fund's international stock portfolio.

### A Change of Focus

Over the course of the year, APFC began migrating the stock portfolio to a new portfolio structure reflecting more balance between active and passive strategies and a consolidation of active manager relationships. The goal is to simplify the portfolio structure and focus more on active managers that have attractive long-term track records and exhibit defensiveness in down markets. The number of managers was reduced by 16, with most of the consolidation among the Fund's U.S. small-cap

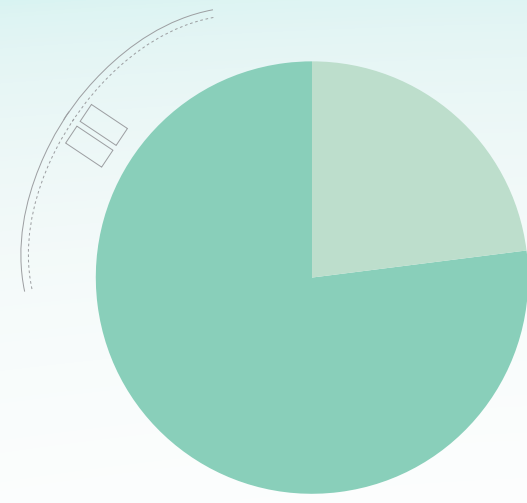
managers. The remaining active managers will be monitored in the context of the amount of active risk that each contributes to the equity portfolio and the overall Fund.

As part of the new portfolio structure, APFC introduced quasi-passive strategies that provide broad exposure to various market segments. As the name suggests, quasi-passive strategies fall between traditional passive and active strategies. Such strategies do not strive to pick stocks but instead systematically tilt the portfolio to value and smaller-cap stocks that have historically delivered higher performance over time. As of June 30, 2010, the Fund had added four such strategies, including two international small-cap portfolios managed by Dimensional Fund Advisors (DFA), an international large-cap portfolio managed by DFA, and a FTSE RAFI U.S. large-cap index portfolio managed by Mellon Capital. The FTSE RAFI strategy is based on a fundamental index designed by Research Affiliates, which weights stocks based on company fundamentals instead of market capitalization.



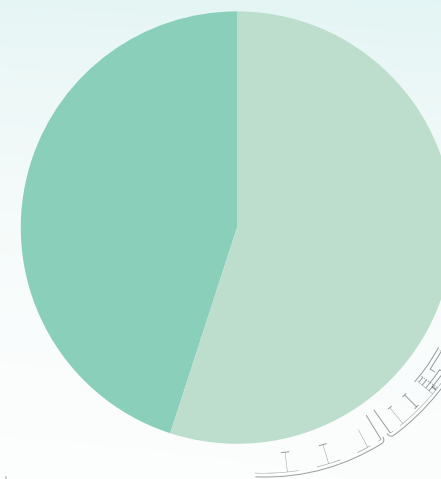
**STOCK PORTFOLIO**  
By Regional Mandate  
(In Billions)

40% U.S. Stocks	\$6.5
25% Global Stocks	\$4.1
35% Non U.S. Stocks	\$5.8
<b>Total:</b>	<b>\$16.4</b>



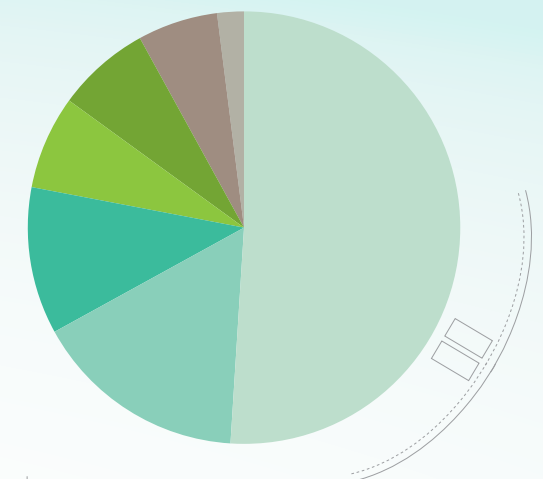
**U.S. STOCK PORTFOLIO**  
By Company Capitalization  
(In Billions)

23% Small/Mid-Cap	\$1.5
77% Large-Cap	\$5.0
<b>Total:</b>	<b>\$6.5</b>



**STOCK PORTFOLIO**  
By Active and Passive Management Styles  
(In Billions)

55% Active	\$9.1
45% Passive	\$7.3
<b>Total:</b>	<b>\$16.4</b>



**STOCKS BY REGION**  
(In Billions)

51% U.S.	\$8.4	7% U.K.	\$1.1
16% Europe, ex U.K.	\$2.6	6% Americas	\$1.0
11% Asia, ex Japan	\$1.8	2% Other	\$0.3
7% Japan	\$1.2		
<b>Total: \$16.4</b>			

## BONDS

As fears over sluggish economic growth and heightened levels of market volatility continued, the U.S. and overseas bond markets saw rallies that lasted throughout the fiscal year. The Fund's U.S. and non-U.S. portfolios both had solid positive returns for fiscal year 2010.

### U.S. portfolio

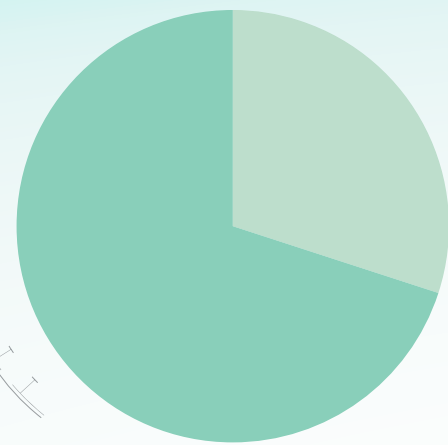
The Fund's U.S. portfolio gained 11.5 percent for the period, well ahead of the Barclays Aggregate Bond Index return of 9.5 percent, ending with a value of \$5.6 billion. The in-house portfolio management team deliberately weighted the portfolio to take advantage of the wide spreads on non-government bonds that were the result of investors' aversion to risk. They created a conservative portfolio of high-quality securities, with a focus on commercial mortgage back securities. Then the team held them until markets began to pick up and spreads narrowed, at which time sections of the portfolio were sold to harvest the underlying gains.

The \$4.5 billion APFC internal bond portfolio returned 12.81 percent for the fiscal year. The internal TIPS portfolio returned 10.1 percent for the fiscal year. At the start of the calendar year, the mandate for Alaska Permanent Capital Management was changed to a TIPS mandate. This new mandate returned 4.2 percent since Jan. 1, 2010. The Fund's high-yield bond portfolios both had strong gains, with Goldman Sachs High Yield returning 24.9 percent and Capital Guardian High Yield returning 21.8 percent. The Barclays Capital U.S. High Yield 2% Issuer Cap benchmark return was 26.7 percent for the period.

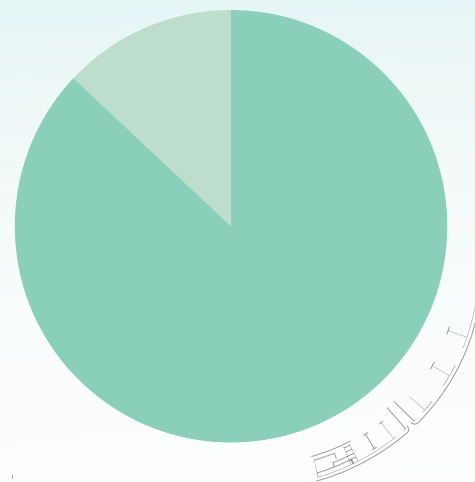
### Non-U.S. portfolio

The non-U.S. bond portfolio gained 7.9 percent, compared with the composite benchmark return of 4.9 percent, and ended June 30 with a value of \$870 million. The portfolio managed by Augustus Asset Management returned 6 percent, while Rogge Global Partners returned 9.6 percent.

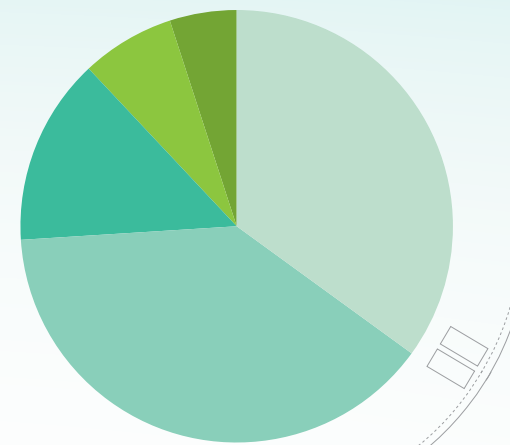
*The Permanent Fund must be managed to benefit all generations of Alaskans.*



**INTERNAL VS. EXTERNAL MANAGEMENT**  
(In Billions)



**U.S. VS. NON-U.S.**  
(In Billions)



**COMPOSITION OF BONDS**  
(In Billions)

## REAL ESTATE

Fiscal year 2010 started as another difficult year for the commercial real estate market but was showing signs of improvement by year-end. The Permanent Fund's real estate portfolio returned -0.6 percent, behind the benchmark of 2.4 percent. However, it was ahead of the NCREIF Property Index return as noted below. While stocks and bonds began to recover from the financial crisis last summer, the lagging nature of real estate returns meant that continued unemployment and economic jitters, which dampened other markets, continued to negatively impact real estate.

The volume of transactions picked up noticeably in the last half of the fiscal year but was still considerably below prior levels. In the third quarter, the NCREIF Property Index turned positive for the first time after six quarters and remained so through the end of the fiscal year.

### Direct Equity Real Estate

The Fund's direct equity real estate posted flat returns for the year at -.03 percent, ahead of the NCREIF Property Index return of -1.5 percent. The strong outperformance compared with the index is attributable to several factors, including the limited use of leverage in the portfolio. In addition, the Fund's larger exposures were in areas that were not as heavily affected by the recession or its aftermath. There are few properties in the portfolio in states that were severely affected by the housing bubble, such as Nevada, Arizona and Florida. In particular, Tysons Corner Center is in the Washington, D.C., region, which has shown growth in the past year. However, the portfolio's California properties continue to be challenged.

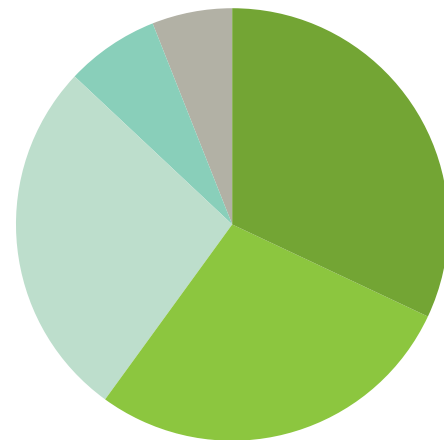
The portfolio includes 54 individual properties with a total value of \$2.5 billion. Diversified by region and sector, the majority of the properties are wholly owned by the Permanent Fund. The Fund was rewarded for its overweightings to both the retail and multifamily sectors, as these property types continue to post comparatively stronger returns. Over the fiscal year, staff selectively sold seven multifamily residential properties in the southeast United States and did not acquire any new properties. While a limited number of properties were identified for purchase, the large amounts of capital on the sidelines contributed to unacceptable pricing. This situation was specific to the targeted markets and does not suggest

that a real estate recovery has taken hold nationwide.

Simpson Housing LLLP, a real estate investment company in which the Permanent Fund is a partner, had a return of -12.4 percent, ending the fiscal year with a value of \$536 million. Simpson develops, owns and manages multifamily residential properties throughout the United States. The sizeable development component dragged overall performance during this period, but the value creation expected from these newer developments should be realizable in the next cycle.

### Public Equity Real Estate

Real estate investment trusts (REITs) had an outstanding year in fiscal 2010, and the Fund's portfolio managed by AEW Global Real Estate Securities gained 35.3 percent for the period, ending on June 30 with a value of \$220 million. The UBS Global Investors REIT Index benchmark return was 37 percent. These strong gains follow several years of low returns for REITs. While the gains of this year are a welcome change, they are making up for significant lost ground.



**REAL ESTATE DIVERSIFICATION**  
As of June 30, 2010  
(In Billions)

32% Retail	\$1.0
28% Multifamily	\$0.9
27% Office	\$0.9
7% Industrial	\$0.3
6% REITs	\$0.2
<b>Total:</b>	<b>\$3.3</b>

## APFC Internship Program

Each year, qualified Alaska undergraduate and graduate students are offered summer internship opportunities by both the Alaska Permanent Fund Corporation and the management firms that invest the Fund's portfolios. These internships are located throughout the U.S. and the U.K.

Our University of Alaska system campuses as well as Alaska Pacific University have generated more than 270 interns throughout the 23 years that APFC has offered this program.

To our 2010 participating managers who employed and mentored six college students from Alaska this summer, we express our thanks and appreciation:

Alaska Permanent Capital Management  
Crestline Investors Inc.  
GE Asset Management  
Lazard Asset Management  
McKinley Capital Management  
RCM Global Investors



*Interns: (From upper left, clockwise)*

Kristina Repcinova (McKinley Capital Management)  
Lars Waldo (RCM Global Investors)  
David Holt (GE Asset Management)

*Managing the present,  
investing in the future.*

# ALTERNATIVE INVESTMENTS

## ABSOLUTE RETURN

While most of the Permanent Fund's mandates focus on a specific asset type, such as stocks or bonds, absolute return strategy mandates take a different approach. These portfolios are constructed of a variety of securities that are selected to achieve a target return within defined risk limits. The Fund has four programs that fit under the absolute return definition: a general absolute return strategy, portfolios invested in distressed and mezzanine debt and a real return mandate that incorporates all of the asset classes found within the Fund as a whole.

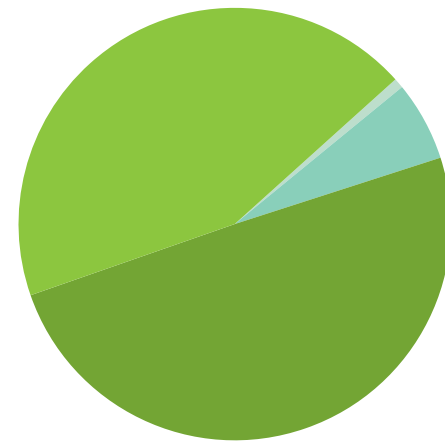
### Absolute return, distressed debt and mezzanine debt

Six managers oversee the Fund's nine mandates within the absolute return portfolio. Of these mandates, two are focused on distressed debt, two on mezzanine debt, while the others have a general absolute return goal. The managers are Audax Management Company, Mariner Investment Group, Lazard Asset Management, Oaktree Capital Management, Crestline Investors Inc. and Pacific Alternative Asset Management Company (PAAMCO).

Together, these three mandates gained 12.1 percent for the fiscal year, ending on June 30 with a value of \$2.5 billion. For the same period, the return of the LIBOR plus 4 percent benchmark for the general absolute strategy mandates was 4.3 percent, while the return of the LIBOR plus 6 percent benchmark for the distressed debt mandates was 6.3 percent.

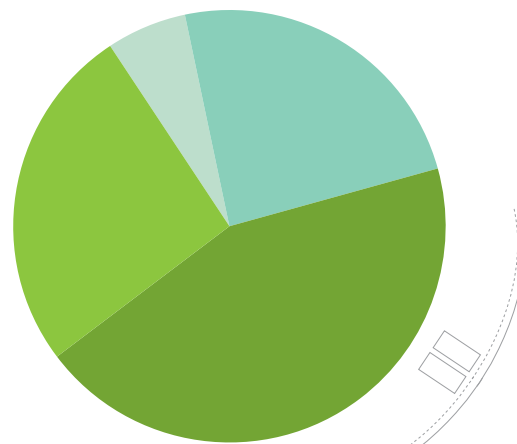
APFC introduced mezzanine debt to the Fund's absolute return portfolio this year, hiring Oaktree and Audax with initial commitments of \$250 million each. As a long-term investor, the Permanent Fund is well suited to take advantage of the less liquid nature of the mezzanine debt market and the beneficial risk/reward characteristics it currently offers.

Mezzanine debt provides a private financing tool for corporations to finance actions such as buyouts and acquisitions. It has characteristics similar to both equity and debt and falls ahead of equity but subordinate to senior debt in a company's capital structure. Coming out of the financial crisis, banks are rebuilding their balance sheets and are reluctant to issue new debt. This, combined with an anticipated increase in merger and acquisition activity, has led to an expectation that there will be a good number of high-quality mezzanine debt investment opportunities in the next few years.



ABSOLUTE RETURN INVESTMENTS  
(In Millions)

50% Real Return	\$2,510
44% General Absolute Return	\$2,186
6% Distressed Debt	\$278
<1% Mezzanine Debt	\$13
<b>Total:</b>	<b>\$4,987</b>



INFRASTRUCTURE INVESTMENTS  
by sector at cost  
(In Millions)

46% Transportation	\$237
24% Water	\$122
24% Energy	\$126
6% Waste Management	\$31
<b>Total:</b>	<b>\$516</b>

## Real return

In December 2009, the Board of Trustees added a new mandate to the Fund's portfolios: real return. Each of the five managers hired for this mandate will create a fund with the full range of asset classes that are found in the Permanent Fund. They will have the same over-arching risk and return guidelines that the Fund must follow but will be allowed to set their internal asset allocation. The five managers hired for the program are AQR Capital Management, Bridgewater Associates, Goldman Sachs Asset Management, GMO LLC and Pacific Investment Management Company (PIMCO).

The portfolio was not in place long enough to produce a return for the full fiscal year but returned 0.7 percent for the second half of the period.

## INFRASTRUCTURE

The APFC created the Fund's infrastructure program in 2007 and now has three infrastructure funds: Citi Infrastructure Partners LP (CIP), Global Infrastructure Partners LP (GIP) and Goldman Sachs Infrastructure Partners II LP (GSIP II). To date, the Fund's three partnerships have drawn down \$547 million of the \$1.4 billion that has been committed. Infrastructure partnerships are long-term investments. As a result, there has not been enough time in the asset class yet to provide meaningful returns.

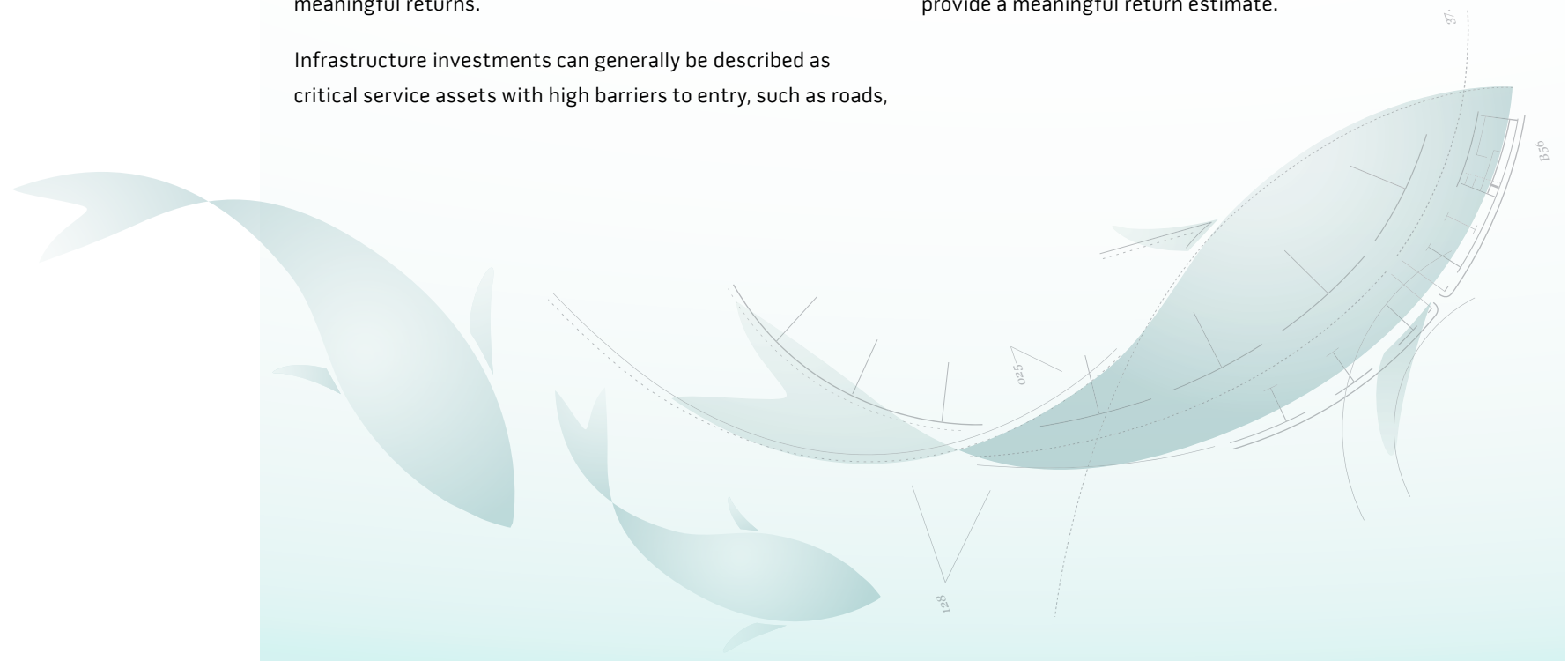
Infrastructure investments can generally be described as critical service assets with high barriers to entry, such as roads,

airports, utilities and pipelines. The partnerships to which the Permanent Fund has committed have made investments around the world, including the U.K., Spain, Argentina, India and the U.S. This past year, GIP was particularly active, acquiring a U.K. airport (Gatwick) and three energy-related assets in the U.S. (Ruby Pipeline, Chesapeake Midstream Partners and Terra-Gen Power Holdings) to round out the portfolio.

## PRIVATE EQUITY

Pathway Capital Management and HarbourVest Partners LLC are the Fund's private equity managers. Both firms manage discretionary, broadly diversified global mandates. During fiscal year 2010, the two managers committed about \$250 million to 12 new private equity partnerships. This brings the total committed to this asset class to \$2.3 billion. Of this committed amount, \$1.1 billion has been drawn down for private equity investments. For fiscal year 2011, the Board has allocated an additional \$600 million, divided between HarbourVest and Pathway.

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. These investments can take years to come to fruition, although premium returns are expected in exchange for this illiquidity. As a result, the Fund has not seen enough private equity investments mature since the program began in 2004 to provide a meaningful return estimate.



# 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, 2010 and June 30, 2009. 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

- In Fiscal Year (FY) 2010, the Fund regained some of the value that was lost in FY 2008 and 2009, one of the most volatile time periods in the history of the financial markets. While FY 2010 markets continued to exhibit volatility, the year ended positively with a total fund return of 11.7 percent. The first three quarters of the fiscal year were very strong, ending with 17.6 percent growth, however, in the fourth quarter markets declined substantially. The overall fiscal year gains were not enough to fully recover the losses incurred in FY 2009 and FY 2008 of negative 18 percent and negative 3.6 percent respectively.
- FY 2010's excess of revenues over expenditures was \$3.5 billion, slightly more than half of the prior year's \$6.4 billion deficiency of revenues under expenditures, the largest loss in the 34-year history of the Fund. Similarly, FY 2008 had overall losses of \$1.4 billion. With two consecutive years of losses totaling \$7.8 billion, the Fund must recognize significant gains to return to its historical high value of approximately \$40 billion in 2007.
- The State of Alaska Permanent Fund dividend is calculated using a five-year rolling average of net income as described in State statutes, which excludes unrealized gains and losses (statutory net income). The FY 2010 rolling average did not change significantly from FY 2009 because the oldest year's (FY 2005's) statutory net income of \$1.75 billion was replaced by FY 2010 statutory net income of \$1.59 billion, a decrease of less than 10 percent. In contrast, the change in the rolling average for FY 2009 was significant because the oldest year's statutory net income of \$1.5 billion was replaced with FY 2009's statutory net income of negative \$2.5 billion, a greater than 250 percent decrease.

- Realized earnings during FY 2010 bolstered the portion of fund balances (called the earnings reserve account in State statutes) that is used to pay the annual State of Alaska Permanent Fund dividend. The earnings reserve account grew by \$1.6 billion in FY 2010 (prior to the dividend payout of \$858 million) and ended the year at \$1.2 billion (a 188 percent increase over the prior year's balance of \$420 million).
- The Fund invested in two new investment mandates during fiscal year 2010, real return and mezzanine debt. The real return investment mandate is overseen by five external management firms, with \$500 million funded to each manager. The goal of this investment mandate is to return 5 percent above inflation over the longer of one business cycle or five years. Two mezzanine debt limited partnerships received commitments of \$250 million each from the APFC during the year.
- Inflation proofing of the Fund's corpus is outlined in State statute. In FY 2010, for the first time in the history of the Fund, the inflation proofing calculation produced a negative number, at negative 0.36 percent. Therefore, no inflation proofing was made to the Fund in FY 2010. During the Fiscal Years 2009 and 2008, inflation proofing of \$1.1 billion and \$808 million was recorded, respectively.
- The Fund implemented a new accounting pronouncement in FY 2010, which was issued by the Governmental Accounting Standards Board (GASB). GASB Statement Number 54 (GASBS 54) requires all governmental entities to redefine their fund balances based on a hierarchy of five different categories. Upon implementation of GASBS 54, what was previously titled "reserved" fund balances (principal) was renamed to "nonspendable" fund balances and what was previously titled "unreserved" fund balances (realized earnings) was renamed to "assigned" fund balances. No amounts were reclassified between the two sections of the fund balances.

## USING THE FINANCIAL STATEMENTS

This section of the MD&A aims 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.

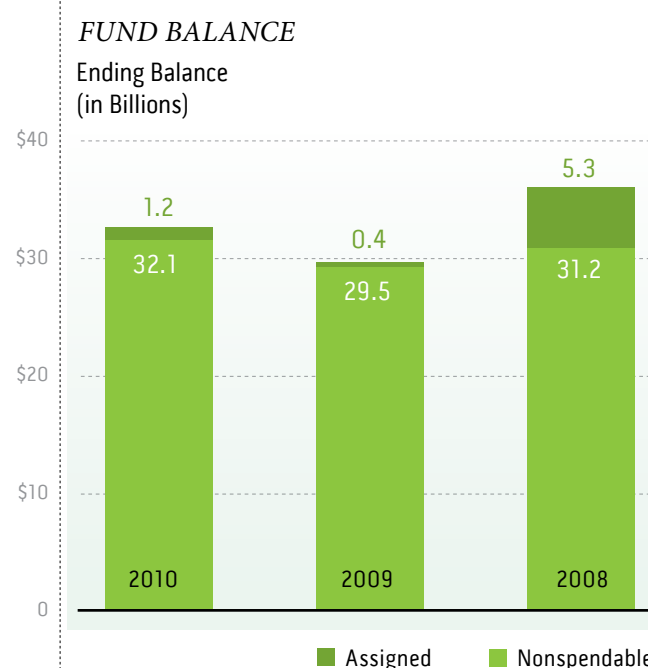
### Balance Sheets

The Balance Sheets present all assets, liabilities and fund balances of the Fund as of June 30, 2010, as well as the prior fiscal year's ended balances at June 30, 2009.

Assets are grouped into broad categories for ease of readability and analysis. 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 in real estate properties and stock holdings of real estate investment trusts (REITs). The securities lending collateral (cash received from the borrower on loans of securities) is shown as an asset and returned to the borrower when the loan is terminated without default.

Liabilities on the Balance Sheets primarily consist of obligations for (i) investments purchased but not yet settled (shown in the accounts payable grouping) and (ii) the Permanent Fund dividend payable to the State of Alaska. Securities lending collateral is the cash due to be returned to borrowers of the Fund's stocks and bonds when the borrowers return those loaned assets.

In the following graph, fund balances are shown in two different categories: nonspendable and assigned. The largest portion of the fund balances is nonspendable (96 percent as of June 30, 2010), and cannot be appropriated by the State of Alaska. The remaining balance (the assigned fund balance) is available for government appropriations. The assigned fund balance grew by more than 180 percent in FY 2010. Generally only three factors contribute significantly to changes in



the assigned fund balance: investment cash flow income including transactional realized gains and losses; the State of Alaska dividend payout; and inflation proofing, which is a transfer of assets from the assigned to the nonspendable fund balance. During FY 2010, realized income was \$1.6 billion and the dividend transferred out of the Fund was \$858 million, contributing a net increase of more than \$700 million in the assigned fund balance. Due to a negative inflation rate, no inflation proofing transfer was made in FY 2010.

## 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 in FY 2010 and FY 2009 (the prior fiscal year).

Revenues are shown in two 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 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 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.

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

Dedicated State revenues transferred into the Fund's principal are based on a percentage of mineral revenues that

## MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

the State receives. Transfers out of the Fund are to pay (i) the State of Alaska Permanent Fund dividend per Alaska Statute 37.13.145(b) and (ii) the annual deposit to the Alaska Capital Income Fund (ACIF) per Alaska Statute 37.13.145(d).

### Notes to the Financial Statements

The Notes to the Financial Statements are an essential element in fully understanding the financial facets of the Fund and to interpreting the 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 double-digit ratios (excluding securities lending collateral, held separately by the custodian for repayment to the borrower upon a loan's completion), the nonspendable fund balance is unavailable for appropriation. 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 2010 and 2009.

The most notable change in the Fund's assets from June 30, 2009 to June 30, 2010, was due to the strengthening of the investment markets, which led to an increase in the carrying value of invested assets by 12 percent, or \$3.4 billion. In FY 2010 equities had strong positive returns, with each equity class – domestic, non-domestic and global – increasing. Domestic equities earned 15.9 percent, while non-domestic and global mandates earned 11.8 and 11.6 percent, respectively. The prior two fiscal years saw large losses in all equity mandates, with

negative returns reaching as high as negative 31.4 percent for global equity mandates. Bonds had strong positive returns in FY 2010 as well, with 11.5 percent gained on domestic portfolios and 7.9 percent gained on non-domestic. The only asset class to have a negative return in FY 2010 was real estate, which returned negative 0.6 percent. The ending value of securities lending collateral invested and the related liability is dependent upon the amount of securities out on loan on any particular day. These values, which can change significantly from day to day and year to year, were up 25 percent from FY 2009 to FY 2010. This increase fits in with the slow market trend of investors getting back into borrowing securities, an investment approach not heavily used during the extreme markets of 2008-2009.

In the liability section of the Balance Sheets, accounts payable primarily consist of obligations due, but not yet settled, on securities purchased. The open transactions, which can vary extensively from day to day, are usually the largest portion of Fund payables, representing greater than 99 percent of the FY 2009 accounts payable balance and 94 percent of the FY 2010 balance. Most of the decrease from FY 2009 to FY 2010 was due to bonds that had been purchased for \$1.4 billion but not yet settled as of June 30, 2009. As of June 30, 2010, only \$179 million was due on such payables. Income distributable to the State of Alaska decreased only slightly from FY 2009 to FY 2010 due to the statutorily mandated dividend calculation based on a five-year rolling average of statutory net income (which excludes unrealized gains and losses). Because the FY 2010 statutory net income of \$1.6 billion replaced the FY 2005 statutory net income of \$1.8 billion in the rolling average, there was little change in the calculated amount. At the end of FY 2008, the balance due to the State of Alaska for the dividend payout was \$1.3 billion, which shows how the payout calculation can fluctuate significantly from year to year. Because the Fund incurred realized losses during FY 2009, there was no transfer to the Alaska Capital Income Fund (ACIF), and the ACIF's \$33.3 million deficit was retained in a sub-account of the assigned fund balances. During FY 2010, realized earnings of \$20.8 million attributable to the ACIF were used to offset the deficit in the sub-account, leaving it with a negative \$12.5 million balance at the end of FY 2010.

The total fund balance increase from FY 2009 to FY 2010

was primarily due to stronger financial markets, which created an overall investment return on Fund investments of 11.7 percent. Contributions and appropriations increased due to dedicated mineral revenue deposits from the State of \$679 million, a 4 percent increase over the FY 2009 dedicated revenues of \$651 million. The fund balance at the end of FY 2007 was \$37.8 billion, approximately \$4.5 billion greater than it was at the end of FY 2010 (three years later), reflecting the recent turbulent financial markets.

The following table is derived from the Statements of Revenues, Expenditures and Changes in Fund Balances, and shows the annual activity of the Fund. The differences in FY 2009 activity as compared to FY 2010 are shown in both dollars and percentages.

During FY 2010, all sources of cash flow revenue (interest, dividends, real estate, and other) continued to be affected by the global financial crisis. Cash flow income decreased from an average of \$80 million in FY 2009 to \$67 million per month in FY 2010. For comparative purposes, FY 2008 had averaged slightly more than \$100 million per month. Interest rates continued to remain low on bonds, companies paid out less and less in dividends and real estate rentals continued to be poor due to vacancies and concessions. The change in the fair value of investments was strong in FY 2010, at almost 140 percent greater than FY 2009's overall losses. Operating expenditures increased from FY 2009 to FY 2010 almost entirely due to asset management fees paid to external investment management firms, which increased by \$7 million. Most management fees are calculated on market values of assets under management. When those market values increase, as they did in FY 2010, fees increase as well. Conversely, management fees decreased from FY 2008 to FY 2009 by \$16.8 million, almost 25 percent, due to significant decreases in market values during FY 2009. Transfers in of dedicated State revenues did not change materially from FY 2009 to FY 2010, but FY 2008 had the highest transfer in of dedicated State revenues in the history of the Fund at \$844 million. Oil prices have been volatile over the past three years, with FY 2008 bringing in the highest per barrel oil prices in Alaska's history. Transfers out of the Fund are for two purposes: 1) an appropriation to fund the Permanent Fund dividend payment, and 2) an appropriation to fund the Alaska Capital Income

### BALANCE SHEETS

#### as of June 30

Assets	2010	2009	Net Change	Percent
Cash and Temporary Investments	\$ 1,519,515,000	2,385,558,000	(866,043,000)	-36%
Receivables, Prepaid Expenses and Other Assets	238,963,000	701,379,000	(462,416,000)	-66%
Investments	32,696,290,000	29,262,254,000	3,434,036,000	12%
Securities Lending Collateral Invested	2,598,126,000	2,084,425,000	513,701,000	25%
<b>Total Assets</b>	<b>\$ 37,052,894,000</b>	<b>34,433,616,000</b>	<b>2,619,278,000</b>	<b>8%</b>
<b>Liabilities</b>				
Accounts Payable	\$ 341,974,000	1,576,478,000	(1,234,504,000)	-78%
Income Distributable to the State of Alaska	857,983,000	856,644,000	1,339,000	0%
Securities Lending Collateral	2,598,126,000	2,084,425,000	513,701,000	25%
<b>Total Liabilities</b>	<b>3,798,083,000</b>	<b>4,517,547,000</b>	<b>(719,464,000)</b>	<b>-16%</b>
<b>Fund Balances</b>				
Nonspendable – Principal				
Contributions and Appropriations	31,624,137,000	30,944,699,000	679,438,000	2%
Unrealized Appreciation (Depreciation) - Invested Assets	420,837,000	(1,448,614,000)	1,869,451,000	129%
<b>Total Nonspendable</b>	<b>32,044,974,000</b>	<b>29,496,085,000</b>	<b>2,548,889,000</b>	<b>9%</b>
Assigned				
Realized Earnings	1,193,949,000	440,610,000	753,339,000	171%
Unrealized Appreciation (Depreciation) - Invested Assets	15,888,000	(20,626,000)	36,514,000	177%
<b>Total Assigned</b>	<b>1,209,837,000</b>	<b>419,984,000</b>	<b>789,853,000</b>	<b>188%</b>
<b>Total Fund Balances</b>	<b>33,254,811,000</b>	<b>29,916,069,000</b>	<b>3,338,742,000</b>	<b>11%</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 37,052,894,000</b>	<b>34,433,616,000</b>	<b>2,619,278,000</b>	<b>8%</b>

Fund. The dividend calculation is based on realized earnings averaged over a rolling five-year period. Applying this formula, the FY 2010 results supplanted the FY 2005 results. Because the difference in statutory net income between these years was a decrease of only \$16.9 million, the dividend distribution changed very little between FY 2009 and FY 2010. The Alaska Capital Income Fund transfer out did not take place in FY 2009 nor in FY 2010, because it is based on realized earning for only one year. In FY 2009, those earnings were negative \$33.3 million. While earnings were positive in FY 2010 at \$20.8 million, they were not enough to offset the prior year's losses that are retained in the fund balances. Recent transfers out to the Alaska Capital Income Fund have been \$33 million in FY 2008 and \$42 million in FY 2007.

**ECONOMIC, INVESTMENT, AND POLITICAL 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, is 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 period to period. For more information on the Fund, both current and historical, readers are encouraged to visit [www.apfc.org](http://www.apfc.org), or send specific information requests to the Alaska Permanent Fund Corporation at P.O. Box 115500, Juneau, AK 99811-5500.

**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES as of June 30**

Revenues	2010	2009	Net Change	Percent
Interest, Dividends, Real Estate and Other Income	\$ 800,634,000	961,084,000	(160,450,000)	-17%
Increase (Decrease) in the Fair Value of Investments	2,792,457,000	(7,287,655,000)	10,080,112,000	138%
<b>Total Revenues</b>	<b>3,593,091,000</b>	<b>(6,326,571,000)</b>	<b>9,919,662,000</b>	<b>157%</b>
<b>Expenditures</b>				
Operating Expenditures	(69,092,000)	(61,214,000)	(7,878,000)	13%
Other Legislative Appropriations	(6,712,000)	(6,628,000)	(84,000)	1%
<b>Total Expenditures</b>	<b>(75,804,000)</b>	<b>(67,842,000)</b>	<b>(7,962,000)</b>	<b>12%</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>\$ 3,517,287,000</b>	<b>(6,394,413,000)</b>	<b>9,911,700,000</b>	<b>155%</b>
<b>Other Financing Sources (Uses)</b>				
Transfers In – Dedicated State Revenues	679,438,000	651,435,000	28,003,000	4%
Transfers Out – Appropriations	(857,983,000)	(874,844,000)	16,861,000	-2%
<b>Net Change in Fund Balances</b>	<b>3,338,742,000</b>	<b>(6,617,822,000)</b>	<b>9,956,564,000</b>	<b>150%</b>
<b>Fund Balances</b>				
Beginning of Period	29,916,069,000	36,533,891,000	(6,617,822,000)	-18%
End of Period	\$ 33,254,811,000	29,916,069,000	3,338,742,000	11%

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

We have audited the accompanying balance sheets of Alaska Permanent Fund (Fund), as of June 30, 2010 and 2009, 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 Fund's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit as of and for the year ended June 30, 2010 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We conducted our audit as of and for the year ended June 30, 2009 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 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 audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the Alaska Permanent Fund and do not purport to, and do not, present fairly the financial position of the State of Alaska as of June 30, 2010 and 2009, 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, 2010 and 2009, and changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

As more fully described in Note 2 to the financial statements, effective July 1, 2009 the Alaska Permanent Fund had changed its method of reporting fund balance classifications to reflect the adoption of Governmental Accounting Standards Board Statement 54: Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2010 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 18 through 22 are not a required part of the basic financial statements but are 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**

September 9, 2010

# FINANCIAL STATEMENTS

## BALANCE SHEETS

	June 30, 2010	June 30, 2009
<b>ASSETS</b>		
Cash and Temporary Investments	\$ 1,519,515,000	2,385,558,000
Receivables, Prepaid Expenses and Other Assets	238,963,000	701,379,000
Investments —		
Marketable Debt Securities	6,347,889,000	7,270,621,000
Preferred and Common Stock	16,379,187,000	15,231,411,000
Real Estate	3,273,363,000	3,364,047,000
Real Return	2,483,299,000	—
Absolute return, Distressed and Mezzanine debt	2,452,623,000	2,065,879,000
Private Equity	1,017,919,000	705,097,000
Infrastructure	524,412,000	373,078,000
Alaska Certificates of Deposit	217,598,000	252,121,000
<b>Total Investments</b>	<b>32,696,290,000</b>	<b>29,262,254,000</b>
Securities Lending Collateral Invested	2,598,126,000	2,084,425,000
<b>Total Assets</b>	<b>\$ 37,052,894,000</b>	<b>34,433,616,000</b>
<b>LIABILITIES</b>		
Accounts Payable	\$ 341,974,000	1,576,478,000
Income Distributable to the State of Alaska	857,983,000	856,644,000
Securities Lending Collateral	2,598,126,000	2,084,425,000
<b>Total Liabilities</b>	<b>3,798,083,000</b>	<b>4,517,547,000</b>
<b>FUND BALANCES</b>		
<b>Nonspendable — Principal</b>		
Contributions and Appropriations	31,624,137,000	30,944,699,000
Unrealized Appreciation (Depreciation) on Invested Assets	420,837,000	(1,448,614,000)
<b>Total Nonspendable</b>	<b>32,044,974,000</b>	<b>29,496,085,000</b>
<b>Assigned</b>		
Realized Earnings	1,193,949,000	440,610,000
Unrealized Appreciation (Depreciation) on Invested Assets	15,888,000	(20,626,000)
<b>Total Assigned</b>	<b>1,209,837,000</b>	<b>419,984,000</b>
<b>Total Fund Balances</b>	<b>33,254,811,000</b>	<b>29,916,069,000</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 37,052,894,000</b>	<b>34,433,616,000</b>

See Accompanying Notes to the Financial Statements.

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

	June 30, 2010	Years Ended June 30, 2009
<b>REVENUES</b>		
Interest	\$ 298,170,000	434,612,000
Dividends	351,017,000	384,470,000
Real Estate and Other Income	151,447,000	142,002,000
<b>Total Interest, Dividends, Real Estate and Other Income</b>	<b>800,634,000</b>	<b>961,084,000</b>
Net Increase (Decrease) in the Fair Value of Investments —		
Marketable Debt Securities	517,188,000	(120,985,000)
Preferred and Common Stock	1,864,849,000	(5,898,285,000)
Real Estate	(166,341,000)	(666,947,000)
Real Return	1,220,000	—
Absolute Return, Distressed and Mezzanine Debt	311,423,000	(380,790,000)
Private Equity	161,249,000	(198,638,000)
Infrastructure	17,735,000	(8,333,000)
Foreign Currency Forward Exchange Contracts and Futures	96,430,000	2,254,000
Currency	(11,296,000)	(15,931,000)
<b>Total Net Increase (Decrease) in the Fair Value of Investments</b>	<b>2,792,457,000</b>	<b>(7,287,655,000)</b>
<b>Total Revenues</b>	<b>3,593,091,000</b>	<b>(6,326,571,000)</b>
<b>EXPENDITURES</b>		
Operating Expenditures	(69,092,000)	(61,214,000)
Other Legislative Appropriations	(6,712,000)	(6,628,000)
<b>Total Expenditures</b>	<b>(75,804,000)</b>	<b>(67,842,000)</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>3,517,287,000</b>	<b>(6,394,413,000)</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In - Dedicated State Revenues	679,438,000	651,435,000
Transfers Out - Statutory and Legislative Appropriations	(857,983,000)	(874,844,000)
<b>Net Change in Fund Balances</b>	<b>3,338,742,000</b>	<b>(6,617,822,000)</b>
<b>FUND BALANCES</b>		
Beginning of Period	29,916,069,000	36,533,891,000
End of Period	\$ 33,254,811,000	29,916,069,000

See Accompanying Notes to the Financial Statements.

# NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

## 1. ENTITY

The Constitution of the State of Alaska ("State") was amended by public referendum in 1976 to dedicate a portion of certain natural resource revenues to the Alaska Permanent Fund ("Fund"). Contributions to the Fund are to be invested in perpetuity. In 1980, the Alaska State Legislature ("Legislature") established the Alaska Permanent Fund Corporation ("APFC"), a State governmental instrumentality within the Department of Revenue, to manage and invest Fund assets. The APFC is managed by a six-member board of trustees ("Trustees" or "Board") consisting of the Commissioner of Revenue, one other head of a principal state department and four public members with recognized competence and experience in finance, investments or other business management-related fields. The governor appoints, and may reappoint, the public members to staggered four-year terms and can remove public members only for cause. The Board employs an executive director who in turn employs additional staff as necessary. The Fund's assets are diversified across a wide variety of investments in accordance with statutes, regulations and APFC investment policy. The Fund's investment performance is related to the success of the financial markets generally. While diversification aims to mitigate volatility, significant period-to-period fluctuations in investment performance may occur.

By statute and subsequent appropriation, the APFC transfers (i) a portion of the Fund's annual realized earnings to the State's dividend fund, (ii) a portion of the realized earnings sufficient to offset the effect of inflation on contributions and appropriations to the nonspendable 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.) 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 allocated proportionately between the nonspendable fund balance and the assigned fund balance. All assets are aggregated for investment purposes.

## 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 unrealized gains and losses on the Fund's investments. Current Alaska statutes limit the amount that can be transferred for dividend appropriation each year to one-half of the smaller of (i) 21 percent of the Fund's five-year rolling statutory net income or (ii) the assigned fund balances at fiscal year end. This limitation can be superseded by legislative appropriation.

### Equity Index Futures

Certain equity managers for the Fund are permitted to buy and sell equity index futures. The gross fair value of equity index futures does not appear in the balance sheets. The net unrealized gain or loss on open futures trades is included in the balance sheets, based on the difference between the future's purchase price and the current value of such index futures. Realized gains and losses on futures are included in the net increase in the fair value of investments at the time the futures contract expires. The net change in unrealized gains and losses is included in the net increase in the fair value of investments, based on the difference between the contract purchase price and the current value of the futures index as of the financial statement date.

### Financial Statement Presentation

A reclassification has been made to the 2009 financial statements to conform to 2010 presentation. This reclassification was made to show additional detail in the statements for alternative assets. The Balance Sheets and the Statements of Revenues, Expenditures and Changes in Fund Balances previously had a single line item for alternative assets. That line item has been expanded to four line items to show accounting detail for investments in real return; absolute return, distressed debt, and mezzanine debt; private equity; and infrastructure. The reclassification had no impact on the change in fund balances or the calculation of the State of Alaska permanent fund dividend for the years ending June 30, 2010 and 2009.

### Forward exchange contracts

Fund managers enter into 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 settled, 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 also are 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 portion of forward exchange contracts is 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 to the market's currency.

### Fund balance unrealized gains and losses

A State of Alaska Attorney General's Opinion dated June 16, 2009, clarified the accounting treatment of the Fund's unrealized gains and losses by providing that unrealized appreciation or depreciation on invested assets should be allocated proportionately to nonspendable fund balances and assigned fund balances.

### Income taxes

In the opinion of legal counsel, the Fund and the APFC should not be subject to federal income taxation because (i) they are integral parts of the State and (ii) they perform an essential governmental function and the Internal Revenue Code provides that gross income for tax purposes does not include income derived from the exercise of any essential governmental function by a state or any subdivision thereof.

### Inflation proofing

Alaska statutes require that the contributions and appropriations of the Fund be adjusted annually to counteract the effect of inflation. Based on advice from the Alaska Department of Law, an annual intra-fund inflation proofing transfer (from the assigned to the nonspendable fund balance) should occur only by legislative appropriation. The APFC measures inflation by (i) computing the percentage change in the averages of the monthly United States Consumer Price Index for all urban consumers for the two previous calendar years and (ii) applying that percentage to the total of the nonspendable fund balance, excluding unrealized gains and losses, at the end of the fiscal year. Using this formula, the inflation proofing rate for the year ended June 30, 2010, was a negative 0.36 percent; therefore, there was no legislative appropriation for inflation proofing. The inflation proofing rate for the year ended June 30, 2009, was 3.84 percent.

### Investments and related policies

#### Carrying value of investments

The Fund's investments are reported at fair value in the financial statements. Securities transactions are recorded on the trade date that securities are purchased or sold. Unrealized gains and losses are reported as components of net change in fund balances. 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 investments that have no readily ascertainable fair value are determined by management using the fair value capital account balances nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Direct investments in real estate are subject to annual appraisals and audits. All alternative investments undergo annual independent financial statement audits.

#### State investment regulations

In accordance with Alaska Statute 37.13.120(a), the Trustees have adopted regulations designating the types of eligible investments for Fund assets. The 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.

# NOTES TO FINANCIAL STATEMENTS (cont.)

JUNE 30, 2010 AND 2009

## Investment policy – asset allocation

The Trustees have established a long-term goal of achieving a 5 percent real rate of return on the Fund's investment portfolio. To help achieve this goal, the Trustees allocate the Fund's investments among various risk and asset classes. At June 30, 2010, the APFC's strategic asset allocation targets were as follows:

Risk Class	Asset Class	Risk Class Target	Asset Class Target
Cash		2%	2%
Interest Rates		6%	
	U.S. Government Bonds		4%
	International Developed Government Bonds (currency hedged)		2%
Company Exposure		53%	
	Global Credit		11%
	Global Equity		36%
	Private Equity		6%
Real Assets		18%	
	Real Estate		12%
	Infrastructure		3%
	U.S. Treasury Inflation Protection Securities		3%
Special Opportunities		21%	
	Absolute Return Mandate		6%
	Real Return Mandate		7%
	Distressed Debt		1%
	Mezzanine Debt		1%
	Structured Credit		1%
	Other (future opportunities)		5%

Capital that is not invested in the special opportunities risk class resides in the company exposure risk class. To allow for market fluctuations and to minimize transaction costs, the Trustees have adopted ranges that permit percentage deviations from the strategic asset allocation targets in accordance with specified reporting requirements and other procedures. Generally, for each risk and asset class, the APFC's chief investment officer has discretionary authority to permit target deviations within one specified range (referred to as the "green zone" in the investment policy), the APFC's executive director can approve target deviations for up to 90 days within a broader range (the "yellow zone"), and the Board can approve operating for longer than 30 days within a third range (the "red zone"). For example, the target allocation for the interest rate risk class is 6 percent, with the green zone range set at 6-12 percent, yellow zone ranges set at 5-6 percent and 12-20 percent, and red zone ranges set at allocations of less than 5 percent or greater than 20 percent. In a similar manner, the APFC investment policy also requires the APFC to monitor relative risk (the expected investment portfolio's risk and return relative to the risk benchmark using standard industry risk measures), active budget risk (risk due to active management decisions made by managers), and limits on private investments and future commitments.

## Concentration of credit risk

Concentration of credit risk is the risk of loss attributable to holding investments from a single issuer. The APFC manages the Fund's concentration of credit risk by following its strategic asset allocation policy, diversifying investments among managers with varying investment styles and mandates, and monitoring tracking error. Tracking error is a measure of how closely a portfolio follows the index to which it is benchmarked. The APFC's policy for mitigating this risk of loss for fixed income and equity investments is to ensure compliance with APFC investment policy and investment manager contracts. Managers are not permitted, under any circumstances, to encumber assets beyond those held in each separately managed account.

## 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 investment grade fixed income managers invest in domestic and non-domestic bonds that have an explicit or implied investment grade rating. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within seven months. Certain high yield investment managers are allowed to invest a specified amount of funds in bonds rated below investment grade.

## 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 the Fund's non-domestic securities held by most sub-custodians, the APFC's primary custodian provides contractual indemnities against sub-custodial credit risk. Excess cash in custodial accounts is swept daily to a money market fund managed by Invesco Aim Advisors Inc. Late deposits of cash which miss the money market sweep deadline are deposited to an interest-bearing account at the 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 through foreign currency forward contracts and 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 in part through tracking error guidelines in the APFC's investment policy. Duration, 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 the value of fixed income investments declining, while falling interest rates are generally associated with increasing value. 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 percent. Duration is monitored through tracking error limits.

For short-term debt investments, the APFC's investment policy states that all monies will be invested in either (i) the primary custodian's short-term investment fund or (ii) money-market-fund-eligible instruments with a maturity or average life no greater than 13 months.

At June 30, 2010, the Fund held fixed income investments with floating, variable, and step interest rates, valued at \$307,899,000. These fixed income investments were both domestic and non-domestic and had current annual interest rates ranging from 0 percent to 11.25 percent.

## Recently Adopted Accounting Pronouncements

In February 2009, the Governmental Accounting Standards Board issued statement number 54: *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASBS 54"). GASBS 54 establishes a hierarchy of fund balance classifications based on the extent to which a government is bound to observe constraints imposed upon the use of the net assets held by the government. This statement is effective as of the beginning of an entity's first fiscal year beginning after June 15, 2010 (the Fund's fiscal year beginning July 1, 2010) and must be applied retrospectively to all periods presented. The APFC has elected to adopt the provisions of GASBS 54 in FY 2010, one year early. The APFC has retrospectively applied the provisions of this statement to the Fund's Balance Sheet at June 30, 2009.

Prior to the adoption of GASBS 54, the fund balances of the Fund consisted of two components— reserved and unreserved. With the adoption of GASBS 54, the fund balance components changed from reserved to nonspendable, and from unreserved to assigned. The State of Alaska constitution requires at least 25 percent of certain mineral revenues received by the State be placed into the principal of the Fund. Principal, as used in the constitution, falls within the classification of nonspendable per GASBS 54, as an amount that is required to be maintained intact. The assigned designation is used for the historically realized but unappropriated fund balance based on GASBS 54 guidelines that amounts not held in the government's general fund, but available and intended for future government use, are considered to be assigned. The Alaska State Legislature has the authority to appropriate assigned fund balances. The adoption of GASBS 54 did not cause any amounts to be moved between the two fund balance classifications.

# NOTES TO FINANCIAL STATEMENTS (cont.)

JUNE 30, 2010 AND 2009

Application of GASBS 54 had no impact on the calculation of the State of Alaska permanent fund dividend for the years ending June 30, 2010, or 2009.

## Transfers in

Contributions from dedicated State revenues are recorded when certain revenues defined by statute are received or reported by the Alaska Department of Natural Resources. Contributions from appropriations and other sources are recorded when received.

## Transfers out

Transfers out to other State agencies are recorded when measurable.

### 3. CASH AND TEMPORARY INVESTMENTS

Cash and temporary investments, which include the market values of foreign currency (FX) and FX forward exchange contracts, are summarized as follows at June 30:

	2010	2009
Cash and pooled funds	\$ 1,512,025,000	2,382,215,000
U.S. Treasury Bills	7,490,000	3,343,000
<b>Total cash and temporary investments</b>	<b>\$ 1,519,515,000</b>	<b>2,385,558,000</b>

U.S. treasury bills are explicitly guaranteed by the U.S. government and are not rated. At June 30, 2010, uninvested cash of \$71,222,000 was held at the custodian, sub-custodian or futures broker banks, mainly in interest bearing accounts. All remaining cash balances were invested in a money market fund managed by Invesco Aim Advisors Inc.

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

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

	2010	2009
Interest receivable	\$ 66,626,000	79,778,000
Dividends receivable	29,483,000	29,388,000
Sales receivable	142,091,000	533,450,000
Contributions receivable	763,000	58,429,000
Prepaid and other receivables	—	334,000
<b>Total receivables, prepaid expenses and other assets</b>	<b>\$ 238,963,000</b>	<b>701,379,000</b>

### 5. MARKETABLE DEBT SECURITIES

Marketable debt securities at June 30 are summarized as follows:

2010	Cost	Fair Value	Unrealized Gains/(Losses)
Treasury notes/bonds	\$ 2,381,437,000	2,478,483,000	97,046,000
Mortgage-backed securities	443,137,000	462,837,000	19,700,000
Other federal agencies	287,938,000	312,674,000	24,736,000
Corporate bonds	2,085,794,000	2,224,245,000	138,451,000
Non-domestic bonds	886,063,000	869,650,000	(16,413,000)
<b>Total marketable debt securities</b>	<b>\$ 6,084,369,000</b>	<b>6,347,889,000</b>	<b>263,520,000</b>

#### 2009

Treasury notes/bonds	\$ 1,193,909,000	1,182,206,000	(11,703,000)
Mortgage-backed securities	1,458,521,000	1,492,633,000	34,112,000
Other federal agencies	356,325,000	361,046,000	4,721,000
Corporate bonds	3,358,475,000	3,115,422,000	(243,053,000)
Non-domestic bonds	1,094,072,000	1,119,314,000	25,242,000
<b>Total marketable debt securities</b>	<b>\$ 7,461,302,000</b>	<b>7,270,621,000</b>	<b>(190,681,000)</b>

### 6. MARKETABLE DEBT CREDIT RATINGS

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 an investment grade mandate (approximately 91% of bond mandates at June 30, 2010), issues falling below the minimum standards are required to be sold within seven months of the downgrade date. Managers with high yield mandates (approximately 9% of bond mandates at June 30, 2010) are allowed to hold positions in assets with below investment grade ratings (high yield bonds) based on the terms of their contracts. For purposes of this note, if credit ratings differ among Nationally Recognized Statistical Rating Organizations (NRSRO) used, the rating with the highest degree of risk (the lowest rating) is reported. At June 30, 2010, 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	\$ 488,694,000	543,014,000	1,031,708,000	16.25%
AA	276,266,000	125,501,000	401,767,000	6.33%
A	812,848,000	105,348,000	918,196,000	14.46%
BBB	492,191,000	52,664,000	544,855,000	8.58%
BB	117,502,000	35,844,000	153,346,000	2.42%
B	160,362,000	2,273,000	162,635,000	2.56%
CCC	100,578,000	—	100,578,000	1.58%
CC	6,356,000	505,000	6,861,000	0.11%
C	8,473,000	862,000	9,335,000	0.15%
D	1,239,000	—	1,239,000	0.02%
<b>Total fair value of rated debt securities</b>	<b>2,464,509,000</b>	<b>866,011,000</b>	<b>3,330,520,000</b>	<b>52.46%</b>
Not rated	21,266,000	—	21,266,000	0.34%
U.S. government explicitly backed by the U.S. government	2,606,115,000	3,639,000	2,609,754,000	41.11%
U.S. government implicitly backed by the U.S. government	386,349,000	—	386,349,000	6.09%
<b>Total fair value debt securities</b>	<b>\$ 5,478,239,000</b>	<b>869,650,000</b>	<b>6,347,889,000</b>	<b>100.00%</b>

# NOTES TO FINANCIAL STATEMENTS (cont.)

JUNE 30, 2010 AND 2009

## 7. MARKETABLE DEBT DURATION

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 established benchmarks. At June 30, 2010, the effective duration by investment type, based on fair value, is as follows:

	Percent of bond holdings	Duration
<b>Domestic bonds</b>		
Treasuries	45.11%	5.44
Corporate bonds	35.26%	6.15
Mortgages and other structured products	13.91%	2.62
Supra/Sovereign	4.32%	6.09
Government sponsored	1.40%	2.35
<b>Total domestic bonds</b>	<b>100.00%</b>	<b>5.29</b>
<b>Non-domestic bonds</b>		
Government and agency	99.50%	5.70
Corporate and other non-government	0.50%	4.51
<b>Total non-domestic bonds</b>	<b>100.00%</b>	<b>5.70</b>

## 8. PREFERRED AND COMMON STOCK

Direct investments in preferred and common stock are held by the APFC's custodian bank on behalf of the Fund.

The Fund invests in commingled stock funds, which are held by the custodian bank of the fund manager on behalf of fund investors. The commingled stock funds held as of June 30, 2010, were: the Emerging Markets Growth Fund (EMGF) managed by Capital International Inc.; the International Small Company Portfolio (DFISX) managed by Dimensional Fund Advisors LP; and, the DFA International Small Cap Value Portfolio (DISVX) managed by Dimensional Fund Advisors LP.

The fair values of the Fund's shares in the EMGF were \$1,066,422,000 and \$788,281,000 as of June 30, 2010 and 2009, respectively, and are included in the non-domestic values shown below. The value of the Fund's investment in the commingled fund represented approximately 8.3 and 7.3 percent of the total EMGF value at June 30, 2010 and 2009, respectively.

The two commingled funds managed by Dimensional Fund Advisors LP were new investments to the Fund in FY 2010. The fair values of the Fund's shares in the DFISX and DISVX funds were \$184,424,000 and \$179,106,000 as of June 30, 2010, respectively, and are included in the non-domestic values shown below. The value of the Fund's investment in the DFISX and DISVX funds represented approximately 4.15 percent and 2.74 percent of those funds' total values at June 30, 2010, respectively.

Preferred and common stocks at June 30 are summarized as follows, and include the net fair value of equity index futures:

	Cost	Fair Value	Unrealized Gains/(Losses)
<b>2010</b>			
Domestic stock	\$ 8,734,594,000	8,855,374,000	120,780,000
Non-domestic stock	7,830,107,000	7,523,813,000	(306,294,000)
<b>Total preferred and common stock</b>	<b>\$ 16,564,701,000</b>	<b>16,379,187,000</b>	<b>(185,514,000)</b>
<b>2009</b>			
Domestic stock	\$ 10,575,022,000	9,921,151,000	(653,871,000)
Non-domestic stock	5,910,535,000	5,310,260,000	(600,275,000)
<b>Total preferred and common stock</b>	<b>\$ 16,485,557,000</b>	<b>15,231,411,000</b>	<b>(1,254,146,000)</b>

## 9. 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, 2010, the Fund's cash holdings, non-domestic public and private equity, and debt securities had exposure to foreign currency risk as follows (shown in U.S. dollar equivalent at fair value):

Foreign currency	Cash	Public equity	Debt	Private equity	Total foreign currency exposure
Australian Dollar	\$ 6,524,000	292,335,000	17,242,000	2,731,000	318,832,000
Brazilian Real	(1,315,000)	86,653,000	28,433,000	—	113,771,000
British Pound Sterling	5,967,000	1,093,997,000	81,124,000	22,820,000	1,203,908,000
Canadian Dollar	(3,718,000)	448,346,000	72,684,000	—	517,312,000
Chinese Yuan Renminbi	—	9,000	—	—	9,000
Colombian Peso	—	—	6,239,000	—	6,239,000
Czech Koruna	259,000	23,910,000	—	—	24,169,000
Danish Krone	867,000	49,641,000	42,777,000	—	93,285,000
Egyptian Pound	—	2,777,000	—	—	2,777,000
Euro Currency	64,737,000	1,523,246,000	372,825,000	100,279,000	2,061,087,000
Hong Kong Dollar	3,171,000	329,181,000	—	—	332,352,000
Hungarian Forint	91,000	3,103,000	1,079,000	—	4,273,000
Indian Rupee	(269,000)	60,277,000	—	—	60,008,000
Indonesian Rupiah	(715,000)	26,926,000	8,744,000	—	34,955,000
Israeli Shekel	117,000	40,452,000	244,000	—	40,813,000
Japanese Yen	4,632,000	1,148,774,000	85,653,000	—	1,239,059,000
Malaysian Ringgit	142,000	14,284,000	2,952,000	—	17,378,000
Mexican Peso	206,000	22,088,000	23,407,000	—	45,701,000
New Zealand Dollar	112,000	2,678,000	—	—	2,790,000
Norwegian Krone	1,015,000	32,646,000	10,860,000	—	44,521,000
Philippine Peso	14,000	2,230,000	—	—	2,244,000
Polish Zloty	174,000	12,580,000	9,951,000	—	22,705,000
Russian Ruble	—	7,990,000	—	—	7,990,000
Singapore Dollar	1,178,000	80,722,000	2,517,000	—	84,417,000
South African Rand	120,000	54,586,000	—	—	54,706,000
South Korean Won	1,537,000	118,662,000	6,624,000	—	126,823,000
Swedish Krona	810,000	120,400,000	26,102,000	—	147,312,000
Swiss Franc	632,000	401,090,000	—	—	401,722,000
Taiwan Dollar	5,826,000	127,873,000	—	—	133,699,000
Thai Baht	—	17,788,000	—	—	17,788,000
Turkish Lira	(362,000)	36,306,000	17,914,000	—	53,858,000
Ukrainian Hryvnia	3,000	1,284,000	—	—	1,287,000
Uruguayan Peso	—	—	3,914,000	—	3,914,000
<b>Total foreign currency exposure</b>	<b>\$ 91,755,000</b>	<b>6,182,834,000</b>	<b>821,285,000</b>	<b>125,830,000</b>	<b>7,221,704,000</b>

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.

## NOTES TO FINANCIAL STATEMENTS (cont.)

JUNE 30, 2010 AND 2009

### 10. REAL ESTATE

The Fund holds a variety of real estate interests, including directly owned real estate, real estate investment trusts, a real estate operating company, and other entities whose assets consist primarily of real property. The Fund invests in real estate directly through ownership of interests in corporations, limited liability companies, and partnerships that hold title to the real estate. External institutional real estate management firms administer the Fund's directly owned real estate investments.

Real estate investments at June 30 are summarized as follows:

2010	Cost	Fair Value	Unrealized Gains/(Losses)
Real estate investment trusts	\$ 213,706,000	211,498,000	(2,208,000)
Alaska residential mortgage	29,000	29,000	—
Directly owned real estate -			
Retail	650,694,000	1,040,027,000	389,333,000
Office	1,030,217,000	883,744,000	(146,473,000)
Industrial	247,206,000	214,713,000	(32,493,000)
Multifamily	997,120,000	923,352,000	(73,768,000)
<b>Total real estate</b>	<b>\$ 3,138,972,000</b>	<b>3,273,363,000</b>	<b>134,391,000</b>

#### 2009

Real estate investment trusts	\$ 208,615,000	156,165,000	(52,450,000)
Alaska residential mortgage	36,000	36,000	—
Directly owned real estate -			
Retail	631,842,000	1,027,055,000	395,213,000
Office	1,009,420,000	942,494,000	(66,926,000)
Industrial	243,032,000	237,229,000	(5,803,000)
Multifamily	1,027,634,000	1,001,068,000	(26,566,000)
<b>Total real estate</b>	<b>\$ 3,120,579,000</b>	<b>3,364,047,000</b>	<b>243,468,000</b>

### 11. ALTERNATIVE INVESTMENTS

Alternative investments include real return mandates, absolute return strategies, private equity, infrastructure, distressed debt, and mezzanine debt.

During fiscal year 2010, the APFC hired five real return mandate managers, providing \$500 million in funding to each manager. The objective for the real return managers is to produce a 5 percent real return (in excess of inflation) over the longer of one business cycle or five years. Each manager's contract specifies permitted investments and liquidity guidelines. Investments are generally in commingled proprietary funds structured as limited partnerships.

Absolute return strategies are investments in specialized funds with low market correlation. The Fund's absolute return strategies are managed through five limited partnerships, in which the Fund is the only limited partner ("fund-of-one"). External investment management services are provided by institutional investment managers who have acknowledged their status as fiduciaries with respect to the Fund. Absolute return strategies invest in a diversified portfolio of underlying limited partnership interests or similar limited liability entities. Each fund-of-one provides the Fund with fair value estimates of partnership interests and undergoes an annual independent audit. 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.

The Fund holds private equity through investments in limited liability companies and limited partnerships that 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 external advisors to select private equity holdings diversified by

geography and strategy. Private equity is funded slowly over time as opportunities are identified by the external advisors and the underlying fund managers. The underlying private equity funds provide the Fund with fair value estimates of the investments utilizing the most current information available. In addition, the external advisors review the fair value estimates, and the underlying private equity funds undergo annual independent audits. Private equity investments by their nature generally have no readily ascertainable market prices, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

Infrastructure investments 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 asset class are expected to have inflation protection attributes and exhibit low correlations with other major asset classes in the Fund's investment strategy. The Fund holds infrastructure investments through commingled funds organized as limited partnerships whose investment managers provide periodic fair value estimates. The limited partnerships undergo annual independent audits. Infrastructure investments by their nature generally have no readily ascertainable market prices, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

The Fund invests in distressed debt through limited partnerships that invest either directly in distressed debt or in commingled limited liability funds with a distressed debt focus. The Fund invests in mezzanine debt through limited partnerships that invest directly in mezzanine debt. These investments are funded over time, as opportunities arise. The limited partnerships undergo annual independent audits.

Alternative investments at June 30 are summarized as follows:

2010	Cost	Fair Value	Unrealized Gains/(Losses)
Real return	\$ 2,511,165,000	2,483,299,000	(27,866,000)
Absolute return	1,955,415,000	2,163,647,000	208,232,000
Private equity	1,036,852,000	1,017,919,000	(18,933,000)
Infrastructure	503,763,000	524,412,000	20,649,000
Distressed and mezzanine debt	243,768,000	288,976,000	45,208,000
<b>Total alternative investments</b>	<b>\$ 6,250,963,000</b>	<b>6,478,253,000</b>	<b>227,290,000</b>

#### 2009

Absolute return	\$ 1,817,452,000	1,787,231,000	(30,221,000)
Private equity	865,246,000	705,097,000	(160,149,000)
Infrastructure	379,596,000	373,078,000	(6,518,000)
Distressed debt	350,146,000	278,648,000	(71,498,000)
<b>Total alternative investments</b>	<b>\$ 3,412,440,000</b>	<b>3,144,054,000</b>	<b>(268,386,000)</b>

As of June 30, 2010, the APFC, on behalf of the Fund, had outstanding commitments of: \$151 million for absolute return; \$1.23 billion for private equity; \$802 million for infrastructure; and \$984 million for distressed and mezzanine debt investments combined.

### 12. ALASKA CERTIFICATES OF DEPOSIT

State regulations and APFC investment policy authorize the APFC 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. The certificates of deposit are secured by collateral consisting of letters of credit from the Federal Home Loan Bank or pooled mortgage securities issued by U.S. government sponsored enterprises.

### 13. SECURITIES LENDING

State regulations at 15 AAC 137.510 and APFC investment policy authorize the APFC to enter into securities lending transactions on behalf of the Fund. Through a contract with the Bank of New York Mellon (the Bank), the Fund lends marketable

# NOTES TO FINANCIAL STATEMENTS (cont.)

JUNE 30, 2010 AND 2009

debt and equity securities to borrowers who are banks and broker-dealers. The loans are collateralized with cash or marketable securities guaranteed by the U.S. government or a U.S. government agency. Under APFC's contract with the Bank, the Bank must mark the loaned securities and collateral to the market daily, and the loan agreements require the borrowers to maintain the collateral at not less than 102 percent of the fair value of the loaned securities for domestic securities (and non-domestic loaned securities denominated in U.S. dollars) and not less than 105 percent of the fair value for other non-domestic loaned securities. The APFC can sell securities that are on loan. Upon borrower default, the Bank can use cash collateral and the proceeds of non-cash collateral to purchase replacement securities. Generally, the APFC is protected from credit risk associated with the lending transactions through indemnification by the Bank against losses resulting from counterparty failure, the reinvestment of cash collateral, default on collateral investments, or a borrower's failure to return loaned securities.

Cash collateral received for loaned securities is reported on the Fund's balance sheet and invested by the Bank in the Fund's name. As of June 30, 2010, such investments were in overnight repurchase agreements that 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 is as follows:

	2010	2009
Fair value of securities on loan	\$ 2,452,813,000	2,004,201,000
Cash collateral	\$ 2,598,126,000	2,084,425,000

The Fund receives 80 percent of earnings derived from securities lending transactions, and the Bank retains 20 percent. During the years ended June 30, 2010 and 2009, the Fund incurred no losses from securities lending transactions. The Fund received income of \$9,475,000 and \$11,939,000 from securities lending for the years ended June 30, 2010 and 2009, respectively.

## 14. ACCOUNTS PAYABLE

Accounts payable include trades entered into on or before June 30 that 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:

	2010	2009
Accrued liabilities	\$ 21,269,000	14,640,000
Securities purchased	320,705,000	1,561,277,000
Foreign currency trades payable	—	561,000
<b>Total accounts payable</b>	<b>\$ 341,974,000</b>	<b>1,576,478,000</b>

## 15. 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 sub-fund 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 from the Fund to the Alaska Capital Income Fund (ACIF) established under Alaska Statute 37.05.565. Funds in the ACIF may be further appropriated for any public purpose. During years with net realized losses, no funds are transferred to the ACIF. Income distributable to the State at June 30 is summarized to the right.

	2010	2009
Dividends	\$ 815,903,000	813,541,000
Appropriation to the Departments of -		
Health and Social Services	13,585,000	13,585,000
Revenue	8,261,000	7,540,000
Corrections	10,037,000	10,897,000
Public Safety	7,607,000	8,258,000
Administration	1,883,000	2,056,000
Legislature	707,000	767,000
Total to Dividend Fund	857,983,000	856,644,000
Alaska Capital Income Fund	—	—
<b>Total income distributable</b>	<b>\$ 857,983,000</b>	<b>856,644,000</b>

## 16. FUND BALANCES

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

	2010	2009
<b>Nonspendable - principal</b>		
Balance, beginning of year	\$ 29,496,085,000	31,213,233,000
Dedicated state revenues	679,438,000	651,435,000
Inflation proofing transfer from assigned fund balance	—	1,144,334,000
Change in unrealized fair value appreciation (depreciation) on invested assets	1,869,451,000	(3,512,917,000)
<b>Balance, end of year</b>	<b>\$ 32,044,974,000</b>	<b>29,496,085,000</b>
<b>Assigned</b>		
Balance, beginning of year	\$ 419,984,000	5,320,658,000
Inflation proofing transfer to nonspendable fund balance	—	(1,144,334,000)
Dividends paid or payable to the Permanent Fund Dividend Fund	(857,983,000)	(874,844,000)
Realized earnings, net of operating expenditures	1,611,322,000	(2,508,986,000)
Change in unrealized fair value appreciation (depreciation) on invested assets	36,514,000	(372,510,000)
<b>Balance, end of year</b>	<b>\$ 1,209,837,000</b>	<b>419,984,000</b>
<b>Total</b>		
Balance, beginning of year	\$ 29,916,069,000	36,533,891,000
Dedicated State revenues	679,438,000	651,435,000
Dividends paid or payable to the Permanent Fund Dividend Fund	(857,983,000)	(874,844,000)
Excess (deficiency) of investment revenues over (under) expenditures	3,517,287,000	(6,394,413,000)
<b>Balance, end of year</b>	<b>\$ 33,254,811,000</b>	<b>29,916,069,000</b>

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

	2010	2009
Dedicated State revenues	\$ 11,868,234,000	11,188,796,000
Special appropriations	6,885,906,000	6,885,906,000
Inflation proofing	12,717,086,000	12,717,086,000
Settlement earnings	152,911,000	152,911,000
<b>Total contributions and appropriations</b>	<b>\$ 31,624,137,000</b>	<b>30,944,699,000</b>

On June 16, 2009, the Alaska Attorney General issued a legal opinion clarifying the accounting treatment of unrealized gains and losses. Based on the opinion, nonspendable fund balances and assigned fund balances should be allocated proportionate values of the unrealized appreciation or depreciation of invested assets. As of June 30, 2010, the Fund's net unrealized gain was \$436,724,000, of which \$420,836,000 was allocated to the nonspendable fund balance and \$15,888,000 was allocated to the assigned fund balance.

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, 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 settlement earnings are excluded from the dividend calculation and are not subject to inflation proofing. Since 2005, the Legislature has appropriated these settlement

## NOTES TO FINANCIAL STATEMENTS (cont.)

JUNE 30, 2010 AND 2009

earnings to the Alaska Capital Income Fund (ACIF). Prior to 2005, the statute required such earnings to be appropriated to Fund principal. The Fund realized earnings on settlement principal of \$20,830,000 during 2010 and a loss on settlement principal of \$33,343,000 in 2009. Realized losses in 2009 were recorded in a deficit account in the realized earnings account within the assigned fund balance, and realized gains and earnings were recorded in the same account to offset prior losses. Future realized earnings on settlement principal will first be used to offset the remaining deficit sub-account of \$12,513,000 at June 30, 2010, and amounts in excess of the deficit will be transferred to the ACIF.

### 17. STATUTORY NET INCOME

By Alaska law, statutory net income is computed in accordance with U.S. generally accepted accounting principles (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 unrealized gains and losses and income, regardless of source. Consequently, GAAP excess (deficiency) of revenues over (under) expenditures and statutory net income differ. Statutory net income 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:

	2010	2009
Excess (deficiency) of revenues over (under) expenditures	\$ 3,517,287,000	(6,394,413,000)
Unrealized (gains) losses	(1,905,965,000)	3,885,427,000
Settlement (earnings) losses	(20,830,000)	33,343,000
<b>Statutory net income (loss)</b>	<b>\$ 1,590,492,000</b>	<b>(2,475,643,000)</b>

### 18. INVESTMENT INCOME BY SOURCE

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

	2010	2009
<b>Interest</b>		
Domestic marketable debt securities	\$ 252,536,000	383,405,000
Non-domestic marketable debt securities	42,698,000	40,134,000
Alaska certificates of deposit	2,279,000	3,128,000
Short-term domestic and other	657,000	7,945,000
<b>Total interest</b>	<b>\$ 298,170,000</b>	<b>434,612,000</b>
<b>Dividends</b>		
Domestic stocks	\$ 142,190,000	163,913,000
Non-domestic stocks	208,827,000	220,557,000
<b>Total dividends</b>	<b>\$ 351,017,000</b>	<b>384,470,000</b>
<b>Real estate and other income</b>		
Directly owned real estate interest	\$ 2,000	2,000
Directly owned real estate, net rental income	138,203,000	161,603,000
Real estate investment trust dividends	8,949,000	17,591,000
Real return interest and dividends	8,188,000	—
Absolute return management expenses, net of dividend and interest income	(15,958,000)	(20,440,000)
Distressed and mezzanine debt fees, net of interest income	(4,758,000)	(2,916,000)
Infrastructure dividends and interest, net of fees	6,311,000	(25,151,000)
Private equity management expenses, net of dividend income	(4,880,000)	(5,840,000)
Class action litigation income	5,344,000	4,518,000
Loaned securities, commission recapture and other income	10,046,000	12,635,000
<b>Total real estate and other income</b>	<b>\$ 151,447,000</b>	<b>142,002,000</b>

### 19. FOREIGN EXCHANGE CONTRACTS, FUTURES, AND OFF-BALANCE SHEET RISK

Certain APFC external investment managers enter into foreign currency forward exchange contracts (FX forward contracts) to buy and sell specified amounts of foreign currencies for the Fund at specified rates and future dates for the purpose of managing or optimizing foreign currency exposure. The maturity periods for outstanding contracts at June 30, 2010 ranged between 1 and 166 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. The Fund's market risk as of June 30, 2010 is limited to the difference between contractual rates and forward market rates determined at the end of the fiscal year.

Activity and balances related to FX forward contracts for fiscal year 2010 and 2009 are summarized as follows:

	2010	2009
<b>Balances at June 30</b>		
Face value of FX forward contracts	\$ 2,011,514,000	2,295,286,000
Net unrealized gain (loss) on FX forward contracts	(1,475,000)	409,000
Fair value of FX forward contracts	\$ 2,010,039,000	2,295,695,000
<b>Activity for fiscal years ending June 30</b>		
Unrealized gains (losses)	\$ (3,871,000)	11,411,000
Realized gains (losses)	90,601,000	(990,000)
Net increase in fair value of FX forward contracts	\$ 86,730,000	10,421,000

Certain APFC equity investment managers are permitted to trade in equity index futures for the Fund's account. 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 fiscal year 2010 and 2009 is summarized as follows:

	2010	2009
<b>Balances at June 30</b>		
Face value of equity index futures	\$ 100,649,000	90,285,000
Net unrealized loss on futures	(5,003,000)	(1,181,000)
Fair value of equity index futures	\$ 95,646,000	89,104,000
<b>Activity for fiscal years ending June 30</b>		
Unrealized gains (losses)	\$ (4,017,000)	3,202,000
Realized gains (losses)	13,717,000	(11,369,000)
Net increase (decrease) in fair value of futures	\$ 9,700,000	(8,167,000)

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

# NOTES TO FINANCIAL STATEMENTS (cont.)

JUNE 30, 2010 AND 2009

## 20. EXPENDITURES

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

	2010	2009
<b>APFC Operating expenditures</b>		
Salaries and benefits	\$ 5,190,000	4,900,000
Communications and electronic services	1,887,000	1,394,000
Consulting fees	698,000	415,000
Training, supplies, services and other	434,000	461,000
Rent	354,000	358,000
Legal and audit fees	271,000	230,000
Travel	249,000	221,000
Property and equipment	149,000	159,000
Public information and subscriptions	118,000	136,000
<b>Subtotal APFC operating expenditures</b>	<b>9,350,000</b>	<b>8,274,000</b>
<b>Investment management and custody fees</b>		
Investment management fees	58,471,000	51,451,000
Custody and safekeeping fees	1,271,000	1,489,000
<b>Subtotal investment management and custody fees</b>	<b>59,742,000</b>	<b>52,940,000</b>
<b>Total operating expenditures, investment management and custody fees</b>	<b>69,092,000</b>	<b>61,214,000</b>
<b>Other Legislative appropriations from corporate receipts</b>		
Department of Natural Resources	5,153,000	5,072,000
Department of Law	1,477,000	1,477,000
Department of Revenue	82,000	79,000
<b>Total other Legislative appropriations</b>	<b>6,712,000</b>	<b>6,628,000</b>
<b>Total expenditures</b>	<b>\$ 75,804,000</b>	<b>67,842,000</b>

Through the appropriations and budget process, the Legislature allocates corporate receipts to other State departments to compensate these departments for work done on behalf of the Fund during the year.

## 21. PENSION PLANS

All APFC full-time, regular employees 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 healthcare benefits to eligible retirees. Benefit and contribution provisions are established by state law and can be amended only by the State Legislature.

PERS consists of Defined Contribution Retirement (PERS-DCR) and Defined Benefit Retirement (PERS-DBR) plans. 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 percent of their annual salaries to PERS and PERS-DCR members contribute 8 percent.

As an integrated cost-sharing plan, the PERS system requires employers to pay a uniform contribution rate of 22 percent for the benefit of PERS members. Total salaries subject to PERS for the years ended June 30, 2010 and 2009 amounted to \$3,684,000 and \$3,504,000, 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, 2010 and 2009. 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. As an integrated cost-sharing plan, any unfunded liabilities under the plan will be shared among all employers.

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 multiple-employer defined contribution plan created pursuant to Internal Revenue Code section 401(a) to provide benefits in lieu of those provided by the Federal Social Security System. Each year, APFC employees and Trustees contribute 6.13 percent of salaries or honorariums, up to a specified maximum, to SBS-AP. The APFC contributes a matching 6.13 percent. Participants are eligible to withdraw from SBS-AP 60 days after termination of employment or service as a Trustee. Total salaries and honorariums for individuals subject to SBS-AP for the years ended June 30, 2010 and 2009, amounted to \$2,902,000 and \$2,912,000, respectively.

## 22. SUBSEQUENT EVENTS

In connection with the preparation of the financial statements, the APFC evaluated subsequent events after the balance sheet date of June 30, 2010 through Sept. 9 2010, the date the financial statements were available to be issued.

# ALASKA PERMANENT FUND CORPORATION DIRECTORY

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