

ANNUAL REPORT 2017

TRANS FORM ATION

APFC

ALASKA PERMANENT
FUND CORPORATION

APFC Board of Trustees 2017:
Trustee Larry Cash, Trustee Sheldon Fisher,
Chair Bill Moran, Trustee Marty Rutherford,
Vice-Chair Carl Brady, Trustee Randy Hoffbeck

TRANSFORMATION

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LETTER FROM THE BOARD CHAIR

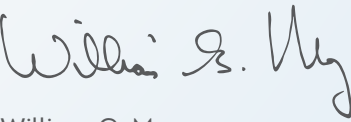
The mission of the Alaska Permanent Fund Corporation is to manage and invest the assets of the Permanent Fund and other funds designated by law. We honor and fulfill our mission with a strong, clear vision: to deliver sustained, compelling investment returns as the United States' leading sovereign endowment manager, benefitting all current and future generations of Alaskans.

Realizing our vision requires a keen eye for the future and thoughtful, intelligent planning. Throughout 2017, APFC's Trustees, Executive Leadership, and Staff worked diligently to implement our 5-year strategic plan, a plan that is forward thinking, adaptable, consistent with our

values, and reflective of our stakeholders. In addition to fulfilling our commitments and obligations, we strive to be on the leading edge of investments and investment strategies. To that end, APFC is actively partnering with investment managers and institutional investors operating on each major continent with the objective of gaining access to the most effective investment opportunities around the globe as they arise.

Internally, we are optimizing APFC's operational processes and use of financial networks and technology, developing best-in-class investment management capabilities, and enhancing talent and staff across APFC. We recognize that our goals are not achieved in isolation, and we are working with stakeholders to gain greater control of resource allocations to ensure a diverse, effective portfolio and a modernized, protected fund which serves the needs of Alaskans.

APFC is on track to affirm our standing as being among the best-managed sovereign wealth funds in the world. In just 12 months, many of our goals and objectives set forth in the 5-year plan have been met or are on schedule for completion. Our strategic plan will continue to guide us as we work to achieve maximum growth of the Fund and serve our fellow Alaskans for many decades to come.


William G. Moran

LETTER FROM THE CEO

As the Alaska Permanent Fund enters into its fifth decade, it is important to acknowledge how far we have come in establishing sound governance and investment practices. The vision of our leaders, past and present, is now expressed in total assets under management (AUM) of almost \$60 billion. This achievement – this transformation – is the result of strong synergy between a skilled, high-performing team and adherence to our values: integrity, stewardship, and passion. These values are echoed in everything we do, without exception, and they continue to guide us forward.

The Alaska Permanent Fund Corporation’s success requires continuous adaptation and foresight as we build and nurture a team committed to the stewardship of one of Alaska’s most precious resources. This past year, we expanded our team by adding two staff to our Private Markets group; rebuilt and fortified our Information Technology team; and added staff to the Public Equities team. The outcome of this internal transformation can be seen externally in the momentum of Fund growth, as well as the awards and achievements of APFC staff, highlighted later in this annual report.

Over the course of Fiscal Year 2017 (FY17), the APFC team worked diligently to identify and act on opportunities to both invest new funds and realize gains appropriately, successfully outperforming the Total Fund performance benchmarks and the strategic return objective established by the Board of Trustees. The outperformance of the Total Fund versus the

Passive Index Benchmark represents \$1.2 billion in FY17, and more than \$4.4 billion over 3 years in value added growth. This growth can be attributed to the APFC staff generating higher returns through active asset allocation and portfolio management.

The Alaska Permanent Fund’s (Fund) investments gained 12.57 percent in FY17 and the Fund ended June 30, 2017, with a record total assets under management of \$59.8 billion, comprised of \$47.0 billion in the Principal of the Fund and \$12.8 billion in the Earnings Reserve Account. Following the FY17 year-end close, the total AUM has continued climbing to record highs and is now well over \$60 billion.

Our passion to cultivate Alaska’s global investments helps to maintain APFC’s esteemed international reputation as innovative leaders in our field. It recently earned us the honor of hosting the Government Pension Investment Fund of Japan in their effort to research strategic asset allocation best practices. We are proud to share our resources and knowledge on an international level, and continue to provide guidance and partnership to organizations and countries on effective investment practices. Bringing worldviews to Alaskans is important to us, as our international success directly benefits all Alaskans.

As we look ahead to the future of the Fund and that of APFC, we must recognize the major transformation that is happening to both. The State is now looking to the Fund and APFC’s management of the Fund in ways that have not been contemplated before. While our core mission and intent has not changed – to manage and invest the Fund for all generations of Alaskans – we recognize there is an ever greater need for transparency and resources in order to secure a reliable income stream for those depending upon it.

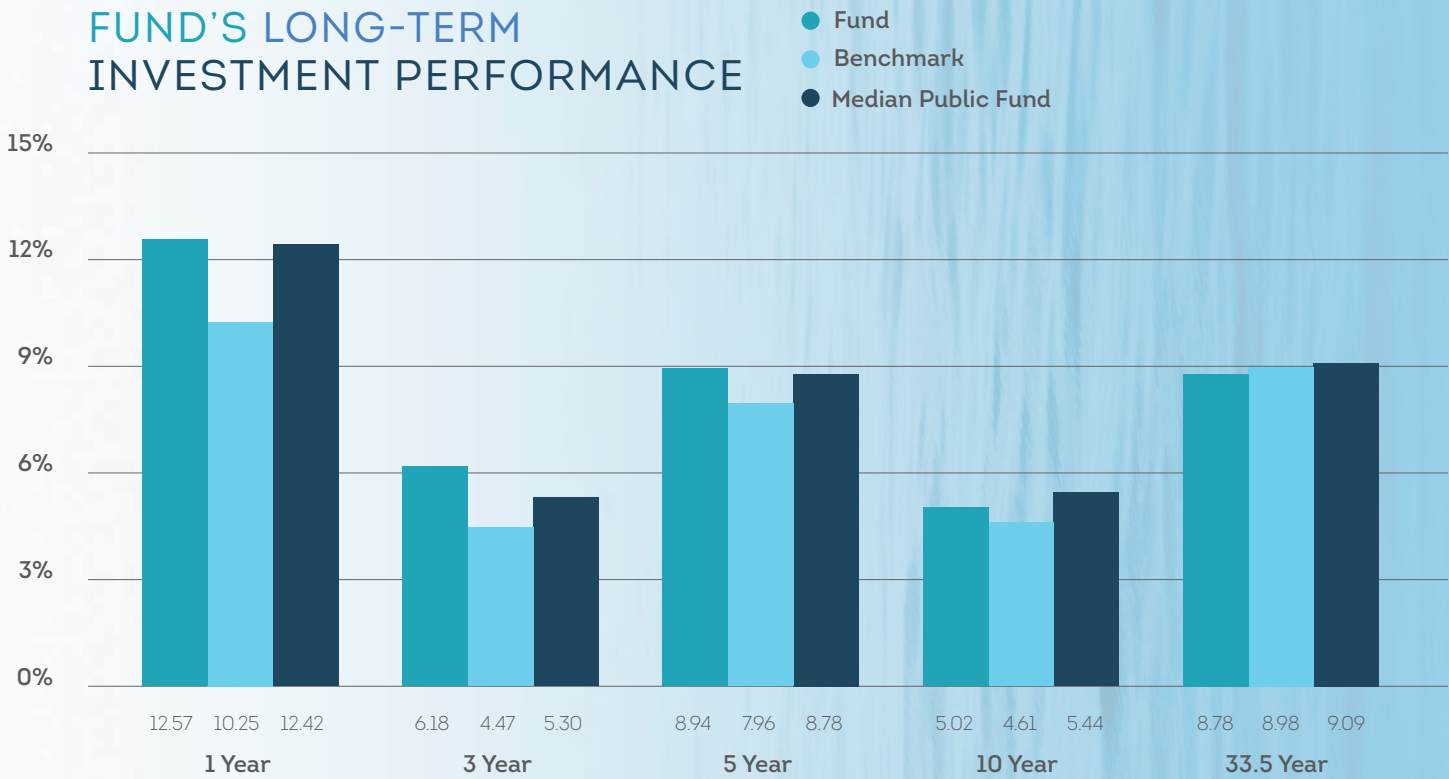
APFC intends to build upon our success by continuing to adapt our investment strategies and by supporting the extraordinary individuals who work to grow the Fund. I am proud to lead our exceptional team and am confident that the Fund is poised to meet critical public funding needs of Alaskans for many years in the future.

Angela M. Rodell

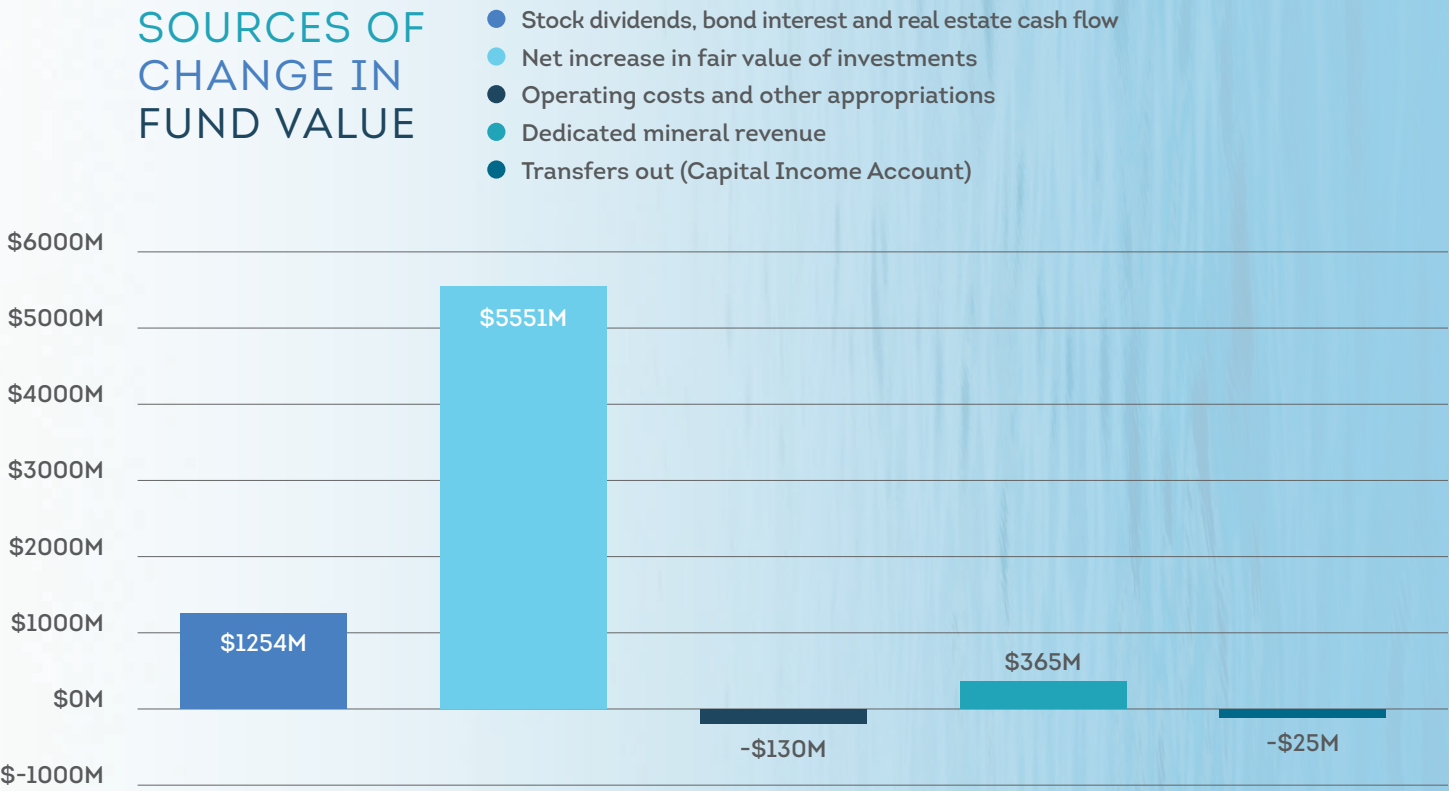
Angela M. Rodell

OUR PERFORMANCE

FUND’S LONG-TERM INVESTMENT PERFORMANCE



SOURCES OF CHANGE IN FUND VALUE



OUR ACCOMPLISHMENTS

APFC has been fortunate in its ability to recruit and employ top talent in the fields of investment management, accounting, information technology, and administration. This exceptional team is given the flexibility and responsibility to make meticulously vetted and timely decisions that have an immediate and long-term impact to the Fund.

Head of Private Equity and Special Growth Opportunities Stephen Moseley was selected for the Sovereign Wealth Fund Institute's list of the Public 100 Most Significant Institutional Investors. Moseley was also elected to the board of directors for the Institutional Limited Partners Association, an association that represents over 400 member organizations from around the world. Another team member, Senior Portfolio Manager - Special Growth Opportunities Yup Kim was selected for Chief Investment Officer Magazine's 40 Under 40.

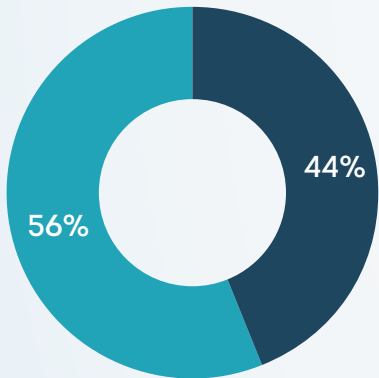
This past year, APFC's Network Systems Analyst Anthony Shaw received his Cisco certified Network Association certification, while Portfolio Accountant Katy Giorgio earned a Master of Public Administration Degree and an Occupational Endorsement in Accounting from University of Alaska Southeast. Jane Sherbrooke and Jacki Mallinger are working diligently to prepare and sit for the challenging Certified Public Accountancy exam to further their credentials as finance professionals.

In addition to the honors received by APFC and individual team members, we must acknowledge the hard work that occurred behind the scenes to ensure optimum growth for the Fund. From working in the trenches to build a new, modernized trade order management system, to getting our updated real estate system implemented and across the finish line, our team stayed the course while we adapted and refined our processes, programs, and infrastructure. This work is necessary as it enhances teamwork, efficiency, and productivity, ensuring the Fund is protected and invested optimally.

Indeed, this past year was one of transformation. As the team worked to improve capabilities and internal processes, we also worked together to renew APFC's visible brand. We are proud to showcase a new logo and look that aligns with who we are and what we represent: it is innovative and modern, while retaining a strong, steady presence like the great state in which we serve.

It is the vision of APFC's Board of Trustees and staff that we deliver sustained, compelling returns as the United States' leading sovereign endowment manager, benefitting all current and future generations of Alaskans. Put simply, we want to be the best in class while maintaining our integrity, our commitment to good public stewardship, and our passion. Our success in fulfilling this vision can be measured in any number of ways, including overall performance of our assets under management. We can also measure our success through our recognition of the individual and collective honors bestowed over the course of fiscal year 2017.

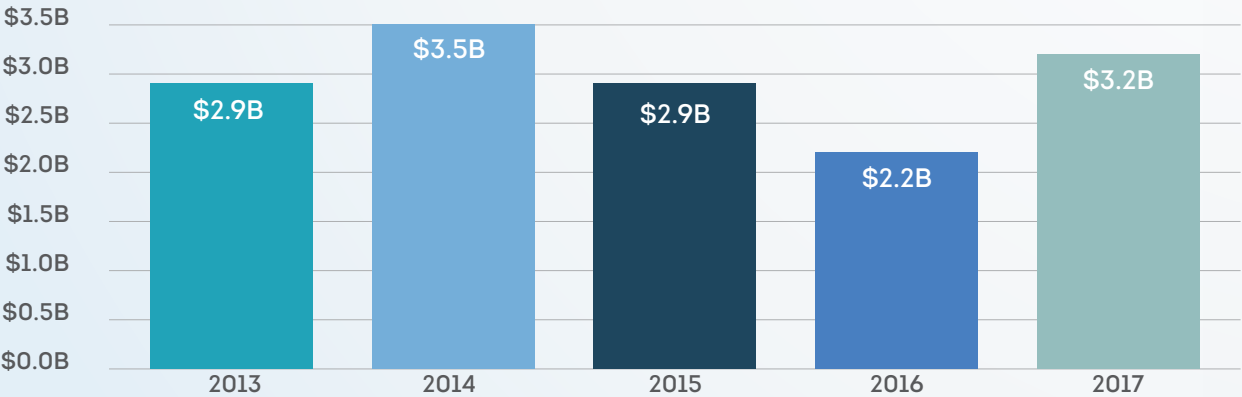
We are proud to acknowledge that APFC was recognized in a brief by The Pew Charitable Trusts, "From Volatile Severance Taxes to Sustained Revenue," where we were commended for our organizational structure and performance, and highlighted as an exemplary sovereign wealth fund. We were also honored as a finalist for Sovereign Wealth Fund of the Year at the Institutional Investor's 2017 Hedge Fund Industry Awards.



USE OF FUND INCOME SINCE INCEPTION

- Paid out to Current Generations | \$24.3B
- Saved for Future Generations | \$31.4B

STATUTORY NET INCOME BY FISCAL YEAR



INVESTMENT SUMMARY

APFC's composite investment return for the fiscal year ending June 30, 2017 was an outstanding 12.57 percent. This investment return was especially strong in that it exceeded APFC's long-term inflation + 5 percent return target (6.63 percent) by 5.94 percent, outperformed its index benchmarks by 2.3 percent, and contributed an estimated \$1.2 billion in value compared with a passive diversified investment in stocks and bonds. This fiscal year's investment performance was clocked as top-half (46th percentile) among U.S. public investment plans on a 1-year basis and top-quartile (17th percentile) on a three-year basis by APFC's independent investment consultants, Callan Associates. Over the past five fiscal years, APFC's 8.94 percent annualized return has similarly exceeded the inflation + 5 percent target (6.32 percent) by 2.62 percent while outperforming index benchmarks by over 1 percent and contributing in excess of \$3.8 billion in total value over a passive diversified investment in stocks and bonds (an average of over \$750 million annually).

This fiscal year's investment return was driven by exceptional 20 percent+ investment returns in each of APFC's U.S. Stock (20.1 percent), International Stock (22.6 percent), and Private Equity (21.0 percent) portfolios combined

with inflation + 5 percent or better performance in APFC's Infrastructure (8.55 percent), Private Credit (6.99 percent), Absolute Return (7.22 percent), and Special Opportunities portfolios. At the same time, APFC's Fixed Income Plus portfolio provided essential portfolio diversification while outperforming its index performance benchmark and producing positive returns overall. In effect, fiscal year 2017 has been one of strong achievement on both a relative and absolute basis and over a three-year period has reflected APFC's ability to outperform U.S. public plan peers during both strong and weak years for U.S. stocks.

As strong as this fiscal year's investment performance has been, there are some reasons for caution looking forward. Importantly, over the past four decades of history for the Permanent Fund, periods of exceptional strength in stock performance have often been followed by periods of relative weakness. In this regard, APFC does not expect that this year's double-digit investment returns will prove sustainable over the long term.

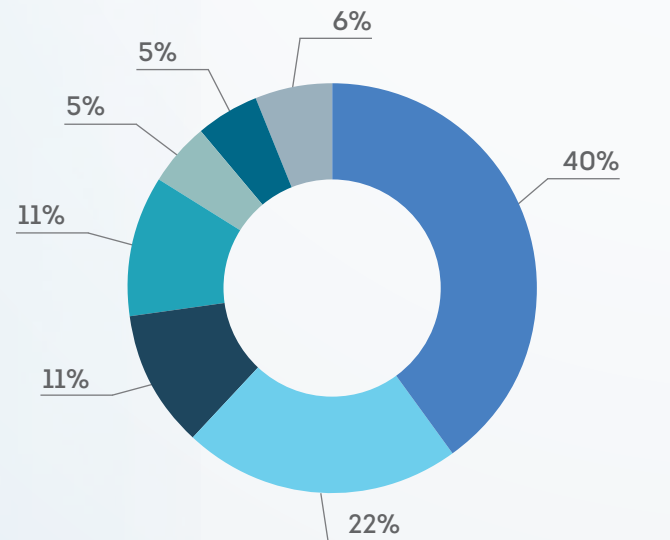
"That said, this year's investment performance does underscore that the plan is generally on track for delivering compelling inflation-adjusted returns on a long-term basis to support the potential needs of the Alaska government and its citizenry." –Russell Read, Chief Investment Officer

APFC remains committed to adding value to the portfolio while providing among the highest levels of risk diversification among U.S. institutional investors.

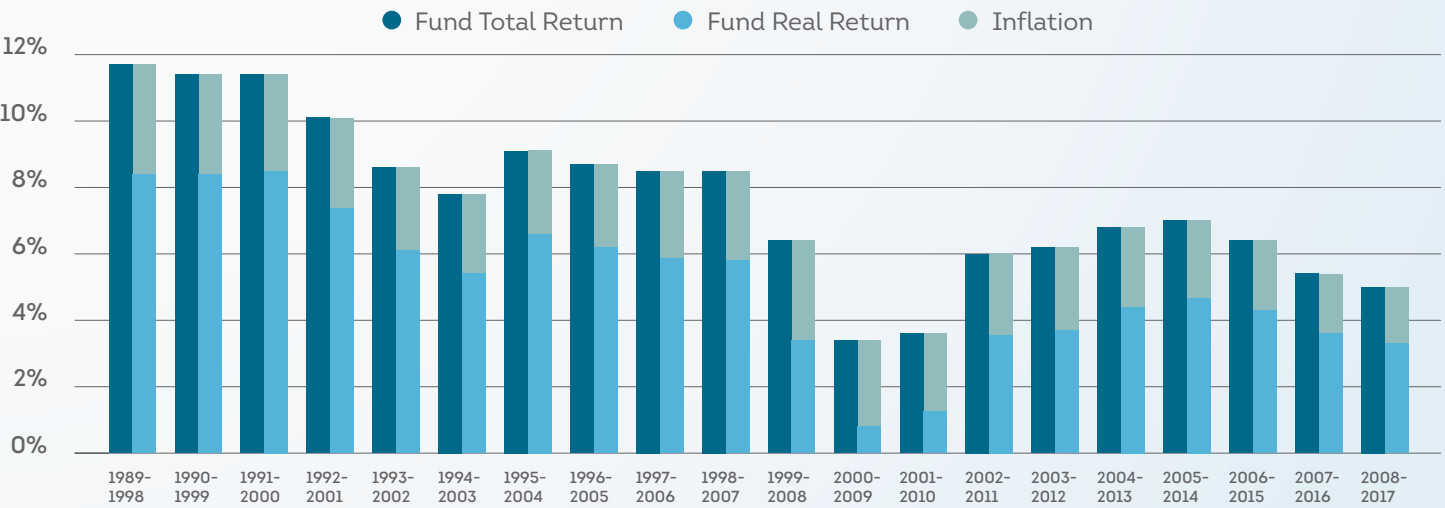


FY 17 TARGET ASSET ALLOCATION

- Public Equities
- Fixed Income Plus
- Private Equity & Growth Opportunities
- Real Estate
- Private Income: Infrastructure, Credit, & Income Opportunities
- Absolute Return
- Allocation Strategies



ROLLING 10-YEAR FUND RETURNS



FIXED INCOME PLUS: BONDS AND LISTED SECURITIES

The Fixed Income Plus portfolio acts as an anchor to the Fund during volatile market cycles. During times of crisis and volatility, these assets provide stability and a source of liquidity. Trading is done on a daily basis by the Juneau-based trading desk, which has a direct line to all the major banks on Wall Street.

“Technology has allowed for the portfolio managers and the operations team to effectively trade bonds with the same speed and efficiency as the largest global asset managers.” –Jim Parise, Director of Fixed Income Plus Investments

The \$11.6 billion Fixed Income Plus portfolio is comprised of \$7.0 billion in Internally Managed Investment Grade Bonds and \$4.5 billion in Externally Managed Global High Yield, Emerging Market Debt, Treasury Inflation Protected Securities (TIPS), Real Estate Investment Trusts (REITs), and Listed Infrastructure.

The internally managed portion of the Fixed Income Plus portfolio’s investment philosophy is to make targeted, high conviction macro bets when market dislocations occur, while taking advantage of daily technical factors that present relative value opportunities. We believe that reversion to the mean is a powerful force in the fixed income market and we have demonstrated that a disciplined process and proper risk controls can help us outperform our index over different market cycles. External managers are used to complement the internally managed accounts in markets requiring resources not available to the internal fixed income team. They engage in markets that require specialized knowledge and teams to perform well, and we allocate to these managers based on our overall analysis of these markets.

The Fixed Income Plus portfolio had stellar performance versus its overall benchmark for the final quarter of the fiscal year, ranking in the top 11th percentile of all fixed income managers. The outperformance was due to the outstanding annual performance of the underlying, internally managed fixed income portfolios, which all beat their benchmarks for FY17. The internally managed \$3.3 billion U.S. Aggregate and the \$3.1 billion Investment Grade Corporate bond portfolios each beat their benchmark by approximately 100 basis points.

BONDS – U.S. AND NON-U.S.

The Permanent Fund’s \$3.3 billion U.S. Aggregate bond portfolio gained 0.62 percent for FY17, exceeding the Barclay’s U.S. Aggregate Index return of -0.31 percent. This portfolio is managed internally by the Corporation’s staff, and invests in corporate bonds, treasuries, mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities. The majority of the outperformance came from security selection and an overweight to corporate bonds while spreads tightened by 47bps.

The \$3.1 billion internally managed investment grade U.S. Corporate bond portfolio gained 3.29 percent for FY17, exceeding the Barclays Corporate Index return of 2.28 percent. The outperformance can be attributed to security selection and an overweight to spread in a tightening environment.

As a whole, the Permanent Fund’s \$567.8 million non-U.S. bond strategy returned -1.57 percent for the fiscal year 2017, exceeding the Barclays Global EX-U.S. return of -1.71 percent. The \$226.2 million internally managed non-U.S. portfolio returned -1.64 percent, while the \$338.1 million external portfolio managed by Rogge Global Partners returned -1.51 percent for the year.

GLOBAL HIGH YIELD

The \$1.1 billion global high-yield strategy, as a whole, returned 10.8 percent for the fiscal year, lagging the Barclays High Yield 2 percent Issuer Cap Index return of 12.69 percent. The Corporation’s staff oversees external asset managers, who manage the money allocation to this strategy. Oaktree manages a \$567.6 million portfolio that returned 10.28 percent for the fiscal year. Capital Guardian manages a \$385.2 million portfolio that returned 12.44 percent for the fiscal year. The remaining \$147.2 million was invested in the iShares High Yield Corporate Bonds ETF in January of 2017. The ETF has returned 3.46 percent year to date.

EMERGING MARKET DEBT

Capital Guardian manages a \$629.5 million emerging market debt portfolio for the Permanent Fund. The portfolio returned 7.15 percent in the fiscal year, outperforming the Barclays Emerging Market Debt Hard Currency Index return of 5.76 percent.

TREASURY INFLATION PROTECTED SECURITIES (TIPS)

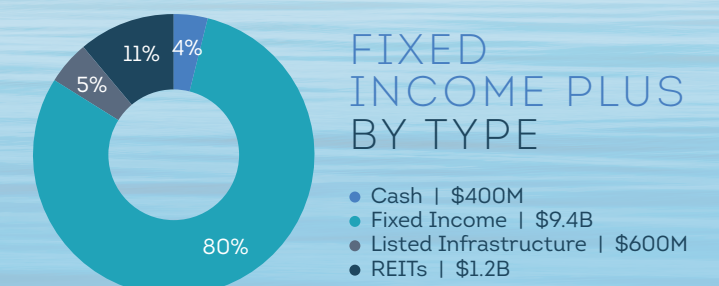
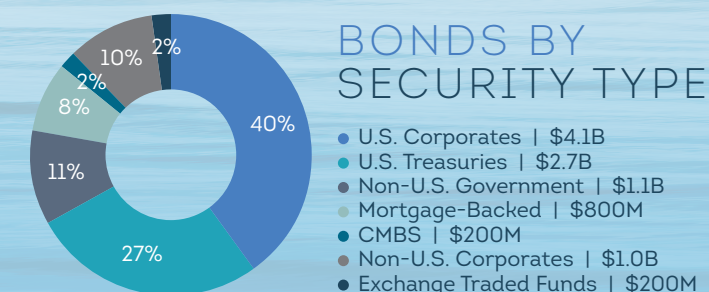
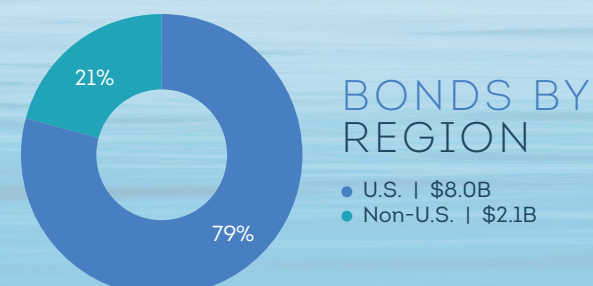
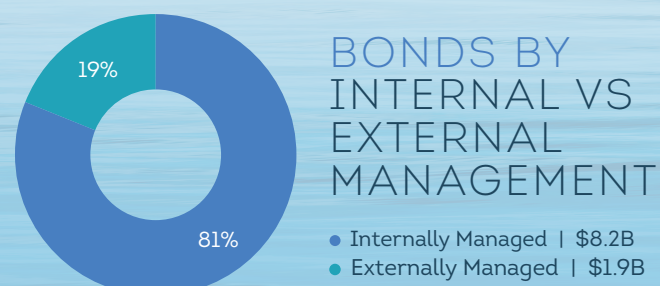
TIPS offer diversification and inflation protection for the portfolio. The \$714.3 million TIPS strategy returned -0.62 percent for the fiscal year exceeding the Barclays U.S. TIPS Index return of -0.63 percent. The majority of the assets in this strategy are managed internally by the Corporation’s staff.

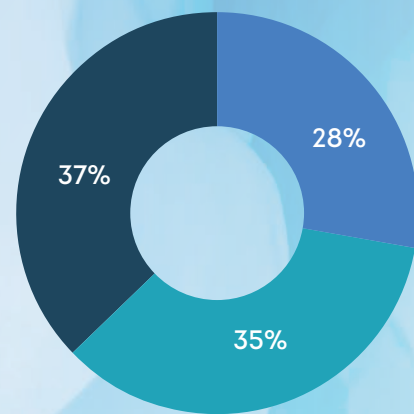
REAL ESTATE INVESTMENT TRUSTS (REITS)

The \$1.2 billion REITS strategy returned 1.54 percent for the fiscal year exceeding the S&P Global REITS index return of -2.35 percent. This entire allocation is managed by external assets managers. AEW manages a \$493.9 million portfolio that returned -0.50 percent and American Homes for Rent manages a \$37.5 million portfolio that returned 5.44 percent in the fiscal year. The remaining \$695.9 million is managed by State Street in a portfolio that was funded in December of 2016. The State Street portfolio returned 3.57 percent in the first two quarters of 2017.

LISTED INFRASTRUCTURE

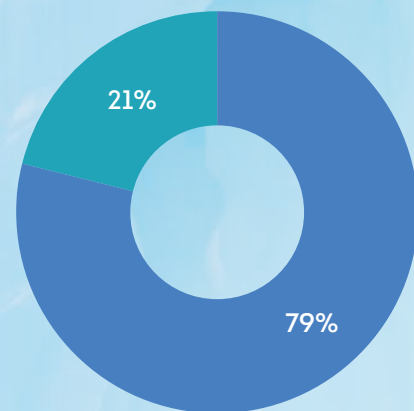
The \$574.2 million Listed Infrastructure strategy returned 15.03 percent for the fiscal year, exceeding the S&P Global Listed Infrastructure Index return of 11.73 percent. This strategy is managed exclusively by external asset managers. Lazard manages a \$180.3 million portfolio that returned 27.09 percent and Cohen & Steers manages a \$131.8 million portfolio that returned 10.26 percent in the fiscal year. The remaining \$261.7 million is managed by State Street in a portfolio that was funded in December of 2016. The State Street portfolio returned 14.23 percent in the first two quarters of 2017.





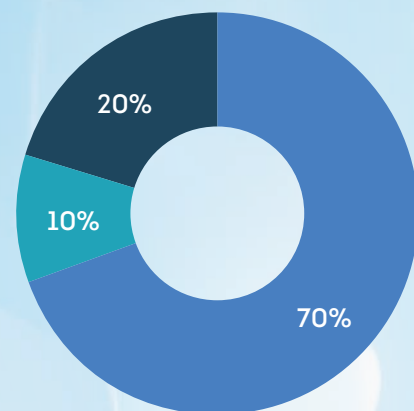
BY REGIONAL MANDATE

- U.S. Stocks | \$7.0B
- Global Stocks | \$9.0B
- Non-U.S. Stocks | \$9.4B



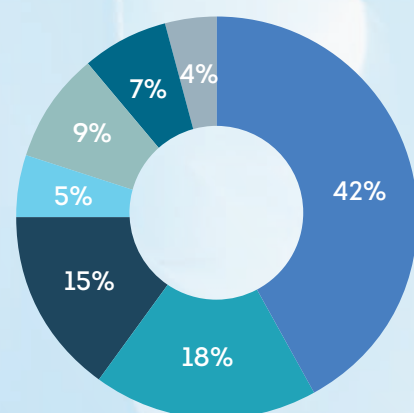
BY COMPANY CAPITALIZATION

- Small/Mid-cap | \$5.0B
- Large-cap | \$1.4B



BY ACTIVE AND PASSIVE MANAGEMENT STYLES

- Active | \$17.6B
- Passive | \$2.5B
- Quasi-Passive | \$5.2B



BY REGION

- U.S. | \$10.8B
- Europe ex UK | \$4.5B
- Asia ex Japan | \$3.8B
- UK | \$1.2B
- Japan | \$2.2B
- American | \$1.8B
- Other | \$1.1B



PUBLIC EQUITIES: STOCKS

APFC's Public Equity allocation is actively structured to perform well in a variety of market environments, including positively trending equity markets and weak market environments. The components of this structure include asset allocation, external manager selection, and internal management of equities.

Public Equity allocation decisions are both strategic (long-term) and tactical (intermediate-term) and are based on long-term expected returns, valuation, fundamentals, and macroeconomic trends. We implement our asset allocation decisions predominantly through external fund managers across active, quasi-passive, and passive strategies. A small but increasing part of our allocation is also managed internally, through exchange-traded funds (ETFs).

“Over the past one year the primary contribution to returns came from emphasizing international equity markets over domestic equities and the excess return generated by the Fund's active and quasi-passive managers.” -Fawad Razzaque, Director of Public Equity Investments

For the Fiscal Year ended June 30, 2017, APFC's \$25.9 billion Public Equity portfolio delivered 20.52 percent returns compared to 19.01 percent gain for the MSCI ACWI IMI, outperforming the benchmark by 151 bps. Increased optimism regarding global economic growth supported by continuing positive earnings and profitability trends drove high absolute returns across most major global equity markets. Despite a volatile global macroeconomic and political risk environment, the APFC Public Equity portfolio responded positively to the dynamic market conditions with stellar returns across all sectors: Domestic Equities were up 20.08 percent versus 18.51 percent for the Russell 3000 index, International Equities were up 22.57 percent versus 20.43 percent return for the MSCI ACWI ex-U.S. index, and Global Equities were up 18.77 percent versus 19.01 percent return for the Global benchmark. Overall, the strong performance of the fund's external managers, the portfolio's greater allocation to international equity markets relative to U.S. Equities, and the internal management of equities, all greatly benefitted the Public Equity portfolio's absolute and relative performance.

REAL ESTATE

The Permanent Fund’s \$5.5 billion Real Estate portfolio produced a return of 4.5 percent for fiscal year 2017. The NCREIF Property Index returned almost 7 percent for the period. REITs were moved to the Fixed Income Plus portfolio in October 2016, with only a partial year inclusion under the broader real estate asset class.

PRIVATE REAL ESTATE

The Fund’s portfolio is comprised of 55 directly held properties, and an approximately \$1.4 billion investment in Simpson Housing LLLP. Simpson Housing owns and operates large multi-family properties across the U.S. APFC owns the company jointly with the State of Michigan Retirement System.

In December, the Permanent Fund added another non-domestic property located in greater London. The Glades is a modern, high-quality shopping centre that dominates the Borough of Bromley’s retail sector. While the bulk of the real estate portfolio is based in the U.S., overseas properties now comprise \$383 million for 7 percent of the total. Aside from the London retail acquisition and ongoing Simpson Housing transactions, APFC was a net seller in fiscal year 2017. APFC sold two

office properties (in California) and a smaller industrial property (in Texas).

A focus in the current strategic plan for real estate is the introduction of a tilt to non-core opportunities. This is a significant move as the portfolio has been conservatively managed as a predominantly core program since inception. In a fully-priced market where there remains little expectation for continued appreciation, total return will be chiefly comprised of the income component. In order to enhance returns, APFC is seeking value-added and more opportunistic assets; while working to acquire properties through a “build-to-core” program. At this time three sites have been identified for potential development within the existing portfolio.

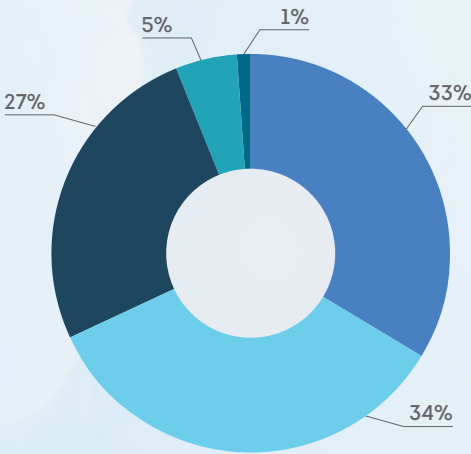
“With a longer investment horizon, these resulting projects will impact returns by unlocking value from undeveloped parcels and creating high quality, well-located long-term assets.” –Rosemarie Duran, Director of Real Estate Investments

APFC continues to maintain our overweight positions to both the multi-family and retail sectors. These property types have been impacted by the urbanization and “millennial” themes in the marketplace as expectations for real estate space evolve. Retailers have also faced headwinds as they transform their operations towards an “omnichannel” approach to deliver their products. The other significant demographic segment is the “baby boomer generation.” The size and impact of this cohort drives a continued focus on medical office properties, as well as targeted senior housing investments. A barbell investment approach that recognizes both cohorts will lead to successful results.



Pictured, top left: The Glades - Bromley, United Kingdom
Bottom left: Maui Marketplace - Kahului, Hawaii
Right: Life Science Plaza - Houston, Texas

The APFC real estate portfolio is currently underweight to the industrial sector. This property type is leading results in the current year, as well as the 3-year horizon. Our current tactical plan identifies a portfolio or company acquisition as a means to quickly broaden our industrial exposure, which is also in line with many like-minded investors.



REAL ESTATE BY PROPERTY TYPE

- Retail | \$1.8B
- Multi-family | \$1.9B
- Office | \$1.4B
- Industrial | \$300M
- Hotel | \$100M

Private Equity and Growth Opportunities describes a broad range of investment strategies, investment structures, and underlying assets linked by several common characteristics. Current strategies include venture capital, buyouts, and distressed assets. These opportunities are accessed through both long-term commitments to funds managed by our investment partners and direct investments into operating companies where and when it will complement the investments led by our partners. The underlying assets are rigorously diversified across industries and geographies.

Investments in private markets are typically characterized by long investment horizons and limited liquidity, but bring to the Fund increased diversification and the potential for risk-adjusted returns that far exceed those of publicly-listed securities. The Fund’s scale and patience provide a comparative advantage in private markets that may be unavailable in other asset classes. With an investment time horizon measured in decades, APFC can tolerate short-term market fluctuations and benefit from the long-term compounding of value.

PROGRAM SUMMARY

PROGRAM	COMMITMENTS	
	FY 2017*	TOTAL*
External Private Equity	412	6,118
Internal Private Equity	604	1,946
APFC Special Growth Opportunities	320	3,628
Combined Portfolio (in millions)	\$ 1,336	\$ 11,692

** Includes commitments through June 30, 2017*

PRIVATE EQUITY

Private Equity refers to several different types of investments. Venture capital and growth equity investments support and nourish innovative, fast-growing companies and return to the Fund extraordinary multiples of invested capital when successful. APFC’s buyouts strategy emphasizes robust, long-term partnerships with exceptional investors applying specialized skills to add value to the assets they acquire. In addition, the Fund’s distressed and other specialized private equity strategies tend to focus opportunistically on countercyclical investments and narrowly focused industry opportunities.

The Fund’s private equity assets were valued at \$4.2 billion as of June 30, and returned 21.0 percent for fiscal year 2017 (FY17). Over the same period, the program’s benchmark, a 60/40 blend of U.S. and non-U.S. stocks, gained 6.1 percent. Over the last three and five years, after fees and expenses, private equity returned 17.2 percent and 18.2 percent per year, respectively. In FY17, we committed \$1.0 billion to 21 private equity investment partnerships, two co-investments, and one secondary transaction. Most of this capital was committed to funds managed by existing investment partners, but APFC also committed for the first time to funds managed by ONCAP, Incline, and Catterton Latin America. We hope to grow with these managers over time.

INTERNALLY VS. EXTERNALLY MANAGED PRIVATE EQUITY

The internally managed Private Equity portfolio, launched in 2013, continues to grow as part of the overall program, and as of fiscal year end, constitutes 23 percent of the overall committed capital. In FY17, new fund investment activity by staff amounted to \$604 million, which outpaced the \$412 million of external investments. The internal team’s investments have generated 20.3 percent annual returns since inception and have been strongly accretive to the portfolio. The externally managed private equity portfolios have also delivered solid and consistent performance with a since-inception net annualized return of 12.1 percent.

GROWTH OPPORTUNITIES

Technological innovation, market volatility, and behavioral economics often create attractive investment opportunities that don’t fit precisely into standard, predetermined categories. These opportunities may be caused by, among other things, temporary market dislocations, evolving social or economic trends, or a changing regulatory environment. APFC seeks to be positioned to capture these Growth Opportunities for the benefit of the Fund.

“*In the Special Growth Opportunities portfolio, we concentrate our investments behind exceptional themes and talented managers while maintaining a risk framework that ensures resilience if outcomes fall short of expectations.*”
 –Steve Moseley, Director of Private Equity and Special Growth Opportunities

In FY17, we committed \$320 million to new special opportunity investments. The Fund’s special opportunity assets were valued at \$2.8 billion as of June 30, and returned 14.4 percent for FY17. It is worth noting that excluding the impact from Juno Therapeutics (NASDAQ: JUNO), the special opportunity portfolio returned 38.8 percent for the fiscal year. Since inception, after fees and expenses, the special opportunities portfolio returned 28.6 percent annually net of fees and contributed gains of over \$1 billion to the Fund.

CO-INVESTMENTS AND DIRECT INVESTMENTS

APFC effects most private equity investments through talented external managers based in

financial centers outside Alaska. Identifying exceptional managers and succeeding with them over time is the key determinant of our long-term investment success. Additionally, because of APFC’s scale, commitment, and patience in private markets, we very often have opportunities to support our investment partners and their portfolio companies by investing directly into operating companies. Each of these investments is pursued with the ultimate objective of generating the highest possible risk-adjusted net-of-fee returns on invested capital within the risk guidelines set by the Board. Each co-investment also provides valuable insight (into, for example, investment managers and targeted industries) that would otherwise be unavailable to the Fund.

Since initial implementation four years ago, staff has invested \$913 million into 19 co-investments and direct investments into operating companies, with an average equity investment size of \$48 million, and has generated an IRR of 71.4 percent and a 2.2x multiple on invested capital, which translates into a \$987 million gain.

Because co-investments and direct investments are managed by internal staff rather than outside managers, these activities have allowed the Fund to reduce carried interest and management fee expenses since the Board approved the co-investment program in 2013. Although successful co-investments require extensive staff time and travel, and many opportunities must be examined for each co-investment that is selected and completed, APFC has enjoyed robust success and will seek to expand this activity prudently and opportunistically over time.

Together, Private Equity and Growth Opportunities represent 11.3 percent of the Permanent Fund, comprised of 7.0 percent percent in Private Equity, and 4.3 percent in Special Growth Opportunities. APFC intends to increase this exposure to approximately 14 percent in two years. Target allocations are subject to careful portfolio planning and depend on the comparative attractiveness of the full range of investments available to the Fund.

The Private Equity and Special Growth Opportunities portfolio enjoyed strong success in FY17, delivering considerable gains and, in every category, significantly outperforming applicable benchmarks.

PRIVATE INCOME:

INFRASTRUCTURE, PRIVATE CREDIT, AND INCOME OPPORTUNITIES

The Private Income strategy aims to provide the Fund with a high level of income and limited volatility, through investments in infrastructure, private credit, and other income opportunities. APFC's Private Income portfolio is comprised of \$1.9 billion in Infrastructure, \$1.1 billion in Private Credit, and \$167.7 million of Income Opportunities.

“This broad range of assets provides an attractive mix of current income, downside protection, and total return for the Fund.” –Marcus Frampton, Director of Investments - Private Income, Special Opportunities and Absolute Return

Infrastructure investments are often long-lived, with inflation protection characteristics. APFC invests through funds, direct investment, and co-investment into a portfolio of assets that is diversified by geography and sector. These assets include power generation, timber, electric utility, midstream energy, transportation, water and waste, telecommunications, and other infrastructure. APFC's infrastructure investments have been a leading contributor to the portfolio's performance, contributing 8.55 percent, 14.50 percent, and 13.55 percent over the trailing one-year, three-year, and five-year periods.

Private Credit investments are often asset-backed and generate high current

income. These strategies include direct lending, mezzanine lending, distressed/opportunistic credit, asset-based lending, and other strategies. While the portfolio is currently invested primarily in the U.S., we evaluate opportunities globally. Historically, the majority of Private Credit investments were made by an external manager; however, beginning in FY16, staff insourced the decision-making on all new Private Credit investments. That initiative is off to a promising start with one-year returns of 9.59 percent, while returns over the trailing three-year and five-year periods are 5.70 percent and 7.88 percent, respectively.

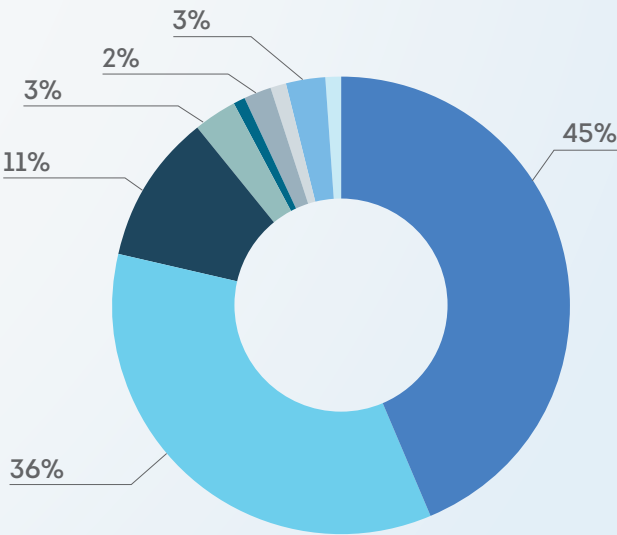
Special Income Opportunities investments are made to capture attractive, sometimes fleeting, opportunities that do not fit into the Private Credit or Infrastructure portfolios. The portfolio primarily consists of a joint venture with American Homes 4 Rent, but we continue to evaluate opportunities that are created due to economic, regulatory, and relative value anomalies. The Special Income Opportunities investments have been accretive to the Private Income strategy's return objective with one-year and three-year returns of 9.52 percent and 7.85 percent, respectively.

The Private Income strategy targets assets and strategies that provide a combination of principal protection, current income (e.g., interest payments or dividends), inflation mitigation, and equity upside. The life-cycle of Private Infrastructure and Special Income investing, which can be similar in structure to private equity, will in many circumstances contribute to an uneven return profile or J-Curve phenomena for investments early in their respective life-cycle, while Private Credit investments are expected to be less impacted by this phenomena. The performance target is an absolute return in excess of CPI + 4 percent, but each opportunity is evaluated on the expected return, relative to the risks APFC is taking.



INFRASTRUCTURE INVESTMENTS BY SECTOR

- Energy | \$857M
- Transportation | \$691M
- Water | \$207M
- Waste Management | \$52M
- Bulk Liquid Storage | \$5M
- Communication | \$41M
- Consumer Services | \$5M
- Timber | \$58M
- Health | \$1M





ABSOLUTE RETURN

APFC's \$2.2 billion Absolute Return strategy aims to provide the Fund a consistent, uncorrelated return that is accretive to the Fund's overall target return. The investments offer better liquidity than most alternative investments, while providing diversification through a variety of geographies, securities, and strategies. We target an absolute return of CPI + 5 percent, regardless of the broader market environment and invest with downside protection in mind. Our strategy of minimal correlation results in willingly forgoing upside potential during periods of market

exuberance to insulate from downside potential in the event of market corrections.

APFC is strategy-agnostic regarding hedge fund managers, as long as managers are able to demonstrate minimal correlation to overall markets and a track record of returns in excess of our absolute return objective. Strategies we have recently added to the portfolio include global macro, CTA, fundamental equity market-neutral, fixed income relative value, and event-driven.

The Absolute Return strategy generated a 7.22 percent return for the fiscal year, achieving its return objective of CPI + 5 percent, which represents a material improvement over recent performance. In May 2016, the APFC Board accepted staff's recommendation to move to a fully direct approach; this new strategy is off to a good start as evidenced by this fiscal year's performance.

ASSET ALLOCATION STRATEGIES

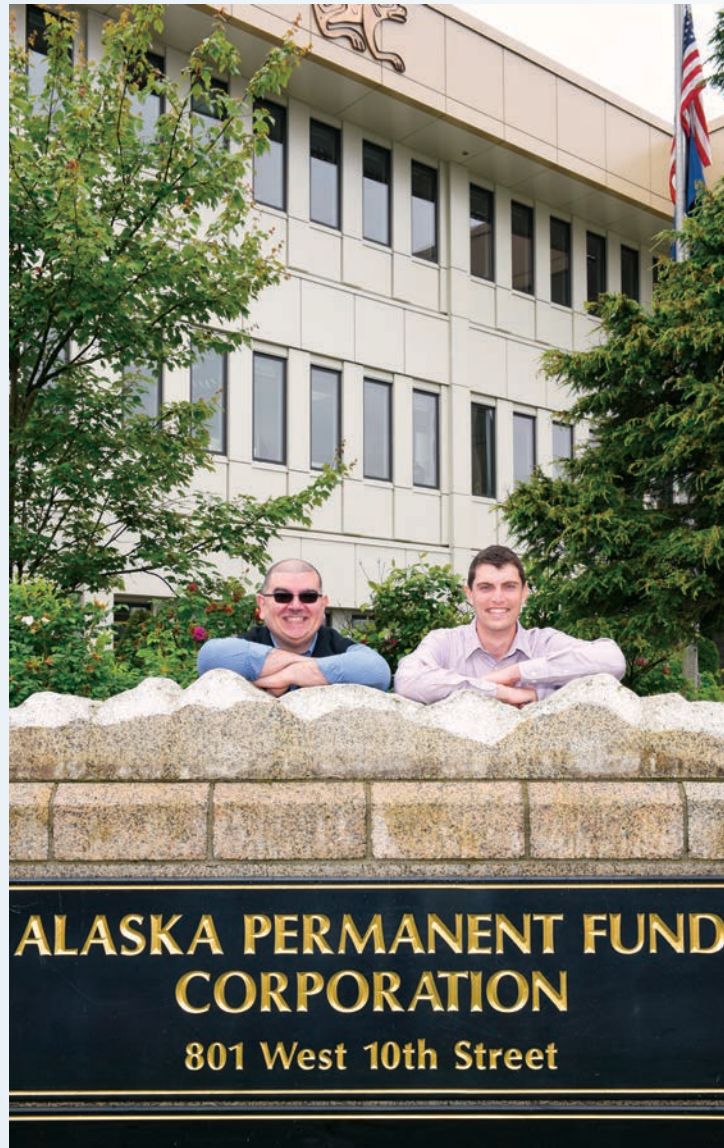
The Alaska Permanent Fund has several allocation strategies that include portfolios invested in a variety of asset classes with a similar risk/return profile as the total Fund. These strategies have a specific asset allocation or risk management role that is designed to impact the total portfolio. The \$4.5 billion Asset Allocation Strategies portfolio is comprised of \$2.1 billion in Cash and liquid securities and \$2.4 billion in a Multi-Asset Class, known as the external CIO mandate.

Cash investments play an important role within a well-diversified investment portfolio and serve several purposes including protection against potential future increases in inflation, stability for the portfolio, liquidity, and diversification benefits relative to other assets. Cash and liquid securities are managed internally and the amount held is determined by APFC's investment goal,

time horizon, and risk tolerance. During FY17, the Fund was over-allocated to cash given an uncertain liquidity need expectation. Cash returned 0.48 percent during the FY17, which was in line with the return of the 90 day T-bills. Given the low return expectation of cash relative to other asset classes and its higher allocation, staff capitalized on securitization of a portion of cash in order to achieve higher returns, a strategy we will continue in future years.

The Multi-Asset class strategy consists of partnering with "best in class" institutional asset management firms to be the Fund's "external CIOs." There are several objectives related to this mandate, including sharing asset allocation, risk management, and other investment leading practices. The external CIOs strive to produce the Fund's five percent real return objective, while operating within the Fund's overarching risk guidelines. The expectation is that they will produce superior risk-adjusted returns with lower volatility, smaller drawdowns, and higher liquidity over the long term. The Multi-Asset class strategies returned 7.75 percent outperforming their target objective of CPI + 5 percent by 1.12 percent due to favorable liquidity and stable economic conditions. This portfolio's exposure to equities, bonds, and emerging markets also benefited from gains in global markets.

INTERNSHIP PROGRAM



The Alaska Permanent Fund Corporation is committed to mentoring Alaska students for careers in asset management, finance, and related fields through our longstanding APFC Internship Program. For the past 30 years, APFC and participating investment managers have provided valuable learning opportunities for Alaska youth, and many have returned to invest in Alaska's future with careers at APFC. This APFC

Trustee-supported program has resulted in more than 300 high-quality internships filled by Alaska students since 1988.

In striving to offer meaningful experiences in various aspects of the investment industry, this year APFC was pleased to mentor two interns: Nicolas Martell, an Alaska resident and graduate student at Willamette University, and Takeshi Paul Nakachi, a graduate of University of Alaska Southeast.

Nicolas Martell served as an APFC executive intern this summer. Martell is in his third year in the Juris Doctorate/Masters of Business Administration program at Willamette University in Salem, and holds a Bachelors of Science in finance from University of Colorado Boulder. Nicolas applied for the APFC internship after learning about the success of the fund as a top-tier investment company. He never expected to be able to gain experience working in the Private Equities market within Alaska. During his internship, Martell had the opportunity to review nondisclosure and joinder agreements, work with the Private Equity team in conducting research, and present alternative budget solutions. Martell appreciated the variety of opportunities he was given during his time at APFC, "The most rewarding part of my internship thus far has been the ability to move between the legal and private equity side of operations here at APFC."

An interest in Legislative Audit drew Takeshi Paul Nakachi, who recently completed a Bachelors of Business Administration in management, to the internship program at APFC. During his time at APFC, Takeshi worked as a finance intern, compiling daily performance numbers and working on reconciliation and audit preparation projects. "One of the most rewarding parts of my internship was helping to compile notes to the financial statements. Not only was this a practical learning experience in my field, seeing the end result of our staff's hard work was a great way to put things into perspective," he said. Nakachi is currently pursuing an accounting degree.

Both Martell and Nakachi were impressed with the talented staff with whom they worked, as well as the consistent collaboration among the APFC team. "You get the opportunity to work side-by-side with a tight knit team in a meaningful way," Martell said.



BECOME AN INTERN

To qualify to apply for these internships, a student must either be enrolled full-time in an Alaska university, or be an Alaska resident attending school outside of Alaska. Recent graduates also qualify to apply. More details are available at www.apfc.org.

"The corporation has far exceeded my expectations and taught me in three short months lessons I would have never gained from school or working anywhere else."
–Nicolas Martell

"The sense of purpose you gain when you realize your efforts lead directly to the collective success of the Fund is truly amazing."
–Takeshi Paul Nakachi



KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying balance sheets of the Alaska Permanent Fund (the Fund) as of June 30, 2017 and 2016, and the related statements of revenues, expenditures and changes in fund balances for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2017 and 2016, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.



Emphasis of a Matter

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, 2017 and 2016, or changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matter

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 25-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2017 on our consideration of the Alaska Permanent 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

KPMG LLP

September 8, 2017
Anchorage, Alaska

The Alaska Permanent Fund Corporation (APFC) management is pleased to provide this Management's Discussion and Analysis (MD&A) of the financial activities of the Alaska Permanent Fund (Fund or Permanent Fund) for the fiscal years ended June 30, 2017 and June 30, 2016. 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. The MD&A is comprised of three sections: financial highlights, discussion regarding use of the financial statements, and analysis of the financial statements; the sections should be reviewed together with the financial statements and related notes that follow it.

FINANCIAL HIGHLIGHTS

- At 12.57 percent total return, fiscal year (FY) 2017 results were much stronger than had been experienced in recent years, outperforming the performance benchmark of 10.25 percent. Closest to the FY2017 performance was FY1993, with a 12.65 percent return. FY2017's results are substantially above the mid-point of the range of returns since 1985, which have ranged from -17.96 percent to 25.58 percent.
- FY2017's excess of revenues over expenditures (net income) was \$6.7 billion. This represents a significant increase over each of the prior two years of \$398 million in FY2016, and \$2.4 billion in FY2015.
- Alaska Statutes dictate that the Alaska Permanent Fund dividend is calculated using a five-year rolling total of net income as defined by Statutes, which excludes unrealized gains and losses (statutory net income). The dividend transfer is subject to Legislative appropriation, which may be made for an amount equal to the statutory calculation, or may be made for another amount. The appropriation process was changed to include the appropriation in the budget for the year in which the dividends are paid, rather than in the budget for the prior year. This resulted in no appropriation for the dividend for FY2017. The transfer amount for FY2016, as appropriated, was \$750 million. This amount was roughly half of the transfer amount calculated per Alaska Statutes.
- The portion of dedicated State of Alaska revenues deposited into the principal of the Fund is based on mineral prices and production. In FY2017, this amount came in above FY2016's deposits by 28 percent, at \$365 million.
- Inflation proofing of the Fund's corpus is outlined in Alaska Statutes. In FY2017, the inflation rate was 1.26 percent. Inflation proofing is also subject to Legislative appropriation. For the second consecutive year, there was no appropriation for this purpose so no transfer to the corpus was made. The inflation proofing transfer for FY2017 as defined in Statute would have been \$502 million. In FY2016, the statutory inflation rate was 0.12 percent, which would have resulted in a transfer to principal of \$47 million.
- Investments in privately-traded alternative assets continued to grow. During FY2017, the Fund made new commitments to infrastructure investments totaling \$446 million. As of June 30, 2017, the Fund had total commitments to private equity of \$11.0 billion, as compared to one year prior when commitments were \$10.7 billion, which equates to a 2.8 percent net increase. Also during FY2017, the Fund also increased its commitment to public-private credit, going from \$1.7 billion in FY2016 to \$2.4 billion in FY2017.

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

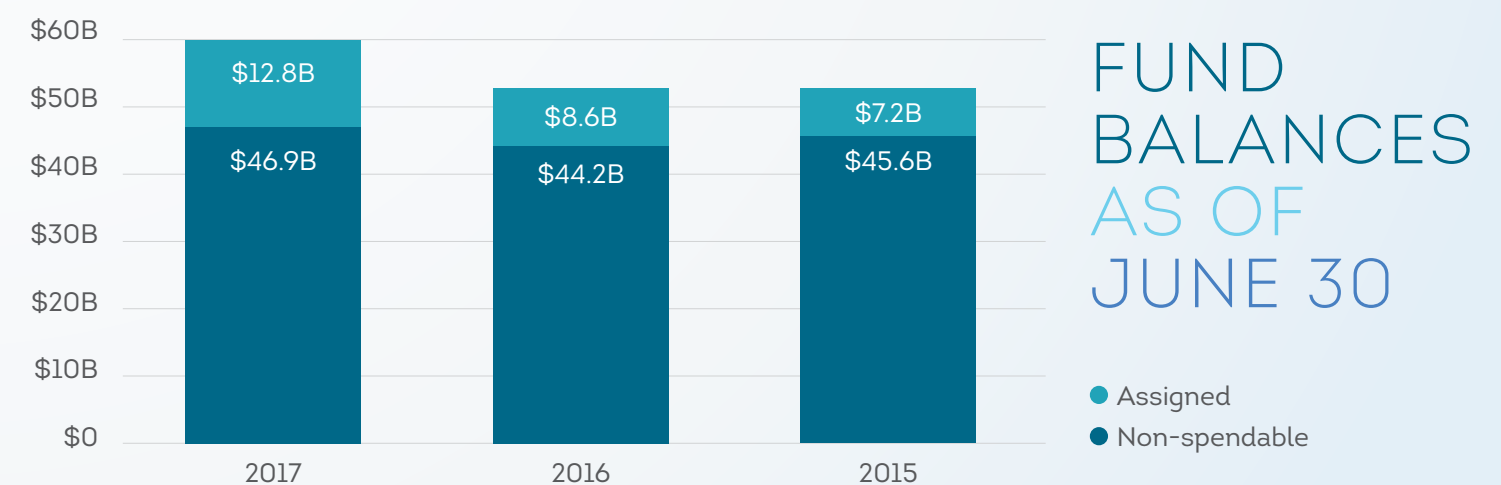
The Balance Sheets present all assets, liabilities, and fund balances of the Fund as of June 30, 2017, as well as the prior fiscal year's ending balances at June 30, 2016.

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.

Investments are broken out by traditional asset class and are shown at market value. The securities lending collateral (cash and securities received from the borrower on loans of securities that is returned to the borrower once the loan is terminated without default) is shown as an asset.

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

In the graph set forth below, fund balances are shown in two categories: non-spendable and assigned. The largest category is non-spendable (79 percent as of June 30, 2017) and is not available for government appropriation by the State of Alaska. The remaining balance (the assigned fund balance) is available for government appropriation. The assigned fund balance increased by 50 percent from FY2016 to FY2017, from \$8.6 billion to \$12.8 billion. Generally only four factors contribute significantly to changes in the assigned fund balance: investment cash flow income including transactional realized gains and losses (statutory net income); the State of Alaska dividend payout; inflation proofing (a transfer of assets from the assigned to the non-spendable fund balance); and the change in unrealized gains and losses allocated to the assigned fund balance. During FY2017, the amounts contributing to the net increase of approximately \$4.2 billion in the assigned fund balance were (i) realized income of \$3.2 billion, and (ii) the allocation of a portion of unrealized gains and losses, which increased from FY2016 to FY2017 by \$1.0 billion, to a balance of \$2.0 billion. In prior years, the assigned balance was reduced by the amount appropriated for the dividend transfer. For FY2017, there was no appropriation, causing this balance to grow more significantly than in prior years.



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 FY2017 and FY2016.

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 (Net increase (decrease) in the fair value of investments) includes both realized and unrealized gains and losses on investments. Realized gains and losses are produced only through the sale of investments, while unrealized gains and losses are the result of changes in the fair value of investments without a sale of those investments. Realized and unrealized gains and losses are summarized by asset class to match the groupings 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. Other legislative appropriations made through the State’s annual budget process are obligations for dividend payments and 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 the State receives. Transfers out of the Fund are to pay (i) the Permanent Fund dividend per Alaska Statutes section 37.13.145(b) and (ii) the annual deposit to the Alaska Capital Income Fund (ACIF) per Alaska Statutes section 37.13.145(d).

NOTES TO THE FINANCIAL STATEMENTS

The Notes to the Financial Statements are an essential element to fully understanding all financial aspects 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 Fund. 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 table set forth below was derived from the Balance Sheets of the Fund, and provides a comparison of the change between balances of June 30, 2017 and 2016.

BALANCE SHEETS		JUNE 30 2017	JUNE 30 2016	NET CHANGE	PERCENT
Assets					
Cash and temporary investments	\$	2,653,513,000	2,213,105,000	440,408,000	20%
Receivables, prepaid expenses, and other assets		544,753,000	456,509,000	88,244,000	19%
Investments		57,311,078,000	51,654,886,000	5,656,192,000	11%
Securities lending collateral invested		1,314,953,000	1,022,398,000	292,555,000	29%
Total assets	\$	61,824,297,000	55,346,898,000	6,477,399,000	12%
Liabilities					
Accounts payable	\$	699,180,000	841,048,000	(141,868,000)	(17)%
Income distributable to the State of Alaska		25,067,000	713,765,000	(688,698,000)	(96)%
Securities lending collateral		1,314,953,000	1,022,398,000	292,555,000	29%
Total liabilities		2,039,200,000	2,577,211,000	(538,011,000)	(21)%
Fund balances					
Nonspendable:					
Fund corpus - contributions and appropriations		39,814,299,000	39,449,405,000	364,894,000	1%
Not in spendable form - unrealized appreciation on invested assets		7,155,294,000	4,750,262,000	2,405,032,000	51%
Total nonspendable		46,969,593,000	44,199,667,000	2,769,926,000	6%
Assigned for future appropriations:					
Realized earnings		10,863,205,000	7,649,016,000	3,214,189,000	42%
Unrealized appreciation on invested assets		1,952,299,000	921,004,000	1,031,295,000	112%
Total assigned		12,815,504,000	8,570,020,000	4,245,484,000	50%
Total fund balances		59,785,097,000	52,769,687,000	7,015,410,000	13%
Total liabilities and fund balances	\$	61,824,297,000	55,346,898,000	6,477,399,000	12%

The value of the Fund’s assets, excluding securities lending collateral, increased by 11 percent between June 30, 2016 and June 30, 2017. The only losses were seen in non-domestic fixed income and the TIPS portfolios, with returns of -1.57 percent and -.62 percent, respectively. Emerging market debt, infrastructure and absolute return partially offset those losses, contributing 7.15 percent, 8.55 percent, and 7.22 percent, respectively. The fixed income aggregate and corporate portfolios had more modest gains with returns of .62 percent and 3.29 percent, respectively. International public equities and private equity were the strongest performers with returns of 22.57 percent and 20.98 percent, respectively.

The value of the Fund’s assets, excluding securities lending collateral, decreased by 1 percent between June 30, 2015 and June 30, 2016. The biggest losses were seen in non-domestic public equities and true special opportunities, with returns of -9.4 percent and -18.7 percent, respectively. Infrastructure and private equity partially offset those losses, returning 17.6 percent and 14.4 percent, respectively. Real estate also performed well during the year with a return of 12.6 percent. Domestic and non-domestic fixed income had more modest gains with returns of 5.3 percent and 7.3 percent, respectively. Domestic equities were generally flat at -0.1 percent.

Due primarily to timing of transactions, receivables increased by 19 percent between the end of FY2016 and FY2017, going from \$457 million to \$545 million. The ending values of securities lending collateral invested and the related liability are dependent upon the amount of securities out on loan on any particular day. These values can change significantly from day to day and year to year, depending on activity in the market. The average value of assets on loan during FY2017 was \$5.7 billion, with a low of \$4.4 billion and a high of \$6.4 billion. The Fund had earnings from securities lending of \$17.1 million during FY 2017, a slight decrease from \$18.5 million received in FY2016.

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 can vary widely from day to day and are usually the largest portion of Fund payables, representing 96 percent of the FY2017 and 97 percent of the FY2016 accounts payable balances. The decrease of \$141.8 million from FY2016 to FY2017 was due to an increase in pending alternatives, real estate purchases, and operating payables of \$1.6 million, \$70.4 million, and \$5 million, respectively, offset by a decrease in pending bond and public equity purchases of \$144.8 million and \$74 million, respectively.

Income distributable to the State of Alaska, which is based primarily on the dividend calculation mandated by statute, decreased by approximately 96 percent from FY2016 to FY2017. The dividend calculation is based on a five-year rolling total of statutory net income (which excludes unrealized gains and losses). Because the FY2017 statutory net income of \$3.2 billion replaced the FY2012 statutory net income of \$1.6 billion in the rolling total, the amount resulting from the statutory calculation increased somewhat from FY2016 to FY2017 going from \$1.4 billion to \$1.6 billion. However, the dividend transfer is subject to appropriation by the Legislature and, for the second consecutive year, the full amount determined using the statutory dividend calculation was not

appropriated. In addition, the FY2018 dividend transfer appropriation was not effective June 30 in advance of the dividend payout, as it has been in the past. Instead, the amount appropriated for 2018 dividends was an amount necessary to pay a per person dividend of \$1,100, which is estimated to be \$730 million, and the transfer of the amount appropriated is to be made in FY2018. This amount will be reflected as a transfer out in FY2018 to reflect the intent of the budget appropriation language.

Also using a calculation based on realized earnings, the Alaska Capital Income Fund (ACIF) transfer due to the State for FY2017 was \$25.1 million and for FY2016 was \$18 million. The \$7.1 million dollar increase from the prior year is caused by significantly higher realized returns in FY2017 versus FY2016. The transfer due for FY2015 was \$24 million, more in line with that for FY2017.

Total fund balance increased by 13 percent from of FY2016 to FY2017, with an increase of \$7.0 billion, consistent with the total return for the year 12.57 percent. Components of this increase were increases of \$1.3 billion for cash flow income and \$365 million in dedicated mineral deposits, offset by operating expenses of \$130 million, and an increase in the fair value of the portfolio of \$5.6 billion. Due to the timing of the dividend appropriation, no dividend transfer was deducted from fund balance. Deposits from the State of Alaska were up 28 percent from the FY2016 dedicated revenues of \$284 million. FY2015's receipts totaled \$600 million, making FY2017 the first year since FY2012 with an increase in contributions from mineral royalties.

The total fund balance increase from FY2015 to FY2016 was due to the net of the transfers in (State dedicated mineral revenues of \$284 million) and the transfers out (dividend and ACIF of \$714 million), with the other contributor being net income of the fund of \$398 million.



The table below is derived from the Statements of Revenues, Expenditures, and Changes in Fund Balances, and shows the annual activity of the Fund. The differences in activity in FY2016 as compared to FY2017 are shown in both dollars and percentages.

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES			YEAR ENDED JUNE 30		NET CHANGE	PERCENT
			2017	2016		
Revenues						
Interest, dividends, real estate, and other income	\$	1,254,067,000	1,194,264,000	59,803,000	5%	
Increase/(decrease) in the fair value of investments		5,551,355,000	(681,948,000)	6,233,303,000	914%	
Total revenues		6,805,422,000	512,316,000	6,293,106,000	1,228%	
Expenditures						
Operating expenditures		(121,260,000)	(105,264,000)	(15,996,000)	15%	
Other Legislative appropriations		(8,578,000)	(8,561,000)	(17,000)	n/m	
Total expenditures		(129,838,000)	(113,825,000)	(16,013,000)	14%	
Excess of revenues over expenditures		6,675,584,000	398,491,000	6,277,093,000	1,575%	
Other financing sources (uses)						
Transfers in – dedicated State revenues		364,893,000	284,462,000	80,431,000	28%	
Transfers out – appropriations		(25,067,000)	(713,765,000)	688,698,000	(96)%	
Net change in fund balances		7,015,410,000	(30,812,000)	7,046,222,000	(22,868)%	
Fund balances						
Beginning of period		52,769,687,000	52,800,499,000	(30,812,000)	n/m	
End of period	\$	59,785,097,000	52,769,687,000	7,015,410,000	13%	

During FY2017, cash flow revenue from interest, dividends, real estate, and other sources continued to recover from the 2008-2009 global financial crisis, while interest rates on bonds slowly started to rise. Total cash flow income was higher than for FY2016 at \$105 million per month on average, up from \$99 million per month on average in FY2016, which was a slight increase from \$96 million per month on average in FY2015. FY2017’s level has finally exceeded FY2008’s average of approximately \$100 million per month. The change in the fair value of investments increased dramatically from a \$682 million loss in FY2016 to a \$5.6 billion gain in FY2017, an increase of over 900 percent, due to much stronger overall performance of investments in FY2017. This change in FY2016 was a decrease of \$2.0 billion, a 151 percent decrease over FY2015. Operating expenditures experienced a notable increase from FY2016 to FY2017 of 15 percent. This increase was slight between FY2015 and FY2016 at 3 percent. Manager fees in FY2017 totaled \$103 million and in FY2016 totaled \$91 million. Total fees paid out in FY2015 were \$89 million. Investment management fees are largely based upon assets under management so, as the fund grows, so do fees to manage it.

Transfers in of dedicated State revenues increased from FY2016 to FY2017 by 28 percent (\$80 million) and totaled \$365 million compared to \$284 million in FY2016. These transfers totaled \$600 million in FY2015.

Historically, 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 Fund (ACIF). The dividend calculation is based on realized earnings averaged over a rolling five-year period. Applying this formula, the FY2017 results supplanted the FY2012 results. The difference in statutory net income between these years is \$1.6 million, causing the calculated amount of the dividend distribution to increase by \$173 million in FY2017. This increase was more significant than from FY2015 to FY2016 at less than 1 percent, or \$5 million. The dividend transfer is subject to Legislative appropriation. The amount appropriated for 2018 dividends was \$730 million, less than half of the amount resulting from the statutory calculation. Additionally, the appropriation for 2018 dividends is not effective until

FY2018, so the transfer is not recorded in the FY2017 financial statements. This is a change in timing from previous appropriations, which specified a transfer date of June 30. The ACIF transfer is based on realized earnings for only one year; it is not averaged over multiple years. ACIF realized earnings of \$25.1 million in FY2017 and \$18 million in FY2016. The earnings for FY2015 were \$24 million.

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 investment decisions made by the Trustees, internal Fund management, and external Fund investment managers. Diversification of asset allocation and diversification of investments within each allocation are intended to mitigate the risk of volatility of the financial markets. APFC, as a component unit of the State of Alaska, is subject to changes in the Alaska Statutes that govern 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 or APFC. 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, or send specific information requests to the Alaska Permanent Fund Corporation at P.O. Box 115500, Juneau, Alaska 99811-5500.

FINANCIAL STATEMENTS

BALANCE SHEETS	YEAR ENDED JUNE 30	
	2017	2016
Assets		
Cash and temporary investments	\$ 2,653,513,000	2,213,105,000
Receivables, prepaid expenses, and other assets	544,753,000	456,509,000
Investments:		
Marketable debt securities	10,114,640,000	9,800,116,000
Preferred and common stock	25,354,335,000	20,938,177,000
Real estate	6,886,835,000	7,048,144,000
Absolute return	4,567,024,000	5,495,915,000
Private equity	6,818,147,000	5,531,425,000
Infrastructure	2,458,345,000	1,760,701,000
Public-private credit	1,111,752,000	1,080,408,000
Total investments	57,311,078,000	51,654,886,000
Securities lending collateral invested	1,314,953,000	1,022,398,000
Total assets	\$ 61,824,297,000	55,346,898,000
Liabilities		
Accounts payable	\$ 699,180,000	841,048,000
Income distributable to the State of Alaska	25,067,000	713,765,000
Securities lending collateral	1,314,953,000	1,022,398,000
Total liabilities	2,039,200,000	2,577,211,000
Fund balances		
Nonspendable:		
Permanent Fund corpus - contributions and appropriations	39,814,299,000	39,449,405,000
Not in spendable form - unrealized appreciation on invested assets	7,155,294,000	4,750,262,000
Total nonspendable	46,969,593,000	44,199,667,000
Assigned for future appropriations:		
Realized earnings	10,863,205,000	7,649,016,000
Unrealized appreciation on invested assets	1,952,299,000	921,004,000
Total assigned	12,815,504,000	8,570,020,000
Total fund balances	59,785,097,000	52,769,687,000
Total liabilities and fund balances	\$ 61,824,297,000	55,346,898,000

See accompanying notes to the financial statements.

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES	YEAR ENDED JUNE 30	
	2017	2016
Revenues		
Interest	\$ 310,709,000	306,801,000
Dividends	563,012,000	526,482,000
Real estate and other income	380,346,000	360,981,000
Total interest, dividends, real estate, and other income	1,254,067,000	1,194,264,000
Net increase (decrease) in the fair value of investments –		
Marketable debt securities	(62,397,000)	376,568,000
Preferred and common stock	4,125,607,000	(1,314,898,000)
Real estate	102,594,000	534,661,000
Absolute return	351,810,000	(57,332,000)
Private equity	1,056,562,000	(35,017,000)
Infrastructure	259,221,000	274,766,000
Public-private credit	85,281,000	(33,063,000)
Emerging markets total opportunities	–	15,029,000
Foreign currency forward exchange contracts and futures	69,069,000	(27,677,000)
Currency	(436,392,000)	(414,985,000)
Total net increase (decrease) in the fair value of investments	5,551,355,000	(681,948,000)
Total revenues	6,805,422,000	512,316,000
Expenditures		
Operating expenditures	(121,260,000)	(105,264,000)
Other Legislative appropriations	(8,578,000)	(8,561,000)
Total expenditures	(129,838,000)	(113,825,000)
Excess of revenues over expenditures	6,675,584,000	398,491,000
Other financing sources (uses)		
Transfers in - dedicated State revenues		
Transfers out - statutory and Legislative appropriations	364,893,000	284,462,000
Net change in fund balances	(25,067,000)	(713,765,000)
Fund balances	7,015,410,000	(30,812,000)
Beginning of period	52,769,687,000	52,800,499,000
End of period	\$ 59,785,097,000	52,769,687,000

See accompanying notes to the financial statements.

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 income-producing investments authorized by law. 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. 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 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's investment policy. The Fund's investment performance is generally related to the success of the financial markets. While diversification aims to mitigate volatility, significant period-to-period fluctuations in investment performance may occur.

By annual appropriation, APFC transfers (i) a portion of the Fund's realized earnings to the State's dividend fund, (ii) a portion of 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 (ACIF). The remaining balance of the Fund's realized earnings (referred to in Alaska Statute as the earnings reserve account) is held in the assigned fund balance by APFC and is subject to appropriation by the Legislature. The nonspendable fund balance (referred to in the Alaska Constitution as the principal) includes the historical cost basis of contributions and appropriations. Because the Alaska Constitution specifies that principal can only be used for income-producing investments, it is unavailable for appropriation by the Legislature. Unrealized gains and losses (appreciation/depreciation) on Fund assets are allocated proportionately between the nonspendable fund balance and the assigned fund balance. The unrealized amounts allocated to contributions and appropriations are considered a component of principal and are nonspendable, unless and until they become realized, at which point they will be transferred to the assigned (realized earnings) 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, APFC 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. The fair value of real estate, real return, absolute return, private equity, infrastructure, and public-private credit investments and the related unrealized gains and losses thereon are particularly sensitive estimates. Actual results could differ from those estimates.

CASH AND TEMPORARY INVESTMENTS

The amounts shown on the balance sheets as cash and temporary investments include cash on deposit at the custodian bank, cash swept to overnight investment funds, cash held at futures brokers, petty cash, U.S. Treasury bills, and the net fair value of foreign exchange forward contracts. APFC's asset allocation includes 1.2 percent to cash. APFC's investment policy specifies that funds dedicated to this portion of the asset allocation will be invested in money market funds or fixed income securities with weighted-average maturities of no greater than 24 months.

DIVIDEND APPROPRIATIONS

Statutory net income excludes realized earnings from contributions made in the North Slope royalty case settlement (*State v. Amerada Hess, et al.*) and unrealized gains and losses on the Fund's investments. Typically the annual appropriation from the earnings reserve account to the dividend fund follows the formula set out in Alaska Statute 37.13.140, which provides for 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. Based on advice from the Alaska Department of Law, the annual dividend transfer may occur only by legislative appropriation, and the Legislature may establish the amount of appropriation as a lump-sum dollar amount rather than a formula. Dividend appropriations are recognized in the Fund's financial statements as of the date the Legislature indicates the transfer to the dividend fund should occur. Dividend appropriations that are directed by the Legislature for a future transfer date are recognized as Assigned Fund balance.

FORWARD EXCHANGE CONTRACTS

Fund managers enter into a variety of forward currency contracts in their trading activities and management of 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/decrease in the fair value of investments at the time the contract is settled and determined based on the difference between the contract rate and the market rate at the time of maturity or closing. Unrealized gains and losses are also included in the net increase/decrease 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 the effect of fluctuations in foreign exchange rates 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.

FUTURES

Certain equity and fixed income managers for the Fund are permitted to buy and sell equity and interest rate index futures. The gross contract and fair value of futures do not appear in the balance sheets. The net unrealized gain or loss on open futures trades is included in investments on 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.

INCOME TAXES

In the opinion of legal counsel, the Fund should not be subject to federal income taxation under the doctrine of implied statutory immunity for states because it is an integral part of the State, and APFC should not be subject to federal income taxation because it is an integral part of the State and it performs an essential governmental function, with its income, if any, accruing to the State.

INFLATION PROOFING

Alaska statutes require that the contributions and appropriations of the Fund be adjusted annually to offset the effect of inflation on Fund principal during the fiscal year. 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. 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 rates for the years ended June 30, 2017 and 2016 were 1.26 percent and 0.12 percent, respectively; however, no transfers were made due to the lack of legislative appropriation for this purpose.

INVESTMENTS AND RELATED POLICIES

Carrying value of investments

The Fund considers all of its ownership interests in securities and other assets to be investments because they are held for the purpose of income or profit and have a present service capacity based solely on their ability to generate cash or be sold to generate cash. Investments are reported at fair value in the financial statements. Investments without a readily determinable fair value are generally reported by using the net asset value per share (or its equivalent) of the investment. 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 balance.

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.

Investment policy – Asset allocation

The Trustees have established a long-term goal of achieving a five percent real rate of return over time on the Fund’s investment portfolio. To help achieve this goal, the Trustees allocate the Fund’s investments among various asset classes.

At June 30, 2017, APFC’s strategic asset allocation targets were as follows:

ASSET CLASS	ASSET CLASS TARGET
Public Equities	40%
Fixed Income Plus	22%
Private Equity/Growth Opportunities	11%
Real Estate	11%
Private Credit/Infrastructure/Income Opportunities	5%
Absolute Return	5%
Asset Allocation	6%

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, 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), 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 dollar allocation for the public equities class is 40 percent, with the green zone range set at 35-45 percent, the yellow zone range set at 30-35 and 45-55 percent, and red zone ranges set at allocations of less than 30 percent or greater than 55 percent. In a similar manner, APFC investment policy also requires 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. 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. 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. There is no single-issuer exposure within the APFC portfolio that comprises 5% or more of the overall portfolio. Therefore, no concentration of credit risk is reported in the notes to the financial statements.

Credit risk

Credit risk is the risk that an issuer or other counterparty to a marketable debt investment will not fulfill its obligations. APFC requires that its investment grade fixed income managers, both internal and external, 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. APFC generally requires that all investment securities at custodian banks be held in the name of the Fund or APFC (on behalf of the Fund). For the Fund’s non-domestic securities held by most sub-custodians, 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. 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 of loss from adverse changes in foreign currency exchange rates. Foreign currency risk is managed through foreign currency forward contracts, and by diversifying 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. APFC manages the Fund’s exposure to interest rate risk in part through tracking error guidelines set forth in APFC’s investment policy. Duration 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.

At June 30, 2017, the Fund held fixed income investments with floating, variable, and step interest rates, valued at \$1,017,177,000. These fixed income investments were both domestic and non-domestic, and had current annual interest rates ranging from 0 to 22 percent.

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:

	2017	2016
Cash	\$ 154,954,000	152,611,000
Pooled funds	2,498,096,000	2,060,058,000
U.S. Treasury bills	463,000	436,000
Total cash and temporary investments	\$ 2,653,513,000	2,213,105,000

Uninvested cash was held at the custodian, sub-custodian, or futures broker banks, primarily in interest-bearing accounts. All pooled funds were invested in a money market fund. U.S. Treasury bills are explicitly guaranteed by the U.S. government.

4. RECEIVABLES, PREPAID EXPENSES, AND OTHER ASSETS

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

	2017	2016
Interest receivable	\$ 79,768,000	72,551,000
Dividends receivable	57,866,000	53,971,000
Sales receivable	365,086,000	283,626,000
Dedicated state revenues receivable	42,033,000	46,361,000
Total receivables, prepaid expenses, and other assets	\$ 544,753,000	456,509,000

5. MARKETABLE DEBT SECURITIES

Marketable debt securities at June 30 are summarized as follows, categorized by debt instrument type and by country of registration:

2017	COST	FAIR VALUE	UNREALIZED GAINS (LOSSES)
Treasury and government notes/bonds	\$ 2,723,899,000	2,708,765,000	(15,134,000)
Mortgage-backed securities	830,131,000	827,944,000	(2,187,000)
Corporate bonds	3,974,333,000	4,069,185,000	94,852,000
Commercial mortgage/asset-backed securities	214,880,000	214,868,000	(12,000)
Non-U.S. treasury and government bonds	1,140,881,000	1,126,710,000	(14,171,000)
Non-U.S. corporate bonds	950,278,000	971,864,000	21,586,000
Bond-backed exchange traded funds	193,598,000	195,304,000	1,706,000
Total marketable debt securities	\$ 10,028,000,000	10,114,640,000	86,640,000
2016			
Treasury and government notes/bonds	\$ 2,792,996,000	2,840,540,000	47,544,000
Mortgage-backed securities	865,811,000	882,237,000	16,426,000
Corporate bonds	3,421,315,000	3,513,921,000	92,606,000
Commercial mortgage/asset-backed securities	395,604,000	408,444,000	12,840,000
Non-U.S. treasury and government bonds	1,362,546,000	1,356,235,000	(6,311,000)
Non-U.S. corporate bonds	777,497,000	798,739,000	21,242,000
Bond-backed exchange traded funds	–	–	–
Total marketable debt securities	\$ 9,615,769,000	9,800,116,000	184,347,000

6. MARKETABLE DEBT CREDIT RATINGS

To manage credit risk for marketable debt securities, APFC monitors fair values of all securities daily and routinely reviews its investment holdings’ credit ratings. For accounts with an investment grade mandate (approximately 82 percent of bond mandates at June 30, 2017), issues falling below the minimum standards are required to be sold within seven months of the downgrade date. Minimum standards are a Standard & Poor’s Corporation rating BBB or better, or Moody’s Investors Service, Inc. rating of Baa or better, or a comparable rating by another Nationally Recognized Statistical Rating Organizations (NRSRO) or by a recognized rating service in the jurisdiction of the issuer. Managers with high yield mandates (approximately 18 percent of bond mandates at June 30, 2017) 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 the NRSROs used, the rating with the highest degree of risk (the lowest rating) is reported.

At June 30, 2017, the Fund’s credit ratings for its marketable debt securities are as follows:

NRSRO QUALITY RATINGS		DOMESTIC	NON-DOMESTIC	TOTAL FAIR VALUE	PERCENTAGE OF HOLDINGS
AAA	\$	265,213,000	153,003,000	418,216,000	4.13%
AA		222,456,000	198,900,000	421,356,000	4.17%
A		986,065,000	585,620,000	1,571,685,000	15.54%
BBB		1,984,555,000	651,232,000	2,635,787,000	26.06%
BB		285,094,000	189,788,000	474,882,000	4.69%
B		387,290,000	197,475,000	584,765,000	5.78%
CCC		103,165,000	32,229,000	135,394,000	1.34%
CC		1,131,000	–	1,131,000	0.01%
C		3,051,000	452,000	3,503,000	0.03%
D		5,626,000	420,000	6,046,000	0.06%
Total fair value of rated debt securities		4,243,646,000	2,009,119,000	6,252,765,000	61.81%
Commingled bond funds		256,332,000	–	256,332,000	2.54%
Not rated		22,298,000	89,456,000	111,754,000	1.11%
U.S. government explicitly backed by the U.S. government (AA)		2,903,677,000	–	2,903,677,000	28.71%
U.S. government implicitly backed by the U.S. government (AA)		590,112,000	–	590,112,000	5.83%
Total fair value debt securities	\$	8,016,065,000	2,098,575,000	10,114,640,000	100.00%

7. MARKETABLE DEBT DURATION

To manage its interest rate risk on marketable debt securities, APFC monitors fair values daily and routinely reviews portfolio effective duration in comparison to established benchmarks. At June 30, 2017, the effective duration by investment type, based on fair value, is as follows:

	PERCENT OF BOND HOLDINGS	DURATION
Domestic bonds		
Treasury and government notes/bonds	33.79%	6.32
Mortgage-backed securities	10.33%	5.17
Corporate bonds	50.76%	8.09
Commercial mortgage and asset-backed securities	2.68%	3.80
Bond-backed exchange traded funds	2.44%	–
Total domestic bonds	100.00%	6.88
Non-domestic bonds		
Non-U.S. treasury and government bonds	53.69%	6.96
Non-U.S. corporate bonds	46.31%	6.43
Total non-domestic bonds	100.00%	6.71

8. PREFERRED AND COMMON STOCK

Direct investments in preferred and common stock are held by APFC’s custodian bank on behalf of the Fund. The Fund also invests in commingled stock funds, which are held by the custodian bank of the fund manager on behalf of fund investors, and equity index futures, which are held at the prime broker.

Preferred and common stocks and commingled stock funds at June 30 are summarized as follows, which include the net fair value of equity index futures of \$(6.1) million as of June 30, 2017 and \$(1.1) million as of June 30, 2016:

2017		COST	FAIR VALUE	UNREALIZED GAINS (LOSSES)
Direct investments				
Domestic stock	\$	8,552,817,000	10,634,263,000	2,081,446,000
Non-domestic stock		12,522,527,000	14,371,920,000	1,849,393,000
Commingled funds		320,217,000	348,152,000	27,935,000
Total preferred and common stock	\$	21,395,561,000	25,354,335,000	3,958,774,000
2016				
Direct investments				
Domestic stock	\$	6,236,388,000	7,417,314,000	1,180,926,000
Non-domestic stock		13,308,813,000	13,209,332,000	(99,481,000)
Commingled funds		341,276,000	311,531,000	(29,745,000)
Total preferred and common stock	\$	19,886,477,000	20,938,177,000	1,051,700,000

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, 2017, the Fund’s cash holdings, foreign currency forward contracts, non-domestic public and private equity, and debt securities had exposure to foreign currency risk in the corresponding table (shown in U.S. dollar equivalent at fair value and based on the currency in which the securities are held and traded).

Cash amounts in the adjacent schedule include receivables, payables, certificates of deposit, 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. The remaining Fund assets are invested in U.S. cash, equities, and debt, as well as in direct real estate properties, absolute return and similar funds, and infrastructure, all of which are denominated in U.S. dollars, and are not included in the adjacent schedule.

FOREIGN CURRENCY	CASH AND EQUIVALENTS	FOREIGN EXCHANGE FORWARD CONTRACTS	PUBLIC/ PRIVATE EQUITY, REAL ESTATE, INFRASTRUCTURE	DEBT	TOTAL FOREIGN CURRENCY EXPOSURE
Argentina Peso	\$ 335,000	–	–	11,847,000	12,182,000
Australian Dollar	(577,000)	104,707,000	498,038,000	15,849,000	618,017,000
Brazil Real	2,664,000	(14,468,000)	202,897,000	56,902,000	247,995,000
Canadian Dollar	5,356,000	9,517,000	680,867,000	14,088,000	709,828,000
Chilean Peso	129,000	–	9,683,000	1,857,000	11,669,000
Chinese Yuan Renminbi	1,032,000	–	–	–	1,032,000
Colombian Peso	651,000	(1,626,000)	4,606,000	24,414,000	28,045,000
Czech Koruna	73,000	–	1,156,000	–	1,229,000
Danish Krone	2,270,000	(12,156,000)	184,492,000	5,828,000	180,434,000
Egyptian Pound	4,926,000	–	315,000	–	5,241,000
Euro Currency	678,000	(132,064,000)	3,361,201,000	186,832,000	3,416,647,000
Ghanaian Cedi	2,914,000	(2,223,000)	–	9,992,000	10,683,000
Hong Kong Dollar	8,577,000	(2,109,000)	1,070,890,000	–	1,077,358,000
Hungarian Forint	45,000	–	14,615,000	2,811,000	17,471,000
Indian Rupee	2,902,000	(21,088,000)	365,213,000	42,824,000	389,851,000
Indonesian Rupiah	2,534,000	(186,000)	112,711,000	22,988,000	138,047,000
Israeli Shekel	275,000	4,198,000	60,851,000	–	65,324,000
Japanese Yen	1,805,000	52,304,000	1,980,376,000	215,380,000	2,249,865,000
Georgian Lari	33,000	–	–	–	33,000
Malaysian Ringgit	700,000	(12,004,000)	100,078,000	30,466,000	119,240,000
Mexican Peso	1,308,000	(11,906,000)	89,527,000	56,854,000	135,783,000
New Taiwan Dollar	2,750,000	(91,000)	335,221,000	–	337,880,000
New Zealand Dollar	158,000	(50,723,000)	28,036,000	3,232,000	(19,297,000)
Nigerian Naira	4,231,000	–	–	3,127,000	7,358,000
Norwegian Krone	790,000	2,206,000	74,538,000	5,964,000	83,498,000
Peruvian Sol	3,000	–	–	13,480,000	13,483,000
Philippines Peso	118,000	209,000	11,636,000	1,870,000	13,833,000
Polish Zloty	1,230,000	(6,338,000)	21,694,000	26,668,000	43,254,000
Pound Sterling	7,518,000	(78,872,000)	2,018,751,000	52,273,000	1,999,670,000
Qatari Riyal	8,000	–	23,589,000	–	23,597,000
Romanian Leu	13,000	–	–	1,534,000	1,547,000
Russian Ruble	631,000	–	113,000	26,053,000	26,797,000
Singapore Dollar	(974,000)	(1,032,000)	113,597,000	6,867,000	118,458,000
South African Rand	(490,000)	(9,245,000)	231,484,000	32,000,000	253,749,000
South Korean Won	2,660,000	(13,516,000)	494,189,000	12,636,000	495,969,000
Swedish Krona	1,411,000	(100,603,000)	212,443,000	6,257,000	119,508,000
Swiss Franc	5,631,000	(162,577,000)	495,515,000	–	338,569,000
Thailand Baht	(57,000)	166,000	134,745,000	7,268,000	142,122,000
Turkish Lira	1,894,000	(3,210,000)	71,845,000	25,452,000	95,981,000
Uae Dirham	15,000	–	26,690,000	–	26,705,000
Uruguayan Peso	–	–	–	4,281,000	4,281,000
Zambia Kwacha	134,000	–	–	3,435,000	3,569,000
	\$ 66,304,000	(462,730,000)	13,031,602,000	931,329,000	13,566,505,000

10. REAL ESTATE

The Fund holds a variety of real estate interests, including directly owned real estate, real estate investment trusts, multi-family and industrial real estate operating companies, and other entities in which the assets consist primarily of real property. The Fund’s directly-owned real estate is 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.

APFC periodically reviews real estate investments for other than temporary impairment. There was no impairment recognized in FY2017 or FY2016.

Real estate investments at June 30 are summarized as follows:

2017		COST	FAIR VALUE	UNREALIZED GAINS (LOSSES)
Real estate investment trusts	\$	1,084,165,000	1,209,891,000	125,726,000
American Homes 4 Rent II		134,037,000	163,074,000	29,037,000
Directly owned real estate -				
Retail		850,351,000	1,844,958,000	994,607,000
Office		1,155,929,000	1,441,693,000	285,764,000
Hotel		59,099,000	67,626,000	8,527,000
Industrial		189,127,000	263,334,000	74,207,000
Multifamily		1,192,292,000	1,896,259,000	703,967,000
Total real estate	\$	4,665,000,000	6,886,835,000	2,221,835,000
2016				
Real estate investment trusts	\$	972,648,000	1,401,446,000	428,798,000
American Homes 4 Rent II		136,064,000	156,224,000	20,160,000
Directly owned real estate -				
Retail		612,195,000	1,579,285,000	967,090,000
Office		1,276,438,000	1,735,220,000	458,782,000
Hotel		59,860,000	61,957,000	2,097,000
Development		51,138,000	45,342,000	(5,796,000)
Industrial		201,776,000	259,504,000	57,728,000
Multifamily		1,207,077,000	1,809,166,000	602,089,000
Total real estate	\$	4,517,196,000	7,048,144,000	2,530,948,000

11. ALTERNATIVE INVESTMENTS

Alternative investments include the Fund’s investments in or through real return mandates, absolute return strategies, private equity, infrastructure, and public-private credit. APFC periodically reviews alternative investments for other than temporary impairment.

The objective for the real return mandate was 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. During FY2017, the real return mandate was discontinued and the remaining managers in this category were moved to the absolute return portfolio.

Absolute return strategies are investments in specialized funds that seek to deliver returns that are largely uncorrelated with traditional market driven asset classes. The Fund is invested in three existing limited partnerships, in which the Fund is the only limited partner (fund-of-one). The Fund also holds direct hedge fund investments, in which the Fund is one of many limited partners. External investment management services are provided by institutional investment managers who have acknowledged their status as fiduciaries to the Fund. In FY2017, it was decided to redeem the fund-of-one accounts and move toward more direct hedge fund investments. The liquidation of these accounts is expected to take time, given the illiquid nature of some of the underlying funds. Because of the off-exchange and private nature of many absolute return strategies, investments may have no readily determinable fair value, and the estimated fair values could differ significantly from values that would be obtained in a market transaction for the assets. Each manager provides the Fund with fair value estimates of partnership interests and undergoes an annual independent audit.

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. 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 determinable fair value, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets. During FY2017, it was determined that nine private equity funds were impaired and would not recover their carrying cost over the remaining estimated holding period of the assets. In order to reflect the impairment in statutory net income and fund balance classifications, \$26.4 million of unrealized losses were realized through a write-down of cost to fair value. In FY2016, ten private equity funds were impaired with a related write-down of \$32.4 million. These impairments have no impact on the carrying value of investments or on the net increase (decrease) in the fair value of private equity investments.

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, as well as through securities listed on public exchanges. The limited partnerships undergo annual independent audits. Infrastructure investments by their nature generally have no readily determinable fair value, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets. During FY2017, it was determined that no infrastructure funds were impaired. During FY2016, it was determined that one infrastructure fund was impaired and would not recover its carrying cost over the remaining estimated holding period of the assets. In order to reflect the impairment in the statutory net income and fund balance classifications, \$87 million of unrealized losses were realized through a write-down of cost to fair value. This impairment had no impact on the carrying value of investments or on the net increase in the fair value of infrastructure investments.

The Fund invests in public-private credit through limited partnerships that invest either directly in distressed or mezzanine debt, or in commingled limited liability funds with a distressed debt or credit opportunity focus. These investments are funded over time, as opportunities arise. The limited partnerships and funds undergo annual independent audits. Public-private credit investments by their nature generally have no readily determinable fair value, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

Alternative investments at June 30 are summarized as follows:

2017	COST	FAIR VALUE	UNREALIZED HOLDING GAINS
Absolute return	3,935,373,000	4,567,024,000	631,651,000
Private equity	5,211,043,000	6,818,147,000	1,607,104,000
Infrastructure	1,963,488,000	2,458,345,000	494,857,000
Public-private credit	995,381,000	1,111,752,000	116,371,000
Total alternative investments	\$ 12,105,285,000	14,955,268,000	2,849,983,000
2016			
Absolute return	5,065,237,000	5,495,915,000	430,678,000
Private equity	4,530,490,000	5,531,425,000	1,000,935,000
Infrastructure	1,418,894,000	1,760,701,000	341,807,000
Public-private credit	971,356,000	1,080,408,000	109,052,000
Total alternative investments	\$ 11,985,977,000	13,868,449,000	1,882,472,000

As of June 30, 2017, APFC, on behalf of the Fund, had outstanding future funding commitments of \$4.1 billion for private equity, \$1.2 billion for infrastructure, and \$646 million for public-private credit investments. Many alternative investments have liquidity constraints and may not be available for cash withdrawal until a specified period of time has elapsed.

12. SECURITIES LENDING

State regulations at 15 AAC 137.510 and APFC investment policy authorize 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 debt and equity securities to borrowers who are banks and broker-dealers. The loans are collateralized with cash or certain marketable securities. 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. APFC can sell securities that are on loan. If a borrower fails to return the loaned securities (borrower default), the Bank can use cash collateral (and the proceeds on the sale of any non-cash collateral) to purchase replacement securities. Generally, 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 sheets and invested by the Bank on behalf of the Fund. As of June 30, 2017, 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:

	2017	2016
Fair value of securities on loan, secured by cash collateral	\$ 1,282,709,000	987,986,000
Cash collateral	1,314,953,000	1,022,398,000
Fair value of securities on loan, secured by non-cash collateral	4,977,243,000	4,830,246,000
Non-cash collateral	\$ 5,397,734,000	5,277,990,000

The Fund receives 80 percent of earnings derived from securities lending transactions, and the Bank retains 20 percent. During the years ended June 30, 2017 and 2016, the Fund incurred no losses from securities lending transactions. The Fund received income of \$17,889,000 and \$18,520,000 from securities lending for the years ended June 30, 2017 and 2016, respectively, which is recorded in real estate and other income on the statements of revenues, expenditures and changes in fund balances.

13. 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:

	2017	2016
Accrued liabilities	\$ 29,423,000	24,509,000
Securities purchased	669,757,000	816,539,000
Total accounts payable	\$ 699,180,000	841,048,000

14. 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. During the year ended June 30, 2017, the legislative appropriation directed the timing of funding for the Dividend Fund to be from the next fiscal year (i.e. an appropriation from the year ending June 30, 2018), so there is no income distributable from the year ended June 30, 2017. In FY2018 \$725,950,000 was transferred to the Dividend Fund on September 7, 2017. 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 as follows:

	2017	2016
Dividends	\$ –	649,348,000
Appropriation to the Departments of:		
Health and Social Services	–	17,725,000
Revenue	–	8,340,000
Corrections	–	20,237,000
Total to Dividend Fund	–	695,650,000
Alaska Capital Income Fund	25,067,000	18,115,000
Total income distributable	\$ 25,067,000	713,765,000

15. FUND BALANCES

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

	2017	2016
Nonspendable		
Balance, beginning of year	\$ 44,199,667,000	45,638,093,000
Dedicated State revenues	364,893,000	284,462,000
Inflation proofing transfer from assigned fund balance	–	–
Change in unrealized appreciation on invested assets	2,405,033,000	(1,722,888,000)
Balance, end of year	\$ 46,969,593,000	44,199,667,000
Assigned		
Balance, beginning of year	\$ 8,570,020,000	7,162,405,000
Inflation proofing transfer to nonspendable fund balance	–	–
Dividends paid or payable to the Permanent Fund Dividend Fund	–	(695,650,000)
Settlement earnings payable to the ACIF	(25,067,000)	(18,115,000)
Realized earnings, net of operating expenditures	3,239,255,000	2,216,267,000
Change in unrealized appreciation on invested assets	1,031,296,000	(94,887,000)
Balance, end of year	\$ 12,815,504,000	8,570,020,000
Total		
Balance, beginning of year	\$ 52,769,687,000	52,800,499,000
Dedicated State revenues	364,893,000	284,462,000
Dividends paid or payable to the Permanent Fund Dividend Fund	–	(695,650,000)
Settlement earnings payable to the ACIF	(25,067,000)	(18,115,000)
Excess of investment revenues over expenditures	6,675,584,000	398,491,000
Balance, end of year	\$ 59,785,097,000	52,769,687,000

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

	2017	2016
Dedicated State revenues	\$ 16,539,212,000	16,174,318,000
Special appropriations	6,885,906,000	6,885,906,000
Inflation proofing	16,236,269,000	16,236,269,000
Settlement earnings	152,912,000	152,912,000
Total contributions and appropriations	\$ 39,814,299,000	39,449,405,000

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, proportionate values of the unrealized appreciation or depreciation of invested assets should be allocated to nonspendable fund balances and assigned fund balances. As of June 30, 2017, the Fund’s net unrealized gain was \$9,107,593,000, of which \$7,155,294,000 was allocated to the nonspendable fund balance and \$1,952,299,000 was allocated to the assigned fund balance. As of June 30, 2016, the Fund’s net unrealized gain was \$5,671,266,000, of which \$4,750,262,000 was allocated to the nonspendable fund balance and \$921,004,000 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 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 \$25,067,000 during FY2017 and \$18,115,000 during FY2016.

16. FAIR VALUE MEASUREMENT

Various inputs are used in valuing the investments held by the Fund. GAAP establishes a hierarchy of inputs used to value investments emphasizing observable inputs and minimizing unobservable inputs. These input levels are summarized as follows:

- Level 1 – Quoted prices for identical assets in an active market
- Level 2 – Inputs, other than quoted prices, that are observable for the asset, either directly or indirectly
- Level 3 – Unobservable inputs. Unobservable inputs should only be used to the extent that observable inputs are not available for a particular asset.

Investments measured using net asset value (NAV) per share as a practical expedient to fair value are not categorized into input levels. The input levels used to measure Fund’s investments and derivative instruments at June 30 are summarized as follows:

	MEASURED USING INPUT LEVELS			MEASURED USING	
2017	LEVEL 1	LEVEL 2	LEVEL 3	NAV	TOTAL
Marketable debt securities	\$ 2,868,376,000	7,246,264,000	–	–	10,114,640,000
Preferred and common stock	25,354,335,000	–	–	–	25,354,335,000
Real estate	1,210,334,000	–	–	5,676,501,000	6,886,835,000
Absolute return	713,610,000	1,599,809,000	65,796,000	2,187,809,000	4,567,024,000
Private equity	–	–	–	6,818,147,000	6,818,147,000
Infrastructure	557,439,000	–	–	1,900,906,000	2,458,345,000
Public-private credit	–	–	–	1,111,752,000	1,111,752,000
Total investments	\$ 30,704,094,000	8,846,073,000	65,796,000	17,695,115,000	57,311,078,000

	MEASURED USING INPUT LEVELS			MEASURED USING	
2016	LEVEL 1	LEVEL 2		NAV	TOTAL
Marketable debt securities	\$ 2,808,102,000	6,992,014,000		–	9,800,116,000
Preferred and common stock	20,938,177,000	–		–	20,938,177,000
Real estate	1,401,631,000	–		5,646,513,000	7,048,144,000
Absolute return	–	–		5,495,915,000	5,495,915,000
Private equity	–	–		5,531,425,000	5,531,425,000
Infrastructure	369,057,000	–		1,391,644,000	1,760,701,000
Public-private credit	–	–		1,080,408,000	1,080,408,000
Total investments	\$ 25,516,967,000	6,992,014,000		19,145,905,000	51,654,886,000

Marketable debt securities and preferred and common stock classified as level 1 are valued using prices quoted in active markets for those securities. Debt securities classified as level 2 are valued using matrix pricing. Pricing is sourced from various sources.

Publicly traded real estate investment trusts are valued using prices quoted in active markets and are reported as level 1. Directly owned real estate through ownership of interests in corporations, limited liability companies, and partnerships that hold title to real estate are reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Directly owned real estate investments are subject to annual appraisals and audits. American Homes 4 Rent II is reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions, and does not allow redemptions until the company is wound-up and dissolved.

Absolute return investments are reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Former External Chief Investment Officer (ECIO) investments are now grouped with Absolute return investments. These investments have readily determinable fair values and are therefore reported by level. Level 2 valuations are a result of liquidity terms as well as the pricing transparency of the investments held. Level 3 valuations are provided by managers and audited by third party auditing firms. Absolute return investments undergo annual independent financial statement audits. The redemption notice period is from 1-91 days and the frequency of redemption is daily to quarterly.

Public-private credit investments are reported at NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Public-private credit investments undergo annual independent financial statement audits. Redemptions are not allowed and the usual life of these investments is 5-7 years.

Private equity investments are reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Private equity investments undergo annual independent financial statement audits. Redemptions are not allowed and the usual life of these investments is 10-12 years.

Publicly traded infrastructure investments are classified as level 1 and are valued using prices quoted in active markets for those securities. The majority of infrastructure investments are reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Infrastructure investments undergo annual independent financial statement audits. Redemptions are not allowed and the usual life of these investments is 5-7 years.

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 of revenues over expenditures and statutory net income differ.

APFC periodically reviews investments for other than temporary impairment of value. Investments with fair values significantly less than costs over multiple reporting periods may be considered impaired if the cost basis will not be recovered over the investment’s remaining estimated holding period. If an other-than-temporary impairment is determined to exist for an investment, a realized loss will be recorded which will replace the previously recorded unrealized loss. Carrying value will not be affected, but the reclassification of the loss from unrealized to realized will affect the statutory net income of the Fund. During FY2017, approximately \$27 million of impairments were recorded. During FY2016, approximately \$119 million of impairments were recorded.

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

	2017	2016
Excess of revenues over expenditures	\$ 6,675,584,000	398,491,000
Unrealized (gains) losses	(3,436,329,000)	1,817,774,000
Settlement earnings	(25,067,000)	(18,115,000)
Statutory net income	\$ 3,214,188,000	2,198,150,000

18. INVESTMENT INCOME BY SOURCE

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

	2017	2016
Interest		
Marketable debt securities	\$ 294,327,000	300,259,000
Short-term domestic and other	16,382,000	6,542,000
Total interest	\$ 310,709,000	306,801,000
Total dividends	\$ 563,012,000	526,482,000
Real estate and other income		
Directly owned real estate net rental income	\$ 187,562,000	229,927,000
Real estate investment trust dividends	31,764,000	26,125,000
Absolute return management expenses, net of dividend and interest income	7,902,000	(1,823,000)
Public-private credit interest income, net of fees	25,291,000	36,827,000
Infrastructure interest and dividend income, net of fees	60,207,000	31,616,000
Private equity dividend income, net of management expenses	33,627,000	6,307,000
Class action litigation income	8,026,000	12,923,000
Loaned securities, commission recapture and other income	25,967,000	19,079,000
Total real estate and other income	\$ 380,346,000	360,981,000

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, 2017 ranged between one and 120 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, 2017 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 2017 and 2016 are summarized as follows:

	2017	2016
Balances at June 30		
Face value of FX forward contracts	\$ 2,183,950,000	1,835,468,000
Net unrealized holding gains (losses) on FX forward contracts	(13,700,000)	20,961,000
Fair value of FX forward contracts	\$ 2,170,250,000	1,856,429,000
Activity for fiscal years ending June 30		
Change in unrealized holding gains	\$ (34,592,000)	23,242,000
Realized gains	29,193,000	12,101,000
Net increase (decrease) in fair value of FX forward contracts	\$ (5,399,000)	35,343,000

Certain APFC equity investment managers are permitted to trade in equity index futures for the Fund's account, and the internal fixed income management team trades U.S. Treasury index futures. Equity index futures are traded in both domestic and non-domestic markets based on an underlying stock exchange value. Equity and fixed income 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 2017 and 2016 is summarized as follows:

	2017	2016
Balances at June 30		
Face value of equity index futures	\$ 187,859,000	154,409,000
Net unrealized holding losses on futures	(6,091,000)	(1,090,000)
Fair value of equity index futures	\$ 181,768,000	153,319,000
Activity for fiscal years ending June 30		
Change in unrealized holding losses	\$ (4,997,000)	(496,000)
Realized gains	59,009,000	25,629,000
Net increase in fair value of equity index futures	\$ 54,012,000	25,133,000

Activity and balances related to U.S. Treasury index futures for fiscal year 2017 and 2016 is summarized as follows:

	2017	2016
Balances at June 30		
Face value of U.S. Treasury index futures	\$ (120,483,000)	(134,309,000)
Net unrealized holding losses on futures	(1,664,000)	(10,360,000)
Fair value of U.S. Treasury index futures	\$ (122,147,000)	(144,669,000)
Activity for fiscal years ending June 30		
Change in unrealized holding gains	\$ 8,678,000	10,494,000
Realized gains	9,138,000	18,853,000
Net increase in fair value of U.S. Treasury index futures	\$ 17,816,000	29,347,000

The face value of FX forward contracts and futures shown in these schedules is not required to be included in the Fund's balance sheets. All other balance and activity amounts shown above are included in the Fund's financial statements within the net increase in fair value of investments on the Statement of Revenues, Expenditures and Changes in Fund Balances.

20. EXPENDITURES

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

	2017	2016
APFC operating expenditures		
Salaries and benefits	\$ 8,815,000	7,592,000
Communications and electronic services	3,959,000	2,111,000
Consulting fees	2,390,000	2,381,000
Training, supplies, services and other	634,000	552,000
Rent	490,000	476,000
Travel	413,000	336,000
Legal and audit fees	876,000	858,000
Property and equipment	294,000	227,000
Public information and subscriptions	141,000	97,000
Subtotal APFC operating expenditures	18,012,000	14,630,000
Investment management and custody fees		
Investment management fees	102,006,000	89,382,000
Custody and safekeeping fees	1,242,000	1,252,000
Subtotal investment management and custody fees	103,248,000	90,634,000
Total operating expenditures, investment management and custody fees	121,260,000	105,264,000
Other Legislative appropriations from corporate receipts		
Department of Natural Resources	5,897,000	5,891,000
Department of Law	2,587,000	2,578,000
Department of Revenue	94,000	92,000
Total other Legislative appropriations	8,578,000	8,561,000
Total expenditures	\$ 129,838,000	113,825,000

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 post-employment healthcare benefits to eligible retirees. The PERS financial report can be obtained from the State of Alaska's Retirement and Benefits website. Benefit and contribution provisions are established by state law and can be amended only by the 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 of eligible employee salaries for the benefit of PERS members. Total salaries subject to PERS for the years ended June 30, 2017 and 2016 amounted to \$6,099,000 and \$5,245,000, respectively.

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 honoraria, up to a specified maximum, to SBS-AP. 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 honoraria for individuals subject to SBS-AP for the years ended June 30, 2017 and 2016 amounted to \$4,514,000 and \$3,964,000, respectively.

BOARD OF TRUSTEES

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Sheldon Fisher
Randall Hoffbeck
Marty Rutherford

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Vice Chair
Trustee
Trustee
Trustee
Trustee

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Paulyn Swanson
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Nicolas Martell

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Human Resources Officer
General Counsel
Communications Manager
Executive Assistant
Executive Intern

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Valeria Buschfort
Katy Giorgio
Jay Klinger
Christopher LaVallee
Jacki Mallinger
John Seagren
Jane Sherbrooke
Joseph Shinn
Katherine Smith
Takeshi Paul Nakachi

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Senior Portfolio Accountant
Portfolio Accountant
Portfolio Accountant
Senior Portfolio Accountant
Portfolio Accountant
Controller
Trade Operations Analyst
Trade Operations Manager
Compliance & Performance Analyst
Finance Intern

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Scott Balovich
Nellie Metcalfe
Anthony Shaw

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Senior Network Systems Engineer
Desktop Support Specialist
Network Systems Administrator

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Jared Brimberry
Travis Brown
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Christopher Cummins
Moctar Diouf
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Karen Emberton
Marcus Frampton
Christi Grussendorf
Yup Kim
Samantha LaPierre
Valeria Martinez
Juliana Melin
Stephen Moseley
Youlian Ninkov
Thomas O'Day
Matthew Olmsted
James Parise
Fawad Razzaque
Maria Skuratovskaya

Chief Investment Officer
Senior Portfolio Manager - Real Estate
Portfolio Manager - Private Credit
Senior Associate - Private Equity & Special Opportunities
Senior Associate - Infrastructure & Absolute Return
Senior Portfolio Manager - Fixed Income
Investment Analyst - Public Equities
Director of Investments - Real Estate
Investment Analyst - Real Estate
Director of Investments - Infrastructure & Absolute Return
Investment Analyst - Real Estate
Senior Portfolio Manager - Special Opportunities
Investment Analyst - Risk
Director of Risk & Asset Allocation
Administrative Specialist
Director of Investments - Private Equity & Special Opportunities
Public Equities Strategist Trader
Investment Analyst - Fixed Income
Senior Portfolio Manager - Fixed Income
Director of Investments - Fixed Income
Director of Investments - Public Equities
Senior Portfolio Manager - Fixed Income

OPERATIONS

Laura Achee
Janice Hotch
Kaitlin Lafavour
Shannon McCain

Director of Operations
Procurement Specialist
Administrative Specialist
Administrative Services Manager

The background of the entire page is a photograph of a person's profile, facing right, looking out over a body of water. The person's face is in silhouette, and the water is a deep blue with some ripples. The sky is a lighter blue. The overall mood is serene and contemplative.

APFC

ALASKA PERMANENT
FUND CORPORATION

This publication on the activities and financial condition of the Alaska Permanent Fund is submitted in accordance with AS 37.13.170.

The report was printed at a cost of \$15.53 per copy by Pyramid Printing. Annual report design by Walsh|Sheppard.