

2016  
ANNUAL REPORT

ALASKA  
PERMANENT  
FUND  
CORPORATION

40 YEARS  
OF FORTITUDE



# 40 YEARS OF FORTITUDE

## THE ALASKA PERMANENT FUND

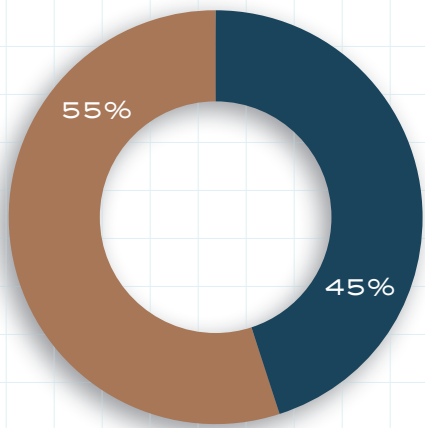
Success in Alaska’s shifting financial landscape requires acumen, discipline, and honed judgment to identify and respond to opportunities and risks.

In commemoration of the Alaska Permanent Fund’s 40th year, our annual report reviews the progression of sound investment management that has prepared us for this time in Alaska’s economy and highlights successful fortitude, growth, and perseverance.

As the steward of Alaska’s largest public trust, the Alaska Permanent Fund Corporation takes pride in openly sharing our progress with our fellow Alaskans.

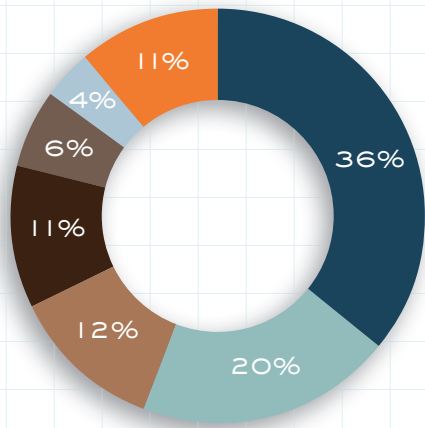
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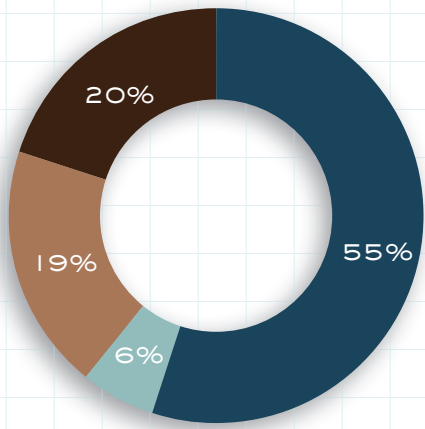
USE OF FUND INCOME  
SINCE INCEPTION (IN BILLIONS)

- Paid out to Current Generations | \$24.3
- Saved for Future Generations | \$29.1



APFC TARGET  
ASSET ALLOCATION  
TRADITIONAL ASSET CLASS  
FISCAL YEAR 2016

- Stocks
- Cash and Bonds
- Real Estate
- Absolute Return
- Private Equity
- Infrastructure
- Other



APFC TARGET  
ASSET ALLOCATION  
RISK CONDITIONS  
FISCAL YEAR 2016

- Company Exposure
- Cash and Interest Rates
- Real Assets
- Special Opportunities



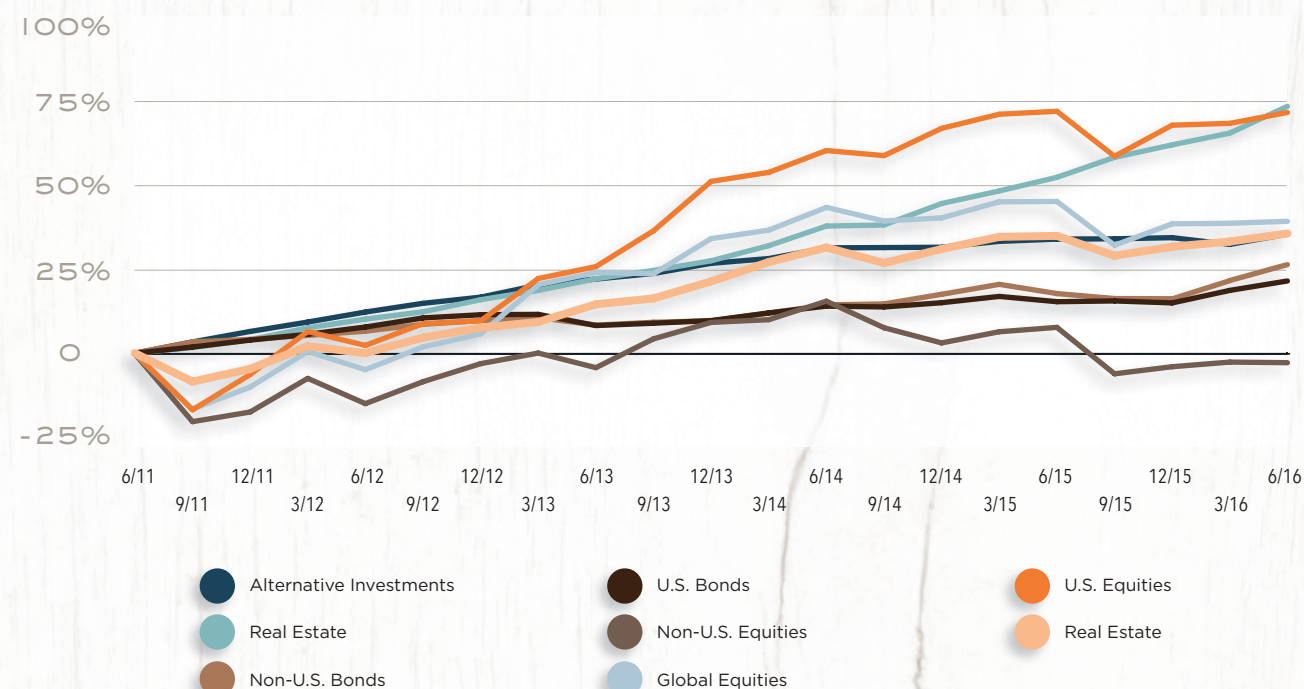


**APFC Board of Trustees 2016**

*Vice-Chair Carl Brady, Trustee Larry Cash, Trustee Marty Rutherford, Chair Bill Moran, Trustee Randy Hoffbeck, Trustee Sheldon Fisher*

## THE EFFECTS OF DIVERSIFICATION

FIVE YEAR CUMULATIVE RETURN



## LETTER FROM THE CHAIR

WILLIAM G. MORAN

This year we celebrate the 40th year of the Alaska Permanent Fund. As we honor this anniversary, we are mindful of the sound management of state resources and the fortitude that has prepared us for this juncture in Alaska's history. The Alaska Permanent Fund Corporation (APFC) has worked diligently to maximize the value of the Fund through prudent long-term investment and protection of principal to produce income to benefit all current and future generations of Alaskans. The Board is proud to lead a group of talented people at APFC who have grown the Fund — through expertise, adaptability, and perseverance — from the first deposit of oil revenues totaling \$734,000 to a value of just under \$53 billion at the end of fiscal year 2016.

Amid the evolving political and economic landscape for the Fund, APFC has experienced internal changes and milestones. In October 2015, APFC welcomed Angela Rodell as Chief Executive Officer following the retirement of the late Mike Burns. Ms. Rodell joined the team prepared to lead, with more than 20 years of diverse finance experience in both public and private sectors. Prior to her appointment as CEO, Ms. Rodell was no stranger to Alaska or APFC. Ms. Rodell also served on the APFC's Board of Trustees as a cabinet member, having been appointed Commissioner of the Department of Revenue in August 2013 by Governor Sean Parnell.

I am pleased to welcome two new members to the Board of Trustees. In June, Governor Bill Walker appointed Marty Rutherford to the Board's public seat. Prior to joining the Board, she served the State of Alaska in leadership positions for nearly three decades. She most

recently worked as the Department of Natural Resources Acting Commissioner before retiring on June 30. Ms. Rutherford's appointment comes with historic ties as John Kelsey, Ms. Rutherford's father, is one of the longest serving Trustees, having served on the Board from 1987 to 1995.

In July, Governor Walker appointed Department of Administration Commissioner Sheldon Fisher to the Board seat reserved for one of the Governor's cabinet members. Commissioner Fisher has more than two decades of experience in private sector management to compliment his public sector experience. Before he worked for the State of Alaska, Commissioner Fisher was the Chief Operating Officer for McKinley Capital Management in Anchorage.

I would like to extend our gratitude to outgoing Trustee Gary Dalton, Trustee Craig Richards, and Trustee Larry Hartig for their service to the Alaska Permanent Fund Corporation. Their sound insights and contributions as fiduciaries of the Fund are appreciated and respected, as is their continued service to the people of Alaska.

As the Chair of the Board of Trustees, I am proud to lead such an experienced group that has the honor of overseeing a remarkable Alaska corporation. While political changes bring opportunities and challenges, we are prepared to achieve investment success to benefit Alaskans for another four decades and beyond.

*William G. Moran*

William G. Moran



# LETTER FROM THE CEO

ANGELA M. RODELL

Our investment successes are especially meaningful this year as we mark the 40th anniversary of the Fund. Economic shifts in the state have put the Fund under more public and legislative scrutiny than ever before. True to the Alaska spirit, APFC has the fortitude needed to continue managing and growing the Fund with integrity, stewardship, and passion.

It is our commitment not only to managing the Fund, but also to each other, that contributes to the success of the Corporation. Our open, creative culture is due in part to the synergy between the board, executive team, and staff members. We make it a priority to foster an environment that allows for self-improvement and innovative solutions to challenges. I am sure this is in part why APFC has won the aiCIO Industry Innovation Award in the sovereign wealth fund category for the second time in four years. My vision for APFC includes maintaining and growing a staff that consists of the best professionals in their respective fields, a staff that will continue to carry out the APFC vision and sustain our history of success.

It proved to be another volatile year and the Fund was able to weather the storms with a diversified asset allocation, allowing significant losses in stocks to be offset by gains in other asset classes. For fiscal year 2016, the Fund gained 1.02 percent, approximately 0.48 percent ahead of the median return posted by U.S. public funds, but 0.55 percent behind index performance benchmarks. Over the past three fiscal years, the Fund has outperformed both median U.S. public funds and APFC's index performance benchmarks by a margin of 0.65 percent and 1.68 percent (annualized), respectively. Fund assets as of June 30, 2016 were \$52.8 billion, unchanged from the previous year.

The 2016 fiscal year started with continued global market corrections and declines in oil prices. Our first quarter performance was down more than 4 percent as investors fled the global equity markets

for the safety of bonds. The balance of the year saw a recovery of those initial losses as the Fund took advantage of market volatility and U.S. equities in particular moved into positive territory. Oil prices then entered a period of relative stability, and the bond market outperformed expectations.

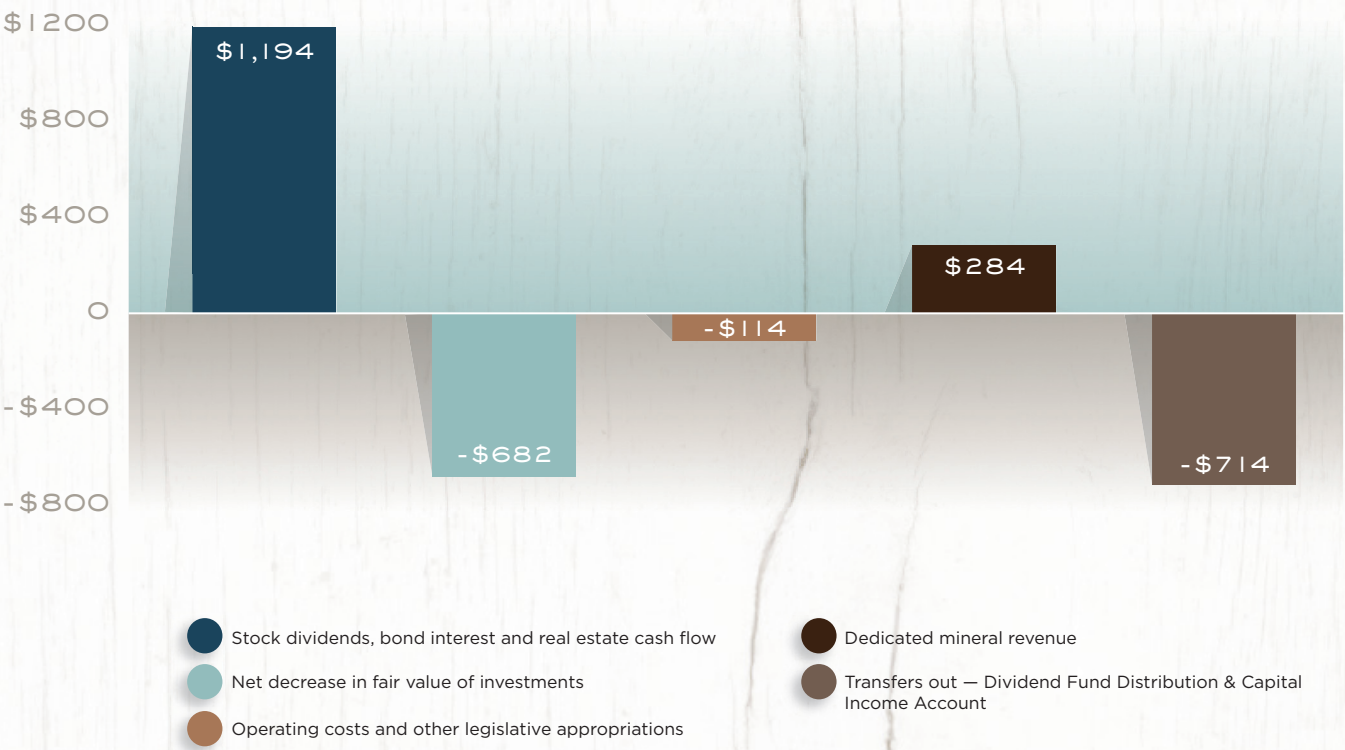
APFC continues to grow and we have added a number of high-impact team members to our staff over the course of the fiscal year. Russell Read joined the Corporation in May as our new Chief Investment Officer. Russell brings his extensive experience most recently as CIO of the Gulf Investment Company (Kuwait) and the California Public Employees' Retirement System. We also welcomed Jared Brimberry, Tim Andreyka and Yup Kim to our investment staff. Tim is serving as a senior portfolio manager in our real estate group and Jared and Yup have responsibility for deploying our alternative investment strategies. In human resources, we were pleased to add Chad Brown as our new manager. Chad had previous experience as a recruiter and human resource manager for Zion's Bank in Salt Lake City, Utah. Pauly Swanson joined us as our new communications manager. The growth has been significant and we are continuing to add talented team members.

I am also a newcomer to the team, having joined APFC last fall. I take great pride in leading an organization that has an extraordinary reputation around the world. As a former trustee, I knew that I was joining an outstanding team of professionals of whom all Alaskans should be proud. The commitment and dedication each individual shows is a testament to public service in the very best sense of the term. We are committed to delivering sustained, compelling results that will benefit this generation and all future generations of Alaskans.

Angela M. Rodell

## SOURCES OF CHANGE IN FUND VALUE

FISCAL YEAR 2016 (IN MILLIONS)





1976

1980

1990

2000

# THE FUND 1976~2016

1976

Alaskans vote, by a margin of 75,588 to 38,518, to approve a Constitutional Amendment establishing the Permanent Fund.

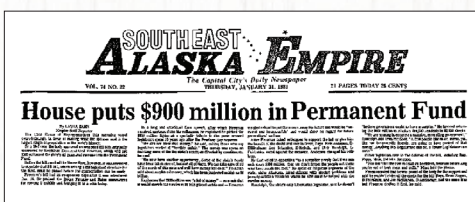
1977

The Fund receives its first deposit of dedicated oil revenues, totaling \$734,000.



1987

Despite the stock market crash in October 1987, the Fund's performance ranks in the top 9 percent of all public funds in the U.S. Total annual throughput of oil in the trans-Alaska pipeline peaks at 2 million barrels per day.



1990

After the Legislature expands the statutory investment list, the Fund begins to invest in stock and bond markets outside the United States.

1993

Fund assets reach \$15 billion.

2000

The Trustees remain committed to a long-term, diverse investment strategy as the stock market begins a sharp decline that will last for three years. Trustees further diversify the Fund's investment portfolio and increase the equity allocation to 53 percent.

2001

The Board of Trustees formally endorses a Constitutional Amendment to change Fund payouts to a percent of the Fund's total market value (POMV). The first of a series of resolutions that would place this proposed change on a general election ballot are introduced in the Legislature at the Board's request.

2002

The bear market that began in 2000 leads to the Fund's first negative return in 2002. These market conditions carry through 2003.

2006

The Fund reaches \$35 billion in value, an increase of \$5 billion from the prior fiscal year.

2007

The Trustees add a new asset class, infrastructure, to the Fund's investments. Several years of strong returns carry the Fund's value to \$40 billion.

2008

A correction that began in late 2007 causes markets to drop dramatically and makes 2008 one of the five worst years in the 218-year history of the U.S. stock market.



2015

The Board's amendments to the Investment Policy authorize the Fund to be placed in a smaller number of more concentrated investments to help lower investment costs and prevent over-diversification.



1980

The Alaska Legislature creates the Alaska Permanent Fund Corporation (APFC) to manage the investments of the Fund. \$900 million in surplus oil revenues is deposited in the Fund.

The Legislature also authorizes the first Permanent Fund Dividend program.

1982

The Alaska Legislature, at the request of the Board of Trustees, enacts inflation proofing to protect the Fund's purchasing power. **The first Permanent Fund Dividend check of \$1,000 is distributed.** The Legislature pays this first dividend, not with Fund income, but with surplus oil revenues.

1983

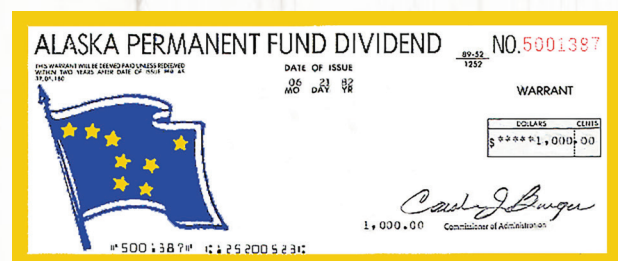
Following changes to the statutory investment list, the Fund makes its first investment in the stock market, and later that year, in directly held real estate.

1998

For the first time ever, Fund earnings exceed state oil revenues as the Fund reaches the \$25 billion mark.

1999

The Legislature increases the Fund's investment flexibility to allow up to 5 percent of the Fund's value to be invested in alternative investments.



2004

APFC invests in two new asset classes: absolute return strategy funds and private equity. The Legislature changes state law to require cause before any of the four public members of the Board may be removed, furthering the efforts to keep APFC independent.

2005

The Legislature makes a significant change in how Fund investments are determined, by removing the allowed investment list from state law so that Trustees make investment decisions solely under the guidelines of the prudent investor rule. Fund assets reach \$30 billion.

2009

The Board reorganizes the Fund's investments into risk-based groups, where investments are grouped by the market condition that those assets are intended to address. This better fits the Board's goal of building a portfolio that will provide a more stable return under a variety of conditions. Based on this and other innovative risk management activities, APFC is awarded the aiCIO Industry Innovation Award in the sovereign wealth funds category the following year.

2012-2013

Continuing the evolution of the Fund's investments, the Board works to take advantage of APFC's growing capabilities. Programs are created to bring international bond and infrastructure co-investments in house.

2014

The Fund reaches a value of \$50 billion.



2016

The Fund celebrates its 40th anniversary with a fund value of \$52.8 billion.

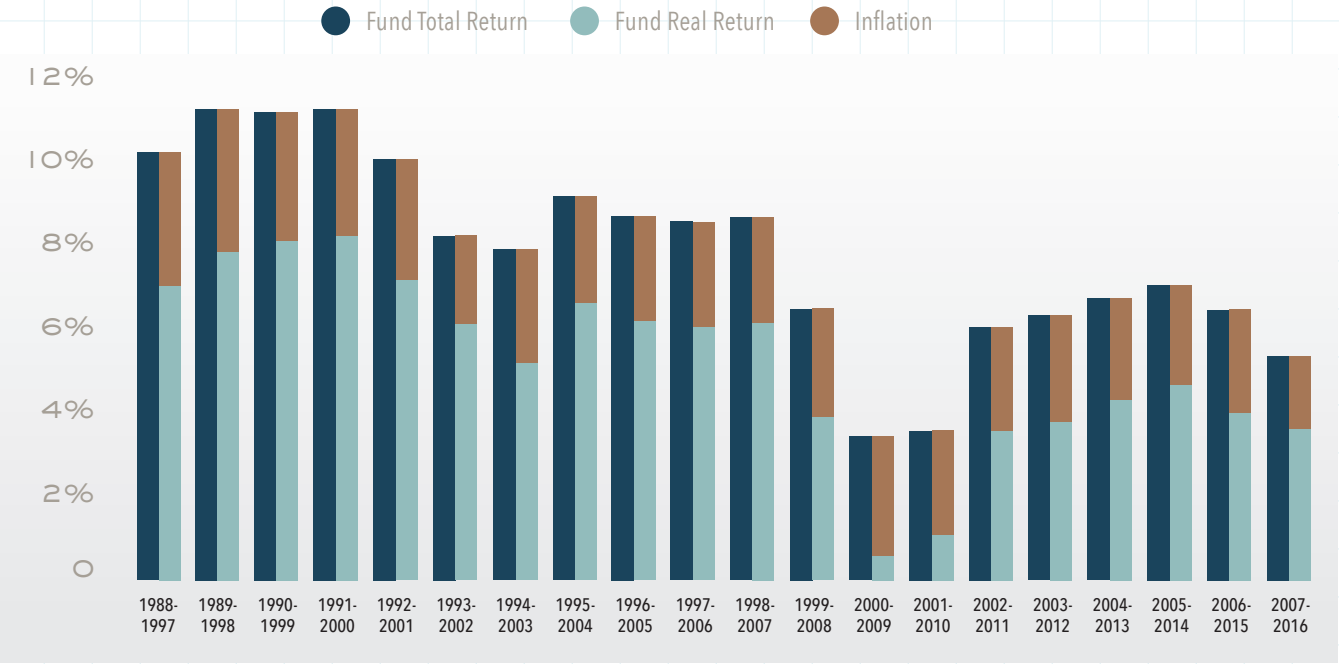




# INVESTING FOR THE LONG RUN

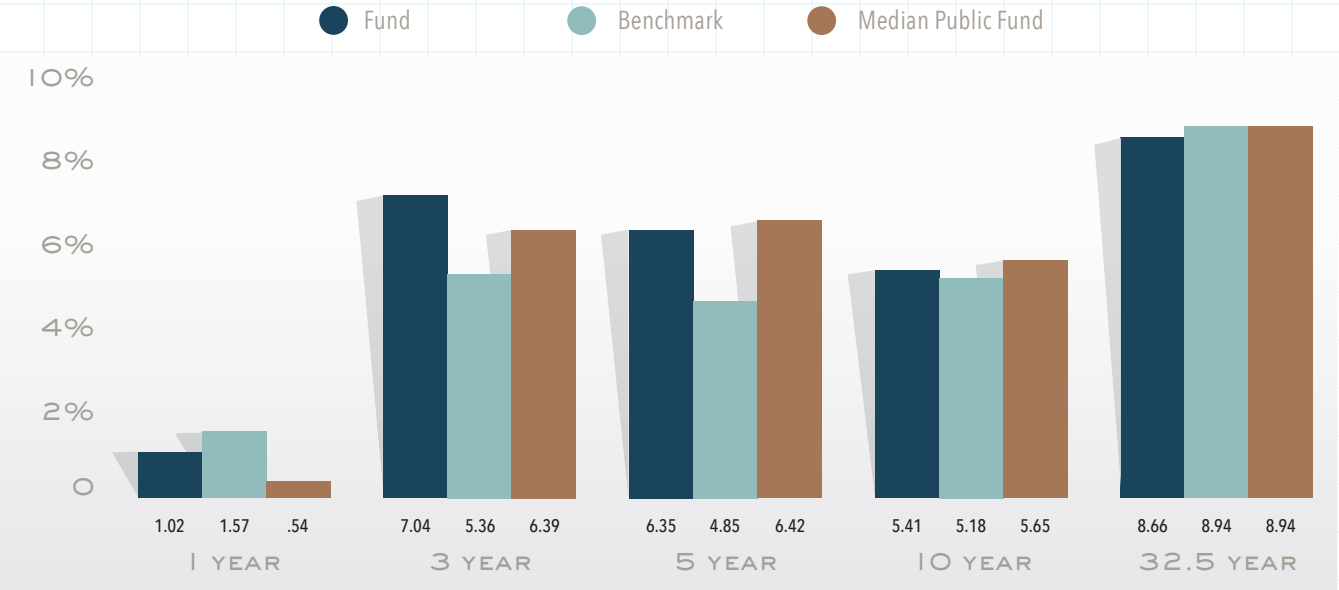
## ROLLING 10-YEAR FUND RETURNS

ANNUALIZED RETURNS FOR PERIODS ENDING JUNE 30



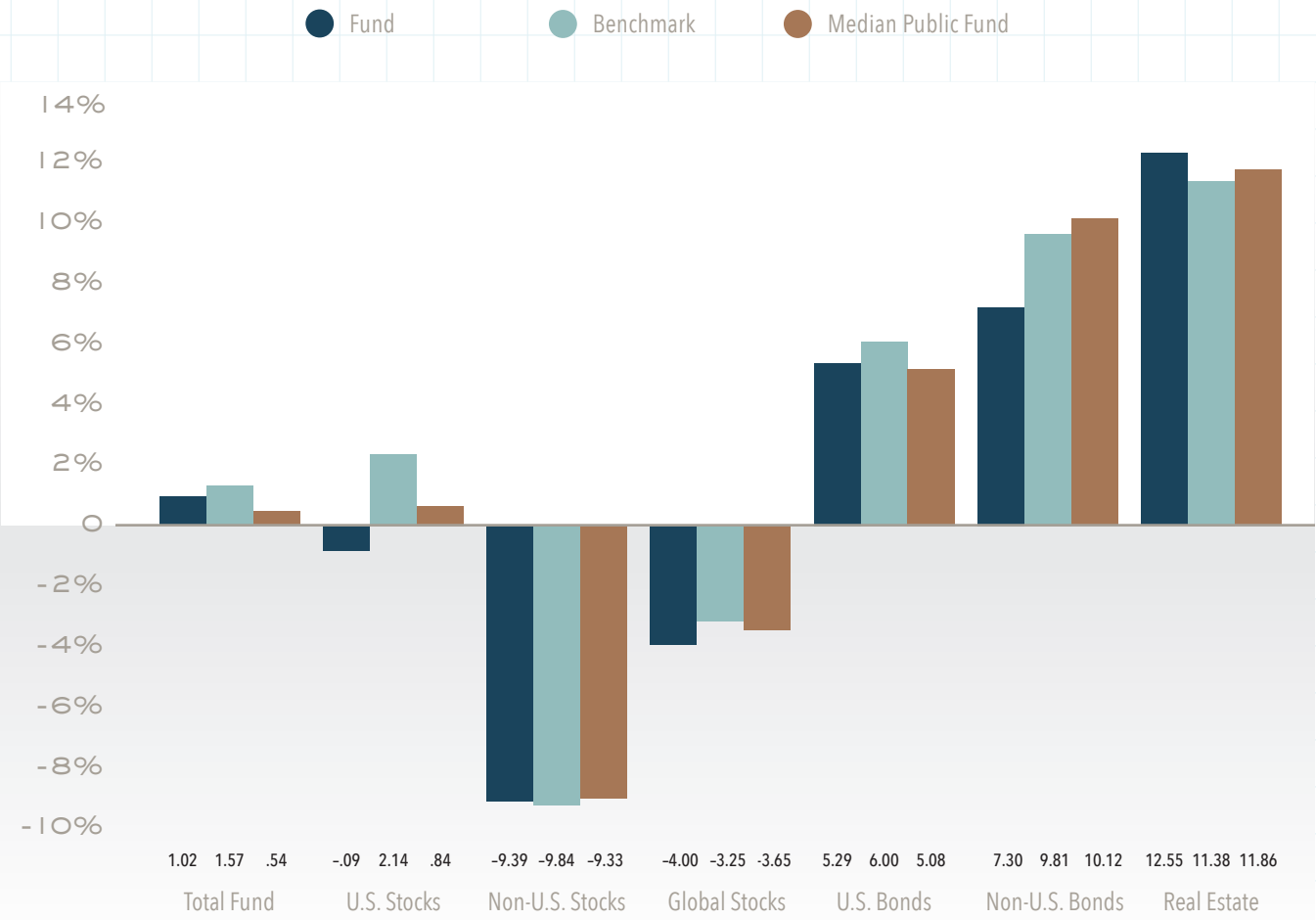
## FUND'S LONG-TERM INVESTMENT PERFORMANCE

ANNUALIZED RETURNS FOR PERIODS ENDING JUNE 30



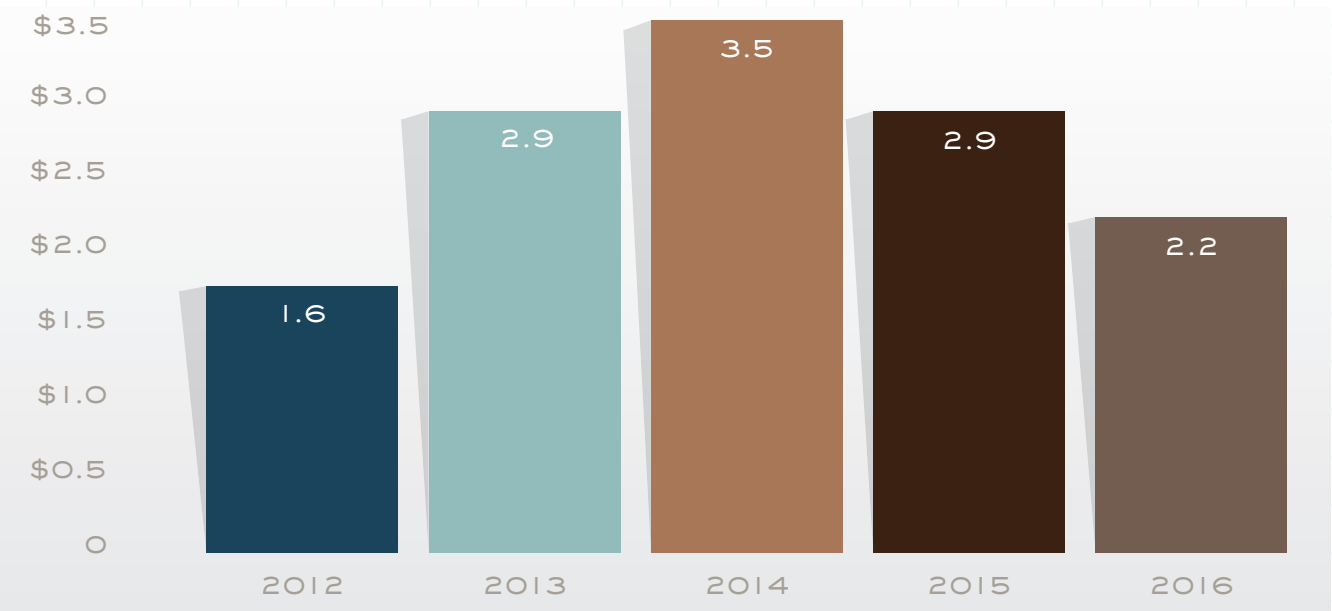
## FISCAL 2016 PERFORMANCE

BY ASSET CLASS



## STATUTORY NET INCOME

BY FISCAL YEAR (IN BILLIONS)







# BONDS

The bond market in fiscal year 2016 was characterized by lower yields and positive overall returns, despite periods of volatility, such as Brexit, the United Kingdom’s vote to leave the European Union, and February’s stock market correction. Non-U.S. bonds performed particularly well, with many developed nations offering negative rates through ten years. Negative rates are not favorable for buyers of these bonds, but holders like APFC benefit when yields fall. Emerging markets, while generally more volatile than developed markets, produced positive returns this fiscal year in the face of lower oil and commodity prices. Most portfolios, both internally and externally managed, did well versus their respective benchmarks and helped to contribute to the overall positive performance of the Fund.

## U.S. BONDS

The Permanent Fund’s \$9.9 billion U.S. bond portfolio gained 5.3 percent for fiscal year 2016, behind the Barclay’s U.S. Aggregate Index return of 6.0 percent. The bulk of this portfolio is managed internally by the Corporation’s staff. The majority of the underperformance can be attributed to the allocation to high yield bonds and Treasury Inflation Protected Securities (TIPS), neither of which are included in the reference index.

The corporate bond portfolio ended the year at \$3.0 billion and 8.1 percent, ahead of the Barclay’s Capital U.S. Corporate Index return of 7.9 percent. The Commercial Mortgage Backed Securities (CMBS) portfolio returned 6.5 percent, compared to the Barclay’s Capital U.S. CMBS ERISA Eligible AAA Index, which returned 6.6 percent and ended the year with a value of \$333 million. The \$635 million MBS portfolio gained 4.2 percent, versus the Barclay’s Capital U.S. MBS Index return of 4.3 percent.

The \$1.1 billion U.S. government portfolio gained 5.4 percent for the period, versus Barclay’s Capital U.S. Treasury Index return of 6.2 percent. The \$619 million APFC-managed TIPS portfolio gained 4.5 percent, ahead of the Barclay’s Capital U.S. TIPS benchmark return of 4.4 percent.

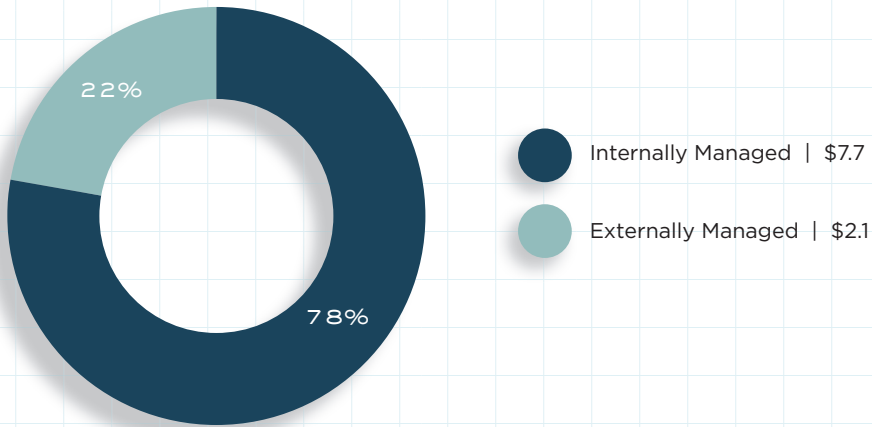
The internally managed U.S. Aggregate Portfolio ended the year with a value of \$1.1 billion after returning 5.6 percent, slightly below the Barclay’s U.S. Aggregate Portfolio Index return of 6.0 percent.

The Permanent Fund has three external domestic managers which oversee high yield bond and intermediate TIPS portfolios. The \$159 million Capital Guardian high yield portfolio returned 3.4 percent for the fiscal year, while the \$468 million Oaktree high yield portfolio gained 0.8 percent. In comparison, the Barclay’s Capital U.S. High Yield 2% Issuer Cap Index returned 1.7 percent for the period. Alaska Permanent Capital Management oversees a \$607 million intermediate TIPS portfolio for the Fund, which gained 3.4 percent for the period, versus Barclay’s Capital 1-10yr TIPS Index gain of 3.3 percent.

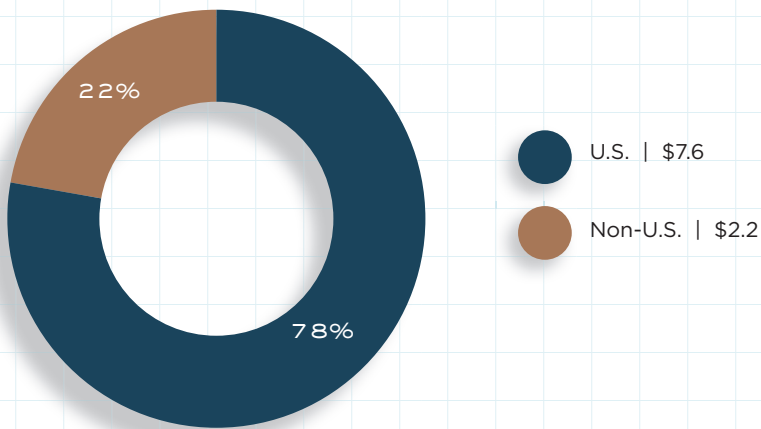
## NON-U.S. BONDS

As a whole, the Permanent Fund’s non-U.S. bond investments gained 7.3 percent for the fiscal year, ending June 30 with a value of \$1.2 billion. The \$233 million internally managed non-U.S. portfolio returned 8.9 percent for its first full fiscal year, compared to the Barclay’s Capital Global Treasury ex-U.S. Index (Hedged) return of 9.8 percent. The external portfolio managed by Rogge Global Partners returned 9.5 percent for the year, with an ending value of \$343 million. Capital Guardian’s \$579 million high yield emerging market debt portfolio gained 5.0 percent for the year, compared to the custom benchmark gain of 6.3 percent.

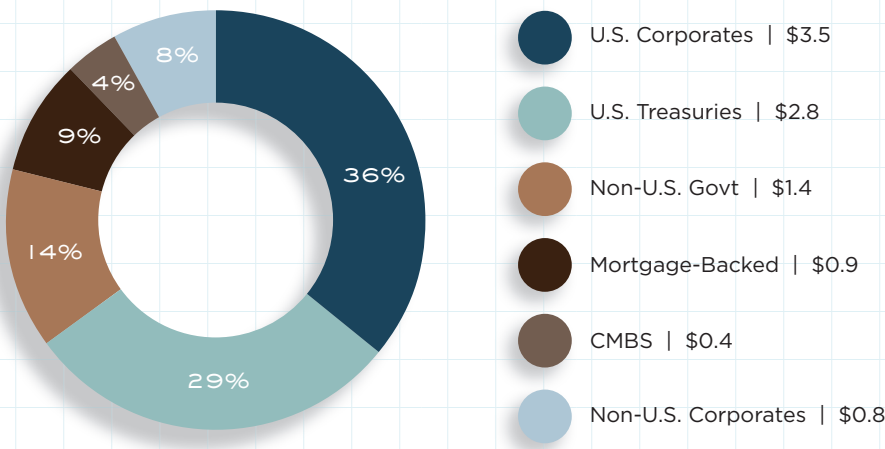
## BOND PORTFOLIO BY INTERNAL VS EXTERNAL MANAGEMENT (IN BILLIONS)



## BOND PORTFOLIO BY REGION (IN BILLIONS)



## BOND PORTFOLIO BY SECURITY TYPE (IN BILLIONS)





# STOCKS

During the fiscal year ending June 30, 2016, investors grappled with a complex set of economic conditions. While the U.S. economy seemed to be on solid footing, many other countries struggled to manage slowing economies. Challenging conditions in China, worsened by unconvincing policy decisions aimed at improving access to the country's financial markets, took center stage in directing where economic conditions and markets were headed. Oil also continued to be a major driver, having started a significant price decline in fiscal year 2015 that continued throughout fiscal year 2016 and caused a net negative impact on company earnings globally. To cap the period of conflicting conditions and policy decisions, the people of the United Kingdom sent ripples through international markets when they cast a surprising vote to leave the European Union.

Global equity markets reacted to this uncertain environment with sporadic bouts of volatility and eerie tranquility and experienced two steep declines and recoveries, only to end the period slightly lower. Markets in the U.S. fared relatively better than their international counterparts, even though the headwinds from the continued strength of the U.S. dollar, declining capital expenditures related to the oil slump, and lofty valuations were widely felt. Other major markets, such as the EU region, Japan, and China, swooned in their battle against the negative effects of deflation.

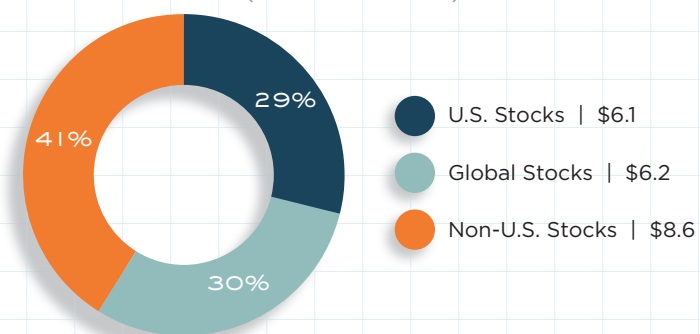
APFC's equities aggregate portfolio declined 5.1 percent for fiscal year 2016, underperforming the Global ACWI IMI benchmark, which declined 3.9

percent in the same period. The main driver of this underperformance continued to be the overweight exposure to international markets, particularly the emerging markets group. While the U.S. market returned 2.1 percent, the Global ex-U.S. market declined 9.8 percent, within which the emerging markets group declined 12 percent. Another headwind for the portfolio came from the challenging environment for stock pickers, whose efforts were overwhelmed by the capital flows in and out of narrow segments of the market. This headwind was felt acutely in the domestic portfolio, which lagged the broader Russell 3000 benchmark by about 2.2 percent, mostly driven by the underperformance in the large capitalization segment of the market. On the positive side, stock picking in the U.S. small capitalization and ex-U.S. portfolios contributed positively to performance.

The staff at APFC pursued several opportunities to reposition the portfolio. The emerging markets portfolio was rebalanced to move capital towards higher conviction managers. Another significant move was to transition the overall portfolio exposure toward the value risk factor and away from the momentum risk factor, which is the tendency of stocks that have historically outperformed (or underperformed) the market will continue to outperform (underperform). Last but not least, we added our first manager focused on the China market in an effort to align the portfolio with what we believe will be a market of growing significance and a fertile ground for active management.

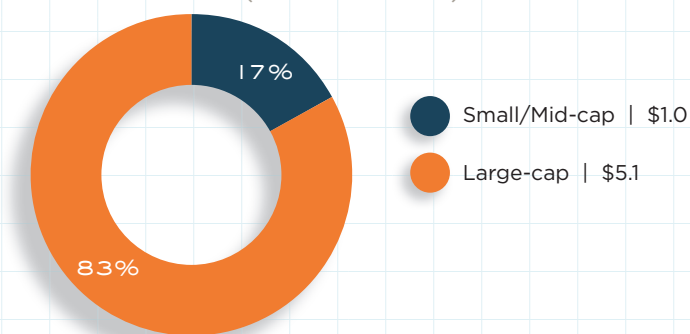
## STOCK PORTFOLIO BY REGIONAL MANDATE

(IN BILLIONS)



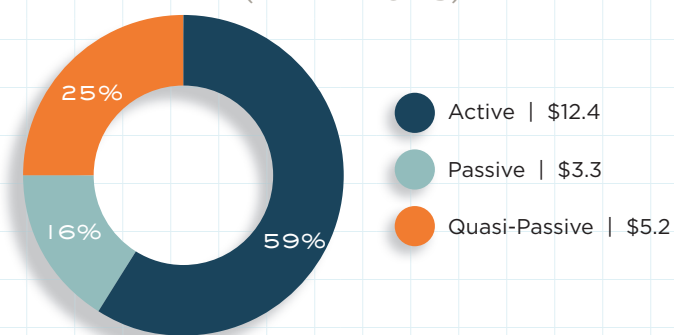
## U.S. STOCK PORTFOLIO BY COMPANY CAPITALIZATION

(IN BILLIONS)



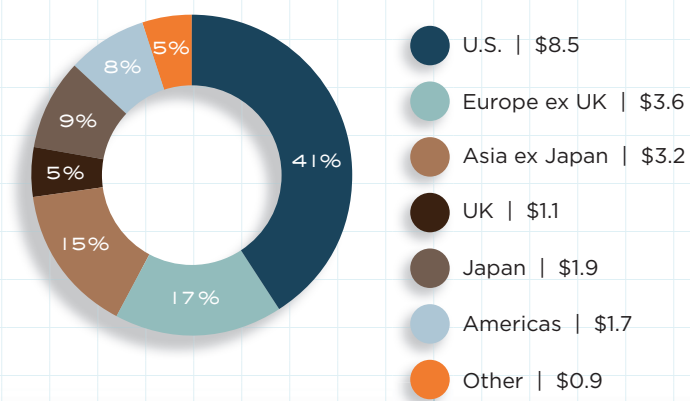
## STOCK PORTFOLIO BY ACTIVE AND PASSIVE MANAGEMENT STYLES

(IN BILLIONS)



## STOCK PORTFOLIO BY REGION

(IN BILLIONS)





# REAL ESTATE

The Permanent Fund's real estate portfolio gained 12.6 percent for fiscal year 2016, ending June 30 with a value of \$7.1 billion. The NCREIF Property Index returned 10.6 percent for the period, while the FTSE EPRA/NAREIT Developed Rental index was up 18.1 percent for the fiscal year.

## PRIVATE REAL ESTATE

The Fund's \$5.5 billion private real estate portfolio gained 9.2 percent for the fiscal year, compared to the NCREIF Property Index return of 10.6 percent. While the bulk of the portfolio is based in the U.S., overseas properties comprise \$213 million of the total.

The Permanent Fund made its initial investments in medical office properties in fiscal year 2016. The first investment was for a portfolio of two separate inpatient rehabilitation facilities (IRF) located in Boston. The facilities, Braintree Rehabilitation and New England Rehabilitation, are leased to the largest IRF operator in the U.S. The second investment was the Life Science Plaza, located in Houston, Texas. The medical office building is located adjacent to the world's largest medical complex, Texas Medical Center. These initial assets provide a solid foundation for the APFC to build a portfolio in the growing healthcare real estate segment.

Two recent initiatives saw progress this fiscal year: European real estate, where the Permanent Fund added to its growing overseas portfolio, and U.S. industrial properties, where the Fund acquired real estate in a growth segment currently underweight. The Fund purchased a 50 percent interest in Alegro Setubal Shopping Centre in Lisbon, Portugal. This acquisition expanded the APFC's strategic partnership with Immochan, a large European owner and operator of retail properties throughout the continent. In the industrial sector, the Fund added seven buildings totaling 1,323,066 square feet in Chicago, Cincinnati, and Columbus.

Retail and multi-family properties continue to be overweight in the portfolio, and outperform the overall NCREIF NPI. The Permanent Fund's retail properties are focused in areas demonstrating strong demographics and higher income per capita, including New York City, Austin, Chicago, and Washington D.C. In the multi-family space, Simpson Housing LLLP owns and operates large multi-family properties across the U.S. The Permanent Fund's share of the partnership, which it jointly owns with the State of Michigan Retirement System, was valued at \$1.3 billion on June 30, and earned 14.2 percent for the fiscal year.

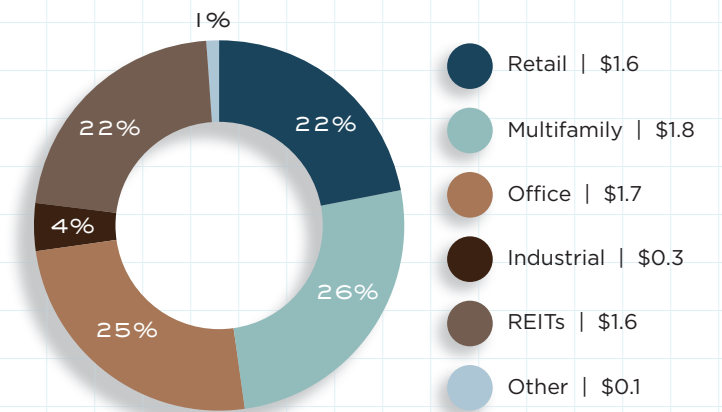
Lastly, urbanization continues to be a strong theme in the portfolio. Staff has continued the move out of suburban locations towards amenities-rich, dominant Central Business District locations. Tower Center, an office building located in East Brunswick, NJ, was sold in fiscal year 2016 continuing this shift in the portfolio. In addition, the Fund sold several non-core holdings in the Dallas/Fort Worth, TX area.

## PUBLIC REAL ESTATE

AEW Capital Management oversees a \$497 million global real estate investment trust (REIT) portfolio for the Permanent Fund, which returned 18.2 percent for the fiscal year, compared to the FTSE EPRA/NAREIT Global REIT Index return of 18.1 percent. The Fund's investment in the American Homes 4 Rent REIT comprises about 19 percent of shares outstanding. The company purchases single-family homes and manages them as rental properties in a number of locations across the U.S. Initial investments in the company were made as direct venture capital, and the REIT was moved to the real estate portfolio after the company went public in 2013. The Fund's \$918 million share of the company returned 29.2 percent for the fiscal year, compared to the FTSE EPRA/NAREIT Global REIT Index return of 18.1 percent.



## REAL ESTATE BY PROPERTY TYPE (IN BILLIONS)





# ALTERNATIVE INVESTMENTS

## PRIVATE EQUITY AND SPECIAL GROWTH OPPORTUNITIES

Private Equity and Special 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 together with our partners. The underlying assets are 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.

## PRIVATE EQUITY


The term 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 \$3.5 billion as of June 30, and returned 14.4 percent for fiscal year 2016. Over the same period, the program's benchmark, a 60/40 blend of U.S. and non-U.S. stocks, lost 2.9 percent. Over the last three years, after fees and expenses, private equity returned 18.3 percent annually. In fiscal year 2016, we committed \$867 million to 27 private equity investment partnerships. 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 Ridgemont Equity, American Industrial Partners, L Catterton, and Leonard Green & Partners. We hope to grow with these managers over time.

## SPECIAL OPPORTUNITIES

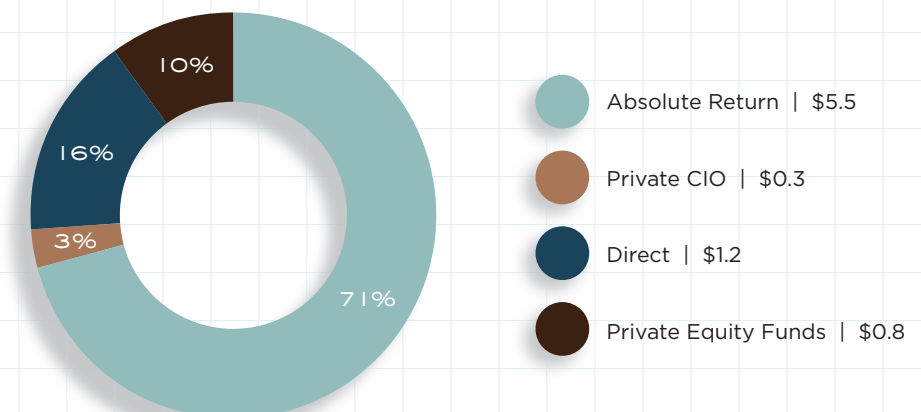
Technological innovation, market volatility, and behavioral economics often create attractive investment opportunities that do not fit precisely into standard, predetermined categories. These opportunities may be caused by, among other things, temporary market dislocations, evolving social or economic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

In the Special 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. Examples of investments in the Special Opportunities portfolio that seek to capitalize on the Fund's scale, patience, and investing relationships include:

 **AMERICAN HOMES 4 RENT**  
("AH4R"): In 2012, the Fund partnered with a tested and talented management team to form AH4R and take advantage of dislocation in the single-family home market. AH4R subsequently aggregated and integrated a

## SPECIAL OPPORTUNITIES BY TYPE

(IN BILLIONS)



geographically diverse portfolio of 48,038 homes (as of June 30, 2016) and listed its common shares on the New York Stock Exchange in 2013. At the end of fiscal year 2016, the Fund's stake in AH4R has a market value of approximately \$918 million.

**BIOTECHNOLOGY:** Much of the innovation in medicine today occurs outside of big pharmaceutical companies, but still requires substantial time and money to realize its potential. Accordingly, APFC has established significant, long-term positions in a small number of companies we believe are well positioned over the long term to create and develop innovative, potentially world-changing products. While scientific and commercial success is certainly not guaranteed, we are very pleased to be partnering constructively with several remarkable companies:



The total cost basis of the Fund's direct investments in biotechnology companies (including \$48 million that was committed but unfunded at June 30, and excluding investments made through funds controlled by trusted investment partners like Third Rock, Canaan, and Arch) is \$281 million. On June 30, these investments had a total market value of more than \$1 billion.

## CO-INVESTMENTS

APFC executes most private equity investments through talented external managers based in financial centers outside Alaska. Identifying exceptional managers and succeeding with them over time is a key determinant of our long term investment success. Additionally, because of APFC's scale, commitment, and patience in private markets, we often have opportunities to support our investment partners and their portfolio companies

by investing directly into operating companies. Each of these investments are effected 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 that would otherwise be unavailable to the Fund.

Because co-investments are managed by internal staff rather than outside managers, co-investments have allowed the Fund to avoid approximately \$54 million in fees and expenses since the Board approved the co-investment program in 2013. Successful co-investments are carefully chosen from a large pool of opportunities and therefore require extensive staff time. APFC has enjoyed robust success and will seek to expand this activity prudently and opportunistically over time.

Since initial implementation three years ago, staff has completed nine co-investments alongside APFC's investment partners, deploying a total of \$272 million. These investments have now increased in value to \$475 million, including \$124 million already distributed to the Fund. This represents a net gain of \$203 million and a net Internal Rate of Return (IRR) of 51.4 percent.

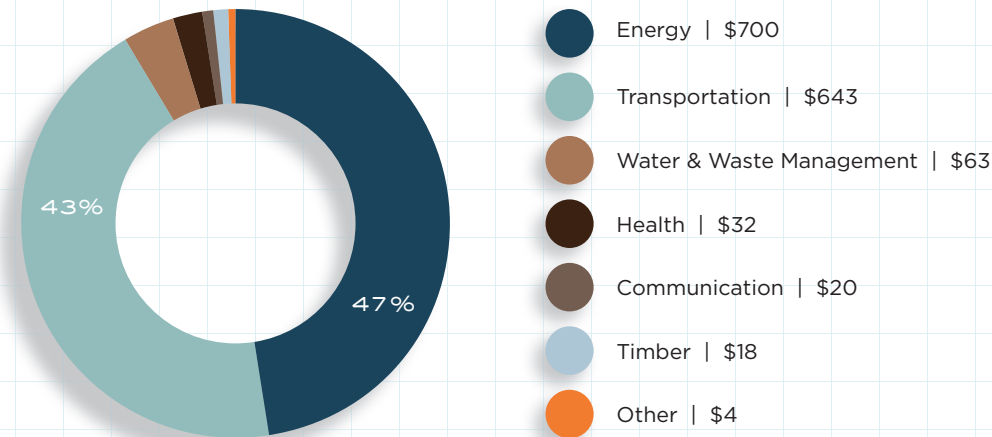
Together, Private Equity and Special Growth Opportunities represent a 26 percent target allocation for the Fund, comprised of 6 percent private equity and 20 percent special growth opportunities. Actual investment allocations are subject to careful portfolio planning and depend on the comparative attractiveness of the full range of investments available to the Fund.

The private markets portfolio enjoyed broad success in fiscal year 2016, delivering considerable gains and, in every category, outperforming applicable benchmarks.



## INFRASTRUCTURE INVESTMENTS BY SECTOR

PAID-IN COMMITMENTS (IN MILLIONS)



## INFRASTRUCTURE & SPECIAL INCOME OPPORTUNITIES

The Fund's Infrastructure & Special Income Opportunities portfolio encompasses a broad range of investment strategies covering infrastructure, other private real asset investments (such as timber and hard asset leasing), private credit, opportunistic/distressed credit, and miscellaneous private market investments that generate income for the Fund.

## INFRASTRUCTURE AND OTHER REAL ASSETS

APFC's investment activities in infrastructure date back to 2006. Since that time, the program has shifted from a primary focus on externally-managed fund investments to a large and growing emphasis on direct investments and co-investments. The \$1.8 billion Infrastructure and Other Real Assets Portfolio returned 17.6 percent for fiscal year 2016, compared to a return of 9.1 percent for the broader market as measured by the FTSE Core Developed Infrastructure Index. Over the past three years, the program has delivered 14.4 percent net returns annually versus 9.7 percent for the index. The net Internal Rate of Return (IRR) for the program since its 2006 inception is 8.6 percent, comfortably in excess of the long-term return objective for the Fund of inflation plus 5 percent.

As indicated, direct investments have been a growing focus. As of June 30, 2016, APFC has made direct

investments into two Infrastructure and Other Real Asset opportunities — an investment in global container terminal operator Terminal Investments Limited, and an investment in Twin Creeks Timber, LLC, a direct joint venture established with other institutional investors to own and operate timber properties in the Southeast United States. These direct investments have earned a net IRR of 13.8 percent since inception, compared to the 8.3 percent return on APFC's overall infrastructure portfolio.

## PRIVATE CREDIT AND SPECIAL INCOME OPPORTUNITIES

APFC's Private Credit and Special Income Opportunities portfolio is a \$1.1 billion portfolio of interests in private funds specializing in direct lending, opportunistic/distressed credit, asset-based lending, mezzanine lending, and other related areas. The Fund also has the flexibility to capitalize on income-generating special opportunities via a wide range of structures, including fund investments, co-investments, and direct investments.

For the fiscal year ending June 30, 2016, the Fund's Private Credit and Special Income Opportunities portfolio returned 2.7 percent, compared to a return of 1.6 percent in the global high yield market as measured by Barclay's Capital Global High Yield Index. On a three-year basis, the portfolio returned 6.4 percent vs. a 4.2 percent return for the market index.

## ABSOLUTE RETURN STRATEGIES

APFC manages a \$5.5 billion Absolute Return portfolio comprised of hedge fund managers and the Fund's ECIO (External Chief Investment Officer) accounts. The objective of the Absolute Return portfolio is to achieve returns of at least CPI + 5 percent by creating a risk-controlled portfolio with a target annualized volatility of less than 12 percent, while being uncorrelated to the returns of traditional asset classes. The Fund's Absolute Return portfolio, and the hedge fund industry, in general, have underperformed expectations over the past several years. The HFRI Fund-of-Funds Composite Index (the industry's broadest performance barometer) has returned only 1.9 percent over the three-year period ending June 30, 2016, while APFC's portfolio has returned 3.0 percent. For fiscal year 2016, the Fund's portfolio experienced a 1.9 percent decline, while the HFRI index declined 5.4 percent.

APFC is actively focused on improving the performance of the Absolute Return portfolio. As of May 2016, APFC has redeemed its investments from its three hedge fund-of-fund managers. Going forward, staff is focused on rigorously selecting, on a direct basis, hedge fund managers that have exhibited (i) strong historical track records, (ii) uncorrelated returns, and (iii) protection of portfolio principal during periods of market drawdown. In January 2016, Albourne Partners Ltd. was retained as a non-discretionary advisor to assist with the process of

the direct portfolio build-out. The change to a direct investment approach is expected to result in greater portfolio control and transparency, and will result in approximately \$12.5 million in annual operating expense savings.





# APFC VALUES IN ACTION

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## ABOUT US

The Alaska Permanent Fund Corporation (APFC) team is defined by a blend of talent, innovation, and perseverance. Our staff of just over 40 people is comprised of highly accomplished professionals in the fields of investment management, accounting, IT, and administration. From managing investments of a multi-billion dollar fund, to executing complex operational and administrative tasks in the office, each staff member plays an essential role at the corporation in carrying out our vision while maintaining APFC's specific values.

At APFC, our vision is to deliver sustained, compelling investment returns as the United States' leading sovereign endowment manager, benefitting all current and future generations of Alaskans. Each day, the ways in which APFC staff conducts themselves are a true reflection of how they share APFC's values of integrity, stewardship, and passion.

The explanations of our values are as follows:

---

### INTEGRITY

We act in an honorable, respectful, professional manner that continually earns and justifies the trust and confidence of each other and those we serve.

---

### STEWARDSHIP

We are committed to wisely investing and protecting the assets, resources, and information with which we have been entrusted.

---

### PASSION

We are driven to excellence through self-improvement, innovative solutions and an open, creative culture. We are energized by the challenges and rewards of serving Alaskans.



Our employees' commitment to our values is part of the reason why APFC's work stands out in Alaska and on national stages — a track record built upon exceptional teamwork and dedication. APFC won the aiCIO Industry Innovation Award in the sovereign wealth fund category for the second time in four years. This award by aiCIO, an industry publication for chief investment officers, recognized the efforts the Board and staff have made over the years to add depth and diversification to the portfolio.

APFC is a founding member of the International Forum of Sovereign Wealth Funds (IFSWF), a global network of sovereign wealth funds (SWFs) created to enhance collaboration, promote a deeper understanding of SWF activity, and raise the industry standards for best practices and governance.

APFC continues to be a key participant in a joint effort between the International Monetary Fund and the IFSWF in the formation and promotion of the Santiago Principles. These voluntary guidelines for transparency, accountability, and prudent investment practices have been adopted by APFC as our working principles. It is because of our devoted team that APFC is able to set standards and be competitive around the world.

---

## EXECUTIVE TEAM



**Angela Rodell**  
*Chief Executive Officer*



**Russell Read**  
*Chief Investment Officer*



**Valerie Mertz**  
*Chief Financial Officer*



**Chris Poag**  
*General Counsel*



# INTERNSHIP PROGRAM

The Alaska Permanent Fund Corporation is committed to nurturing Alaska students, mentoring them for careers in asset management, finance, and related fields through our longstanding APFC Internship Program. For the past 29 years, APFC and participating investment managers have invested in the futures of Alaska students, and many have returned to invest in Alaska's future with careers at APFC. APFC Trustees are pleased that their continued support for this program has resulted in more than 300 high-quality internships served by Alaska students since 1988.

In striving to offer meaningful experiences in various aspects of the investment industry, this past year APFC was pleased to mentor two interns: Jacki Mallinger, a graduate of the University of Alaska Anchorage (UAA), and Maura Barry-Garland, an Alaska resident and graduate of Columbia University.

Jacki Mallinger joined APFC as a full-time accountant when her summer internship ended. She recently graduated from UAA with a BBA in Accounting and Management. Jacki applied for the APFC internship because she sought challenging, rewarding work. A Juneau native, Mallinger said the internship could not have been a better fit for her, which is why she was overjoyed when she found out that she had been accepted. "This internship gave me the opportunity to be near my family and friends, gain practical experience in accounting, and work hard for all Alaskans," Mallinger said.

The desire to be challenged also drew Maura Barry-Garland, who recently graduated from Columbia University with a BA in Economics, to apply for an internship with APFC. During her internship, Maura worked with various departments at APFC including the legal, communications, and investments departments. "I was surprised to learn how much investment is done in-house instead of through external managers. I also had no idea that sovereign wealth funds from countries all over the world look to APFC for inspiration on how to structure a public investment organization," she said.

Both Mallinger and Barry-Garland offer similar advice to future interns: ask for projects from employees across all departments in order to gain a better understanding of APFC and various career paths. "There are valuable lessons to be learned from every employee at APFC as they each play an important role in managing the Fund," said Mallinger.



APFC interns Jacki Mallinger and Maura Barry-Garland

“

The most rewarding part of my internship was knowing my work made a positive difference for my family, friends, and all Alaskans.

Jacki Mallinger

The most rewarding part of my internship was when Russell, APFC CIO, told me that a graph of Sharpe ratios I made helped guide an important discussion on future investment decisions.

Maura Barry-Garland

”

## BECOME AN INTERN

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 [apfc.org](http://apfc.org).



The following section of the annual report contains two letters from Alaska Permanent Fund’s (APF) independent auditors. The first outlines the roles and responsibilities of management and the auditors with respect to the financial statements. This letter also includes the auditors’ opinion regarding the presentation of the statements. The second letter relates to audit work done in accordance with Government Audit Standards. Following this letter are Management’s Discussion and Analysis (MD&A) and APF’s audited financial statements, which include the following:

- Balance Sheets as of June 30, 2015 and 2016
- Statements of Revenue, Expenditures & Changes in Fund Balances for the years ended June 30, 2015 and 2016

BALANCE SHEETS

This financial statement shows the assets, liabilities, and fund balance of the Alaska Permanent Fund.

ASSETS: What APF owns.

Cash and temporary investments are liquid investments with maturities less than one year. Receivables include interest, dividends, and proceeds from the sale of investments that are yet to be received. The Investments section lists the fair value of each type of investment in the Fund. Securities lending collateral is the cash held in the Fund from parties which have borrowed securities for short-term use.

LIABILITIES: What APF owes.

Accounts payable includes amounts related to corporate operations as well as amounts owed for the purchase of investments yet to be paid. Income distributable to the State of Alaska represents the dividend transfer and other appropriations owed to the State. Securities lending collateral is the cash collateral listed above that is to be paid back to the lending counterpart.

FUND BALANCES: The assets remaining after the liabilities are paid.

The non-spendable section represents the fair value of the deposits and other appropriations into the Fund since inception. This amount is protected from spending by the Alaska Constitution. The remainder of fund balance is the fair value of what is left of realized earnings after the dividend transfers and other appropriations out of the Fund.

ALASKA PERMANENT FUND FINANCIAL STATEMENTS <small>June 30, 2016 and 2015</small>			
BALANCE SHEETS		2016	2015
<b>Assets</b>			
Cash and temporary investments	\$	2,213,105,000	1,889,529,000
Receivables, prepaid expenses, and other assets		456,509,000	622,817,000
Investments:			
Marketable debt securities		9,800,116,000	11,116,428,000
Preferred and common stock		20,938,177,000	20,895,990,000
Real estate		7,048,144,000	6,480,891,000
Real return		-	2,190,503,000
Absolute return		5,495,915,000	3,140,575,000
Private equity		5,531,425,000	5,239,202,000
Infrastructure		1,760,701,000	1,494,454,000
Public-private credit		1,080,408,000	1,352,603,000
Emerging markets total opportunities		-	580,508,000
<b>Total investments</b>		<b>51,654,886,000</b>	<b>52,491,154,000</b>
Securities lending collateral invested		1,022,398,000	896,616,000
<b>Total assets</b>	<b>\$</b>	<b>55,346,898,000</b>	<b>55,900,116,000</b>
<b>Liabilities</b>			
Accounts payable	\$	841,048,000	805,855,000
Income distributable to the State of Alaska		713,765,000	1,397,146,000
Securities lending collateral		1,022,398,000	896,616,000
<b>Total liabilities</b>		<b>2,577,211,000</b>	<b>3,099,617,000</b>
<b>Fund balances</b>			
Non-spendable:			
Permanent Fund corpus – contributions and appropriations		39,449,405,000	39,164,944,000
Not in spendable form – unrealized appreciation on invested assets		4,750,262,000	6,473,149,000
<b>Total non-spendable</b>		<b>44,199,667,000</b>	<b>45,638,093,000</b>
Assigned for future appropriations:			
Realized earnings		7,649,016,000	6,146,515,000
Unrealized appreciation on invested assets		921,004,000	1,015,891,000
<b>Total assigned</b>		<b>8,570,020,000</b>	<b>7,162,406,000</b>
<b>Total fund balances</b>		<b>52,769,687,000</b>	<b>52,800,499,000</b>
<b>Total liabilities and fund balances</b>	<b>\$</b>	<b>55,346,898,000</b>	<b>55,900,116,000</b>
<small>See accompanying notes to the financial statements.</small>			

STATEMENTS OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES

This financial statement shows the revenues, expenses, and transfers in and out of fund balance for APF.

REVENUES: What APF earns.

Revenues include interest, dividends, and other income generated by the investments of the Fund. This section also includes the change in the fair value of the investments in each area of the portfolio over the course of the fiscal year.

EXPENDITURES: What it costs.

Expenditures are costs incurred to manage APF. Also included are expenses of other programs within the State of Alaska that are funded by APF revenues.

OTHER FINANCING SOURCES (USES):  
Transfers in and out of APF.

Transfers in include dedicated mineral deposits as dictated by the Alaska Constitution and Statute as well as other legislative appropriations into the Fund. Transfers out are used to fund the dividend program and other State programs as designated by the Legislature.

FUND BALANCES: What is left after revenues, expenses, and transfers.

Notes that provide additional details about APF’s financial position and earnings follow the financial statements.

ALASKA PERMANENT FUND FINANCIAL STATEMENTS <small>June 30, 2016 and 2015</small>			
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES		Year Ended June 30	
		2016	2015
<b>Revenues</b>			
Interest	\$	306,801,000	357,123,000
Dividends		526,482,000	550,297,000
Real estate and other income		360,981,000	240,672,000
<b>Total interest, dividends, real estate, and other income</b>		<b>1,194,264,000</b>	<b>1,148,092,000</b>
Net increase (decrease) in the fair value of investments –			
Marketable debt securities		376,568,000	(258,979,000)
Preferred and common stock		(1,314,898,000)	(300,910,000)
Real estate		534,661,000	380,366,000
Real return		-	63,787,000
Absolute return		(57,332,000)	54,372,000
Private equity		(35,017,000)	1,608,839,000
Infrastructure		274,766,000	53,817,000
Public-private credit		(33,063,000)	36,261,000
Emerging markets total opportunities		15,029,000	(98,269,000)
Foreign currency forward exchange contracts and futures		(27,677,000)	118,978,000
Currency		(414,985,000)	(311,901,000)
<b>Total net increase (decrease) in the fair value of investments</b>		<b>(681,948,000)</b>	<b>1,346,361,000</b>
<b>Total revenues</b>		<b>512,316,000</b>	<b>2,494,453,000</b>
<b>Expenditures</b>			
Operating expenditures		(105,264,000)	(101,933,000)
Other legislative appropriations		(8,561,000)	(8,558,000)
<b>Total expenditures</b>		<b>(113,825,000)</b>	<b>(110,491,000)</b>
<b>Excess of revenues over expenditures</b>		<b>398,491,000</b>	<b>2,383,962,000</b>
<b>Other financing sources (uses)</b>			
Transfers in – dedicated State revenues		284,462,000	599,969,000
Transfers out – statutory and legislative appropriations		(713,765,000)	(1,397,145,000)
<b>Net change in fund balances</b>		<b>(30,812,000)</b>	<b>1,586,786,000</b>
<b>Fund balances</b>			
Beginning of period		52,800,499,000	51,213,713,000
End of period	\$	52,769,687,000	52,800,499,000
<small>See accompanying notes to the financial statements.</small>			





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 Alaska Permanent Fund (the Fund) as of June 30, 2016 and 2015, 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 Alaska Permanent Fund as of June 30, 2016 and 2015, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative (“KPMG International”), a Swiss entity.



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, 2016 and 2015, 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 3-9 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 6, 2016 on our consideration of the Fund’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 6, 2016  
Anchorage, Alaska





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

**Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards***

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

We have audited, in accordance with the 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, the financial statements of the Alaska Permanent Fund (the Fund), which comprise the balance sheet as of June 30, 2016, and the related statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 6, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Fund’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

KPMG LLP is a Delaware limited liability partnership,  
the U.S. member firm of KPMG International Cooperative  
("KPMG International"), a Swiss entity.



***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

September 6, 2016  
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, 2016 and June 30, 2015. 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 1.02 percent total return, fiscal year (FY) 2016 results were not as strong as had been experienced in prior years, trailing the performance benchmark of 1.57 percent. Closest to the FY2016 performance was FY1994 with a 1.48 percent return. FY2016’s results are substantially below the mid-point of the range of returns since 1985, which have ranged from -17.96 percent to 25.58 percent.

FY2016’s excess of revenues over expenditures (net income) was \$398 million. This represents a second year of significant decline from net income of \$2.4 billion in FY2015, and \$6.8 billion in FY2014.

The Alaska Permanent Fund dividend is calculated using a five-year rolling total of net income as defined by Alaska Statutes, which excludes unrealized gains and losses (statutory net income). For FY2016, the amount appropriated was \$696 million, roughly half of the amount determined by the statutory calculation. The transfer amount for FY2015, as calculated and appropriated, was \$1.3 billion.

The portion of dedicated State of Alaska revenues deposited into the principal of the Fund is based on mineral prices and production. In FY2016, this amount came in below FY2015’s deposits by 53 percent at \$284 million. This is the result of continued decreased production in combination with dramatically low oil prices for much of the year.

Inflation proofing of the Fund’s corpus is outlined in Alaska Statutes. In FY2016, the inflation rate was 0.12 percent. Inflation-proofing is also subject to legislative appropriation. There was no appropriation for this purpose so no transfer to the corpus was made. In FY2015, the inflation rate was 1.62 percent, which resulted in a transfer to non-spendable fund balance of \$624 million.

Investments in privately-traded alternative assets continued to grow. During FY2016, the Fund made new commitments to infrastructure investments totaling \$603 million. As of June 30, 2016, the Fund had total commitments to private equity of \$10.7 billion as compared to one year prior when commitments were \$9.3 billion, which equates to a 15 percent increase. During FY2016, the Fund more than doubled its commitment to public-private credit, going from \$750 million in FY2015 to \$1.7 billion in FY2016.

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.

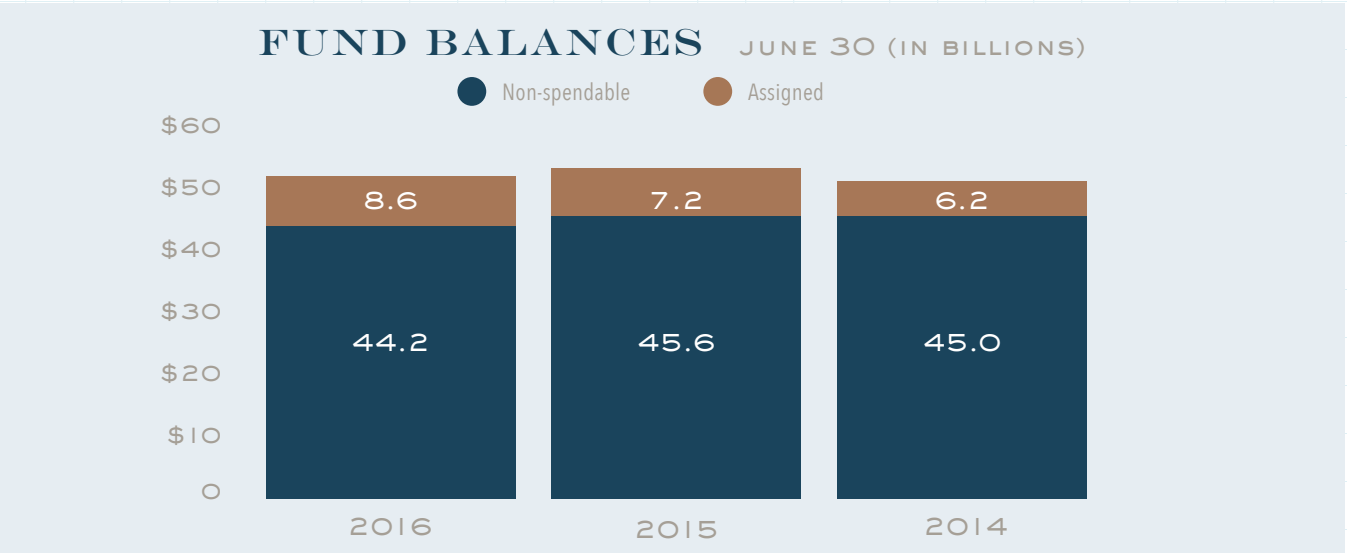
BALANCE SHEETS

The Balance Sheets present all assets, liabilities, and fund balances of the Fund as of June 30, 2016, as well as the prior fiscal year’s ending balances at June 30, 2015.

Assets are grouped into broad categories for ease of readability and analysis. Receivables include cash not yet received from the sale of investments, as well as dividends and interest receivable from stock and bond holdings. Real estate assets shown on the Balance Sheets include direct investments in real estate properties, an investment in a real estate operating company, and stock holdings of real estate investment trusts (REITs). 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 below, fund balances are shown in two categories: non-spendable and assigned. The largest category is non-spendable (84 percent as of June 30, 2016) 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 20 percent from FY2015 to FY2016, from \$7.2 billion to \$8.6 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 FY2016, the amounts contributing to the net increase of approximately \$1.4 billion in the assigned fund balance were (i) realized income of \$2.2 billion, (ii) the dividend payout of \$696 million, and (iii) the allocation of a portion of unrealized gains and losses, which decreased from FY2015 to FY2016 by \$95 million, to a balance of \$921 million.





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 FY2016 and FY2015.

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 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 non-spendable fund balance is unavailable for appropriation. The table below was derived from the Balance Sheets of the Fund, and provides a comparison of the change between balances of June 30, 2016 and 2015.

BALANCE SHEETS		June 30			
		2016	2015	Net Change	Percent
<b>Assets</b>					
Cash and temporary investments	\$	2,213,105,000	1,889,529,000	323,576,000	17%
Receivables, prepaid expenses, and other assets		456,509,000	622,817,000	(166,308,000)	(27)%
Investments		51,654,886,000	52,491,154,000	(836,268,000)	(2)%
Securities lending collateral invested		1,022,398,000	896,616,000	125,782,000	14%
Total assets	\$	55,346,898,000	55,900,116,000	(553,218,000)	(1)%
<b>Liabilities</b>					
Accounts payable	\$	841,048,000	805,855,000	35,193,000	4%
Income distributable to the State of Alaska		713,765,000	1,397,146,000	(683,381,000)	(49)%
Securities lending collateral		1,022,398,000	896,616,000	125,782,000	14%
Total liabilities		2,577,211,000	3,099,617,000	(522,406,000)	(17)%
<b>Fund balances</b>					
Non-spendable:					
Permanent Fund corpus – contributions and appropriations		39,449,405,000	39,164,944,000	284,461,000	1%
Not in spendable form – unrealized appreciation on invested assets		4,750,262,000	6,473,149,000	(1,722,887,000)	(27)%
TOTAL NON-SPENDABLE		44,199,667,000	45,638,093,000	(1,438,426,000)	(3)%
Assigned for future appropriations:					
Realized earnings		7,649,016,000	6,146,515,000	1,502,501,000	24%
Unrealized appreciation on invested assets		921,004,000	1,015,891,000	(94,887,000)	(9)%
TOTAL ASSIGNED		8,570,020,000	7,162,406,000	1,407,614,000	20%
Total fund balances		52,769,687,000	52,800,499,000	(30,812,000)	n/m
Total liabilities and fund balances	\$	55,346,898,000	55,900,116,000	(553,218,000)	(1)%

The value of the Fund’s assets, excluding securities lending collateral, decreased by 1.0 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.

From June 30, 2014 to June 30, 2015, the Fund’s fair value of invested assets, excluding securities lending collateral, increased by about 3 percent, going from \$53.2 billion at the end of 2014 to \$55.0 billion at the end of 2015. In FY2015, private equity, true special opportunity and real estate markets experienced the most growth, while significant losses were experienced in the multi-asset emerging markets, private CIOs and non-domestic equity portfolios. Highest returns were realized in private equities and true special opportunity, which were up by 16.5 percent and 260 percent, respectively. Domestic equities and fixed income returns were more modest at 7.2 percent and 1.2 percent, respectively.



Due primarily to timing of transactions, receivables decreased by almost 27 percent between the end of FY2015 and FY2016, going from \$623 million to \$457 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 FY2016 was \$6.1 billion, with a low of \$5.5 billion and a high of \$6.7 billion. The Fund had earnings from securities lending of \$18.5 million during FY2016, an increase over \$16.4 million received in FY2015.

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 97 percent of both the FY2016 and FY2015 accounts payable balances. The increase of \$35 million from FY2015 to FY2016 was due to an increase in pending stock and real estate purchases of \$52 million and \$8 million, respectively, offset by a decrease in pending bond purchases of \$25 million.

Income distributable to the State of Alaska, which is based primarily on the dividend calculation mandated by Statute, decreased by almost 50 percent from FY2015 to FY2016. The dividend calculation is based on a five-year rolling total of statutory net income (which excludes unrealized gains and losses). Because the FY2016 statutory net income of \$2.2 billion replaced the FY2011 statutory net income of \$2.1 billion in the rolling total, the amount resulting from the statutory calculation changed very little from FY2015 to FY2016. However, the dividend transfer is subject to appropriation by the Legislature and the full amount determined using the statutory dividend calculation was not appropriated. Instead, the amount appropriated for 2017 dividends was \$696 million.

Also using a calculation based on realized earnings, the Alaska Capital Income Fund (ACIF) transfer due to the State for FY2016 was \$18 million and for FY2015 was \$24 million. The \$6 million dollar decrease from the prior year is caused by lower realized returns in FY2016 versus FY2015. The transfer due for FY2014 was \$32 million, significantly higher than that for FY2015.

Total fund balance was basically flat from FY2015 to FY2016, with a decrease of \$31 million, consistent with the total return for the year of 1.02 percent. Components of this decrease were increases of \$1.2 billion for cash flow income and \$284 million in dedicated mineral deposits, offset by operating expenses of \$114 million, the dividend and ACIF transfers of \$714 million, and a decrease in the fair value of the portfolio of \$682 million. Deposits from the State of Alaska were down 53 percent from the FY2015 dedicated revenues of \$600 million. FY2014’s receipts totaled \$779 million, making FY2016 the fourth straight year with a decrease in contributions from mineral royalties.

The total fund balance increase from FY2014 to FY2015 was due to the net of the transfers in (State dedicated mineral revenues of \$600 million) and the transfers out (dividend and ACIF of \$1.4 billion), with the other contributor being net income of the fund of \$2.4 billion.

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 FY2015 as compared to FY2016 are shown in both dollars and percentages.

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	Year Ended June 30		Net Change	Percent
	2016	2015		
<strong>Revenues</strong>				
Interest, dividends, real estate, and other income	\$ 1,194,264,000	1,148,092,000	46,172,000	4%
Increase/(decrease) in the fair value of investments	(681,948,000)	1,346,361,000	(2,028,309,000)	(151)%
<strong>Total revenues</strong>	<strong>512,316,000</strong>	2,494,453,000	(1,982,137,000)	(79)%
<strong>Expenditures</strong>				
Operating expenditures	(105,264,000)	(101,933,000)	(3,331,000)	3%
Other legislative appropriations	(8,561,000)	(8,558,000)	(3,000)	n/m
<strong>Total expenditures</strong>	<strong>(113,825,000)</strong>	(110,491,000)	(3,334,000)	3%
<strong>Excess of revenues over expenditures</strong>	<strong>398,491,000</strong>	2,383,962,000	(1,985,471,000)	(83)%
<strong>Other financing sources (uses)</strong>				
Transfers in – dedicated State revenues	284,462,000	599,969,000	(315,507,000)	(53)%
Transfers out – appropriations	(713,765,000)	(1,397,145,000)	683,380,000	(49)%
<strong>Net change in fund balances</strong>	<strong>(30,812,000)</strong>	1,586,786,000	(1,617,598,000)	(102)%
<strong>Fund balances</strong>				
Beginning of period	52,800,499,000	51,213,713,000	1,586,786,000	3%
End of period	\$ 52,769,687,000	52,800,499,000	(30,812,000)	n/m

During FY2016, 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 remained low. Total cash flow income was higher than for FY2015 at \$99 million per month on average, up from \$96 million in FY2015, which was a slight decrease from \$97 million in FY2014. FY2016’s level is approaching FY2008’s average of approximately \$100 million per month. The change in the fair value of investments dropped sharply from a \$1.3 billion gain in FY2015 to a \$682 million loss in FY2016, a decrease of 151 percent, due to weaker overall performance of investments in FY2016. This decrease in FY2015 was \$4.4 billion, a 77 percent decrease over FY2014. Operating expenditures experienced a small increase from FY2015 to FY2016 of 3 percent. This increase was slight between FY2014 and FY2015 at 1 percent. Manager fees in FY2016 totaled \$91 million and in FY2015 totaled \$89 million. Total fees paid out in FY2014 were \$87 million.

Transfers in of dedicated State revenues decreased from FY2015 to FY2016 by 53 percent (\$316 million). These transfers totaled \$779 million in FY2014. Declining production combined with the dramatic drop in the price of oil caused this significant decrease in mineral royalties received by the Fund in FY2016.

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 FY2016 results supplanted the FY2011 results. The difference in statutory net income between these years is \$55 million, causing the calculated amount of the dividend distribution to increase by \$5 million in FY2016. This increase was less dramatic than from FY2014 to FY2015 at 11 percent, or \$138 million. The dividend transfer is subject to legislative appropriation. The amount appropriated for 2017 dividends was \$696 million. The ACIF transfer is based on realized earnings for only one year; it is not averaged over multiple years. ACIF realized earnings of \$18 million in FY2016, and \$24 million in FY2015. The earnings for FY2014 were \$32 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. The APFC, as a component unit of the State of Alaska, is subject to changes in the Alaska Statutes that govern the APFC and the Fund.

ADDITIONAL INFORMATION

This financial report is designed to provide an overview of the Alaska Permanent Fund’s ending net asset balances and fiscal year financial activities. This report does not include any other funds owned or managed by the State of Alaska 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](http://www.apfc.org), or send specific information requests to the Alaska Permanent Fund Corporation at P.O. Box 115500, Juneau, Alaska 99811-5500.



BALANCE SHEETS		2016	June 30	2015
<b>Assets</b>				
Cash and temporary investments	\$	2,213,105,000		1,889,529,000
Receivables, prepaid expenses, and other assets		456,509,000		622,817,000
Investments:				
Marketable debt securities		9,800,116,000		11,116,428,000
Preferred and common stock		20,938,177,000		20,895,990,000
Real estate		7,048,144,000		6,480,891,000
Real return		–		2,190,503,000
Absolute return		5,495,915,000		3,140,575,000
Private equity		5,531,425,000		5,239,202,000
Infrastructure		1,760,701,000		1,494,454,000
Public-private credit		1,080,408,000		1,352,603,000
Emerging markets total opportunities		–		580,508,000
<b>Total investments</b>		<b>51,654,886,000</b>		<b>52,491,154,000</b>
Securities lending collateral invested		1,022,398,000		896,616,000
<b>Total assets</b>	<b>\$</b>	<b>55,346,898,000</b>		<b>55,900,116,000</b>
<b>Liabilities</b>				
Accounts payable	\$	841,048,000		805,855,000
Income distributable to the State of Alaska		713,765,000		1,397,146,000
Securities lending collateral		1,022,398,000		896,616,000
<b>Total liabilities</b>		<b>2,577,211,000</b>		<b>3,099,617,000</b>
<b>Fund balances</b>				
Non-spendable:				
Permanent Fund corpus – contributions and appropriations		39,449,405,000		39,164,944,000
Not in spendable form – unrealized appreciation on invested assets		4,750,262,000		6,473,149,000
<b>Total non-spendable</b>		<b>44,199,667,000</b>		<b>45,638,093,000</b>
Assigned for future appropriations:				
Realized earnings		7,649,016,000		6,146,515,000
Unrealized appreciation on invested assets		921,004,000		1,015,891,000
<b>Total assigned</b>		<b>8,570,020,000</b>		<b>7,162,406,000</b>
<b>Total fund balances</b>		<b>52,769,687,000</b>		<b>52,800,499,000</b>
<b>Total liabilities and fund balances</b>	<b>\$</b>	<b>55,346,898,000</b>		<b>55,900,116,000</b>

See accompanying notes to the financial statements.



STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	Year Ended June 30	
	2016	2015
<b>Revenues</b>		
Interest	\$ 306,801,000	357,123,000
Dividends	526,482,000	550,297,000
Real estate and other income	360,981,000	240,672,000
<b>Total interest, dividends, real estate, and other income</b>	<b>1,194,264,000</b>	<b>1,148,092,000</b>
Net increase (decrease) in the fair value of investments –		
Marketable debt securities	376,568,000	(258,979,000)
Preferred and common stock	(1,314,898,000)	(300,910,000)
Real estate	534,661,000	380,366,000
Real return	–	63,787,000
Absolute return	(57,332,000)	54,372,000
Private equity	(35,017,000)	1,608,839,000
Infrastructure	274,766,000	53,817,000
Public-private credit	(33,063,000)	36,261,000
Emerging markets total opportunities	15,029,000	(98,269,000)
Foreign currency forward exchange contracts and futures	(27,677,000)	118,978,000
Currency	(414,985,000)	(311,901,000)
<b>Total net increase (decrease) in the fair value of investments</b>	<b>(681,948,000)</b>	<b>1,346,361,000</b>
<b>Total revenues</b>	<b>512,316,000</b>	<b>2,494,453,000</b>
<b>Expenditures</b>		
Operating expenditures	(105,264,000)	(101,933,000)
Other legislative appropriations	(8,561,000)	(8,558,000)
<b>Total expenditures</b>	<b>(113,825,000)</b>	<b>(110,491,000)</b>
<b>Excess of revenues over expenditures</b>	<b>398,491,000</b>	<b>2,383,962,000</b>
<b>Other financing sources (uses)</b>		
Transfers in – dedicated State revenues	284,462,000	599,969,000
Transfers out – statutory and legislative appropriations	(713,765,000)	(1,397,145,000)
<b>Net change in fund balances</b>	<b>(30,812,000)</b>	<b>1,586,786,000</b>
<b>Fund balances</b>		
Beginning of period	52,800,499,000	51,213,713,000
End of period	\$ 52,769,687,000	52,800,499,000

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. The APFC is managed by a six-member board of trustees (Trustees or Board) consisting of the Commissioner of Revenue, one other head of a principal state department, and four public members with recognized competence and experience in finance, investments, or other business management related fields. The Governor appoints 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, the 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 non-spendable 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 the APFC and is subject to appropriation by the Legislature. The non-spendable 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 non-spendable fund balance and the assigned fund balance. The unrealized amounts allocated to contributions and appropriations are considered a component of principal and are non-spendable, 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. The 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. In FY2016, however, the appropriation from the earnings reserve to the dividend fund was a sum certain, which was \$695,650,000.

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 non-spendable 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/decrease 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 and because it is an integral part of the State, and the 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 non-spendable fund balance) should occur only by legislative appropriation. The APFC measures inflation by (i) computing the percentage change in the averages of the monthly United States Consumer Price Index for all urban consumers for the two previous calendar years and (ii) applying that percentage to the total of the non-spendable fund balance, excluding unrealized gains and losses, at the end of the fiscal year. Using this formula, the inflation proofing rate for the year ended June 30, 2015 was 1.62 percent, and \$624,357,000 was transferred from the assigned to the non-spendable fund balance. The calculated rate for the year ended June 30, 2016 was 0.12 percent; however, no transfer was 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 risk and asset classes. At June 30, 2016, the APFC’s strategic asset allocation targets were as follows:

RISK CLASS	ASSET CLASS	RISK CLASS TARGET	ASSET CLASS TARGET
Cash & Interest Rates	Cash	6%	1.2%
	U.S. Government Bonds		
	& International Developed Government Bonds (currency hedged)		4.8%
Company Exposure		55%	
	Global Credit		11%
	Public-Private Credit		2%
	Global Equity		36%
	Private Equity		6%
Real Assets		19%	
	Real Estate		12%
	Infrastructure		4%
	U.S. Treasury Inflation Protection Securities		3%
Special Opportunities		20%	
	Absolute Return Mandate		11%
	Emerging Markets Multi-Asset		2%
	Fixed Income Aggregate		2%
	Debt Opportunities		1%
	True Special Opportunities		4%

Capital that is not invested in the special opportunities risk class resides in the company exposure risk class. To allow for market fluctuations and to minimize transaction costs, the Trustees have adopted ranges that permit percentage deviations from the strategic asset allocation targets in accordance with specified reporting requirements and other procedures. Generally, for each risk and asset class, the APFC’s



chief investment officer has discretionary authority to permit target deviations within one specified range (referred to as the “green zone” in the investment policy), the APFC’s executive director can approve target deviations for up to 90 days within a broader range (the “yellow zone”), and the Board can approve operating for longer than 30 days within a third range (the “red zone”). For example, the target dollar allocation for the cash and interest rate risk class is 6 percent, with the green zone range set at 5-7.5 percent, the yellow zone range set at 7.5-9 percent, and red zone ranges set at allocations of less than 5 percent or greater than 9 percent. In a similar manner, the APFC investment policy also requires the APFC to monitor relative risk (the expected investment portfolio’s risk and return relative to the risk benchmark using standard industry risk measures), active budget risk (risk due to active management decisions made by managers), and limits on private investments and future commitments.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributable to holding investments from a single issuer. The APFC manages the Fund’s concentration of credit risk by following its strategic asset allocation policy, diversifying investments among managers with varying investment styles and mandates, and monitoring tracking error. Tracking error is a measure of how closely a portfolio follows the index to which it is benchmarked. The APFC’s policy for mitigating this risk of loss for fixed income and equity investments is to ensure compliance with APFC investment policy and investment manager contracts. 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. The 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. The APFC generally requires that all investment securities at custodian banks be held in the name of the Fund or the APFC (on behalf of the Fund). For the Fund’s non-domestic securities held by most sub-custodians, the APFC’s primary custodian provides contractual indemnities against sub-custodial credit risk. Excess cash in custodial accounts is swept daily to a money market fund. 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. The APFC manages the Fund’s exposure to interest rate risk in part through tracking error guidelines set forth in the 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, 2016, the Fund held fixed income investments with floating, variable, and step interest rates, valued at \$112,896,000. These fixed income investments were both domestic and non-domestic, and had current annual interest rates ranging from 0 to 7 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.

NEWLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board adopted Statement No. 72, Fair Value Measurement and Valuation, which APF implemented in FY2016. The statement requires that all investments be recorded at fair value on the Balance Sheets and inputs used for these values be disclosed in the notes to the financial statements. Investments are classified as Level 1, 2 or 3, with Level 1 valuations being the most readily available on the open market. Disclosures for APF’s portfolio can be found in note 17.

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:

	2016	2015
Cash	\$ 152,611,000	101,785,000
Pooled funds	2,060,058,000	1,786,778,000
U.S. Treasury bills	436,000	966,000
Total cash and temporary investments	\$ 2,213,105,000	1,889,529,000

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:

	2016	2015
Interest receivable	\$ 72,551,000	74,647,000
Dividends receivable	53,971,000	58,686,000
Sales receivable	283,626,000	424,373,000
Dedicated state revenues receivable	46,361,000	65,111,000
Total receivables, prepaid expenses and other assets	\$ 456,509,000	622,817,000



5. MARKETABLE DEBT SECURITIES

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

2016		COST	FAIR VALUE	UNREALIZED GAINS (LOSSES)
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
Total marketable debt securities	\$	9,615,769,000	9,800,116,000	184,347,000
2015				
Treasury and government notes/bonds	\$	3,729,987,000	3,717,730,000	(12,257,000)
Mortgage-backed securities		815,922,000	821,264,000	5,342,000
Corporate bonds		3,956,455,000	3,896,390,000	(60,065,000)
Commercial mortgage/asset-backed securities		389,415,000	387,735,000	(1,680,000)
Non-U.S. treasury and government bonds		1,285,547,000	1,196,747,000	(88,800,000)
Non-U.S. corporate bonds		1,099,154,000	1,096,562,000	(2,592,000)
Total marketable debt securities	\$	11,276,480,000	11,116,428,000	(160,052,000)

6. MARKETABLE DEBT CREDIT RATINGS

To manage credit risk for marketable debt securities, the APFC monitors fair values of all securities daily and routinely reviews its investment holdings' credit ratings. For accounts with an investment grade mandate (approximately 89 percent of bond mandates at June 30, 2016), 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 11 percent of bond mandates at June 30, 2016) 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, 2016, 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	\$	449,171,000	197,138,000	646,309,000	6.59%
AA		214,244,000	329,093,000	543,337,000	5.54%
A		764,322,000	692,327,000	1,456,649,000	14.86%
BBB		1,867,032,000	622,628,000	2,489,660,000	25.40%
BB		121,967,000	109,092,000	231,059,000	2.36%
B		46,926,000	119,397,000	166,323,000	1.70%
CCC		25,777,000	20,056,000	45,833,000	0.47%
CC		–	639,000	639,000	0.01%
C		–	–	–	0.00%
D		1,513,000	–	1,513,000	0.02%
Total fair value of rated debt securities		3,490,952,000	2,090,370,000	5,581,322,000	56.95%
Commingled bond funds		475,717,000	–	475,717,000	4.85%
Not rated		9,586,000	64,604,000	74,190,000	0.76%
U.S. government explicitly backed by the U.S. government (AA)		3,032,618,000	–	3,032,618,000	30.94%
U.S. government implicitly backed by the U.S. government (AA)		636,269,000	–	636,269,000	6.49%
Total fair value debt securities	\$	7,645,142,000	2,154,974,000	9,800,116,000	100.00%

7. MARKETABLE DEBT DURATION

To manage its interest rate risk on marketable debt securities, the APFC monitors fair values daily and routinely reviews portfolio effective duration in comparison to established benchmarks. At June 30, 2016, 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	37.16%	6.14
Mortgage-backed securities	11.54%	3.49
Corporate bonds	45.96%	7.32
Commercial mortgage and asset-backed securities	5.34%	4.70
Total domestic bonds	100.00%	6.30
Non-domestic bonds		
Non-U.S. treasury and government bonds	62.94%	6.92
Non-U.S. corporate bonds	37.06%	6.06
Total non-domestic bonds	100.00%	6.60

8. PREFERRED AND COMMON STOCK

To manage its interest rate risk on marketable debt securities, the APFC monitors fair values daily and routinely reviews portfolio effective duration in comparison to established benchmarks. At June 30, 2016, the effective duration by investment type, based on fair value, is as follows:

2016		COST	FAIR VALUE	UNREALIZED HOLDING GAINS (LOSSES)
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
2015				
Direct investments				
Domestic stock	\$	6,130,187,000	8,204,937,000	2,074,750,000
Non-domestic stock		11,211,255,000	12,266,269,000	1,055,014,000
Commingled funds		465,459,000	424,784,000	(40,675,000)
Total preferred and common stock	\$	17,806,901,000	20,895,990,000	3,089,089,000



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, 2016, the Fund’s cash holdings, foreign currency forward contracts, non-domestic public and private equity, and debt securities had exposure to foreign currency risk as follows (shown in U.S. dollar equivalent at fair value and based on the currency in which the securities are held and traded):

FOREIGN CURRENCY	CASH AND EQUIVALENTS	FOREIGN EXCHANGE FORWARD CONTRACTS	PUBLIC/PRIVATE EQUITY, REAL ESTATE, INFRASTRUCTURE	DEBT	TOTAL FOREIGN CURRENCY EXPOSURE
Argentine Peso	\$ 1,141,000	–	–	–	1,141,000
Australian Dollar	19,055,000	(39,984,000)	439,672,000	11,973,000	430,716,000
Brazilian Real	(1,028,000)	1,373,000	209,977,000	33,991,000	244,313,000
British Pound Sterling	(1,309,000)	(111,544,000)	1,667,822,000	48,242,000	1,603,211,000
Canadian Dollar	11,641,000	30,058,000	583,388,000	14,842,000	639,929,000
Chilean Peso	179,000	–	19,169,000	–	19,348,000
Chinese Yuan Renminbi	3,000	–	–	–	3,000
Colombian Peso	103,000	(1,767,000)	6,721,000	28,540,000	33,597,000
Czech Koruna	10,000	–	5,280,000	–	5,290,000
Danish Krone	2,367,000	(1,094,000)	128,649,000	1,899,000	131,821,000
Egyptian Pound	32,000	–	1,628,000	–	1,660,000
Euro Currency	(26,489,000)	(269,622,000)	2,568,402,000	216,760,000	2,489,051,000
Ghanaian Cedi	–	–	–	2,864,000	2,864,000
Hong Kong Dollar	12,241,000	(3,184,000)	953,687,000	–	962,744,000
Hungarian Forint	30,000	(76,000)	11,167,000	1,589,000	12,710,000
Indian Rupee	5,132,000	(21,629,000)	343,846,000	42,541,000	369,890,000
Indonesian Rupiah	(1,666,000)	928,000	109,729,000	17,043,000	126,034,000
Israeli Shekel	(108,000)	3,979,000	44,295,000	–	48,166,000
Japanese Yen	30,108,000	(79,683,000)	1,709,926,000	193,730,000	1,854,081,000
Malaysian Ringgit	466,000	(14,036,000)	105,191,000	31,226,000	122,847,000
Mexican Peso	(139,000)	(19,632,000)	126,656,000	70,886,000	177,771,000
New Zealand Dollar	1,537,000	69,191,000	21,760,000	6,435,000	98,923,000
Norwegian Krone	555,000	(13,161,000)	66,905,000	7,730,000	62,029,000
Peruvian Nuevo Sol	3,000	–	–	2,729,000	2,732,000
Philippine Peso	229,000	–	29,286,000	5,207,000	34,722,000
Polish Zloty	234,000	(5,345,000)	23,391,000	25,971,000	44,251,000
Qatari Riyal	1,000	–	25,879,000	–	25,880,000
Russian Ruble	25,000	–	38,000	29,330,000	29,393,000
Singapore Dollar	1,356,000	(1,782,000)	75,714,000	6,870,000	82,158,000
South African Rand	1,985,000	(9,510,000)	282,213,000	26,843,000	301,531,000
South Korean Won	1,045,000	(11,051,000)	508,834,000	11,033,000	509,861,000
Swedish Krona	4,387,000	495,000	214,508,000	5,728,000	225,118,000
Swiss Franc	6,394,000	(53,778,000)	500,386,000	–	453,002,000
Taiwan Dollar	5,895,000	(2,965,000)	409,682,000	–	412,612,000
Thai Baht	770,000	1,281,000	88,712,000	2,014,000	92,777,000
Turkish Lira	650,000	(4,922,000)	82,980,000	28,875,000	107,583,000
UAE Dirham	25,000	–	19,475,000	–	19,500,000
Uruguayan Peso	–	–	–	1,339,000	1,339,000
Total foreign currency exposure	\$ 76,860,000	(557,460,000)	11,384,968,000	876,230,000	11,780,598,000

Cash amounts in the schedule above 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, are denominated in U.S. dollars, and are not included in the schedule above.

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.

The APFC periodically reviews real estate investments for other than temporary impairment. During FY2015 it was determined that a real estate property was impaired and would not recover its carrying costs over the remaining estimated holding period of the asset. In order to reflect the impairment in the statutory net income and fund balance classification, \$1.8 million of unrealized losses were realized through a write-down of cost to fair value. The impairment has no impact on the carrying value of investments or on the net increase/(decrease) in the fair value of investments. There was no impairment recognized in FY2016.

Real estate investments at June 30 are summarized as follows:

2016	COST	FAIR VALUE	UNREALIZED HOLDING GAINS (LOSSES)
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
2015			
Real estate investment trusts	\$ 939,638,000	1,126,381,000	186,743,000
American Homes 4 Rent II	118,766,000	118,766,000	–
Directly owned real estate –			
Retail	676,775,000	1,539,478,000	862,703,000
Office	1,279,564,000	1,739,944,000	460,380,000
Hotel	50,358,000	50,358,000	–
Development	49,415,000	49,411,000	(4,000)
Industrial	231,022,000	289,834,000	58,812,000
Multifamily	1,098,829,000	1,566,719,000	467,890,000
Total real estate	\$ 4,444,367,000	6,480,891,000	2,036,524,000

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. The 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 FY2016, 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 FY2016, it was decided to redeem the fund-of-one accounts and move towards 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. The APFC has hired external advisors to select private equity holdings diversified by geography and strategy. Private equity is funded slowly over time as opportunities are identified by the external advisors and the underlying fund managers. The underlying private equity funds provide the Fund with fair value estimates of the investments utilizing the most current information available. In addition, the external advisors review the fair value estimates, and the underlying private equity funds undergo annual independent audits. Private equity investments by their nature generally have no readily 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 FY2016 it was determined that ten 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 the statutory net income and fund balance classifications, \$32.4 million of unrealized losses were realized through a write-down of cost to fair value. In FY2015, three private equity funds were impaired with a related write-down of \$29 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 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. These impairments have no impact on the carrying value of investments or on the net increase in the fair value of infrastructure investments. There was no impairment recognized in FY2015.

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:

2016		COST	FAIR VALUE	UNREALIZED HOLDING GAINS
Real return	\$	-	-	-
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
2015				
Real return	\$	1,750,363,000	2,190,503,000	440,140,000
Absolute return		2,918,369,000	3,140,575,000	222,206,000
Private equity		3,579,669,000	5,239,202,000	1,659,533,000
Infrastructure		1,427,313,000	1,494,454,000	67,141,000
Public-private credit		1,149,480,000	1,352,603,000	203,123,000
Total alternative investments	\$	10,825,194,000	13,417,337,000	2,592,143,000

As of June 30, 2016, the APFC, on behalf of the Fund, had outstanding future funding commitments of \$5.0 billion for private equity, \$1.2 billion for infrastructure, and \$308 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. EMERGING MARKETS TOTAL OPPORTUNITIES

APFC’s emerging market multi-asset class mandates represented portfolios that invest across the spectrum of liquid securities: stocks, bonds and currency. This flexibility gives the managers the ability to select the most advantageous publicly traded investments from both a risk and return perspective without the limitation of security type. During FY2016, the emerging markets total opportunities portfolio was disbanded.

Emerging market mandates at June 30 are summarized as follows:

2016		COST	FAIR VALUE	UNREALIZED HOLDING LOSSES
Emerging markets total opportunities	\$	-	-	-
2015				
Emerging markets total opportunities	\$	648,928,000	580,508,000	(68,420,000)



13. SECURITIES LENDING

State regulations at 15 AAC 137.510 and APFC investment policy authorize the APFC to enter into securities lending transactions on behalf of the Fund. Through a contract with the Bank of New York Mellon (the Bank), the Fund lends marketable 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. The 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, the APFC is protected from credit risk associated with the lending transactions through indemnification by the Bank against losses resulting from counterparty failure, the reinvestment of cash collateral, default on collateral investments, or a borrower’s failure to return loaned securities.

Cash collateral received for loaned securities is reported on the Fund’s balance sheets and invested by the Bank on behalf of the Fund. As of June 30, 2016, 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:

	2016	2015
Fair value of securities on loan, secured by cash collateral	\$ 987,986,000	837,250,000
Cash collateral	1,022,398,000	896,616,000
Fair value of securities on loan, secured by non-cash collateral	4,830,246,000	5,782,162,000
Non-cash collateral	5,277,990,000	6,341,870,000

The Fund receives 80 percent of earnings derived from securities lending transactions, and the Bank retains 20 percent. During the years ended June 30, 2016 and 2015, the Fund incurred no losses from securities lending transactions. The Fund received income of \$18,520,000 and \$16,440,000 from securities lending for the years ended June 30, 2016 and 2015, respectively, which is recorded in real estate and other income on the statements of revenues, expenditures and changes in fund balances.

14. ACCOUNTS PAYABLE

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

	2016	2015
Accrued liabilities	\$ 24,509,000	23,814,000
Securities purchased	816,539,000	782,041,000
Total accounts payable	\$ 841,048,000	805,855,000

15. INCOME DISTRIBUTABLE TO THE STATE OF ALASKA

The Legislature appropriates portions of the Fund’s statutory net income to the Permanent Fund Dividend Fund (Dividend Fund), a sub-fund of the State’s general fund created in accordance with Alaska Statute 43.23.045 and administered by the Alaska Department of Revenue. The Dividend Fund

is used primarily for the payment of dividends to qualified Alaska residents. In addition, the Legislature has appropriated a portion of the dividend distribution to fund various other agency activities. Per statute, realized earnings on the principal balance of the dedicated State revenues from the North Slope royalty case settlements (State v. Amerada Hess, et al.) have been appropriated from the Fund to the Alaska Capital Income Fund (ACIF) established under Alaska Statute 37.05.565. Funds in the ACIF may be further appropriated for any public purpose. During years with net realized losses, no funds are transferred to the ACIF. Income distributable to the State at June 30 is summarized as follows:

	2016	2015
Dividends	\$ 649,348,000	1,326,305,000
Appropriation to the Departments of:		
Health and Social Services	17,725,000	17,725,000
Revenue	8,340,000	8,242,000
Corrections	20,237,000	20,830,000
Total to Dividend Fund	695,650,000	1,373,102,000
Alaska Capital Income Fund	18,115,000	24,044,000
Total income distributable	\$ 713,765,000	1,397,146,000

16. FUND BALANCES

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

	2016	2015
Non-spendable		
Balance, beginning of year	\$ 45,638,093,000	45,002,389,000
Dedicated State revenues	284,462,000	599,969,000
Inflation proofing transfer from assigned fund balance	–	624,357,000
Change in unrealized appreciation on invested assets	(1,722,888,000)	(588,622,000)
Balance, end of year	\$ 44,199,667,000	45,638,093,000
Assigned		
Balance, beginning of year	\$ 7,162,406,000	6,211,325,000
Inflation proofing transfer to non-spendable fund balance	–	(624,357,000)
Dividends paid or payable to the Permanent Fund Dividend Fund	(695,650,000)	(1,373,102,000)
Settlement earnings payable to the ACIF	(18,115,000)	(24,044,000)
Realized earnings, net of operating expenditures	2,216,265,000	2,931,375,000
Change in unrealized appreciation on invested assets	(94,886,000)	41,210,000
Balance, end of year	\$ 8,570,020,000	7,162,406,000
Total		
Balance, beginning of year	\$ 52,800,499,000	51,213,713,000
Dedicated State revenues	284,462,000	599,969,000
Dividends paid or payable to the Permanent Fund Dividend Fund	(695,650,000)	(1,373,102,000)
Settlement earnings payable to the ACIF	(18,115,000)	(24,044,000)
Excess of investment revenues over expenditures	398,491,000	2,383,963,000
Balance, end of year	\$ 52,769,687,000	52,800,499,000



NOTES TO  
FINANCIAL STATEMENTS

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

	2016	2015
Dedicated State revenues	\$ 16,174,318,000	15,889,857,000
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	\$ 39,449,405,000	39,164,944,000

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 non-spendable fund balances and assigned fund balances. 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 non-spendable fund balance and \$921,004,000 was allocated to the assigned fund balance. As of June 30, 2015, the Fund’s net unrealized gain was \$7,489,040,000, of which \$6,473,149,000 was allocated to the non-spendable fund balance and \$1,015,891,000 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 \$18,115,000 during FY2016 and \$24,044,000 during FY2015.

17. 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:

2016	MEASURED USING INPUT LEVELS		MEASURED USING	TOTAL
	LEVEL 1	LEVEL 2	NAV	
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

NOTES TO  
FINANCIAL STATEMENTS

2015	MEASURED USING INPUT LEVELS		MEASURED USING	TOTAL
	LEVEL 1	LEVEL 2	NAV	
Marketable debt securities	\$ 3,705,881,000	7,410,547,000	–	11,116,428,000
Preferred and common stock	20,895,990,000	–	–	20,895,990,000
Real estate	1,126,381,000	–	5,354,510,000	6,480,891,000
Real return	–	–	2,190,503,000	2,190,503,000
Absolute return	–	–	3,140,575,000	3,140,575,000
Private equity	–	–	5,239,202,000	5,239,202,000
Infrastructure	343,051,000	–	1,151,403,000	1,494,454,000
Public-private credit	–	–	1,352,603,000	1,352,603,000
Emerging markets total opportunities	–	580,508,000	–	580,508,000
Total investments	\$ 26,071,303,000	7,991,055,000	18,428,796,000	52,491,154,000

No investments were measured using level 3 input levels at either June 30, 2016 or 2015.

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. 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.

18. 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.



NOTES TO  
FINANCIAL STATEMENTS

The 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 FY2016, approximately \$119 million of impairments were recorded. During FY2015, approximately \$31 million of impairments were recorded.

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

	2016	2015
Excess of revenues over expenditures	\$ 398,491,000	2,383,963,000
Unrealized losses	1,817,774,000	547,413,000
Settlement earnings	(18,115,000)	(24,044,000)
Statutory net income	\$ 2,198,150,000	2,907,332,000

19. INVESTMENT INCOME BY SOURCE

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

	2016	2015
<b>Interest</b>		
Marketable debt securities	\$ 300,259,000	345,490,000
Short-term domestic and other	6,542,000	11,633,000
<b>Total interest</b>	\$ 306,801,000	357,123,000
<b>Total dividends</b>	\$ 526,482,000	550,297,000
<b>Real estate and other income</b>		
Directly owned real estate net rental income	\$ 229,927,000	163,031,000
Real estate investment trust dividends	26,125,000	23,109,000
Real return interest and dividends	–	10,396,000
Absolute return management expenses, net of dividend and interest income	(1,823,000)	(12,240,000)
Public-private credit interest income, net of fees	36,827,000	17,091,000
Infrastructure interest and dividend income, net of fees	31,616,000	20,410,000
Private equity dividend income, net of management expenses	6,307,000	(843,000)
Class action litigation income	12,923,000	2,901,000
Loaned securities, commission recapture and other income	19,079,000	16,817,000
<b>Total real estate and other income</b>	\$ 360,981,000	240,672,000

20. 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, 2016 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, 2016 is limited to the difference between contractual rates and forward market rates determined at the end of the fiscal year.

NOTES TO  
FINANCIAL STATEMENTS

Activity and balances related to FX forward contracts for fiscal year 2016 and 2015 are summarized as follows:

	2016	2015
<b>Balances at June 30</b>		
Face value of FX forward contracts	\$ 1,835,468,000	2,345,395,000
Net unrealized holding gains (losses) on FX forward contracts	20,961,000	(2,333,000)
Fair value of FX forward contracts	\$ 1,856,429,000	2,343,062,000
<b>Activity for fiscal years ending June 30</b>		
Change in unrealized holding gains	\$ 23,242,000	(138,000)
Realized gains	12,101,000	104,127,000
Net increase in fair value of FX forward contracts	\$ 35,343,000	103,989,000

Certain APFC equity investment managers are permitted to trade in equity index futures for the Fund’s account, and beginning in FY2012, the internal fixed income management team began trading 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 2016 and 2015 is summarized as follows:

	2016	2015
<b>Balances at June 30</b>		
Face value of equity index futures	\$ 154,409,000	141,247,000
Net unrealized holding losses on futures	(1,090,000)	(1,586,000)
Fair value of equity index futures	\$ 153,319,000	139,661,000
<b>Activity for fiscal years ending June 30</b>		
Change in unrealized holding losses	\$ (496,000)	(2,020,000)
Realized gains	25,629,000	20,164,000
Net increase in fair value of equity index futures	\$ 25,133,000	18,144,00

Activity and balances related to U.S. Treasury index futures for fiscal year 2016 and 2015 is summarized as follows:

	2016	2015
<b>Balances at June 30</b>		
Face value of U.S. Treasury index futures	\$ (134,309,000)	(236,582,000)
Net unrealized holding gains (losses) on futures	(10,360,000)	157,000
Fair value of U.S. Treasury index futures	\$ (144,669,000)	(236,425,000)
<b>Activity for fiscal years ending June 30</b>		
Change in unrealized holding gains (losses)	\$ 10,494,000	(113,000)
Realized gains	18,853,000	537,000
Net increase in fair value of U.S. Treasury index futures	\$ 29,347,000	424,000

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.



21. EXPENDITURES

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

	2016	2015
<b>APFC operating expenditures</b>		
Salaries and benefits	\$ 7,592,000	7,428,000
Communications and electronic services	2,111,000	1,964,000
Consulting fees	2,381,000	2,096,000
Training, supplies, services and other	552,000	539,000
Rent	476,000	376,000
Travel	336,000	277,000
Legal and audit fees	858,000	177,000
Property and equipment	227,000	142,000
Public information and subscriptions	97,000	87,000
<b>Subtotal APFC operating expenditures</b>	<b>14,630,000</b>	<b>13,086,000</b>
<b>Investment management and custody fees</b>		
Investment management fees	89,382,000	87,637,000
Custody and safekeeping fees	1,252,000	1,210,000
<b>Subtotal investment management and custody fees</b>	<b>90,634,000</b>	<b>88,847,000</b>
<b>Total operating expenditures, investment management and custody fees</b>	<b>105,264,000</b>	<b>101,933,000</b>
<b>Other legislative appropriations from corporate receipts</b>		
Department of Natural Resources	5,891,000	5,797,000
Department of Law	2,578,000	2,578,000
Department of Revenue	92,000	183,000
<b>Total other legislative appropriations</b>	<b>8,561,000</b>	<b>8,558,000</b>
<b>Total expenditures</b>	<b>\$ 113,825,000</b>	<b>110,491,000</b>

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

22. PENSION PLANS

All APFC full-time, regular employees participate in the State of Alaska Public Employees Retirement System (PERS). PERS is a multiple-employer public employee retirement system established and administered by the State to provide pension and postemployment healthcare benefits to eligible retirees. 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 for the benefit of PERS members. Total salaries subject to PERS for the years ended June 30, 2016 and 2015 amounted to \$5,245,000 and \$5,126,000, 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. The APFC contributes a matching 6.13 percent. Participants are eligible to withdraw from SBS-AP 60 days after termination of employment or service as a Trustee. Total salaries and honoraria for individuals subject to SBS-AP for the years ended June 30, 2016 and 2015 amounted to \$3,964,000 and \$3,819,000, respectively.





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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 \$16.59 per copy by PIP Printing. Annual report design by Walsh|Sheppard.

