ALASKA PERMANENT FUND CORPORATION

2013 Annual Report

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E V O L V I N G

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

The Permanent Fund is made up of two parts: nonspendable (principal) and assigned (realized income). The nonspendable portion of the Fund is invested permanently and cannot be spent without amending the state constitution through a majority vote of the people. Decisions about uses of the assigned portion are made each year by the people's elected representatives – the Alaska State Legislature and the governor. The Alaska Permanent Fund Corporation ("APFC") manages the Fund.

Uses of Fund Income

Since Inception (In Billions)

TOTAL: $44.5

$21.0 *47% Paid Out to Current Generations*

$23.5 *53% Saved for Future Generations*

LETTER FROM THE CHAIR

In 1976, the people of Alaska voted by a margin of two-to-one to create the Alaska Permanent Fund. At the time, saving state revenues in a separate fund was a revolutionary idea. But it was the right decision, and I am grateful that we showed the foresight to create an investment fund to save some of the development proceeds from our natural resources.

Over the years the Board, and at times our elected officials, have found it necessary to take the Fund's investments and management in new directions, to evolve into the $45 billion fund that we have today.

In its early years, the Alaska Permanent Fund was invested entirely in bonds. Bonds were seen as a prudent investment, one that would protect principal while providing a modest but steady return on investment. But the erosion of inflation and the need to produce a reasonable income stream encouraged the Board of Trustees to consider a more diverse portfolio, including investments that would provide higher return potential, but that would come with a greater level of risk.

The addition of U.S. stocks and real estate in 1983 was the first step in what has become a continuously evolving stable of investments. The Board has never wavered from its statutory goal of maintaining the safety of the Fund's principal while maximizing its benefit to present and future generations of Alaskans. But holding to the investment allocations that were prudent in the past would in fact be imprudent. If the Board did not recognize and adapt to changes in the investment world, the Permanent Fund could be left behind, creating greater risk for the Alaskans who depend on its continued health.

In 2004, with the help of the Legislature, we took another significant step forward in the management of the Permanent Fund. Studies demonstrated that the statutory limit of 55 percent on the Fund's stock holdings was actually increasing overall investment risk, and this helped us convince the Legislature to move the list of allowed investments from law to regulation. Their decision to grant this level of responsibility and flexibility to the Board has allowed us to create new and innovative programs, such as our real return program, that can help us better manage risk while seeking healthy returns.

The Corporation has also evolved in our practices, bringing on staff to manage new programs and adding financial networks that aid our investing and accounting functions. As our real-time access to market information and internal expertise improved, we have also brought investments in-house that were previously handled only by external managers. For example, this fiscal year saw the implementation of an internal international bond portfolio and co-investments in infrastructure. These changes will lower the expenses of managing these investments while continuing to increase our internal knowledge in these areas.

Now we find ourselves at another crossroads, as the Board's ability to help the Permanent Fund evolve is hampered not by outdated ideas of risk management, but by a lengthy and unpredictable budget process. Creating new programs and moving into new asset classes is difficult when we cannot guarantee that we will have the necessary funding for the new staff, consulting work and financial analysis software that are required to prudently manage these investments. We are hopeful that we will find a solution to this problem in partnership with our elected officials.

In December we welcomed a new trustee to the Board, Gary Dalton. He is the president of Latash Investments LLC and previously served as chief financial officer and executive vice president at National Bank of Alaska for more than 20 years. Trustee Dalton took the seat of outgoing member Steve Frank, who served on the Board for nine years, including two years as Chair. Trustee Frank helped guide the Fund through one of the greatest periods of evolution of the Fund's history, adding alternative assets to the portfolio for the first time, redesigning how we measure and manage risk, and building a new asset allocation that better responds to market conditions. We are sincerely grateful for his contributions to one of our state's greatest resources.

Sincerely,

William G. Moran

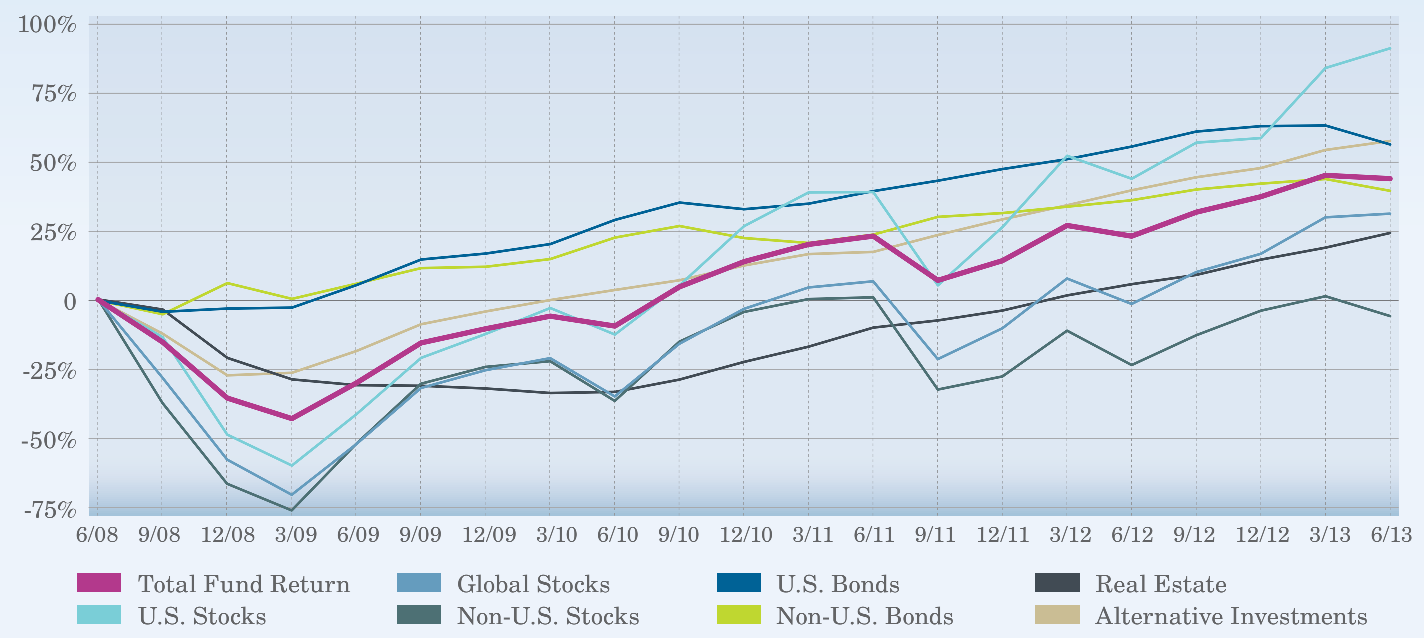
William Moran

Board Members (from left):

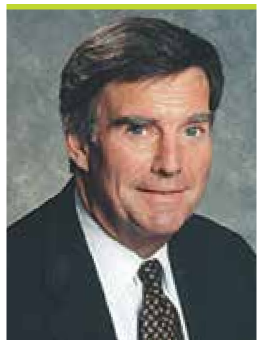
Carl Brady, Gary Dalton, Steve Rieger (Vice Chair), Bryan Butcher, Larry Hartig, Bill Moran (Chair)

The Effects of Diversification

Five-Year Cumulative Return



LETTER FROM THE EXECUTIVE DIRECTOR



It is unusual for all of the Permanent Fund's asset classes to produce gains in a single year; however that was the outcome for fiscal year 2013. Some returns were in the double digits, while others were small, but together they contributed to a 10.9 percent return for the period. This performance trailed the composite benchmark return of 11.3 percent, reflecting the more conservative nature of the Fund's holdings. The fiscal year-end value was $44.9 billion, up $4.6 billion from the prior year-end.

We approach the Permanent Fund's asset allocation from two different directions. While we maintain a target allocation based on traditional asset classes, for the last several years we have focused on a risk-based allocation. From this perspective we organize the Fund's assets by the economic scenarios that they are designed to respond to, rather than strictly by asset type. In the following pages we will review the performance of the Fund's investments by asset type, so I will highlight the performance by risk bucket here.

Stock markets around the world, including the U.S., showed solid performance for most of the year. This appears to be the result of continued actions by central banks here in the U.S. and overseas, as global economic indicators were not encouraging enough to explain these returns. Regardless of the reason, stocks provided the highest returns of all of the Fund's investments.

The company exposure risk bucket contains stocks, as well as other corporate securities such as bonds, and comprises the greatest part of the target allocation. Company exposure investments gained 14.5 percent return for the fiscal year, ahead of the benchmark return of 14.3 percent. We carry an overweight to stocks compared to our target allocation because they serve as a placeholder for special opportunities investments, and this year that allowed us to take advantage of the strong performance in the stock markets, enhancing the Fund's total return.

Special opportunities is a category of investments that includes assets or investment programs that do not fit neatly into the other risk categories. Unlike the other groups, the 18 percent allocation to special opportunities is a limit rather than a goal, providing the freedom to only invest in the best opportunities that we find. As noted above, the balance of the allocation remains in the company exposure bucket if it is not deployed. Special opportunities returned 6.7 percent for the fiscal year, compared to the benchmark return of 11.6 percent, reflecting the risk-averse nature of the investments in this group compared to the benchmark.

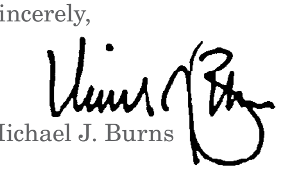
Cash and interest rates comprise two buckets within the allocation, and are used to provide stable, conservative returns and funding for annual payouts and other investments. Over the course of the year investors gained confidence and sought returns over safety, creating a dampening effect on the bonds that are included in these portfolios. The cash bucket returned 0.2 percent, ahead of its benchmark return of 0.1 percent. The interest rates bucket lost 0.9, percent compared to the benchmark return of 1.3 percent. This was due to a portfolio underweight to non-U.S. government bonds, which had positive returns.

The real assets risk bucket is comprised of real estate, infrastructure and inflation linked securities. These investments are expected to protect the portfolio during times of rising inflation pressures. For fiscal year 2013, the Permanent Fund's real assets gained 8.1 percent, ahead of the benchmark return of 6.9 percent, in part reflecting the third year of solid performance by the Fund's real estate holdings.

The Fund earned $2.9 billion in statutory net income for fiscal year 2013. Comprised of interest from bond holdings, dividends from stocks, rents from the Fund's real estate investments and the realized gain on the sale of any assets, statutory net income is the amount used to calculate the annual Permanent Fund Dividend. Based on the calculation in state law, APFC transferred $604 million to the Permanent Fund Dividend Division for the fall dividend payment. The dividend distribution transfer in 2012 was $605 million.

APFC welcomed six new members to our team in fiscal year 2013. Marcus Frampton and David Fallace came on in new positions in private equity and special opportunities, respectively. These new positions demonstrate the evolution of the Fund with regard to alternative assets over the last 10 years. Youlian Ninkov joined the Corporation as an analyst for the stock portfolio, while Joanna Booth is a new credit analyst on the fixed income desk. Katy Giorgio is a new member of our administration team, while Katie Smith came to the APFC as a portfolio accountant. We are pleased to have them all on board.

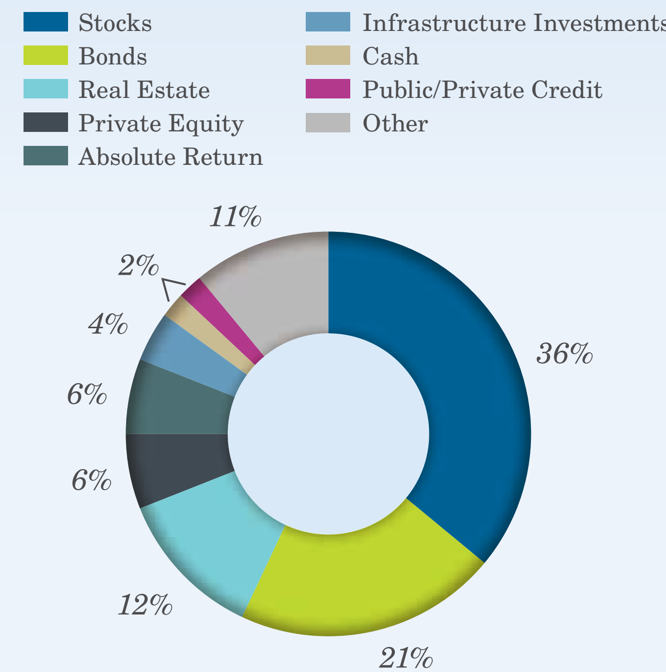
Sincerely,



Michael J. Burns

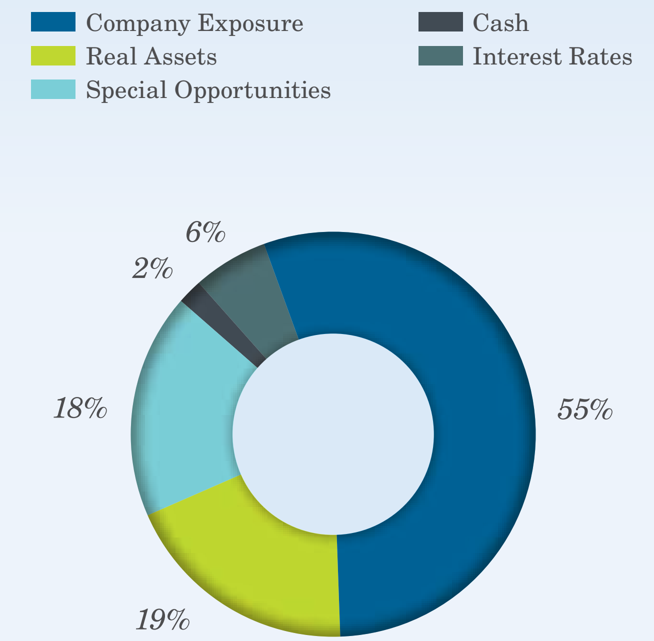
APFC Target Asset Allocation

By Traditional Asset Class for Fiscal Year 2013



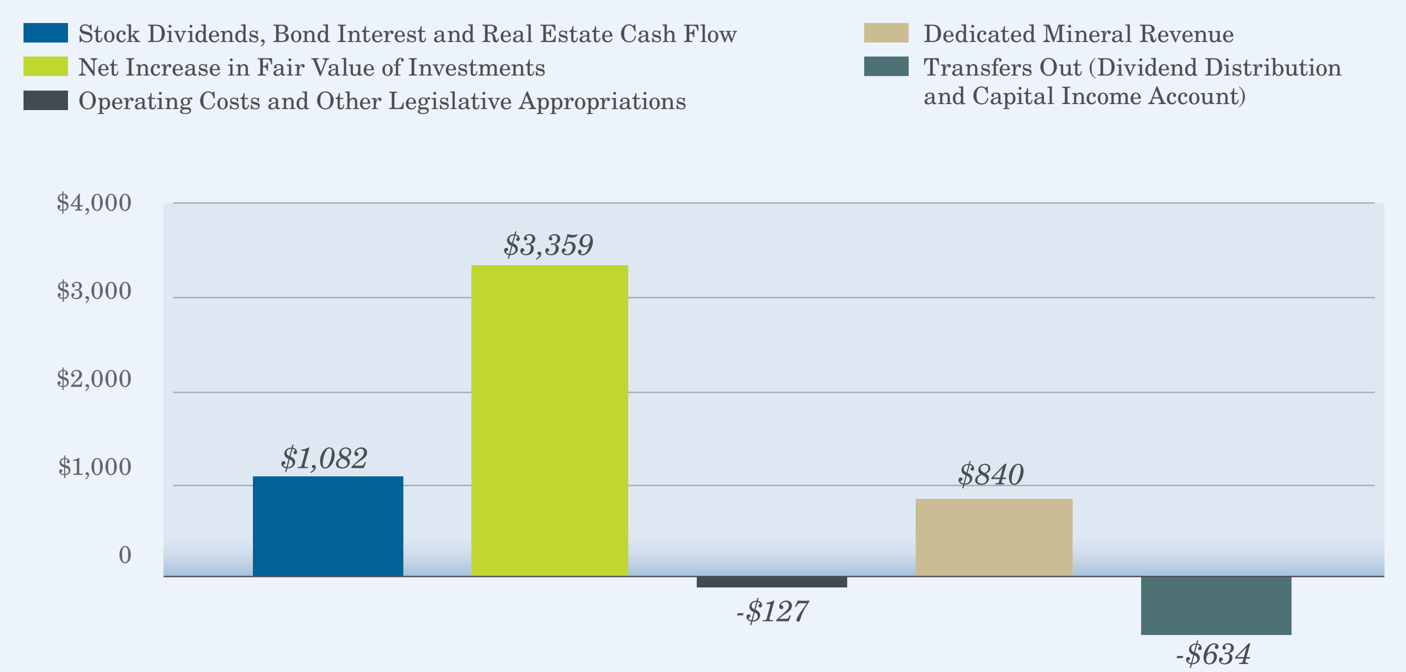
APFC Target Asset Allocation

By Economic Condition for Fiscal Year 2013



Sources of Change in Fund Value

Fiscal 2013 (In Millions)

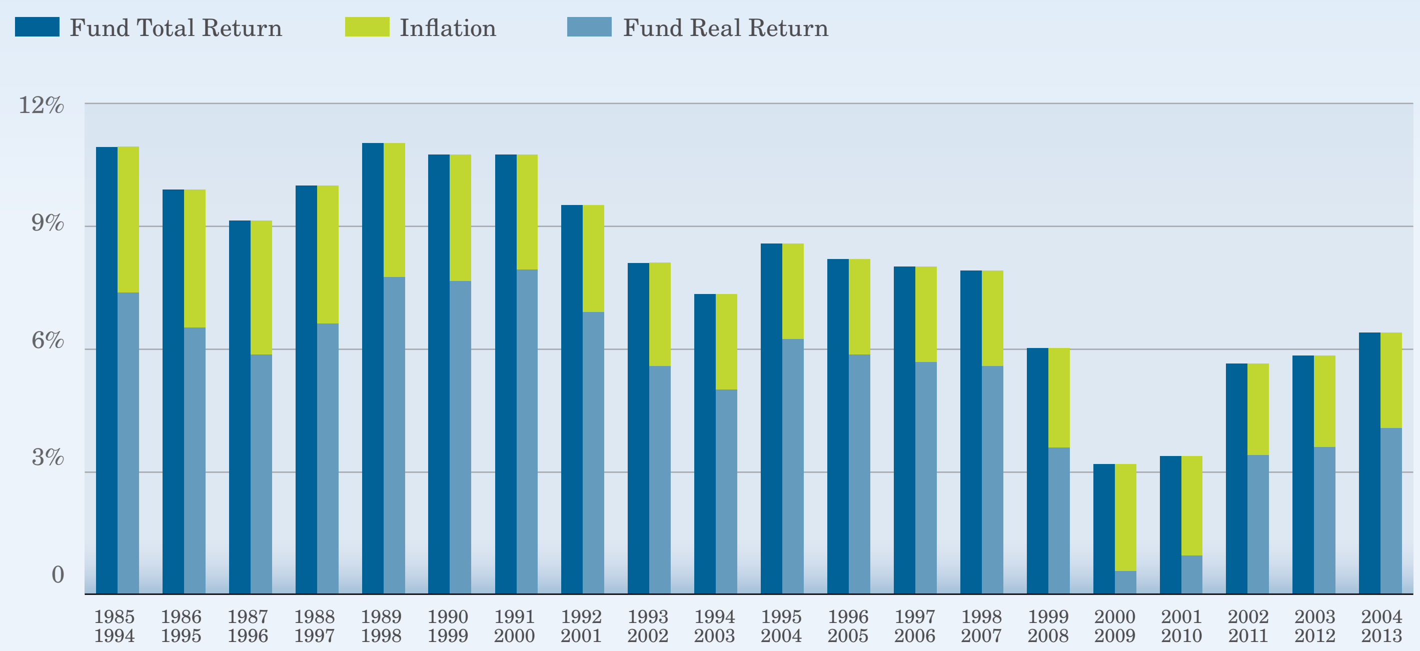


INVESTING FOR THE LONG RUN

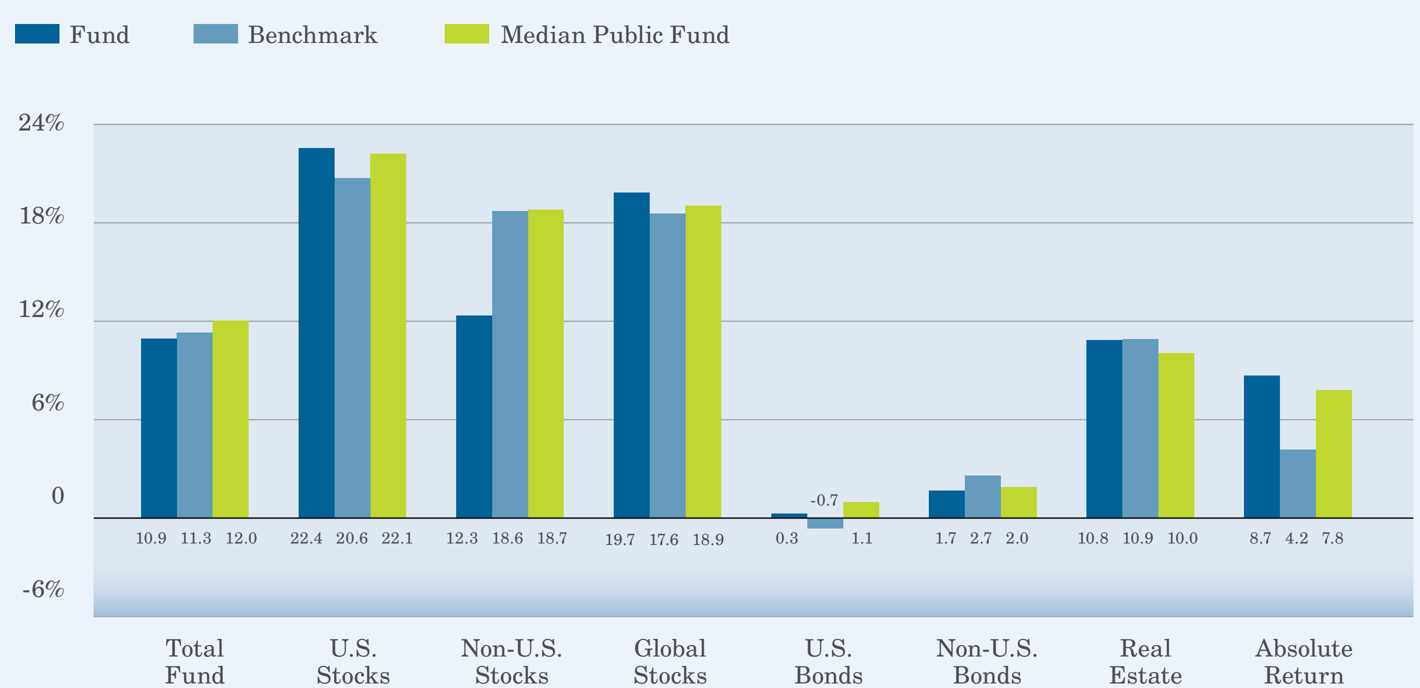
The Board of Trustees' statutory direction is to generate the maximum return while protecting principal. To meet both of these objectives, the Board sets an asset allocation that is designed to provide a five percent real rate of return over time with a prudent level of risk.

Rolling 10-Year Return

Annualized Returns for Periods Ending June 30

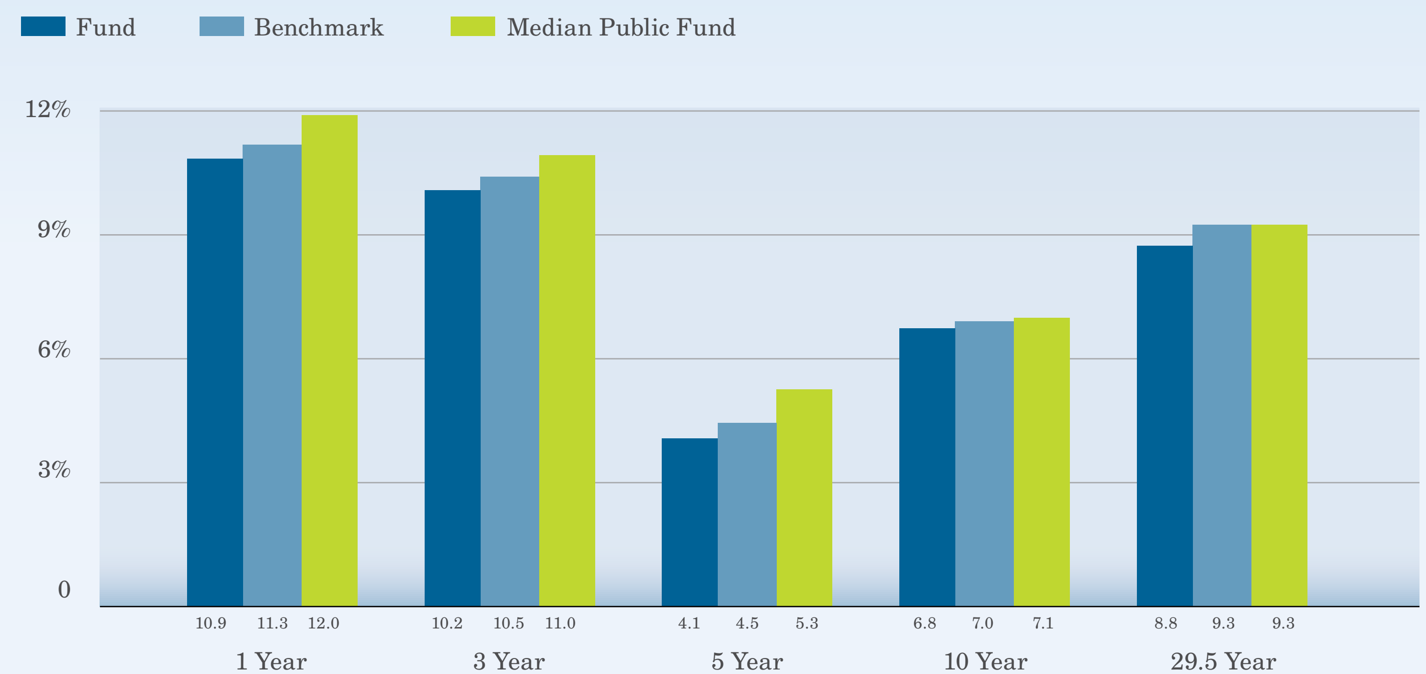


Fund Fiscal 2013 Performance



Fund's Long-Term Investment Performance

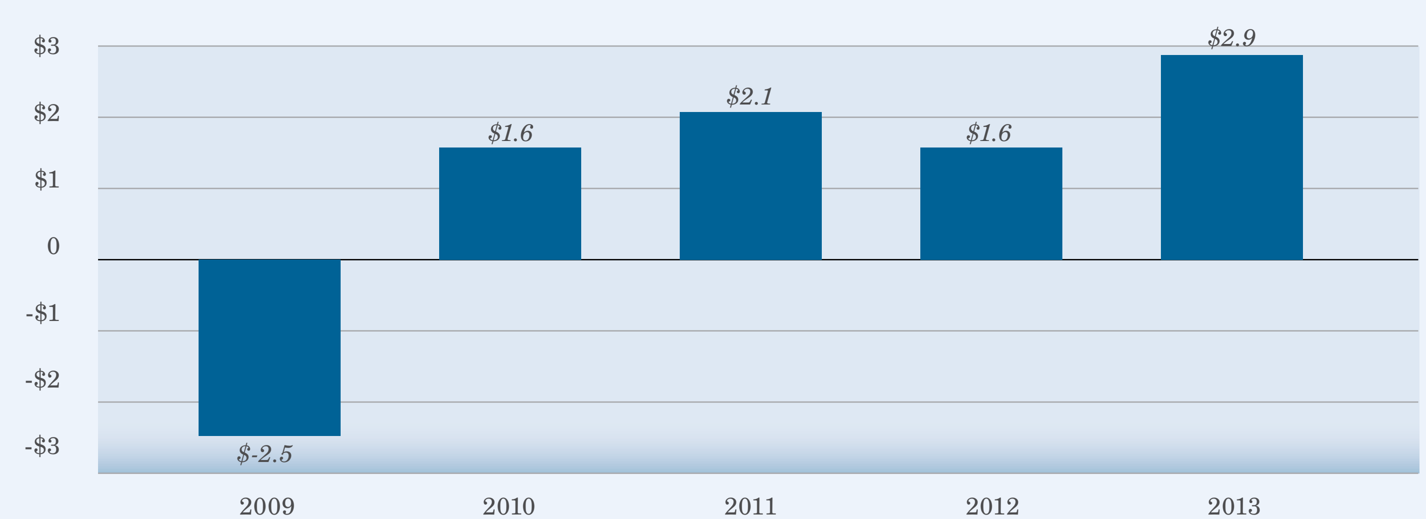
Annualized Returns for Periods Ending June 30



Statutory Net Income

By Fiscal Year (In Billions)

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



BONDS

During fiscal 2013 investors gained confidence in the economy and sought returns over safety, creating a dampening effect on bond prices. High yield bonds provided solid returns due to their higher income, while most global investment grade securities posted flat to negative returns for most of the year after a promising first quarter start. Individually the components of the fixed income portfolio performed relatively well in what was a difficult overall fixed income environment.

U.S. BONDS

The $6.0 billion U.S. bond portfolio returned 0.3 percent for fiscal year 2013. The majority of the Fund's U.S. portfolio is managed internally, against individual sector benchmarks.

The Permanent Fund's U.S. government portfolio returned -1.5 percent for the period, outperforming the Barclay's Capital U.S. Treasury Index return of -1.6 percent. The portfolio ended June 30 with a value of $1.0 billion. The $577 million APFC-managed Treasury Inflation Protected Securities (TIPS) portfolio lost 4.5 percent versus -4.8 percent for the Barclay's Capital U.S. TIPS benchmark. In April, the Fund's externally managed $575 million TIPS portfolio was changed to an intermediate duration mandate managed against the Barclay's U.S. TIPS 1-10 year index. While there has not been sufficient time to measure the portfolio versus its index the move helped limit the losses in this portfolio to -3.1 percent for the year.

The corporate bond portfolio ended the year with a value of $2.5 billion and gained 1.5 percent, outperforming the Barclay's Capital U.S. Corporate Index return of 1.4 percent.

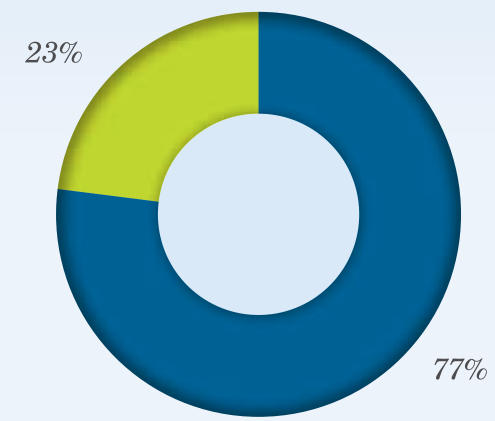
The $567 million MBS portfolio returned -1.2 percent versus Barclay's Capital U.S. MBS Index return of -1.1 percent. The Permanent Fund has two external managers overseeing high yield bond portfolios. The $137 million portfolio gained 9.4 percent for the fiscal year, while the $329 million portfolio returned 8.3 percent. In comparison, the Barclay's Capital Global High Yield Corporate (Hedged) Index returned 10.9 percent for the period.

NON-U.S. BONDS

While the Fund has held non-U.S. bonds since 1990, fiscal year 2013 marked the first time these investments were managed by the internal fixed income team. The internal non-U.S. portfolio ended the fiscal year with a value of $196 million, though the one-quarter performance period is insufficient to provide meaningful results. The Fund's external non-U.S. bond manager returned 1.6 percent against the Barclay's Capital Global Treasury ex-U.S. Index (Hedged) return of 2.7 percent. The $447 million externally managed high yield emerging market debt portfolio gained 2.7 percent for the year, outperforming its blended benchmark which earned 0.6 percent.

Bond Portfolio

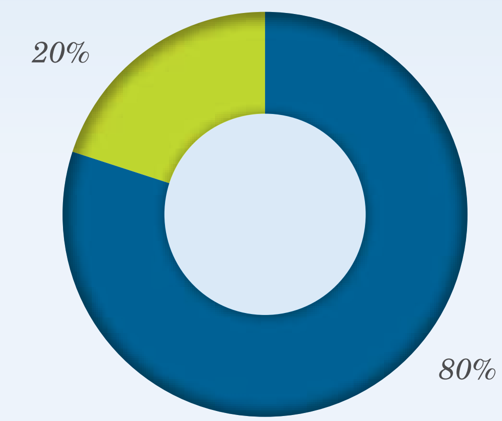
by Internal vs External Management as of June 30, 2013 (In Billions)



Internally Managed	$5.8
Externally Managed	$1.7
Total	$7.5

Bond Portfolio

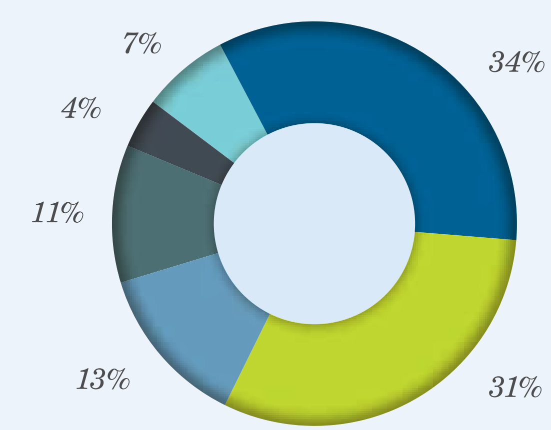
by Region as of June 30, 2013 (In Billions)



U.S. Bonds	$6.0
Non-U.S. Bonds	$1.5
Total	$7.5

Bond Portfolio

by Security Type as of June 30, 2013 (In Billions)



U.S. Corporates	$2.5
U.S. Treasuries	$2.4
Non-U.S. Government	$1.0
Mortgage-Backed	$0.8
CMBS	$0.3
Non-U.S. Corporates	$0.5
Total	$7.5

S T O C K S

For the fiscal year ended June 30, 2013, the Fund's public equity portfolio returned 17.1 percent, in line with its benchmark return of 17.1 percent. U.S. stocks generated the greatest positive absolute returns, followed by international developed equity, while emerging markets delivered weak returns. U.S. stocks' outperformance was based upon stronger economic growth and better prospects for future economic growth, all backed by a very accommodative Central Bank. Investors soured on emerging market stocks due to growing fears of a greater than expected slowdown in China and several other emerging market economies. During the fourth fiscal quarter, concerns about the Fed reducing their accommodative policy caused U.S. bond yields to rise and negatively impacted stock prices around the world before abating just before the fiscal year-end. Overall, fiscal 2013 was a very strong year for stocks and the Permanent Fund's managers' added value.

U.S. STOCKS

For the fiscal year ended June 30, 2013, the Fund's approximately $5.8 billion U.S. stock portfolio returned 22.4 percent, outperforming the 21.5 percent return for its benchmark. To further enhance the return potential of the U.S. stock allocation, five active large-cap managers were added to the Fund in March 2013.

NON-U.S. STOCKS

For the fiscal year, the Fund's $8.6 billion non-U.S. stock allocation returned 12.3 percent versus 13.9 percent for its relevant benchmark. Developed non-U.S. stocks outperformed the index while emerging markets lagged.

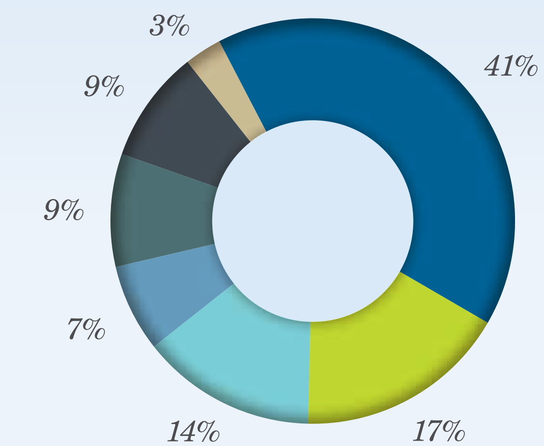
Within the non-U.S. portfolio, the Fund's $5.5 billion developed international stocks returned 17.6 percent versus 17.1 percent returns for the index. Similarly, the Fund's $3.2 billion emerging market stocks returned 3.8 percent versus 3.2 percent for the benchmark. The Fund's active managers generally outperformed their benchmarks. The decision to overweight emerging markets versus developed markets negatively affected the Permanent Fund's performance.

GLOBAL STOCKS

The Fund's $5.6 billion global stock mandate gained 19.7 percent, ahead of the 18.6 benchmark return. Here again, most of the Fund managers outperformed their benchmarks.

Stock Portfolio

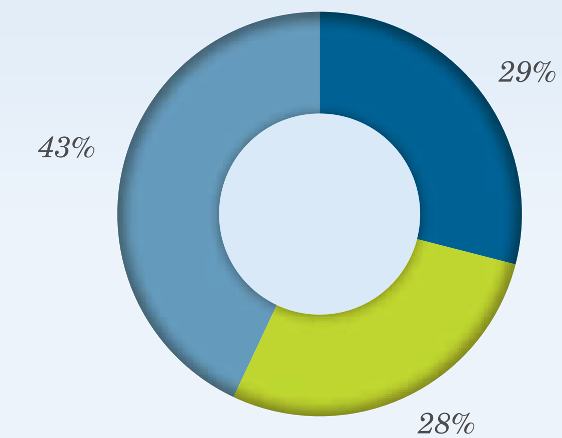
by Region as of June 30, 2013 (In Billions)



U.S.	$8.2	Japan	$1.8
Europe (ex UK)	$3.4	Americas	$1.9
Asia (ex Japan)	$2.8	Other	$0.5
UK	$1.4		
Total			$20.0

Stock Portfolio

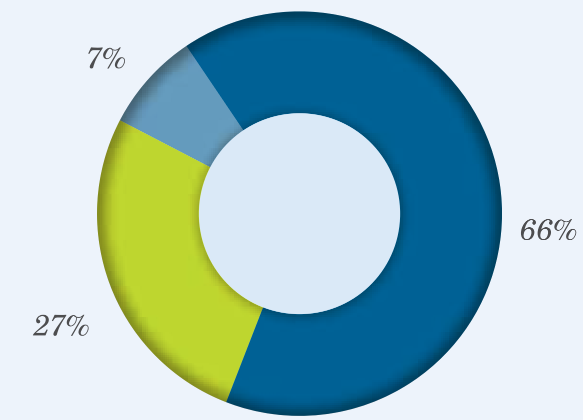
by Regional Mandate as of June 30, 2013 (In Billions)



U.S. Stocks	$5.8
Global Stocks	$5.6
Non-U.S. Stocks	$8.6
Total	$20.0

Stock Portfolio

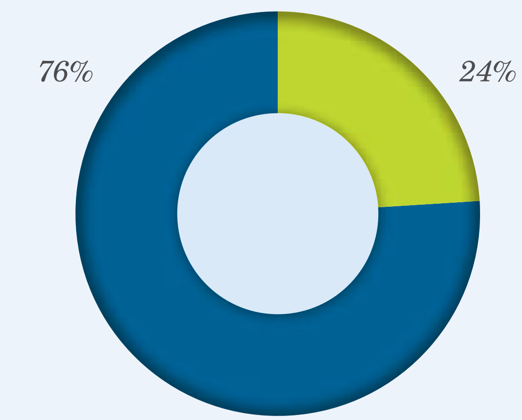
by Active & Passive Management Styles as of June 30, 2013 (In Billions)



Active	$13.1
Passive	$5.4
Quasi-Passive	$1.5
Total	$20.0

U.S. Stock Portfolio

by Company Capitalization as of June 30, 2013 (In Billions)



Small/Mid-Cap	$1.4
Large-Cap	$4.4
Total	$5.8

R E A L E S T A T E

The Permanent Fund's $4.9 billion real estate portfolio produced solid positive performance for the third year in a row, returning 10.8 percent for the fiscal year. U.S. real estate continued its recovery with values reaching pre-recession levels. The NCREIF property index logged 14 consecutive quarters of positive returns by the end of fiscal year 2013.

PRIVATE REAL ESTATE

The direct real estate portfolio returned 10.8 percent for the fiscal year, slightly outperforming the NCREIF NPI index return of 10.7 percent. The portfolio ended the year with a value of $4.6 billion.

There are 47 individual properties across the U.S. within the Fund's private real estate portfolio. There were no acquisitions during the period; however, a suburban office property located in Austin, Texas was sold. Investor interest in this market was strong and pricing was favorable, leading to the decision to sell the property. A few new initiatives were introduced in the current fiscal year, with implementation to occur throughout fiscal year 2014. The first was a debt placement program aimed at generating additional returns through positive leverage given the current low interest rate environment. Additionally, two managers were identified to pursue opportunities in European real estate. Finally, staff was in negotiations at the close of the fiscal year with a potential partner in a joint venture to source industrial real estate within the U.S.

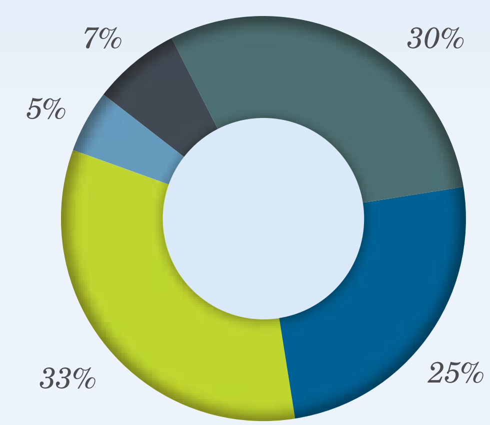
The Permanent Fund is also a partner in Simpson Housing LLLP, a real estate operating company jointly owned with the State of Michigan Retirement System. Simpson is a full-service company engaged in development, management and leasing of more than 19,000 apartment units across the U.S. As such, the full entity value is derived not only from the value of the underlying real estate properties but also from the value of the management company itself. The venture returned 10.2 percent for the fiscal year, and the Fund's stake was valued at $836 million as of June 30, 2013. Simpson had a robust year of activity with sales of five apartment communities, acquisitions of four newly built properties, and four new development projects were underway at the close of fiscal year 2013.

PUBLIC REAL ESTATE

The global REIT portfolio managed by AEW had a solid year, gaining 12.4 percent and outperforming the benchmark UBS Global RE Index return of 11.9 percent. After a strong start, REIT share prices fell sharply with the Federal Reserve's announcement of an impending "taper" and the subsequent rise in rates. The REIT portfolio ended the period with a value of $343 million.

Real Estate Portfolio

by Property Type as of June 30, 2013 (In Billions)



Retail	$1.5
Multifamily	$1.2
Office	$1.7
Industrial	$0.2
REITs	$0.3
Total	$4.9

PRIVATE ASSETS

Private assets are those investments that do not trade in public markets or have very limited liquidity, requiring a long investment period. This includes equity holdings in private companies and infrastructure investments in critical service assets with high barriers to entry, as well as private debt investments such as loans extended to companies outside of traditional bond markets.

PRIVATE EQUITY

The Fund's two private equity gatekeepers committed $550 million to 25 new private equity partnerships during fiscal year 2013, bringing the total amount committed to this asset class to $4.2 billion. Of this committed amount, $2.6 billion has been drawn down for private equity investments and $1.1 billion has been distributed back to the Fund. The Fund's private equity program returned 15.3 percent for the fiscal year versus its benchmark, which returned 20.4 percent in the period. Private equity returns generally exhibit less dramatic positive or negative returns on an annual basis than public equities.

INFRASTRUCTURE

In addition to investments in five infrastructure funds, the Corporation has started an in-house infrastructure co-investment portfolio, which currently has one holding. For fiscal year 2013, the Fund's infrastructure portfolio returned 10.7 percent and the paid-in commitment was valued at $917 million as of June 30, 2013. This performance compares to its benchmark return of 7.3 percent. The Fund's infrastructure portfolio enjoyed solid performance across its holdings for the year with particular strength in the return provided by its U.S. infrastructure assets.

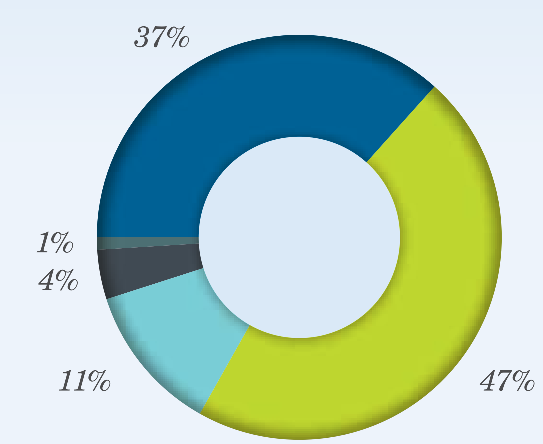
PUBLIC/PRIVATE CREDIT

In public/private credit the Fund has three managers. Two of them are mezzanine debt funds that make loans to private companies. These managers generated returns of 13.5 percent and 8.4 percent on a total of approximately $229 million. The Fund's other manager attempts to allocate capital across different spectrums of the public and private credit markets based upon perceived opportunity. This portfolio is larger at $824 million and produced returns of 9.9 percent. The benchmark for these strategies returned 10.7 percent.

Private markets produced strong positive returns across the capital spectrum in fiscal 2013, including fixed income, which had a difficult time on the public side.

Infrastructure Investments (Paid-in commitment)

by Sector as of June 30, 2013 (In Millions)



Energy	$ 339
Transportation	$ 428
Water	$ 106
Waste Management	$ 38
Other	$6
Total	$917

ALTERNATIVE INVESTMENTS & SPECIAL OPPORTUNITIES

Alternative investments and special opportunities are investments that do not fall easily into the Permanent Fund's traditional asset classes. Some of these investments are a blend of holdings from different asset classes. Other investments may eventually fit well into one of the traditional classes based on the type of holdings, but due to a new structure or approach are held separately in the special opportunities class in their early years.

ABSOLUTE RETURN

Absolute return strategy mandates are constructed from a variety of securities selected to achieve a target return within defined risk limits. Three firms manage $2.6 billion in absolute return mandates for the Fund. The absolute return portfolio gained 8.7 percent for the fiscal year, ahead of the benchmark return of 4.2 percent.

Incubation Platform

Shortly before the start of the fiscal year, the Board redirected up to $500 million within the existing absolute return allocation into a fund that would seek out experienced investment professionals with the talent to run independent absolute return strategies, but without startup capital. In addition to funding, the Permanent Fund's partner provides the necessary facilities and support services to allow these investors to focus on their investment strategies. Over the course of the year, allocations of $50 million to $100 million were made to three new managers. As of June 30, 2013, $200 million was committed. The allocation was not funded long enough to provide meaningful returns for fiscal year 2013.

DISTRESSED DEBT

Distressed debt typically involves investments made in the debt of companies that have either filed for bankruptcy or will likely do so, and can bring increased returns with higher corresponding risk during either a reorganization or a liquidation of assets. The $236 million distressed debt portfolio returned 19.6 percent for the fiscal year, compared to the benchmark return of 6.2 percent.

REAL RETURN

Real return managers may invest in any or all of the same liquid asset classes as the Fund. They have the same overarching risk and return guidelines as the Fund, but are allowed to set their own internal asset allocation. The five managers in the program manage $3.1 billion and earned a return for fiscal year 2013 of 4.7 percent compared to their benchmark return of 6.8 percent.

EMERGING MARKETS

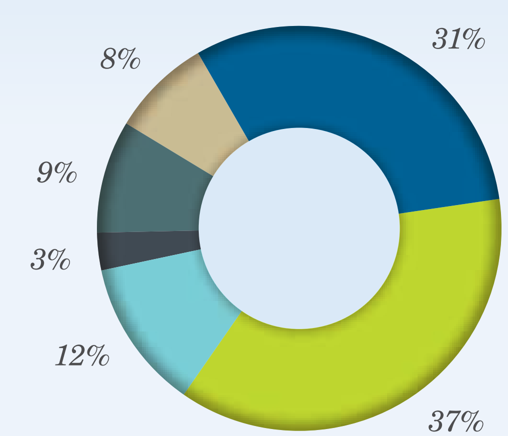
The Fund's emerging market multi-asset class mandates invest across the spectrum of liquid emerging market securities: stocks, bonds and currency. This flexibility allows managers to select the most advantageous publicly traded investments from both a risk and a return perspective. The Fund's portfolio ended the fiscal year at $807 million and returned 3.4 percent compared to the benchmark return of 2.1 percent.

AMERICAN HOMES 4 RENT

As the fiscal year began, the Permanent Fund invested $600 million in a private venture to purchase distressed single family homes for rental purposes. In April the Fund converted its interest in 4,800 homes into a 30 percent stake in a private REIT, which was valued at $704 million as of June 30, 2013. This REIT intends to become a public company.

Alternative Investments

by Fund Type as of June 30, 2013 (In Millions)



Absolute Return	$2,640
Real Return	$3,062
Distressed Debt & Credit Opportunities	$1,061
Mezzanine Debt	$229
American Homes 4 Rent	$704
Emerging Market Opportunities	$807
Total	$8,503

APFC INTERNSHIP PROGRAM

The Alaska Permanent Fund Corporation and our fund managers recognize that we can create even more value for Alaska through continuing our decades-long program of hosting internships exclusively for Alaska undergraduate and graduate students. In its 26th year as of 2013, the program has seen 303 individual Alaska students attending schools in-state and Outside serve as interns with APFC in Juneau and with our managers throughout the country. We value our internship program as a win-win: students learn to transition between the academic and professional worlds, while contributing up-to-date technological skills and energy to their host companies.

We wish to thank our 2013 participating managers, who, along with APFC in Juneau, employed and mentored ten students this year:

Rogge Global Partners, New York

McKinley Capital Management, Anchorage

RCM Global Investors, San Francisco

Alaska Permanent Capital Management, Anchorage

Crestline Investors Inc., Fort Worth

GE Asset Management, Stamford

Acadian Asset Management, Boston

Interns:
1. (From left) Tyler Emerson, Kunyi Li, Kayla Bishop (APFC), 2. Jacquelyn Mouck (Alaska Permanent Capital Management), 3. Andrew Kerosky (Crestline), 4. Djamila Chettfour (McKinley Capital Management), 5. Anton Gorodniuk (RCM)

MANAGEMENT'S DISCUSSION & ANALYSIS

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, 2013 and June 30, 2012. 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

- In fiscal year ("FY") 2013, the Fund ended strongly with a total investment return of 10.93 percent. The closest to the FY 2013 return was a 10.98 percent return in FY 2006. FY 2013's results are in the upper half of the range of returns since 1985, which have ranged from -17.96 percent to 25.58 percent.

- FY 2013's excess of revenues over expenditures (net income) was $4.3 billion, a stark contrast to FY 2012 which had a net loss of $100 million.

- The Alaska Permanent Fund dividend is calculated using a five-year rolling average of net income as required by Alaska Statutes, which excludes unrealized gains and losses (statutory net income). The FY 2013 rolling average changed little from FY 2012 because the oldest year's (FY 2008's) statutory net income of $2.94 billion was replaced by FY 2013 statutory net income of $2.93 billion. Because the formula is a five-year average, and one half of that amount is paid out for dividends, the total dividend payment was virtually unchanged, from $605 million in FY 2012 to $604 million in FY 2013.

- The portion of dedicated State of Alaska revenues deposited into the principal of the Fund is based on mineral prices and production. In FY 2013, the deposits came in below FY 2012's deposits by 8 percent at $840 million. Production has continued to decrease over the years, but oil prices continue to increase.

- Inflation proofing of the Fund's corpus is outlined in Alaska Statutes. In FY 2013, the inflation rate was 2.07 percent and $743 million was transferred to the nonspendable fund balance for inflation proofing. In FY 2012 the inflation rate was 3.16 percent, so a significantly higher transfer of $1.1 billion was made in FY 2012.

- Privately traded alternative assets continued to grow as a percentage of Fund investments, increasing by more than 8 percent this year. During FY 2013 the APFC made a new $53 million commitment to EQT Infrastructure II. As of June 30, 2013 APFC had total commitments to private equity of $4.2 billion as compared to one year prior when commitments were $3.6 billion, which equates to a 17 percent increase.

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, 2013, as well as the prior fiscal year's ending balances at June 30, 2012.

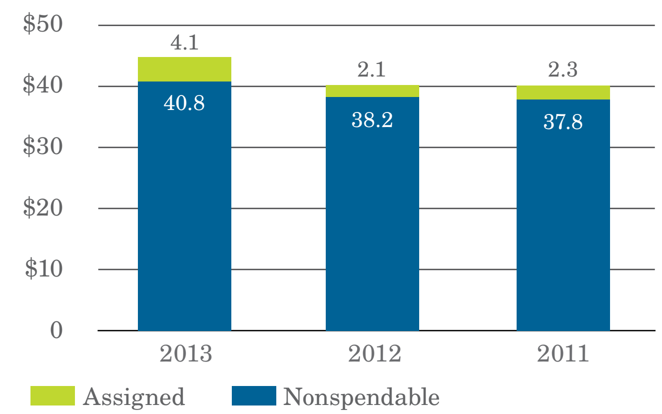
Assets are grouped into broad categories for ease of readability and analysis. Receivables include cash not yet received from the sale of investments, as well as dividends and interest receivable from stock and bond holdings. Real estate assets shown on the Balance Sheets include direct investments in 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 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 amounts payable to the State of Alaska for the Permanent Fund dividend and the Alaska Capital Income Fund, and (iii) the securities lending cash collateral that is returned to borrowers of the Fund's stocks and bonds when the borrowers return those loaned assets to the Fund.

In the graph set forth below, fund balances are shown in two categories: nonspendable and assigned. The largest category is nonspendable (91 percent as of June 30, 2013) 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 nearly doubled from FY 2012 to FY 2013, from $2.1 billion to $4.1 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 nonspendable fund balance); and the change in unrealized gains and losses allocated to the assigned fund balance. During FY 2013, the amounts contributing to the net increase of approximately $2.0 billion in the assigned fund balance were (i) realized income of $2.9 billion, (ii) the dividend payout of $604 million, (iii) the inflation proofing transfer of $743 million, and (iv) the allocation of a portion of unrealized gains and losses, which increased from FY 2012 to FY 2013 by $392 million, to a balance of $567 million.

Fund Balances

Ending Balance as of June 30 (In Billions)



STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

The Statements of Revenues, Expenditures and Changes in Fund Balances present the financial activity of the Fund over the 12 months in FY 2013 and FY 2012.

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 include 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 nonspendable fund balance is unavailable for appropriation. The table set forth below was derived from the Balance Sheets of the Fund, and provides a comparison of the change between balances of June 30, 2013 and 2012.

Balance Sheets as of June 30

	2013	2012	NET CHANGE	%
ASSETS				
Cash and temporary investments	$ 2,288,123,000	1,995,551,000	292,572,000	15%
Receivables, prepaid expenses and other assets	239,053,000	506,803,000	(267,750,000)	(53)%
Investments	43,818,259,000	39,205,929,000	4,612,330,000	12%
Securities lending collateral invested	3,451,974,000	3,334,722,000	117,252,000	4%
Total Assets	$ 49,797,409,000	45,043,005,000	4,754,404,000	11%
LIABILITIES				
Accounts payable	$ 858,366,000	752,917,000	105,449,000	14%
Income distributable to the State of Alaska	633,735,000	622,307,000	11,428,000	2%
Securities lending collateral	3,451,974,000	3,334,722,000	117,252,000	4%
Total Liabilities	4,944,075,000	4,709,946,000	234,129,000	5%
FUND BALANCES				
Nonspendable:				
Permanent Fund corpus - contributions and appropriations	36,615,208,000	35,032,524,000	1,582,684,000	5%
Not in spendable form - unrealized appreciation on invested assets	4,184,334,000	3,219,953,000	964,381,000	30%
Total Nonspendable	40,799,542,000	38,252,477,000	2,547,065,000	7%
Assigned for future appropriations:				
Realized earnings	3,486,567,000	1,905,446,000	1,581,121,000	83%
Unrealized appreciation on invested assets	567,225,000	175,136,000	392,089,000	224%
Total Assigned	4,053,792,000	2,080,582,000	1,973,210,000	95%
Total Fund Balances	44,853,334,000	40,333,059,000	4,520,275,000	11%
Total Liabilities and Fund Balances	$ 49,797,409,000	45,043,005,000	4,754,404,000	11%

Overall, the Fund's assets grew 11 percent between June 30, 2012 and June 30, 2013. The biggest growth was seen in domestic and global equities returns, which were up by 22.40 percent and 19.72 percent, respectively. Domestic and non-domestic fixed income returns were nearly flat, returning .37 percent and 1.74 percent, respectively for the fiscal year. Private equity, infrastructure and real estate all had strong returns at 15.27 percent, 10.72 percent and 10.83 percent, respectively. Modest increases were realized in the other assets, including absolute and real return mandates.

From June 30, 2011 to June 30, 2012 the Fund's fair value of invested assets was virtually unchanged, going from $45.2 billion at the end of 2011 to $45.0 billion at the end of 2012. In FY 2012, equities had weak returns with non-domestic and global equities in negative territory (-14.55 percent and -4.71 percent, respectively). These losses were offset by positive returns in domestic and non-domestic fixed income (7.8 and 6.5 percent, respectively) and domestic equities (2.3 percent), as well as increases in other assets, including real estate, private equity and real return mandates.

Due primarily to timing, receivables decreased by more than half between the end of FY 2012 and FY 2013, going from $507 million to $239 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, which can change significantly from day to day and year to year, have generally stabilized after the extreme high lending volumes in 2006-2007 followed by low lending levels after the global financial crisis in 2008-2009. The average value of assets on loan during FY 2013 was $4.0 billion, with a low of $3.3 billion and a high of $4.7 billion.

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 greater than 95 percent of both the FY 2013 and FY 2012 accounts payable balances. The overall increase from FY 2012 to FY 2013 was due to increases in pending stock and bond purchases as well as in operating liabilities, which increased by $38 million, $50 million and $17 million, respectively.

Income distributable to the State of Alaska, which is based primarily on the dividend calculation mandated by statute, decreased slightly from FY 2012 to FY 2013. The dividend calculation is based on a five-year rolling average of statutory net income (which excludes unrealized gains and losses). Because the FY 2013 statutory net income of $2.93 billion replaced the FY 2008 statutory net income of $2.94 billion in the rolling average, there was only a small decrease from the prior year in the calculated amount due to the State of $604 million. As of June 30, 2012, a balance of $605 million was due to the State. Five years ago, at the end of FY 2008, the balance due to the State of Alaska for the dividend payout was $1.3 billion which was the highest in the history of the Fund. This illustrates how the payout calculation can fluctuate significantly from year to year.

Also using a calculation based on realized earnings, the Alaska Capital Income Fund (ACIF) transfer due to the State for FY 2013 was $30 million and for FY 2012 was $17 million. The $13 million dollar increase from the prior year is due to the much stronger returns of FY 2013 versus FY 2012.

The total fund balance increase of $4.5 billion from FY 2012 to FY 2013 was due primarily to stronger markets. The overall investment return on Fund investments for FY 2012 was 10.93 percent. Contributions and appropriations increased due to dedicated mineral revenue deposits from the State of Alaska of $840 million, down 8 percent from the FY 2012 dedicated revenues of $915 million. Also affecting fund balance were the dividend payout and ACIF transfer of $634 million in total, and operating expenditures and legislative appropriations of $127 million.

The total fund balance increase from FY 2011 to FY 2012 was due to the net of the transfers in (State dedicated mineral revenues of $915 million) and the transfers out (dividend and ACIF of $622 million); the other contributor to the change being operating expenditures of $98 million.

The table below is derived from the Statements of Revenues, Expenditures and Changes in Fund Balances, and shows the annual activity of the Fund. The differences in activity in FY 2012 as compared to FY 2013 are shown in both dollars and percentages.

Statements of Revenue, Expenditures and Changes in Fund Balances

Year Ended June 30

	2013	2012	NET CHANGE	%
REVENUES				
Interest, dividends, real estate and other income	$ 1,081,900,000	988,402,000	93,498,000	9%
Increase (decrease) in the fair value of investments	3,359,000,000	(989,961,000)	4,348,961,000	439%
Total Revenues	$ 4,440,900,000	(1,559,000)	4,442,459,000	284,956%
EXPENDITURES				
Operating expenditures	(119,800,000)	(91,362,000)	(28,438,000)	31%
Other Legislative appropriations	(7,200,000)	(7,025,000)	(175,000)	2%
Total Expenditures	(127,000,000)	(98,387,000)	(28,613,000)	29%
Excess (Deficit) of Revenues Over Expenditures	4,313,900,000	(99,946,000)	4,413,846,000	4,416%
OTHER FINANCING SOURCES (USES)				
Transfers in – dedicated State revenues	840,100,000	915,098,000	(74,998,000)	(8)%
Transfers out – appropriations	(633,700,000)	(622,307,000)	(11,393,000)	2%
Net Change in Fund Balances	4,520,300,000	192,845,000	4,327,455,000	2,244%
FUND BALANCES				
Beginning of period	40,333,059,000	40,140,214,000	192,845,000	–
End of period	$ 44,853,359,000	40,333,059,000	4,520,300,000	11%

During FY 2013, cash flow revenue from interest, dividends, real estate, and other sources continued to recover from the 2008-2009 global financial crisis, but interest rates on bonds remained low. Total cash flow income increased from an average of $76 million per month in FY 2011 to $82 million per month in FY 2012 to $90 million per month in FY 2013, still a fair amount below FY 2008's average of approximately $100 million per month. The fairly strong results of FY 2013 were a striking contrast to FY 2012's $197 million decrease in the fair value of investments. Operating expenditures increased from FY 2012 to FY 2013 almost entirely due to an increase of $26 million in asset management fees paid to external investment management firms. Most management fees (which account for approximately 90 percent of operating expenditures) are calculated on market values of assets under management. When those market values increase significantly, as was the case in FY 2013, fees increase as well. Also contributing to this increase was the payment of higher incentive fees to managers whose performance exceeded the benchmarks stipulated in their contracts. Manager fees in FY 2012 totaled $81 million and in FY 2013 totaled $108 million.

Transfers in of dedicated State revenues decreased from FY 2012 to FY 2013 by 8.2 percent ($75 million). FY 2012 was the highest year for receipts at $915 million, which was a $28 million increase from FY 2011. Oil prices have been volatile over the past several years, and while production continues to decline in Alaska, the price of oil (and therefore revenues to the State of Alaska) remained high during FY 2013.

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 FY 2013 results supplanted the FY 2008 results, and because the difference in statutory net income between these years is very small, the dividend distribution consequently decreased by only $1 million in FY 2013. The ACIF transfer is based on realized earnings for only one year; it is not averaged over multiple years. ACIF realized earnings of $30 million in FY 2013 and $17 million in FY 2012.

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. Due to the potential volatility of the financial markets, Fund values and income may vary greatly from period to period. For more information on the Fund, both current and historical, readers are encouraged to visit www.apfc.org, or send specific information requests to the Alaska Permanent Fund Corporation at P.O. Box 115500, Juneau, Alaska 99811 5500.

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, 2013 and 2012, 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, 2013 and 2012, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Alaska Permanent Fund and do not purport to, and do not, present fairly the financial position of the State of Alaska as of June 30, 2013 and 2012, and changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1-7 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, 2013 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, 2013

FINANCIAL STATEMENTS

Balance Sheets

As of June 30

ASSETS	2013	2012
Cash and temporary investments	$ 2,288,123,000	1,995,551,000
Receivables, prepaid expenses and other assets	239,053,000	506,803,000
Investments:		
Marketable debt securities	7,515,333,000	7,568,655,000
Preferred and common stock	20,026,989,000	17,424,991,000
Real estate	5,534,942,000	4,387,133,000
Real return	3,061,731,000	2,924,216,000
Absolute return	2,640,327,000	2,418,605,000
Private equity	2,089,273,000	1,712,867,000
Infrastructure	852,643,000	863,240,000
Distressed debt and mezzanine debt	1,290,216,000	1,163,583,000
Emerging markets total opportunities	806,805,000	524,814,000
Alaska certificates of deposit	—	217,825,000
Total Investments	43,818,259,000	39,205,929,000
Securities lending collateral invested	3,451,974,000	3,334,722,000
Total Assets	$ 49,797,409,000	45,043,005,000
LIABILITIES		
Accounts payable	$ 858,366,000	752,917,000
Income distributable to the State of Alaska	633,735,000	622,307,000
Securities lending collateral	3,451,974,000	3,334,722,000
Total Liabilities	$ 4,944,075,000	4,709,946,000
FUND BALANCES		
Nonspendable:		
Permanent Fund corpus - contributions and appropriations	36,615,208,000	35,032,524,000
Not in spendable form - unrealized appreciation on invested assets	4,184,334,000	3,219,953,000
Total Nonspendable	40,799,542,000	38,252,477,000
Assigned for future appropriations:		
Realized earnings	3,486,567,000	1,905,446,000
Unrealized appreciation on invested assets	567,225,000	175,136,000
Total Assigned	4,053,792,000	2,080,582,000
Total Fund Balances	44,853,334,000	40,333,059,000
Total Liabilities and Fund Balances	$ 49,797,409,000	45,043,005,000

See accompanying notes to the financial statements.

Statements of Revenues, Expenditures and Changes in Fund Balances

As of June 30

REVENUES	2013	2012
Interest	$ 269,405,000	297,270,000
Dividends	531,486,000	476,365,000
Real estate and other income	281,006,000	214,767,000
Total Interest, Dividends, Real Estate and Other Income	1,081,897,000	988,402,000
Net increase (decrease) in the fair value of investments:		
Marketable debt securities	(222,410,000)	256,242,000
Preferred and common stock	2,470,620,000	(1,658,942,000)
Real estate	414,850,000	221,790,000
Real return	110,040,000	126,715,000
Absolute return	198,515,000	(20,594,000)
Private equity	238,084,000	134,546,000
Infrastructure	51,883,000	(77,814,000)
Distressed debt and mezzanine debt	102,208,000	20,923,000
Emerging markets total opportunities	(29,040,000)	(74,896,000)
Foreign currency forward exchange contracts and futures	94,436,000	24,658,000
Currency	(70,166,000)	57,411,000
Total Net Increase (Decrease) in the Fair Value of Investments	3,359,020,000	(989,961,000)
Total Revenues	4,440,917,000	(1,559,000)
EXPENDITURES		
Operating expenditures	(119,875,000)	(91,362,000)
Other legislative appropriations	(7,153,000)	(7,025,000)
Total Expenditures	(127,028,000)	(98,387,000)
Excess (Deficit) of Revenues over Expenditures	4,313,889,000	(99,946,000)
OTHER FINANCING SOURCES (USES)		
Transfers in - dedicated State revenues	840,121,000	915,098,000
Transfers out - statutory and legislative appropriations	(633,735,000)	(622,307,000)
Net Change in Fund Balances	4,520,275,000	192,845,000
FUND BALANCES		
Beginning of period	40,333,059,000	40,140,214,000
End of period	$ 44,853,334,000	40,333,059,000

See accompanying notes to the financial statements.

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 perpetuity. In 1980, the Alaska State Legislature ("Legislature") established the Alaska Permanent Fund Corporation ("APFC"), a State governmental instrumentality within the Department of Revenue, to manage and invest Fund assets. The APFC is managed by a six-member board of trustees ("Trustees" or "Board") consisting of the Commissioner of Revenue, one other head of a principal state department, and four public members with recognized competence and experience in finance, investments, or other business management related fields. The Governor appoints 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 statute and subsequent 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 nonspendable balance of the Fund, and (iii) realized earnings on the balance of the North Slope royalty case settlement money (State v. Amerada Hess, et al.) to the Alaska Capital Income Fund (ACIF). The remaining balance of the Fund's realized earnings (referred to in Alaska Statute as the earnings reserve account) is held in the assigned fund balance by the APFC and is subject to appropriation by the Legislature. The nonspendable fund balance (referred to in the Alaska Constitution as the principal) includes the historical cost basis of contributions and appropriations. The Alaska Constitution specifies that principal can only be used for income-producing investments specifically designated by law, and is therefore unavailable for appropriation by the Legislature. Unrealized gains and losses (appreciation/depreciation) on Fund assets are allocated proportionately between the nonspendable fund balance and the assigned fund balance. The unrealized amounts allocated to contributions and appropriations are considered a component of principal and are nonspendable, unless and until they become realized, at which point they will be transferred to the assigned (realized earnings) fund balance. All assets are aggregated for investment purposes.

2. SIGNIFICANT ACCOUNTING POLICIES

The Fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In preparing the financial statements, APFC management is required to make estimates and assumptions as of the date of the balance sheet that affect the reported amounts of assets and liabilities and the disclosure of contingent assets, liabilities, revenues, and expenses for the period. The fair value of real estate, real return, absolute return, distressed and mezzanine debt, private equity, and infrastructure 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 two 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. Current Alaska statutes limit the amount that can be transferred for dividend appropriation each year to one-half of the smaller of (i) 21 percent of the Fund's five-year rolling statutory net income or (ii) the assigned fund balances at fiscal year end. This limitation can be superseded by legislative appropriation.

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 in the fair value of investments, and are calculated based on the difference between the contract rate and a forward market rate determined as of the balance sheet date.

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

Fund balance unrealized gains and losses

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

Futures

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

Income taxes

In the opinion of legal counsel, the Fund should not be subject to federal income taxation under the doctrine of implied statutory immunity for states 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 nonspendable fund balance) should occur only by legislative appropriation. The APFC measures inflation by (i) computing the percentage change in the averages of the monthly United States Consumer Price Index for all urban consumers for the two previous calendar years and (ii) applying that percentage to the total of the nonspendable fund balance, excluding unrealized gains and losses, at the end of the fiscal year. Using this formula, the inflation proofing rate for the year ended June 30, 2013 was 2.07 percent, and $742,563,000 was transferred from the assigned to the nonspendable fund balance. The calculated rate for FY 2012 was 3.16 percent, and $1,073,117,000 was transferred from the assigned to the nonspendable fund balance.

Investments and related policies

Carrying value of investments

The Fund's investments are reported at fair value in the financial statements. Securities transactions are recorded on the trade date that securities are purchased or sold. Unrealized gains and losses are reported as components of net change in fund balance. For marketable debt and equity securities, including real estate investment trusts, fair values are obtained from independent sources using published market prices, quotations from national security exchanges, and security pricing services. Fair values of investments that have no readily ascertainable fair value are determined by management using the fair value capital account balances nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Direct investments in real estate are subject to annual appraisals and audits. All alternative investments undergo annual independent financial statement audits.

State investment regulations

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

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, 2013, the APFC's strategic asset allocation targets were as follows:

RISK CLASS	ASSET CLASS	RISK CLASS TARGET	ASSET CLASS TARGET
CASH		2%	2%
INTEREST RATES		6%	
	U.S. Government Bonds		4%
	International Developed Government Bonds (currency hedged)		2%
COMPANY EXPOSURE		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		18%	
	Absolute Return Mandate		6%
	Real Return Mandate		7%
	Emerging Markets Multi-Asset		2%
	Debt Opportunities		1%
	Other (future opportunities)		2%

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 interest rate risk class is 6 percent, with the green zone range set at 6-12 percent, yellow zone ranges set at 5-6 percent and 12-20 percent, and red zone ranges set at allocations of less than 5 percent or greater than 20 percent. In a similar manner, the APFC investment policy also requires the APFC to monitor relative risk (the expected investment portfolio's risk and return relative to the risk benchmark using standard industry risk measures), active budget risk (risk due to active management decisions made by managers), and limits on private investments and future commitments.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributable to holding investments from a single issuer. The APFC manages the Fund's concentration of credit risk by following its strategic asset allocation policy, diversifying investments among managers with varying investment styles and mandates, and monitoring tracking error. Tracking error is a measure of how closely a portfolio follows the index to which it is benchmarked. The APFC's policy for mitigating this risk of loss for fixed income and equity investments is to ensure compliance with APFC investment policy and investment manager contracts. 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, 2013, the Fund held fixed income investments with floating, variable, and step interest rates, valued at $249,410,000. These fixed income investments were both domestic and non-domestic, and had current annual interest rates ranging from 0 to 7.5 percent.

Transfers in

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

Transfers out

Transfers out to other State agencies are recorded when measurable.

3. CASH AND TEMPORARY INVESTMENTS

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

	2013	2012
Cash	$ 62,405,000	65,692,000
Pooled funds	1,543,820,000	1,204,082,000
U.S. Treasury bills	681,898,000	725,777,000
Total Cash and Temporary Investments	$2,288,123,000	1,995,551,000

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:

	2013	2012
Interest receivable	$ 63,546,000	71,472,000
Dividends receivable	45,738,000	37,635,000
Sales receivable	106,992,000	359,517,000
Contributions receivable	22,777,000	38,179,000
Total Receivables, Prepaid Expenses and Other Assets	$ 239,053,000	506,803,000

5. MARKETABLE DEBT SECURITIES

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

	COST	FAIR VALUE	UNREALIZED GAINS (LOSSES)
2013			
Treasury and government notes/bonds	$ 2,363,136,000	2,333,773,000	(29,363,000)
Mortgage-backed securities	833,794,000	830,363,000	(3,431,000)
Corporate bonds	2,519,717,000	2,521,280,000	1,563,000
Commercial mortgage/asset-backed securities	319,598,000	325,323,000	5,725,000
Non-U.S. treasury and government bonds	1,022,837,000	987,832,000	(35,005,000)
Non-U.S. corporate bonds	519,215,000	516,762,000	(2,453,000)
Total Marketable Debt Securities	$ 7,578,297,000	7,515,333,000	(62,964,000)
2012			
Treasury and government notes/bonds	$ 1,968,449,000	2,120,430,000	151,981,000
Mortgage-backed securities	654,231,000	668,378,000	14,147,000
Corporate bonds	2,535,429,000	2,678,638,000	143,209,000
Commercial mortgage/asset-backed securities	307,918,000	327,838,000	19,920,000
Non-U.S. treasury and government bonds	1,174,305,000	1,229,104,000	54,799,000
Non-U.S. corporate bonds	516,791,000	544,267,000	27,476,000
Total Marketable Debt Securities	$ 7,157,123,000	7,568,655,000	411,532,000

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 88 percent of bond mandates at June 30, 2013), 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 12 percent of bond mandates at June 30, 2013) 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, 2013, the Fund's credit ratings for its marketable debt securities are as follows:

NRSRO QUALITY RATING	DOMESTIC	NON-DOMESTIC	TOTAL FAIR VALUE	PERCENT OF HOLDINGS
AAA	$ 476,614,000	125,463,000	602,077,000	8.02%
AA	320,079,000	113,546,000	433,625,000	5.77%
A	1,059,986,000	145,493,000	1,205,479,000	16.04%
BBB	1,302,427,000	249,902,000	1,552,329,000	20.66%
BB	93,465,000	25,152,000	118,617,000	1.58%
B	89,820,000	—	89,820,000	1.20%
CCC	37,153,000	—	37,153,000	0.49%
CC	3,578,000	—	3,578,000	0.05%
C	2,003,000	—	2,003,000	0.03%
Total Fair Value of Rated Debt Securities	3,385,125,000	659,556,000	4,044,681,000	53.82%
Commingled bond funds	320,757,000	—	320,757,000	4.27%
Not rated	15,384,000	49,669,000	65,053,000	0.87%
U.S. government, explicitly backed by the U.S. government (AA)	2,467,189,000	—	2,467,189,000	32.83%
U.S. government, implicitly backed by the U.S. government (AA)	617,653,000	—	617,653,000	8.22%
Total Fair Value Debt Securities	$ 6,806,108,000	709,225,000	7,515,333,000	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, 2013, 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	40.61%	5.53
Mortgage-backed securities	14.67%	4.14
Corporate bonds	38.93%	6.95
Commercial mortgage and asset-backed securities	5.79%	3.80
Total Domestic Bonds	100.00%	5.78
NON-DOMESTIC BONDS		
Non-U.S. treasury and government bonds	60.83%	6.69
Non-U.S. corporate bonds	39.17%	6.23
Total Non-Domestic Bonds	100.00%	6.51

8. PREFERRED AND COMMON STOCK

Direct investments in preferred and common stock are held by the APFC's custodian bank on behalf of the Fund. The Fund also invests in commingled stock funds, which are held by the custodian bank of the fund manager on behalf of fund investors.

Preferred and common stocks and commingled stock funds at June 30 are summarized as follows (based on currency of trade), and include the net fair value of equity index futures of $781,000 as of June 30, 2013 and $12.3 million as of June 30, 2012:

	COST	FAIR VALUE	UNREALIZED HOLDING GAINS
2013			
DIRECT INVESTMENTS			
Domestic stock	$ 6,263,232,000	8,121,463,000	1,858,231,000
Non-domestic stock	9,483,462,000	10,322,555,000	839,093,000
Commingled funds	1,827,756,000	1,582,971,000	(244,785,000)
Total Preferred and Common Stock	$ 17,574,450,000	20,026,989,000	2,452,539,000
2012			
DIRECT INVESTMENTS			
Domestic stock	$ 7,572,152,000	9,058,849,000	1,486,697,000
Non-domestic stock	6,822,145,000	6,923,856,000	101,711,000
Commingled funds	1,768,034,000	1,442,286,000	(325,748,000)
Total Preferred and Common Stock	$ 16,162,331,000	17,424,991,000	1,262,660,000

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, 2013, 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 AND PRIVATE EQUITY	DEBT	TOTAL FOREIGN CURRENCY EXPOSURE
Australian Dollar	$ (7,053,000)	(12,399,000)	430,896,000	13,132,000	424,576,000
Brazilian Real	3,238,000	(31,244,000)	198,731,000	60,232,000	230,957,000
British Pound Sterling	4,919,000	(133,113,000)	1,465,358,000	32,195,000	1,369,359,000
Canadian Dollar	7,519,000	(81,192,000)	604,958,000	25,857,000	557,142,000
Chilean Peso	(581,000)	(78,000)	18,461,000	14,991,000	32,793,000
Chinese Yuan Renminbi	—	(5,289,000)	—	386,000	(4,903,000)
Colombian Peso	—	(10,414,000)	9,039,000	23,497,000	22,122,000
Czech Koruna	56,000	(9,648,000)	3,248,000	9,275,000	2,931,000
Danish Krone	(102,000)	(1,242,000)	73,554,000	—	72,210,000
Egyptian Pound	58,000	—	990,000	—	1,048,000
Euro Currency	18,217,000	(200,424,000)	2,222,656,000	172,640,000	2,213,089,000
Hong Kong Dollar	4,265,000	18,046,000	611,813,000	—	634,124,000
Hungarian Forint	—	—	3,169,000	7,001,000	10,170,000
Indian Rupee	1,899,000	(6,139,000)	175,265,000	—	171,025,000
Indonesian Rupiah	(2,289,000)	3,220,000	127,796,000	1,361,000	130,088,000
Israeli Shekel	455,000	(7,232,000)	34,334,000	10,153,000	37,710,000
Japanese Yen	3,821,000	(90,681,000)	1,674,792,000	125,929,000	1,713,861,000
Malaysian Ringgit	(2,781,000)	(2,794,000)	76,177,000	3,361,000	73,963,000
Mexican Peso	2,463,000	(51,153,000)	100,698,000	87,838,000	139,846,000
Moroccan Dirham	13,000	—	818,000	—	831,000
New Zealand Dollar	117,000	(56,337,000)	12,211,000	8,350,000	(35,659,000)
Nigerian Naira	—	—	—	18,008,000	18,008,000
Norwegian Krone	563,000	23,482,000	70,915,000	6,969,000	101,929,000
Peruvian Nuevo Sol	3,000	(2,571,000)		5,071,000	2,503,000
Philippine Peso	136,000	(10,820,000)	32,410,000	23,087,000	44,813,000
Polish Zloty	154,000	(12,555,000)	21,278,000	34,339,000	43,216,000
Russian Ruble	—	(12,395,000)	—	35,095,000	22,700,000
Singapore Dollar	878,000	18,047,000	96,584,000	588,000	116,097,000
South African Rand	1,154,000	(11,090,000)	128,442,000	36,114,000	154,620,000
South Korean Won	(141,000)	(24,961,000)	346,716,000	19,388,000	341,002,000
Swedish Krona	1,246,000	20,752,000	227,794,000	2,469,000	252,261,000
Swiss Franc	6,165,000	14,522,000	513,268,000	—	533,955,000
Taiwan Dollar	1,194,000	(6,356,000)	226,174,000	—	221,012,000
Thai Baht	388,000	(915,000)	154,052,000	671,000	154,196,000
Turkish Lira	4,529,000	(25,858,000)	91,290,000	35,321,000	105,282,000
Uruguayan Peso	—	—	—	11,870,000	11,870,000
Total Foreign Currency Exposure	$ 50,503,000	(708,831,000)	9,753,887,000	825,188,000	9,920,747,000

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, and debt, as well as in direct real estate properties, real return mandates, absolute return and similar funds, and infrastructure, all of which 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, a multi-family real estate operating company, and other entities in which the assets consist primarily of real property. The Fund invests in real estate directly through ownership of interests in corporations, limited liability companies, and partnerships that hold title to the real estate. External institutional real estate management firms administer the Fund's directly owned real estate investments.

The APFC periodically reviews real estate investments for other than temporary impairment. There was no impairment recognized in FY2013. During FY 2012 it was determined that seven real estate properties were impaired and would not recover their carrying costs over the remaining estimated holding period of the assets. In order to reflect the impairment in the statutory net income and fund balance classification, $137 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.

Real estate investments at June 30 are summarized as follows:

	COST	FAIR VALUE	UNREALIZED HOLDING GAINS
2013			
Real estate investment trusts	$ 852,648,000	1,041,141,000	188,493,000
Alaska residential mortgage	3,000	3,000	—
Directly owned real estate:			
Retail	771,350,000	1,447,403,000	676,053,000
Office	1,371,761,000	1,572,324,000	200,563,000
Industrial	227,534,000	246,694,000	19,160,000
Multi-family	990,894,000	1,227,377,000	236,483,000
Total Real Estate	$ 4,214,190,000	5,534,942,000	1,320,752,000
2012			
Real estate investment trusts	$ 238,243,000	305,424,000	67,181,000
Alaska residential mortgage	13,000	13,000	—
Directly owned real estate:			
Retail	706,681,000	1,268,578,000	561,897,000
Office	1,383,960,000	1,497,394,000	113,434,000
Industrial	222,394,000	243,715,000	21,321,000
Multi-family	927,128,000	1,072,009,000	144,881,000
Total Real Estate	$ 3,478,419,000	4,387,133,000	908,714,000

11. ALTERNATIVE INVESTMENTS

Alternative investments include the Fund's investments in or through real return mandates, absolute return strategies, private equity, infrastructure, distressed debt, and mezzanine debt. The APFC periodically reviews alternative investments for other than temporary impairment.

The objective for the real return mandate is to produce a 5 percent real return (in excess of inflation) over the longer of one business cycle or five years. Each manager's contract specifies permitted investments and liquidity guidelines. Investments are generally in commingled proprietary funds structured as limited partnerships.

Absolute return strategies are investments in specialized funds with low market correlation. The Fund's absolute return strategies are managed through three limited partnerships, in which the Fund is the only limited partner ("fund-of-one"). External investment management services are provided by institutional investment managers who have acknowledged their status as fiduciaries with respect to the Fund. Absolute return strategies invest in a diversified portfolio of underlying limited partnership interests or similar limited liability entities. Each fund-of-one provides the Fund with fair value estimates of partnership interests and undergoes an annual independent audit. Many absolute return investments by their nature have no readily ascertainable market prices, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

The Fund holds private equity through investments in limited liability companies and limited partnerships that typically invest in unlisted, illiquid common and preferred stock and, to a lesser degree, subordinated and senior debt of companies that are in most instances privately held. The APFC has hired external advisors to select private equity holdings diversified by geography and strategy. Private equity is funded slowly over time as opportunities are identified by the external advisors and the underlying fund managers. The underlying private equity funds provide the Fund with fair value estimates of the investments utilizing the most current information available. In addition, the external advisors review the fair value estimates, and the underlying private equity funds undergo annual independent audits. Private equity investments by their nature generally have no readily ascertainable market prices, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets. There was no impairment recognized in FY2013. During FY 2012 it was determined that six private equity funds were impaired and would not recover their carrying costs over the remaining estimated holding period of the assets. In order to reflect the impairments in the statutory net income and fund balance classification, $25.7 million of unrealized losses were realized through a write-down of cost to fair value. The impairments have no impact on the carrying value of investments or on the net increase 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. The limited partnerships undergo annual independent audits. Infrastructure investments by their nature generally have no readily ascertainable market prices, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

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

Alternative investments at June 30 are summarized as follows:

		COST	FAIR VALUE	UNREALIZED HOLDING GAINS
2013				
Real return	$	2,715,569,000	3,061,731,000	346,162,000
Absolute return		2,297,612,000	2,640,327,000	342,715,000
Private equity		1,835,260,000	2,089,273,000	254,013,000
Infrastructure		814,351,000	852,643,000	38,292,000
Distressed and mezzanine debt		1,136,492,000	1,290,216,000	153,724,000
Total Alternative Investments	$	8,799,284,000	9,934,190,000	1,134,906,000
2012				
Real return	$	2,590,826,000	2,924,216,000	333,390,000
Absolute return		2,167,773,000	2,418,605,000	250,832,000
Private equity		1,524,201,000	1,712,867,000	188,666,000
Infrastructure		829,378,000	863,240,000	33,862,000
Distressed and mezzanine debt		1,074,563,000	1,163,583,000	89,020,000
Total Alternative Investments	$	8,186,741,000	9,082,511,000	895,770,000

As of June 30, 2013, the APFC, on behalf of the Fund, had outstanding future funding commitments of: $1.66 billion for private equity; $800.0 million for infrastructure; and $249.1 million for distressed and mezzanine debt investments combined. 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 represent 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.

Emerging market mandates at June 30 are summarized as follows:

		COST	FAIR VALUE	UNREALIZED HOLDING LOSSES
2013				
Emerging Markets Total Opportunities	$	914,233,000	806,805,000	(107,428,000)
2012				
Emerging Markets Total Opportunities	$	599,504,000	524,814,000	(74,690,000)

13. ALASKA CERTIFICATES OF DEPOSIT

State regulations and APFC investment policy authorize the APFC to invest Fund assets in certificates of deposit or the equivalent instruments of banks, savings and loan associations, mutual savings banks and credit unions doing business in Alaska. The certificates of deposit are secured by collateral consisting of letters of credit from the Federal Home Loan Bank or pooled mortgage securities issued by U.S. government sponsored enterprises.

In FY2013, APFC did not renew its certificates of deposit.

14. 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 marketable securities guaranteed by the U.S. government or a U.S. government agency. Under APFC's contract with the Bank, the Bank must mark the loaned securities and collateral to the market daily, and the loan agreements require the borrowers to maintain the collateral at not less than 102 percent of the fair value of the loaned securities for domestic securities (and non-domestic loaned securities denominated in U.S. dollars) and not less than 105 percent of the fair value for other non-domestic loaned securities. The APFC can sell securities that are on loan. 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, 2013, 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:

		2013	2012
Fair value of securities on loan	$	3,261,466,000	3,104,391,000
Cash collateral	$	3,451,974,000	3,334,722,000

The Fund receives 80 percent of earnings derived from securities lending transactions, and the Bank retains 20 percent. During the years ended June 30, 2013 and 2012, the Fund incurred no losses from securities lending transactions. The Fund received income of $10,839,000 and $6,691,000 from securities lending for the years ended June 30, 2013 and 2012, respectively, which is recorded in real estate and other income on the statements of revenues, expenditures and changes in fund balances.

15. 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:

	2013	2012
Accrued liabilities	$ 35,758,000	19,096,000
Securities purchased	822,608,000	733,821,000
Total Accounts Payable	$ 858,366,000	752,917,000

16. INCOME DISTRIBUTABLE TO THE STATE OF ALASKA

The Legislature appropriates portions of the Fund's statutory net income to the Permanent Fund Dividend Fund (Dividend Fund), a 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:

	2013	2012
Dividends	$ 568,337,000	565,290,000
Appropriation to the Departments of:		
Health and Social Services	17,475,000	16,825,000
Revenue	8,291,000	8,221,000
Corrections	10,047,000	14,890,000
Total to Dividend Fund	604,150,000	605,226,000
Alaska Capital Income Fund	29,585,000	17,081,000
Total Income Distributable	$ 633,735,000	622,307,000

17. FUND BALANCES

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

	2013	2012
NONSPENDABLE		
Balance, beginning of year	$ 38,252,477,000	37,832,394,000
Dedicated State revenues	840,121,000	915,098,000
Inflation-proofing transfer from assigned fund balance	742,563,000	1,073,117,000
Change in unrealized fair value appreciation (depreciation) on invested assets	964,381,000	(1,568,132,000)
Balance, End of Year	$ 40,799,542,000	38,252,477,000
ASSIGNED		
Balance, beginning of year	$ 2,080,582,000	2,307,820,000
Inflation-proofing transfer to nonspendable fund balance	(742,563,000)	(1,073,117,000)
Dividends paid or payable to the Permanent Fund Dividend Fund	(604,150,000)	(605,226,000)
Settlement earnings payable to the ACIF	(29,585,000)	(17,081,000)
Realized earnings, net of operating expenditures	2,957,419,000	1,585,129,000
Change in unrealized fair value appreciation/(depreciation) on invested assets	392,089,000	(116,943,000)
Balance, End of Year	$ 4,053,792,000	2,080,582,000
TOTAL		
Balance, beginning of year	$ 40,333,059,000	40,140,214,000
Dedicated State revenues	840,121,000	915,098,000
Dividends paid or payable to the Permanent Fund Dividend Fund	(604,150,000)	(605,226,000)
Settlement earnings payable to the ACIF	(29,585,000)	(17,081,000)
Excess/(deficit) of investment revenues over expenditures	4,313,889,000	(99,946,000)
Balance, End of Year	$ 44,853,334,000	40,333,059,000

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

	2013	2012
Dedicated State revenues	$ 14,510,442,000	13,670,321,000
Special appropriations	6,885,906,000	6,885,906,000
Inflation-proofing	15,065,949,000	14,323,386,000
Settlement earnings	152,911,000	152,911,000
Total Contributions and Appropriations	$ 36,615,208,000	35,032,524,000

On June 16, 2009, the Alaska Attorney General issued a legal opinion clarifying the accounting treatment of unrealized gains and losses. Based on the opinion, proportionate values of the unrealized appreciation or depreciation of invested assets should be allocated to nonspendable fund balances and assigned fund balances. As of June 30, 2013, the Fund's net unrealized gain was $4,751,559,000, of which $4,184,334,000 was allocated to the nonspendable fund balance and $567,225,000 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 $29,585,000 during FY 2013 and $17,081,000 during FY 2012.

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. Statutory net income is used to compute the amount available for the annual Permanent Fund dividend.

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 FY 2013 no impairments were recorded. During FY12, approximately $163 million of impairments were recorded.

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

	2013	2012
Excess (deficit) of revenues over expenditures	$ 4,313,889,000	(99,946,000)
Unrealized (gains) losses	(1,356,470,000)	1,685,075,000
Settlement earnings	(29,585,000)	(17,081,000)
Statutory Net Income	$ 2,927,834,000	1,568,048,000

19. INVESTMENT INCOME BY SOURCE

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

	2013	2012
INTEREST		
Marketable debt securities	$ 258,504,000	288,524,000
Alaska certificates of deposit	1,227,000	1,848,000
Short-term domestic and other	9,674,000	6,898,000
Total Interest	$ 269,405,000	297,270,000
Total Dividends	$ 531,486,000	476,365,000
REAL ESTATE AND OTHER INCOME		
Directly owned real estate net rental income	$ 164,688,000	155,719,000
Real estate investment trust dividends	12,283,000	11,089,000
Real return interest and dividends	27,075,000	26,641,000
Absolute return management expenses, net of dividend and interest income	(17,277,000)	(16,881,000)
Distressed and mezzanine debt interest income, net of fees	35,553,000	28,850,000
Infrastructure interest and dividend income, net of fees	29,180,000	2,615,000
Private equity management expenses, net of dividend income	15,532,000	(2,020,000)
Class action litigation income	2,689,000	1,695,000
Loaned securities, commission recapture and other income	11,283,000	7,059,000
Total Real Estate and Other Income	$ 281,006,000	214,767,000

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, 2013 ranged between one and 101 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, 2013 is limited to the difference between contractual rates and forward market rates determined at the end of the fiscal year.

Activity and balances related to FX forward contracts for fiscal years 2013 and 2012 are summarized as follows:

	2013	2012
BALANCES AT JUNE 30		
Face value of FX forward contracts	$ 1,681,427,000	2,712,297,000
Net unrealized holding gains (losses) on FX forward contracts	15,575,000	(9,633,000)
Fair Value of FX Forward Contracts	$ 1,697,002,000	2,702,664,000
ACTIVITY FOR FISCAL YEARS ENDING JUNE 30		
Change in unrealized holding gains (losses)	$ 25,084,000	(4,250,000)
Realized gains	38,526,000	47,696,000
Net Increase in Fair Value of FX Forward Contracts	$ 63,610,000	43,446,000

Certain APFC equity investment managers are permitted to trade in equity index futures for the Fund's account, and beginning in FY 2013, 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 years 2013 and 2012 are summarized as follows:

	2013	2012
BALANCES AT JUNE 30		
Face value of equity index futures	$ 138,182,000	124,318,000
Net unrealized holding gains on equity futures	781,000	12,280,000
Fair Value of Equity Index Futures	$ 138,963,000	136,598,000
ACTIVITY FOR FISCAL YEARS ENDING JUNE 30		
Change in unrealized holding gains (losses)	$ (11,428,000)	7,146,000
Realized gains (losses)	46,759,000	(25,045,000)
Net Increase (Decrease) in Fair Value of Futures	$ 35,331,000	(17,899,000)

Activity and balances related to U.S. Treasury index futures for fiscal years 2013 and 2012 are summarized as follows:

	2013	2012
BALANCES AT JUNE 30		
Face value of U.S. Treasury futures	$ 195,197,000	81,372,000
Net unrealized holding losses on futures	(1,355,000)	(932,000)
Fair Value of U.S. Treasury Futures	$ 193,842,000	80,440,000
ACTIVITY FOR FISCAL YEARS ENDING JUNE 30		
Change in unrealized holding losses	$ (425,000)	(932,000)
Realized gains (losses)	(4,080,000)	43,000
Net Decrease in Fair Value of U.S. Treasury Futures	$ (4,505,000)	(889,000)

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/(decrease) 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:

	2013	2012
APFC OPERATING EXPENDITURES		
Salaries and benefits	$ 6,159,000	5,302,000
Communications and electronic services	1,653,000	1,566,000
Consulting fees	1,612,000	532,000
Training, supplies, services and other	484,000	453,000
Rent	370,000	388,000
Travel	321,000	308,000
Legal and audit fees	316,000	244,000
Property and equipment	127,000	109,000
Public information and subscriptions	109,000	103,000
Subtotal APFC operating expenditures	11,151,000	9,005,000
INVESTMENT MANAGEMENT AND CUSTODY FEES		
Investment management fees	107,610,000	81,244,000
Custody and safekeeping fees	1,114,000	1,113,000
Subtotal investment management and custody fees	108,724,000	82,357,000
Total operating expenditures, investment management and custody fees	119,875,000	91,362,000
OTHER LEGISLATIVE APPROPRIATIONS FROM CORPORATE RECEIPTS		
Department of Natural Resources	5,585,000	5,460,000
Department of Law	1,478,000	1,477,000
Department of Revenue	90,000	88,000
Total other Legislative appropriations	7,153,000	7,025,000
Total expenditures	$ 127,028,000	98,387,000

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

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, 2013 and 2012 amounted to $4,222,000 and $3,618,000, 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, 2013 and 2012 amounted to $3,292,000 and $2,927,000, respectively.

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ALASKA PERMANENT FUND CORPORATION

2013 Annual Report

This publication on the activities and financial condition of the Alaska Permanent Fund is submitted in accordance with AS 37.13.170. This report was printed at a cost of $9.67 per copy by PIP Printing. Annual report design by Bradley Reid + Associates Inc.