Taking the Long-Term View

Annual Report 2012

Alaska Permanent Fund Corporation

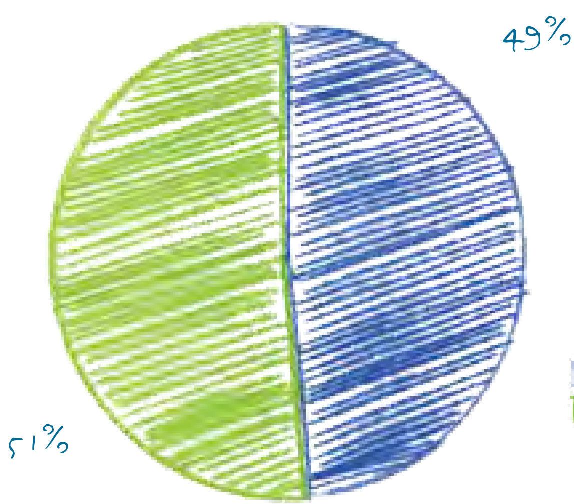
Annual Report 2012

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)



Paid out to Current Generations	$20.2
Saved for Future Generations	$20.6
Total	$40.8

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ALASKA PERMANENT FUND
Established 1976

Letter from the Chair

Board Members (from left); Steve Frank, William Moran (Chair), Bryan Butcher, Larry Hartig, Steve Rieger (Vice Chair), Carl Brady

When my fellow Board members and I consider the investments of the Permanent Fund, we take a long-term view. When I use this phrase, it has two different meanings. One aspect of the long-term view is that the Fund has the ability to sustain itself through short-term downturns and to take long-term positions in illiquid assets, as it does not have a set liability each year. The other aspect of the long-term view is the statutory direction to invest for both present and future generations. This means that we must ensure the Fund's health and productivity in the future, rather than focusing only on short-term returns.

Global markets were volatile during fiscal year 2012, and, as a result, the Permanent Fund's returns were essentially flat for that period. After paying the 2012 dividend, the Fund was up $193 million from last year, closing on June 30 at $40.3 billion. While it is certainly more pleasant to report on the Fund's performance in years of outstanding returns and growth, years like this illustrate the importance of taking the long-term view. The Fund's long-term success has outweighed short-term downturns, and, as a result, it can take them in stride. We do not rush to move out of affected markets; rather, we stick to our long-term asset allocation plans and rebalance in favor of the investment types with more growth potential.

This year, our portfolio structure worked exactly as it is designed to in difficult market conditions. The Fund's bond, real estate, private equity and real return portfolios all had solid returns for the fiscal year. These outweighed the low-to-negative returns from the Fund's stock portfolios. The resulting flat return is greatly preferable to a loss—which would have been the result had we been chasing the high returns of past years and weighted the Fund more toward stocks.

In contrast to the slim growth in its investments, this year the Permanent Fund received the highest annual mineral deposits to date: $915 million. However this new figure is slightly misleading, and, after some investigation, also highlights the importance of investing for the long term.

Today's significantly higher per-barrel oil prices, not increased production rates, produced this new record deposit. In fact, production now is at about a third of 1980's rates. While we all hope that advances in oil extraction technology and construction of a gas pipeline will extend our state's resource development revenue stream in the near term, the decline in production over the last 20 years shows what the future will eventually hold.

When the Permanent Fund was created, the end of the oil and gas revenue stream was a primary point of concern for Alaska's leaders. The supporting statement in the 1976 elections pamphlet stated that, just as a wise family saves for the future, Alaska should "set aside a rainy day fund to benefit this and future generations of Alaskans." The Permanent Fund was designed to turn a non-renewable mineral resource into a renewable financial resource that will provide steady returns for Alaskans in both the present and the years to come.

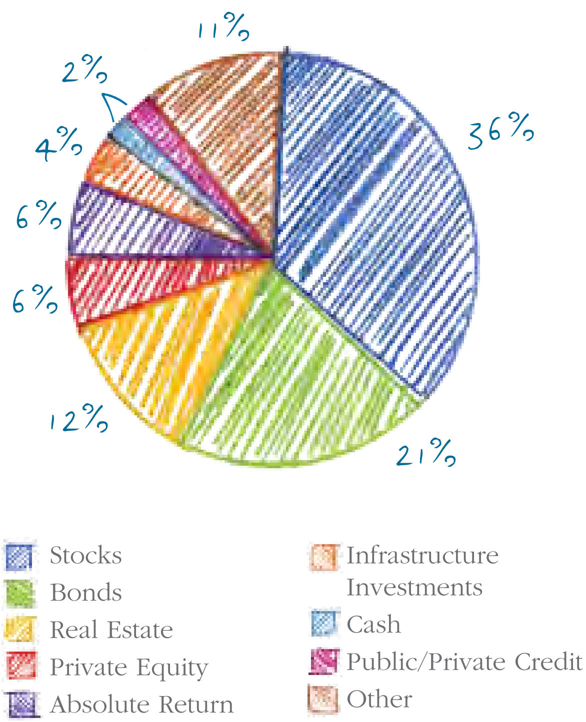
In accordance with this mission, the Trustees will continue to take the long-term view toward investments, and will not make hasty corrections based on short-term conditions, whether markets are up or down. Instead, we will work to ensure that the Fund is exactly as described on the sign outside our door: Permanent.

Sincerely,

William Moran

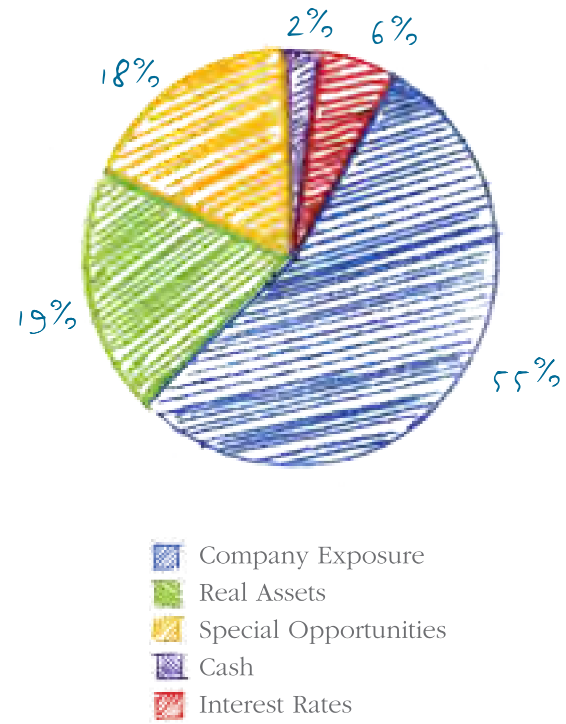
APFC Target Asset Allocation

By Traditional Asset Class for Fiscal Year 2012



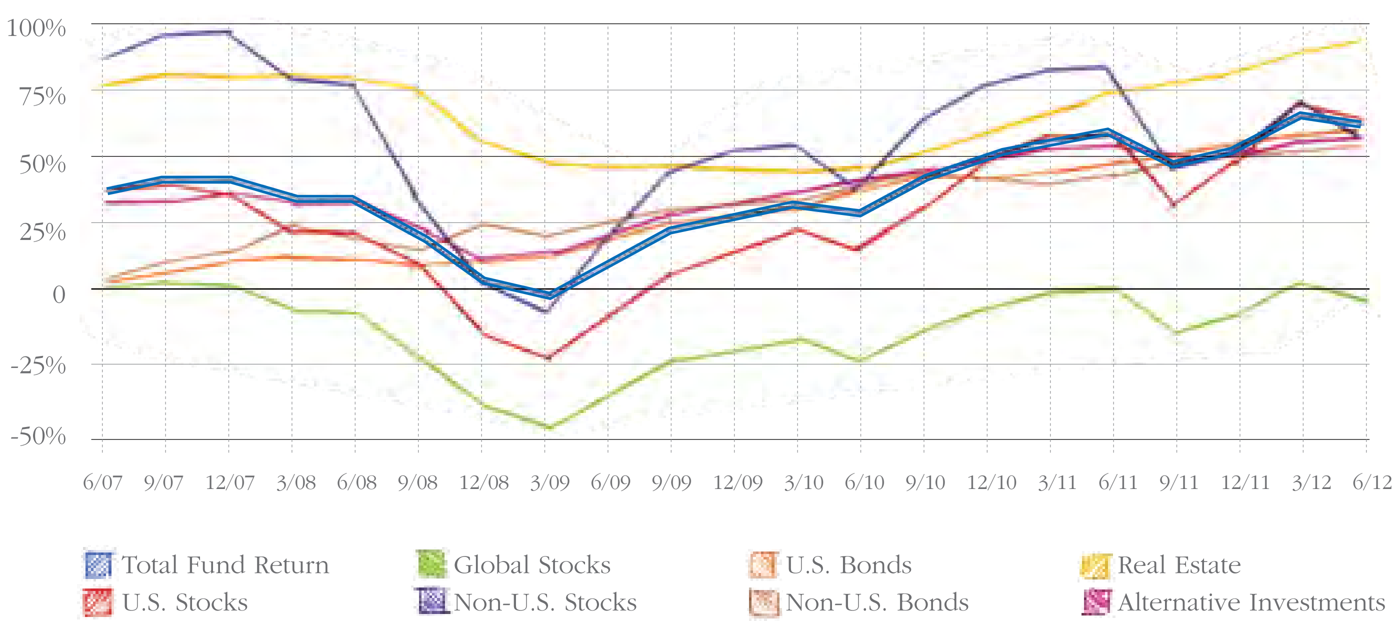
APFC Target Asset Allocation

By Economic Condition for Fiscal Year 2012

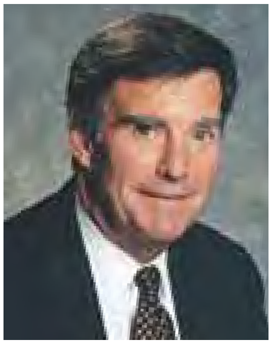


The Effects of Diversification

Five-Year Cumulative Return



Letter from the Executive Director



Fiscal year 2012 was a volatile time for the global stock markets, particularly for overseas markets. Stocks make up about half of the Fund's investments, so they have the greatest impact on our performance. The bond and real estate portfolios performed quite well over the course of the fiscal year, helping mitigate the poor performance from stocks and creating an essentially flat return for the Permanent Fund.

The Permanent Fund's investments returned -0.01 percent for the fiscal year ending June 30, 2012, outperforming the composite benchmark return of -0.2 percent. The ending Fund value was $40.3 billion, up $193 million from the end of the previous year.

In the first quarter of the fiscal year stock markets were sharply down, as a result of slow growth domestically and political and economic turmoil overseas. Markets then rallied in the second and third quarters, especially in the U.S. However, overseas markets were negatively affected by continuing woes, falling into double-digit losses in the fourth quarter. This created a net negative return for the stock portfolio despite positive returns in the U.S. markets. For the fiscal year, the Fund's U.S. stock portfolio returned 2.3 percent and the non-U.S. portfolio returned -14.6 percent, while the global portfolio returned -4.7 percent.

Continued concerns over the stability of Eurozone sovereign debt, along with slowed growth in emerging market countries, drove investors to the U.S. As a result, U.S. bonds returned 7.8 percent. Even non-U.S. bonds seemed a safe haven for investors compared to stocks, and that portfolio returned 6.5 percent.

Real estate also performed well over the year, and the Fund's investments returned 9.5 percent. We are pleased at how well real estate has performed during the downturn. The Permanent Fund is invested mainly in high quality properties, which have maintained their value throughout the cycle.

The Fund's absolute return portfolio was down at -1.4 percent for the fiscal year. This portfolio includes funds that specialize in absolute return strategies, distressed debt, mezzanine debt and other directed investments.

The real return portfolio returned 5.7 percent for the period. This portfolio is comprised of five portfolios, each with a manager able to set their asset allocation within the risk parameters set by the APFC. This allows them to select from the same range of asset types found within the rest of the Permanent Fund. Private equity returned 9.8 percent for the fiscal year and infrastructure returned -8.4 percent.

The Permanent Fund earned $1.6 billion in statutory net income in fiscal year 2012. The statutory net income is comprised of rent from the Fund's real estate properties, dividends from stocks, interest from bonds and any net gains from the sale of assets. The annual dividend is determined utilizing a statutory calculation based on a five-year average of statutory net income. Based on that calculation, APFC transferred $605 million to the Permanent Fund Dividend Division for the fall dividend payment. The dividend distribution transfer in 2011 was $801 million.

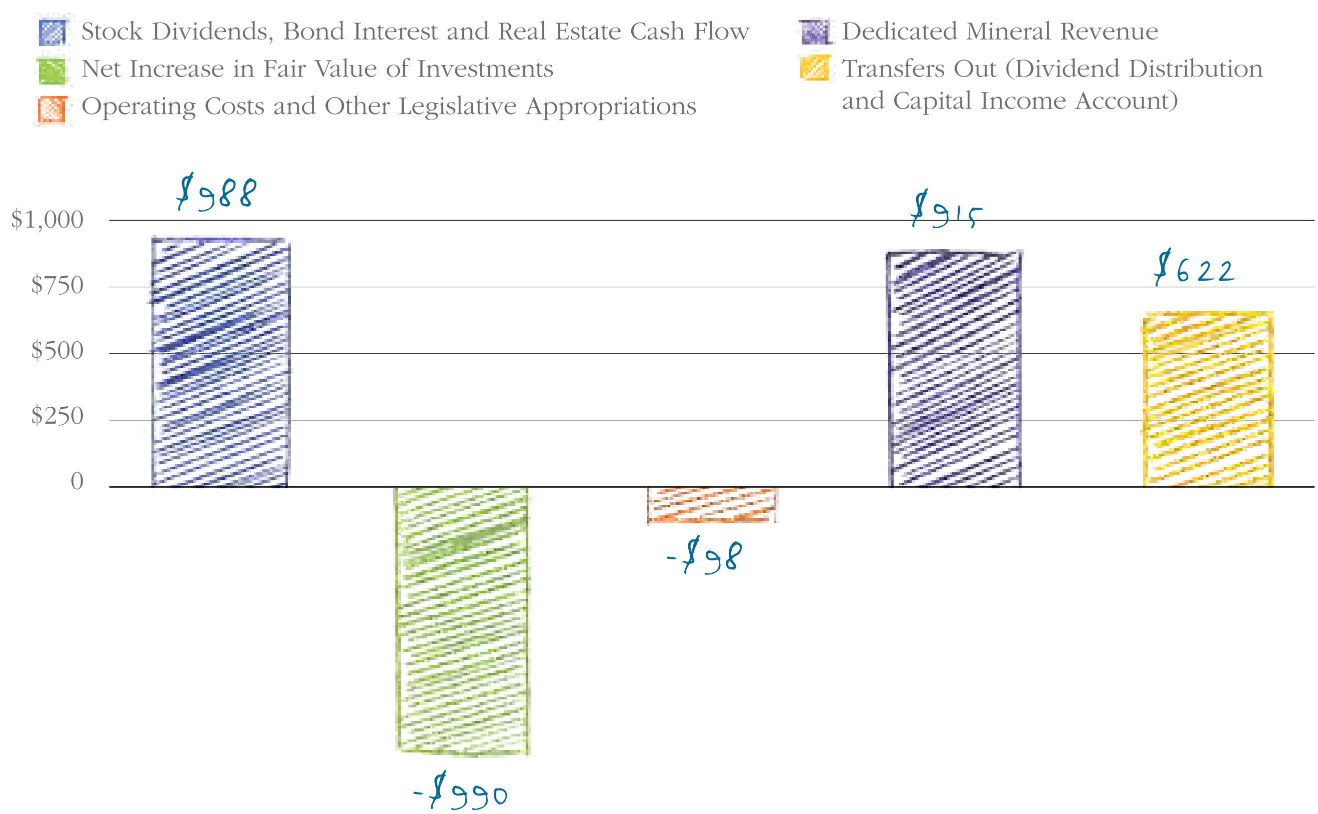
Departures during the last year paved the way for new arrivals at the APFC this year. Jay Willoughby joined the Corporation as our Chief Investment Officer. Other additions to the team were Maria Skuratovskaya, Fixed Income Portfolio Manager, and Tracy Campbell, IT Technology Specialist. Fawad Razzaque came on board as the Public Equities Portfolio Manager when Maria Tsu shifted to a new position as Director of Private Market Investments. We welcome all of these new members to the APFC.

Sincerely,

Michael J. Burns

Sources of Change in Fund Value

Fiscal 2012 (In Millions)

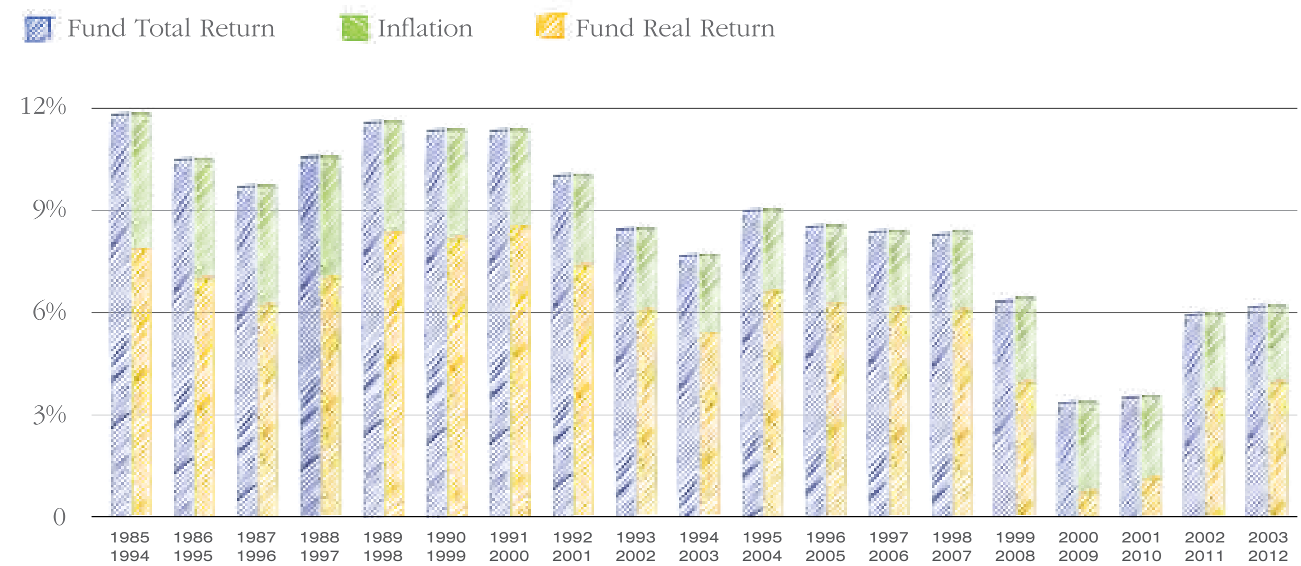


Investing for the Long Run

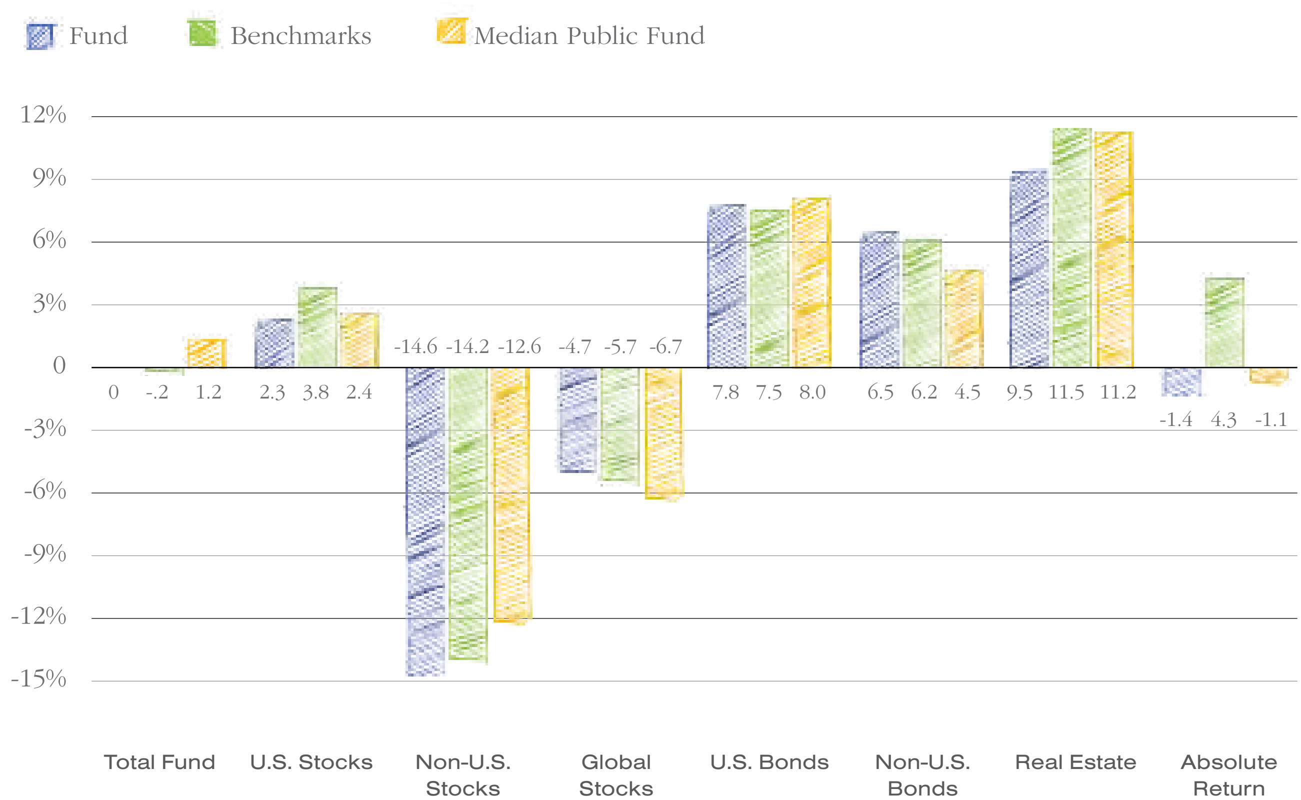
The Board of Trustees' statutory direction is to generate the maximum return while protecting principal. To meet both of these objectives, the Board sets an asset allocation that is designed to provide a five percent real rate of return over time with a prudent level of risk.

Rolling 10-Year Return

Annualized Returns for Period Ending June 30

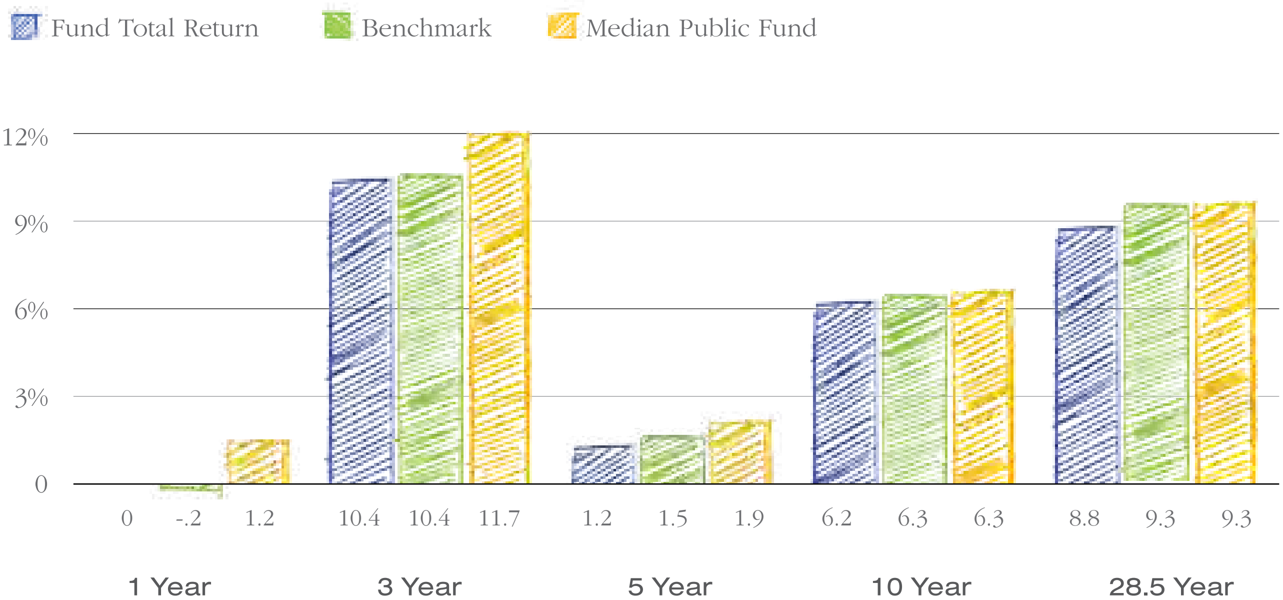


Fund Fiscal 2012 Performance



Fund's Long-Term Investment Performance

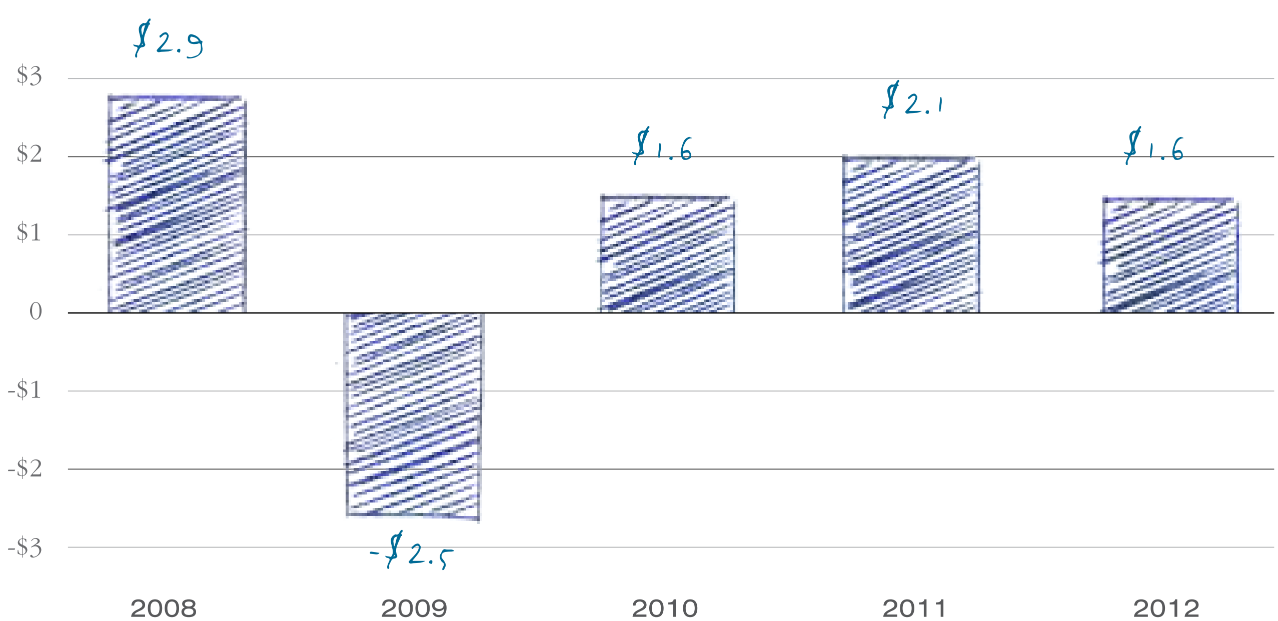
Annualized Returns for Period Ending June 30, 2012



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

Bonds

U.S. and non-U.S. bonds generated positive performances for all four quarters of fiscal year 2012, despite challenging conditions. Although the downgrade of U.S. Treasury securities was a cause for concern, the continued European debt crisis and fears of a European Union collapse made U.S. Treasuries look safe by comparison. Emerging market debt faced growing inflation and lowered demand for the exports of these countries due to the ongoing economic troubles in developed economies. Turmoil and sharp losses in the stock markets, especially at the beginning and end of the fiscal year, drove investors toward the relative safety of bonds.

U.S. Bonds

The Fund's U.S. portfolio was a strong performer, returning 7.8 percent for the fiscal year and ending with a value of $5.8 billion. Most portfolios are managed internally, according to their individual sector benchmark. The $2.6 billion corporate bond portfolio returned 9.6 percent, versus the Barclays U.S. Investment Grade corporate bond index of 9.7 percent. The $600 million internally managed Treasury Inflation Protected Securities (TIPS) component returned 11.6 percent. Alaska Permanent Capital Management's TIPS portfolio returned 11.3 percent and ended the fiscal year with a value of $589 million. Both portfolios slightly trailed the Barclay's Capital U.S. TIPS benchmark return of 11.7 percent. U.S. high yield bonds had positive returns, with Oaktree's $384 million high yield portfolio returning 8.4 percent, and Cap Guardian's $199 million mandate returned by 4.9 percent during the fiscal year. The Barclay's Capital Global High Yield index returned 6.5 percent for that period. The Fund's $1.1 billion U.S. Government portfolio was up 5.8 percent, but lagged behind the Barclays U.S. Treasury Index return of 9.0 percent. This was primarily due to the portfolio's role as the duration balancing portfolio for the Fund's other fixed income strategies over this time period. This portfolio will perform much more similarly to its benchmark next year, after the introduction of Treasury futures discussed below.

Non-U.S. Bonds

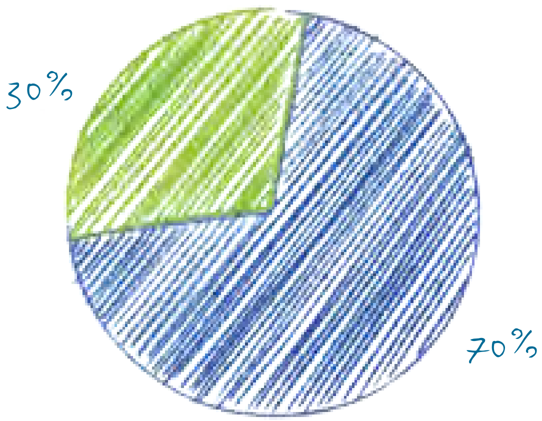
The Permanent Fund's $1.8 billion non-U.S. portfolio returned 6.5 percent, ahead of the Barclay's Capital Global Treasury ex-U.S. benchmark return of 6.2 percent for the fiscal year. Global Asset Management's mandate returned 5.6 percent and ended the fiscal year with a value of $216 million, while Rogge Asset Management's $441 million portfolio returned 7.3 percent. This was the first full fiscal year in which the Permanent Fund was invested in emerging market debt. Capital Guardian's High Yield Emerging Market Debt portfolio returned 1.2 percent, trailing behind the composite benchmark return of 10.5 percent. This underperformance was primarily due to the portfolio being over-weighted towards Turkey and Argentina, compared to the composition of the benchmark.

Treasury Futures

Organizing the Fund's assets by risk class rather than traditional asset class was an important change in our risk management strategy, but it required separating the Fund's fixed income investments into four separate categories: corporate bonds in the Corporate Exposure group; government bonds and MBS in the Interest Rate group; Treasury Inflation Protected Securities (TIPS) in the Real Assets group; and CMBS in the Special Opportunities group. This made it difficult for APFC's internal fixed income team to manage their government holdings; they needed to use these holdings to balance duration in the other fixed income groups. In order to address these issues, the fixed income team implemented a U.S. Treasury futures program in the spring of 2012. The introduction of futures allows the internal fixed income team to better manage duration and curve risk within each portfolio, and to achieve the returns of our benchmark in the U.S. Government portfolio. Treasury futures are very liquid, and APFC keeps all positions fully collateralized and free of leverage.

Bond Portfolio

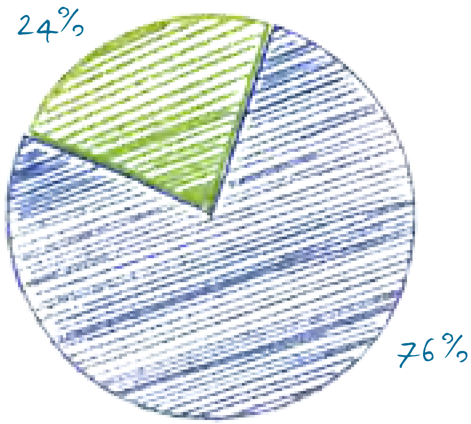
By Internal vs. External Management as of June 30, 2012 (In Billions)



Internally Managed	$5.3
Externally Managed	$2.3
Total	$7.6

Bond Portfolio

By Region as of June 30, 2012 (In Billions)



U.S. Bonds	$5.8
Non-U.S. Bonds	$1.8
Total	$7.6

Bond Portfolio

By Security Type as of June 30, 2012 (In Billions)

U.S. Corporates	$2.8
U.S. Treasury Notes and Bonds	$2.1
Non-U.S. Government	$1.2
Mortgage-Backed	$0.7
CMBS	$0.3
Non-U.S. Corporates	$0.5
Total	$7.6

Stocks

For the fiscal year ended June 30, 2012, the Permanent Fund's stock portfolio returned -6.4 percent, in line with its benchmark MSCI All Country World Index. A slight overweight to U.S. stocks in the portfolio helped overall performance, as U.S. stocks were the only ones to generate positive absolute returns. International developed and emerging markets delivered double digit negative returns. Heightened concerns over the stability of Europe's monetary union and fear of a significant slowdown in China's growth rate drove investors away from world stock markets and into perceived safe havens, such as U.S., Japanese, Swiss and German government bonds. However, for those still investing in the stock markets, investors significantly favored U.S. stocks because they perceived the U.S. to be relatively less impacted by concerns over Europe and China. The Fund's stock portfolio is designed to preserve capital and outperform in down markets while simultaneously maintaining a reasonable performance pace in up markets; it achieved this aim in fiscal year 2012.

U.S. Stocks

For the fiscal year, the Permanent Fund's $6.2 billion U.S. stock portfolio returned 2.3 percent, underperforming the Russell 3000 index by 1.5 percent. Within the U.S. portfolio, large cap companies performed significantly better than their small cap counterparts, and growth stocks outperformed value stocks. Both the active and the quasi-passive allocations lagged behind their respective benchmarks.

Non-U.S. Stocks

For the fiscal year, the Fund's $6.6 billion international stock allocation declined -14.6 percent as compared to the -14.2 percent of the MSCI All Country World ex US index, modestly underperforming in relation to the benchmark. Developed international stocks performed somewhat better than the index while emerging markets lagged. Within developed international stocks, large cap companies outperformed small cap companies. In aggregate, investors significantly favored defensive and lower volatility strategies, moving away from cyclical and economically sensitive areas of the market.

The Fund's $4.7 billion developed international equities returned -13.8 percent, which is in line with the -13.8 percent return of the MSCI EAFE index. The majority of the Fund's international strategies performed in line with their benchmarks, though managers with lower beta strategies performed better than the quasi-passive value tilted strategies, which lagged behind their broader indices.

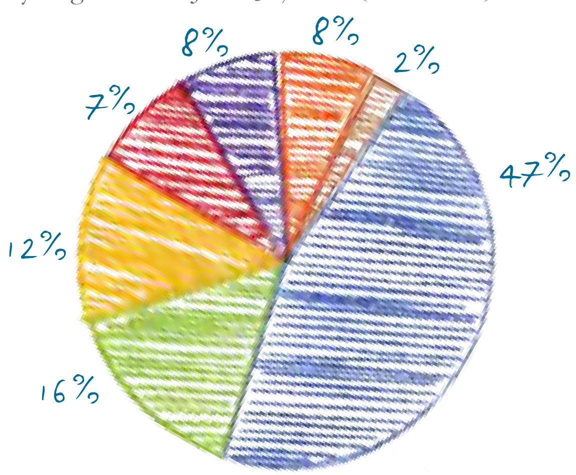
Emerging market stocks lagged slightly behind those of developed international countries. The Fund's portfolio returned -16.3 percent, trailing the -15.7 percent return of the MSCI EM index, and ended the fiscal year with a value of $1.9 billion. With few places to hide in emerging markets, value-oriented and defensive strategies suffered the smallest losses while aggressive strategies underperformed.

Global Stocks

The Fund's $4.6 billion global stock mandate lost - 4.7 percent, as compared to the loss of -5.0 percent of the MSCI World index, and thus modestly outperformed its benchmark for the fiscal year. Active managers with strategies emphasizing quality or quality/value performed the best in this category. On the other hand, the market environment was unfavorable for momentum growth-oriented managers, some of whom underperformed significantly.

Stock Portfolio

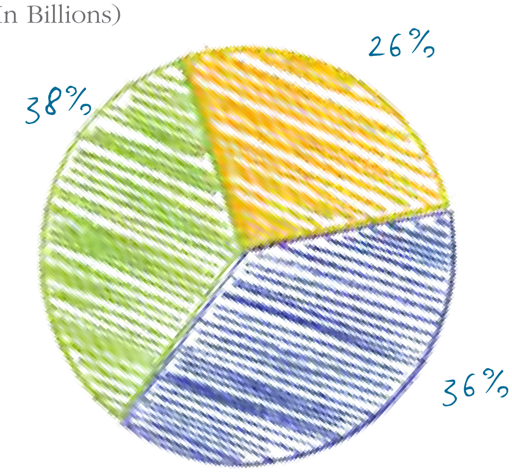
By Region as of June 30, 2012 (In Billions)



U.S.	$8.2	Japan	$1.4
Europe (ex UK)	$2.8	Americas	$1.3
Asia (ex Japan)	$2.1	Other	$0.3
UK	$1.3		
Total			$17.4

Stock Portfolio

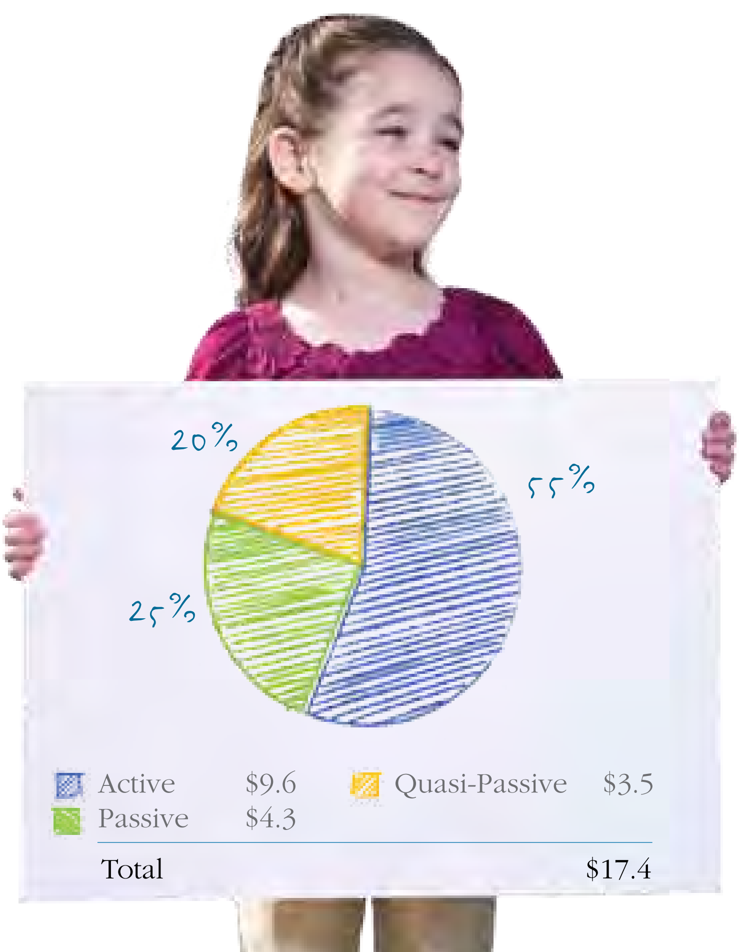
By Regional Mandate as of June 30, 2012 (In Billions)



U.S. Stocks	$6.2
Non-U.S. Stocks	$6.6
Global Stocks	$4.6
Total	$17.4

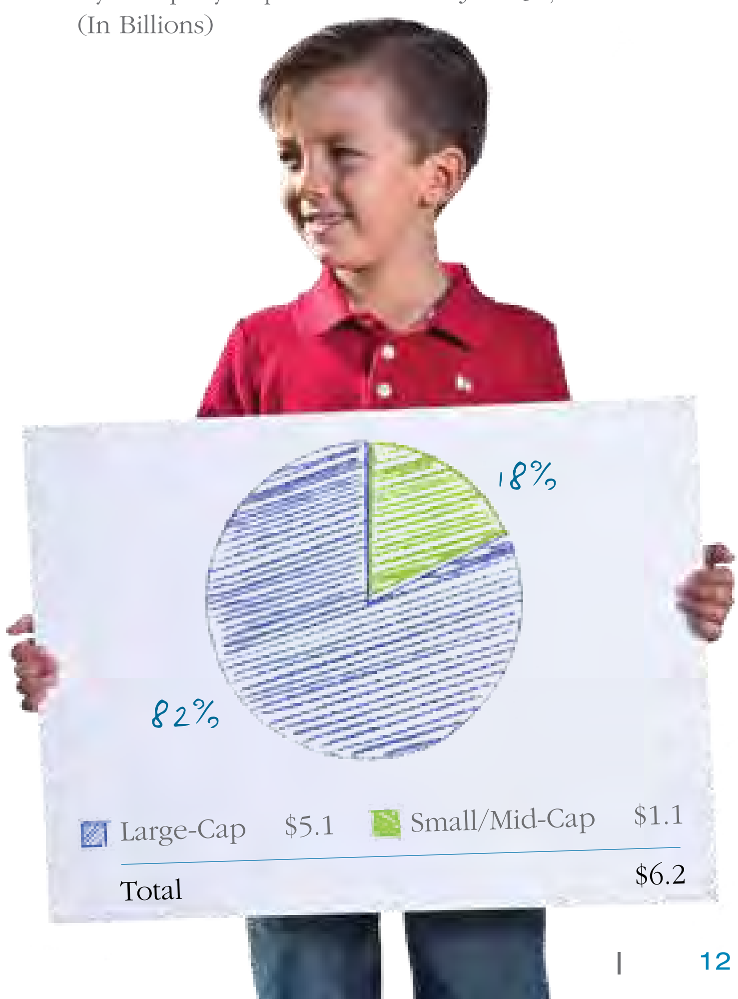
U.S. Stock Portfolio

By Active and Passive Management Styles as of June 30, 2012 (In Billions)



U.S. Stock Portfolio

By Company Capitalization as of June 30, 2012 (In Billions)



Real Estate

The Permanent Fund's real estate portfolio performed well again this year in absolute terms, returning almost 9.5 percent for the fiscal year ending June 30, and finishing the year with a value of $4.4 billion. The blended benchmark returned 11.5 percent for the fiscal year. The high quality, directly-owned portion of the real estate portfolio had solid returns of 10.0 percent for the year, while the performance of our Global REIT allocation slowed from prior years but remained positive, contributing 4.5 percent for the year. Real estate, especially U.S. real estate, continued its positive performance from the previous year through fiscal year 2012. By the end of the fiscal year, the NCREIF Property Index had accumulated 10 straight quarters of positive returns, with transactions nearing pre-recession levels. Similarly, the global REIT index returns remained positive, though weakness in the U.S. economy did cause returns to be lower than those of the previous fiscal year.

Private Real Estate

The Fund's $3.4 billion direct real estate portfolio returned 10.0 percent, trailing the NCREIF NPI return of 12.0 percent for the fiscal year.

The Permanent Fund owns 49 individual properties across the U.S. APFC was able to take advantage of the increased transaction volumes during fiscal year 2012, selling five multi-family properties and three office properties at attractive prices. The Fund also acquired five high quality properties in prime locations. Parc Huron is a new luxury boutique apartment building in Chicago, IL. 299 Park Avenue is a fully rented high-rise office building in New York, NY and is connected to Grand Central Station via tunnel. Three mixed-use retail/office buildings were purchased in the CityCentre development in Houston, TX. CityCentre is a "work, live, play" development that combines office, residential and retail space in one location.

The APFC's predominantly core portfolio performed less robustly than the assets in the NCREIF universe during the recovery period. This was expected given the portfolio's conservative nature. However, this core focus worked to its advantage during the downturn that began in 2008, when it significantly outperformed the index. Going forward, the portfolio is expected to continue providing positive, if subdued, returns. This is especially true for the office sector, where leasing rates have not returned to prior levels, and will likely remain weak until the broader economy improves.

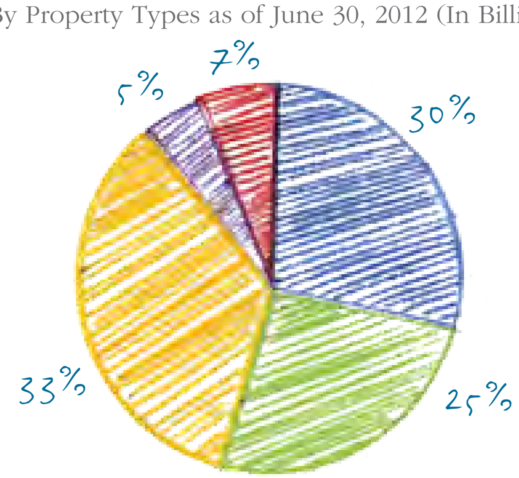
Simpson Housing L.L.L.P., a real estate operating company in which the Permanent Fund is an investor with the State of Michigan Retirement System, returned 9.6 percent and ended June 30 with a value of $707 million. Simpson develops, owns, and manages multi-family residential properties throughout the United States. Part of the value of this investment is in the management company, which is over and above the value of the underlying real estate assets. Due to the current increased institutional demand for multi-family properties, recent Simpson activity includes $82 million invested in five new development projects.

Public Real Estate

REITs had a mixed year, starting and ending fiscal year 2012 with difficulties but performing well in between. AEW Capital Management's global REIT portfolio returned 4.5 percent for the period, ahead of the 4.1 percent return of the UBS Global Investors REIT index. The portfolio ended the fiscal year with a value of $318 million.

Real Estate Portfolio

By Property Types as of June 30, 2012 (In Billions)

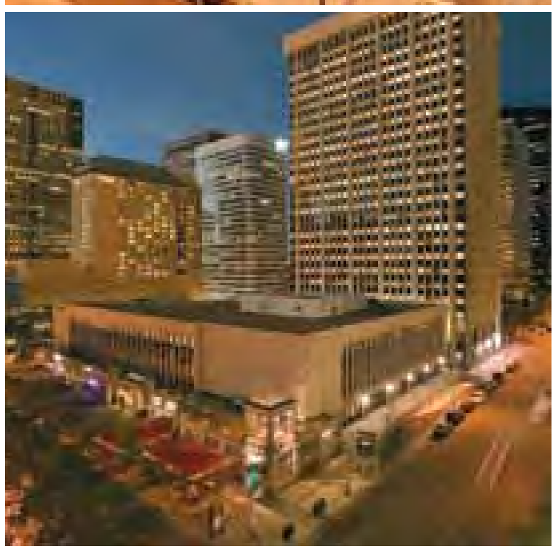


Retail	$1.3
Multi-family	$1.1
Office	$1.5
Industrial	$0.2
REITs	$0.3
Total	$4.4

Top Left:
Bent Tree Apartments, Centreville, VA

Bottom Left:
CityCentre, Houston, TX

Right:
Parc Huron, Chicago, IL



Left:
299 Park Avenue, New York, NY

Top Right:
Independence Plaza, Denver, CO

Bottom Right:
Crate & Barrel, McLean, VA

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, as well as private debt investments, such as loans extended to companies outside of traditional bond markets.

Private Equity

Pathway Capital Management and HarbourVest Partners, LLC are the Fund's private equity managers. Both firms manage discretionary, broadly diversified, global mandates. During fiscal year 2012, the two managers committed $508 million to 31 new private equity partnerships. This brings the total amount committed to this asset class to $3.6 billion. Of this committed amount, $2.1 billion has been drawn down for private equity investments and $615 million has been distributed back to the Fund. The Permanent Fund's private equity program returned 9.8 percent for the fiscal year, well ahead of its custom benchmark return of -3.5 percent for that period.

Infrastructure

The Permanent Fund has commitments to four infrastructure funds: Citi Infrastructure Partners, L.P. (CIP), Global Infrastructure Partners, L.P. (GIP), Global Infrastructure Partners II, L.P. (GIP II) and Goldman Sachs Infrastructure Partners II, L.P. (GSIP II). For fiscal year 2012, the Fund's infrastructure portfolio returned -8.4 percent and ended the year with a value of $863 million. The portfolio was hurt this year by weak economic conditions outside the U.S. For comparison purposes, note that publicly traded infrastructure stocks also suffered this year, with the MSCI World Infrastructure Index returning -2.1 percent. Excluding U.S. infrastructure stocks, the MSCI EAFE Infrastructure index returned -14.2 percent.

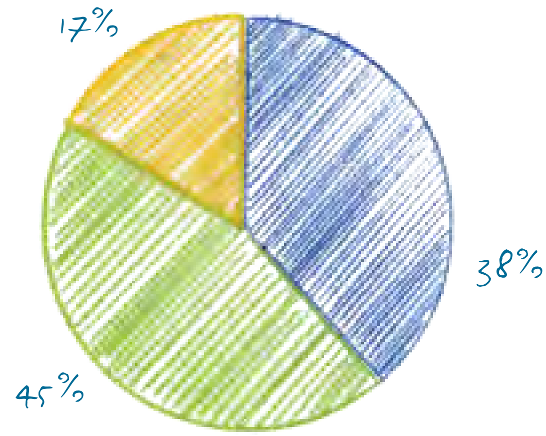
Infrastructure investments can generally be described as critical service assets with high barriers to entry, such as toll roads, airports, regulated utilities and pipelines. The Permanent Fund has committed to partnerships that have made investments around the world, including in the U.S., United Kingdom, Finland, Spain, Switzerland, Australia, Canada, Argentina and India. Acquisitions by these partnerships during this fiscal year included Chesapeake Midstream Partners, a U.S. midstream gas pipeline; Edinburgh Airport; Metropistas, which operates a toll road in Puerto Rico; Transitgas, a Swiss natural gas pipeline; and Finnish electricity distribution company Vattenfall Oy.

Public/Private Credit

The Fund has three public/private credit managers: Crestline Investors, Inc., Oaktree Capital Management and Audax Management Company. Crestline manages a public/private credit strategy whereby they invest in both public and private credit. Public credit investments include high yield bonds and syndicated bank loans. Distressed debt, mezzanine debt and loan origination strategies are all examples of private credit opportunities. As part of their mandate, Crestline allocates capital based on where they see opportunities, and re-invests earnings in new public or private credit investments. For the fiscal year, Crestline's portfolio returned 6.2 percent and ended June 30 with a value of $760 million. The global high yield index returned 6.5 percent for the same period. The other two managers, Oaktree Capital and Audax, each manage mezzanine debt strategies, in which loans are made to private companies being acquired by other private equity fund managers. The Fund has committed $250 million to each manager, of which a portion has been deployed, and, as of fiscal year end, the combined portfolios were valued at $137 million. These mezzanine debt portfolios are in the early stages of development so their performance is not yet meaningful.

Infrastructure Investments

By Sector as of June 30, 2012 (In Millions)



Energy	$328
Transportation	$388
Water/Waste Management	$147
Total	$863

Alternative Investments and Special Opportunities

Absolute Return and Distressed Debt

Absolute return strategy mandates are constructed from a variety of securities selected to achieve a target return within defined risk limits. Three firms manage absolute return mandates for the Permanent Fund: Crestline Investors, Inc., Lazard Asset Management and Mariner Investment Group. The Permanent Fund's absolute return portfolio returned -0.5 percent for the fiscal year, behind the LIBOR plus 4 percent performance objective of 4.3 percent, and ended the period with a value of $2.4 billion.

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 some corresponding risk during either a reorganization or liquidation of assets. Oaktree Capital Management completed the investment of the Fund's distressed debt allocation over the course of this year. The $273 million portfolio gained 2.8 percent for the fiscal year, compared to the return of the LIBOR plus 6 percent return objective that returned 6.3 percent.

Other Multi-Asset Strategies

Real Return

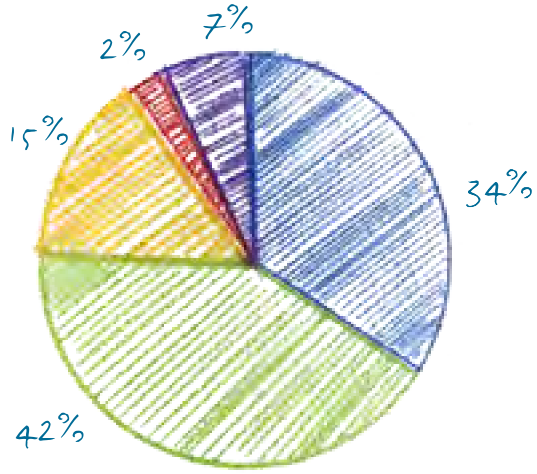
Real return managers create a fund comprised of the full range of liquid asset classes in the Permanent Fund. They have the same over-arching risk and return guidelines as the Fund, but are allowed to set their own internal asset allocation. The five managers in the program are AQR Capital Management, Bridgewater Associates, Goldman Sachs Asset Management, GMO LLC and Pacific Investment Management Company (PIMCO). The program's return for the fiscal year was 5.7 percent, and it ended June 30 with a total value of $2.9 billion. For the same period, the Consumer Price Index plus 5 percent, the long-term return objective, returned 6.7 percent.

Emerging Markets

At the end of the previous fiscal year, the APFC added two emerging market multi-asset class mandates. These portfolios invest across the spectrum of liquid emerging market 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. Capital Guardian Trust Company's portfolio returned -5.8 percent, ending the fiscal year with a value of $180 million, while PIMCO's $344 million mandate returned -11.7 percent for that period. Both managers lagged behind their return objective of T-bills + 8 percent, and a 50/50 blended return of emerging market stocks and bonds which lost -3.3 percent.

Absolute Return Investments

By Fund Type as of June 30, 2012 (In Millions)



Absolute Return	$2,419
Real Return	$2,924
Distressed Debt & Credit Opportunities	$1,026
Mezzanine Debt	$137
Emerging Market Opportunities	$525
Total	$7,031

Left to Right:
Samin Peirovi
Qingjai Li
Anton Gorodniuk (Top)
Daniel Grondahl (Bottom)

1988 - 2012

Celebrating 25 Years of Internships for Alaska Students

2012 marks 25 years of the APFC Intern Program: a productive collaboration among our managers and Alaska's universities and Alaska students. We at APFC are so pleased to recognize the people and companies that have been a part of this wonderful program since its inception over a quarter century ago!

First and foremost, we would like to recognize the APFC Managers who have welcomed these students into their workplaces for over 25 summers and provided students with experience working in world-class financial firms. We are also grateful to the professors and staff of Alaska's universities who have actively supported and promoted this program. And of course, APFC is very proud of the Alaska students themselves, who have leveraged these superb opportunities and made valuable contributions to the firms that hired them.

These 25 years span a full generation, as illustrated by our very first 'second generation' intern. Mingjun Zhu of Fairbanks attends the University of North Carolina and is majoring in Finance and Economics. This summer, Mingjun is working for APFC advisor L&B Realty Advisors in Dallas. Her mother, UAF graduate Lijie Zhu, was an APFC intern at Rogge Global Partners in London in 2006.

APFC Thanks Our 2012 Participating Managers

Rogge Global Partners	L&B Realty Advisors, LLP
RCM Global Investors	Alaska Permanent Capital Management
McKinley Capital Management	LaSalle Investment Management

"This summer has been the learning opportunity of a lifetime. I have had the pleasure to work with some of the best in the industry and I am confident that this experience will help me start my career after school."

Matthew Bottini
University of Idaho, Finance/Accounting undergraduate
2012 RCM Capital Management intern, San Francisco, CA

Esa Wiegert

Tyler Norrish

"Working at Rogge has been a great experience. As an analyst intern, I was given the opportunity to evaluate companies, and update databases to help analyze products."

Samin Peirovi
University of Arizona, Economics undergraduate
2012 Rogge Global Partners intern, New York, NY

Olivia Mendoza

Kristina Repcinova

"My internship with LaSalle Investment Management was an invaluable experience. I am grateful to both the APFC and LaSalle Investment Managers for such a rewarding opportunity."

Mitchell Titus
University of Alaska Fairbanks, Mechanical Engineering/ Economics undergraduate
2012 LaSalle Investment Managers intern, Baltimore, MD

The Permanent Fund is all about numbers. So, in that spirit, here are a few interesting program numbers compiled since 1998:

293
overall internships served

72%
of internships served by students attending college in Alaska

44
external management firms that provided internships

32%
of internships actually served in Alaska (with APFC and our Alaska managers)

Management's Discussion and 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, 2012 and June 30, 2011. 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 them.

Financial Highlights

- In fiscal year ("FY") 2012, the Fund ended nearly flat with a total investment return of -0.01 percent, the flattest return in the history of the Fund. The closest to the FY 2012 return was a 1.48 percent return in FY 1994. Despite the fact that financial markets experienced a fair amount of volatile movements (both up and down), the overall measurement from July 1, 2011 through June 30, 2012 turned out to be negligible.

- FY 2012's deficit of revenues over expenditures (net loss) was $99.9 million, a stark contrast to FY 2011, which had the highest net income in the history of the Fund at $6.8 billion.

- 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 2012 rolling average changed significantly from FY 2011 because the oldest year's (FY 2007's) statutory net income of $3.4 billion was replaced by FY 2012 statutory net income of $1.6 billion, a decrease of approximately 53 percent. Because the formula is a five-year average, and one half of that amount is paid out for dividends, the total dividend payment decreased by 24 percent, from $801 million in FY 2011 to $605 million in FY 2012.

- The portion of dedicated State of Alaska revenues deposited into the principal of the Fund is based on mineral prices and production. In FY 2012, the deposits came in above FY 2011's deposits by 3.2 percent. With dedicated revenue deposits of $915 million, FY 2012 had the highest mineral revenue deposits in the history of the Fund, followed by FY 2011 in second place with $887 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 2012, the inflation rate was 3.16 percent and $1.07 billion was transferred to the nonspendable fund balance for inflation proofing. In FY 2011 the inflation rate was only 1.64 percent, so less than half of FY 2012's inflation proofing transfer was made in FY 2011 at $533 million. FY 2012's inflation proofing amount is slightly less than the highest in the history of the Fund, which was $1.14 billion in FY 2009, calculated based on a 3.84 percent inflation rate.

- Privately traded alternative assets continued to grow as a percentage of Fund investments, increasing by more than 10 percent this year. During FY 2012 the APFC made a new $350 million commitment to Global Infrastructure Partners II. As of June 30, 2012, APFC had total commitments to private equity of $3.6 billion as compared to one year prior when commitments were $3 billion, which equates to a 20 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, 2012, as well as the prior fiscal year's ending balances at June 30, 2011.

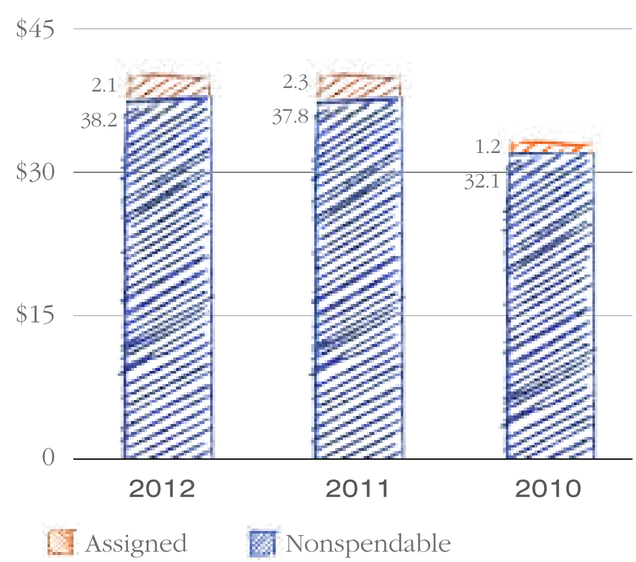
Assets are grouped into broad categories for ease of readability and analysis. Receivables include cash not yet received from the sale of investments, as well as dividends and interest receivable from stock and bond holdings. Real estate assets shown on the Balance Sheets include direct investments in 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 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 (95 percent as of June 30, 2012) 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 declined slightly from FY 2011 to FY 2012, from $2.3 billion to $2.1 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 2012, the amounts contributing to the net decrease of approximately $227 million in the assigned fund balance were (i) realized income of $1.6 billion, (ii) the dividend payout of $605 million, (iii) the inflation proofing transfer of $1.07 billion, and (iv) the allocation of a portion of unrealized gains and losses, which decreased from FY 2011 to FY 2012 by $117 million, to a balance of $175.1 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 2012 and FY 2011.

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

Management's Discussion and Analysis (cont.)

produced only through the sale of investments, while unrealized gains and losses are the result of changes in the fair value of investments without a sale of those investments. Realized and unrealized gains and losses are summarized by asset class to match the groupings on the Balance Sheets and represent the total net increase or decrease for the year in each asset category.

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

Dedicated State revenues transferred into the Fund's principal are based on a percentage of mineral revenues that the State receives. Transfers out of the Fund are to pay (i) the Permanent Fund dividend per Alaska Statutes section 37.13.145(b) and (ii) the annual deposit to the Alaska Capital Income Fund (ACIF) per Alaska Statutes section 37.13.145(d).

Notes to the Financial Statements

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

Financial Statement Analysis

This section of the MD&A is intended to provide an analysis of past fiscal years' activities and specific contributors to changes in the net assets of the Fund. The fund balance serves to provide a gauge of the financial strength of the Fund. While assets of the Fund exceeded liabilities each year by double-digit ratios (excluding securities lending collateral, held separately by the custodian for repayment to the borrower upon a loan's completion), the nonspendable fund balance is unavailable for appropriation. The table set forth on the next page was derived from the Balance Sheets of the Fund, and provides a comparison of the change between balances of June 30, 2012 and 2011.

Balance Sheets as of June 30

		2012	2011	Net Change	%
Assets					
Cash and temporary investments	$	1,995,551,000	1,659,878,000	335,673,000	20%
Receivables, prepaid expenses and other assets		506,803,000	574,715,000	(67,912,000)	(12)%
Investments		39,205,929,000	39,388,020,000	(182,091,000)	–
Securities lending collateral invested		3,334,722,000	3,617,520,000	(282,798,000)	(8)%
Total Assets	$	45,043,005,000	45,240,133,000	(197,128,000)	–
Liabilities					
Accounts payable	$	752,917,000	668,995,000	83,922,000	13%
Income distributable to the State of Alaska		622,307,000	813,404,000	(191,097,000)	(23)%
Securities lending collateral		3,334,722,000	3,617,520,000	(282,798,000)	(8)%
Total Liabilities		4,709,946,000	5,099,919,000	(389,973,000)	(8)%
Fund Balances					
Nonspendable:					
Permanent Fund corpus - contributions and appropriations		35,032,524,000	33,044,309,000	1,988,215,000	6%
Not in spendable form - unrealized appreciation on invested assets		3,219,953,000	4,788,085,000	(1,568,132,000)	(33)%
Total Nonspendable		38,252,477,000	37,832,394,000	420,083,000	1%
Assigned for future appropriations:					
Realized earnings		1,905,446,000	2,015,742,000	(110,296,000)	(5)%
Unrealized appreciation on invested assets		175,136,000	292,078,000	(116,942,000)	(40)%
Total Assigned		2,080,582,000	2,307,820,000	(227,238,000)	(10)%
Total Fund Balances		40,333,059,000	40,140,214,000	192,845,000	–
Total Liabilities and Fund Balances	$	45,043,005,000	45,240,133,000	(197,128,000)	–

The most notable factor regarding the Fund's assets between June 30, 2011 and June 30, 2012 is that there was little to no overall change, consistent with the flat returns calculated for the year. Although non-domestic and global equities were down significantly in FY 2012 (-14.6 and -4.7 percent, respectively), these losses were offset by positive returns in domestic and non-domestic bonds (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.

From June 30, 2010 to June 30, 2011, the Fund had a 20.6 percent increase ($6.7 billion) in the fair value of invested assets due to the strengthening of the investment markets. In FY 2011, equities had strong positive returns with each equity class – domestic, non domestic and global – increasing. Domestic equities earned 33.4 percent, while non domestic and global mandates earned 28.7 and 31.5 percent, respectively. Bonds had positive returns in FY 2011 as well, with 5.3 percent gained on domestic portfolios and 0.6 percent gained on non-domestic portfolios. In FY 2011, real estate returned a strong 16.9 percent, and the newly established real return mandate returned 17 percent.

Excluding the effect of the securities lending change, total assets increased by only 0.2%, as the increase in cash was nearly offset by the decreases in receivables and investments. The ending values of securities lending collateral invested and the related liability are dependent upon the amount of securities out on loan

Management's Discussion and Analysis (cont.)

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 2012 was $3.4 billion, with a low of $3.0 billion and a high of $3.8 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 97 percent of both the FY 2012 and FY 2011 accounts payable balances. Most of the increase from FY 2011 to FY 2012 was due to bonds that had been purchased for $687 million, but not yet settled as of June 30, 2012. As of June 30, 2011, only $411 million was due on such payables. FY 2012's increase in bond payables was offset by a decrease in pending purchases payable on equities, which was $238 million as of June 30, 2011 versus $46 million as of June 30, 2012.

Income distributable to the State of Alaska, which is based primarily on the dividend calculation mandated by statute, decreased from FY 2011 to FY 2012. The dividend calculation is based on a five-year rolling average of statutory net income (which excludes unrealized gains and losses). Because the FY 2012 statutory net income of $1.6 billion replaced the FY 2007 statutory net income of $3.4 billion in the rolling average, there was a sizeable decrease from the prior year in the calculated amount due to the State of $605 million. As of June 30, 2011, a balance of $801 million was due to the State. Four 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 2012 was $17.1 million. Because the Fund incurred realized losses in FY 2009, there was no transfer to the ACIF in that year or the subsequent year in order to offset the $33.3 million deficit sustained by the ACIF fund balance. Of the $25.3 million ACIF FY 2011 realized earnings, $12.5 million was used to offset the remaining FY 2009 deficit, and the excess earnings income of $12.8 million was paid to the ACIF.

The total fund balance increase of $193 million from FY 2011 to FY 2012 was due primarily 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 remainder of the decrease was from APFC operating expenditures of approximately $98 million. The overall flat investment markets created only a $1.6 million decrease for the fund balances. While the FY 2012 financial markets produced a variety of returns depending on asset class (such as international equities showing negative returns and bonds showing positive ones), the overall measurement from July 1, 2011 through June 30, 2012 for all assets was negligible.

The total fund balance increase from FY 2010 to FY 2011 was due primarily to stronger financial markets. The overall investment return on Fund investments for FY 2011 was 20.6 percent. Contributions and appropriations increased due to dedicated mineral revenue deposits from the State of $887 million, a 31 percent increase over the FY 2010 dedicated revenues of $679 million.

The table on the next page 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 2011 as compared to FY 2012 are shown in both dollars and percentages.

Statements of Revenue, Expenditures and Changes in Fund Balances

Year Ended June 30

		2012	2011	Net Change	%
Revenues					
Interest, dividends, real estate and other income	$	988,402,000	912,399,000	76,003,000	8%
Increase (decrease) in the fair value of investments		(989,961,000)	5,997,864,000	(6,987,825,000)	(117)%
Total Revenues	$	(1,559,000)	6,910,263,000	(6,911,822,000)	(100)%
Expenditures					
Operating expenditures		(91,362,000)	(91,585,000)	223,000	–
Other Legislative appropriations		(7,025,000)	(6,860,000)	(165,000)	2%
Total Expenditures		(98,387,000)	(98,445,000)	58,000	–
Excess (Deficit) of Revenues Over Expenditures		(99,946,000)	6,811,818,000	(6,911,764,000)	(101)%
Other Financing Sources (Uses)					
Transfers in – dedicated State revenues		915,098,000	886,989,000	28,109,000	3%
Transfers out – appropriations		(622,307,000)	(813,404,000)	191,097,000	(23)%
Net Change in Fund Balances		192,845,000	6,885,403,000	(6,692,558,000)	(97)%
Fund Balances					
Beginning of period		40,140,214,000	33,254,811,000	6,885,403,000	21%
End of period	$	40,333,059,000	40,140,214,000	192,845,000	–

During FY 2012, 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 $67 million per month in FY 2010 to $76 million per month in FY 2011 to $82 million per month in FY 2012, still a fair amount below FY 2008's average of approximately $100 million per month. The flat returns of FY 2012 were a striking contrast to FY 2011's record $6 billion increase in the fair value of investments. This change in the fair value of investments in FY 2011 more than doubled FY 2010's gains of $2.8 billion. Income from cash flows was fully offset by losses on investments in FY 2012. Operating expenditures were also flat between FY 2011 and FY 2012 with only a negligible 0.2% decrease. Operating expenditures increased from FY 2010 to FY 2011 almost entirely due to an increase of $23 million in asset management fees paid to external investment management firms. Most management fees (which account for approximately 90% of operating expenditures) are calculated on market values of assets under management. When those market values do not change significantly, as was the case in FY 2012, fees remain flat as well. Manager fees in FY 2011 totaled $81.5 million and in FY 2012 totaled $81.2 million.

Transfers in of dedicated State revenues increased from FY 2011 to FY 2012 by 3.2 percent ($28 million) making FY 2012 the year with the highest State revenue deposit in the history of the Fund. FY 2011 is the second highest year at $887 million. 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 2012.

Management's Discussion and Analysis (cont.)

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 2012 results supplanted the FY 2007 results, and, because the difference in statutory net income between these years is a decrease of $1.8 billion, the dividend distribution consequently decreased by $196 million in FY 2012. The ACIF transfer out did not take place in FY 2009 or FY 2010. The ACIF transfer is based on realized earnings for only one year; it is not averaged over multiple years. In FY 2009, ACIF earnings were negative $33.3 million. ACIF earnings were positive in FY 2010, FY 2011 and FY 2012 at $20.8, $25.3 and $17.1 million, respectively. The positive FY 2010 and 2011 earnings were used to first offset the negative $33.3 million balance, and the net excess of $12.8 million in FY 2011 was transferred to the ACIF. The total realized earnings of $17.1 million were transferred to the ACIF 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)

We have audited the accompanying balance sheets of Alaska Permanent Fund Corporation (the Fund) as of June 30, 2012 and 2011, and the related statements of revenues, expenditures and changes in fund balances for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Alaska Permanent Fund Corporation and do not purport to, and do not, present fairly the financial position of the State of Alaska as of June 30, 2012 and 2011, or changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alaska Permanent Fund Corporation as of June 30, 2012 and 2011, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 7, 2012 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 21-27 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 which 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 of the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

September 7, 2012

Financial Statements

Balance Sheets

As of June 30

		2012	2011
Assets			
Cash and temporary investments	$	1,995,551,000	1,659,878,000
Receivables, prepaid expenses and other assets		506,803,000	574,715,000
Investments:			
Marketable debt securities		7,568,655,000	7,408,228,000
Preferred and common stock		17,424,991,000	19,064,272,000
Real estate		4,387,133,000	3,723,354,000
Real return		2,924,216,000	3,164,561,000
Absolute return		2,418,605,000	2,530,937,000
Private equity		1,712,867,000	1,378,117,000
Infrastructure		863,240,000	786,916,000
Distressed debt and mezzanine debt		1,163,583,000	531,116,000
Emerging markets total opportunities		524,814,000	582,809,000
Alaska certificates of deposit		217,825,000	217,710,000
Total Investments		39,205,929,000	39,388,020,000
Securities lending collateral invested		3,334,722,000	3,617,520,000
Total Assets	$	45,043,005,000	45,240,133,000
Liabilities			
Accounts payable	$	752,917,000	668,995,000
Income distributable to the State of Alaska		622,307,000	813,404,000
Securities lending collateral		3,334,722,000	3,617,520,000
Total Liabilities	$	4,709,946,000	5,099,919,000
Fund Balances			
Nonspendable:			
Permanent Fund corpus - contributions and appropriations		35,032,524,000	33,044,309,000
Not in spendable form - unrealized appreciation on invested assets		3,219,953,000	4,788,085,000
Total Nonspendable		38,252,477,000	37,832,394,000
Assigned for future appropriations:			
Realized earnings		1,905,446,000	2,015,742,000
Unrealized appreciation on invested assets		175,136,000	292,078,000
Total Assigned		2,080,582,000	2,307,820,000
Total Fund Balances		40,333,059,000	40,140,214,000
Total Liabilities and Fund Balances	$	45,043,005,000	45,240,133,000

See accompanying notes to the financial statements.

Statements of Revenues, Expenditures and Changes in Fund Balances

Years Ended June 30

	2012	2011
Revenues		
Interest	$ 297,270,000	283,720,000
Dividends	476,365,000	459,853,000
Real estate and other income	214,767,000	168,826,000
Total Interest, Dividends, Real Estate and Other Income	988,402,000	912,399,000
Net increase (decrease) in the fair value of investments:		
Marketable debt securities	256,242,000	235,396,000
Preferred and common stock	(1,658,942,000)	4,359,550,000
Real estate	221,790,000	403,286,000
Real return	126,715,000	402,290,000
Absolute return	(20,594,000)	168,407,000
Private equity	134,546,000	216,339,000
Infrastructure	(77,814,000)	113,730,000
Distressed debt and mezzanine debt	20,923,000	42,619,000
Emerging markets total opportunities	(74,896,000)	(6,938,000)
Foreign currency forward exchange contracts and futures	24,658,000	(92,574,000)
Currency	57,411,000	155,759,000
Total Net Increase (Decrease) in the Fair Value of Investments	(989,961,000)	5,997,864,000
Total Revenues	(1,559,000)	6,910,263,000
Expenditures		
Operating expenditures	(91,362,000)	(91,585,000)
Other legislative appropriations	(7,025,000)	(6,860,000)
Total Expenditures	(98,387,000)	(98,445,000)
Excess (Deficit) of Revenues over Expenditures	(99,946,000)	6,811,818,000
Other Financing Sources (Uses)		
Transfers in - dedicated State revenues	915,098,000	886,989,000
Transfers out - statutory and legislative appropriations	(622,307,000)	(813,404,000)
Net Change in Fund Balances	192,845,000	6,885,403,000
Fund Balances		
Beginning of period	40,140,214,000	33,254,811,000
End of period	$ 40,333,059,000	40,140,214,000

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, 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.

Financial Statement Presentation

A reclassification has been made to the 2011 financial statements to conform to the 2012 presentation. This reclassification was made to segregate Absolute Return investments from Distressed and Mezzanine Debt. Since inception of these asset classes, they have been reported together on one line of the financial statements. Over time, these asset classes have grown in value and now warrant separate disclosure on the financial statements.

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, 2012 was 3.16 percent, and $1,073,117,000 was transferred from the assigned to the nonspendable fund balance. The calculated rate for FY 2011 was 1.64 percent, and $533,182,000 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 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, 2012, 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 by 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 percent 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 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, 2012, the Fund held fixed income investments with floating, variable and step interest rates, valued at $313,281,000. These fixed income investments were both domestic and non-domestic, and had current annual interest rates ranging from 0 to 13 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:

		2012	2011
Cash	$	65,692,000	72,663,000
Pooled funds		1,204,082,000	1,583,940,000
U.S. Treasury bills		725,777,000	3,275,000
Total Cash and Temporary Investments	$	1,995,551,000	1,659,878,000

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:

		2012	2011
Interest receivable	$	71,472,000	77,934,000
Dividends receivable		37,635,000	40,630,000
Sales receivable		359,517,000	374,196,000
Contributions receivable		38,179,000	81,955,000
Total Receivables, Prepaid Expenses and Other Assets	$	506,803,000	574,715,000

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 Holding Gains
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
2011				
Treasury and government notes/bonds	$	1,820,263,000	1,931,332,000	111,069,000
Mortgage-backed securities		580,397,000	594,595,000	14,198,000
Corporate bonds		2,551,947,000	2,640,400,000	88,453,000
Commercial mortgage/asset-backed securities		337,182,000	359,146,000	21,964,000
Non-U.S. treasury and government bonds		1,295,129,000	1,393,253,000	98,124,000
Non-U.S. corporate bonds		465,289,000	489,502,000	24,213,000
Total Marketable Debt Securities	$	7,050,207,000	7,408,228,000	358,021,000

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 87 percent of bond mandates at June 30, 2012), 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 13 percent of bond mandates at June 30, 2012) 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, 2012, 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	$ 373,463,000	475,543,000	849,006,000	11.23%
AA	99,267,000	225,065,000	324,332,000	4.29%
A	858,320,000	502,050,000	1,360,370,000	17.97%
BBB	1,120,426,000	402,715,000	1,523,141,000	20.12%
BB	61,531,000	102,151,000	163,682,000	2.16%
B	67,843,000	43,457,000	111,300,000	1.47%
CCC	41,529,000	2,511,000	44,040,000	0.58%
CC	5,932,000	—	5,932,000	0.08%
C	—	222,000	222,000	0.00%
Total Fair Value of Rated Debt Securities	2,628,311,000	1,753,714,000	4,382,025,000	57.90%
Commingled bond funds	383,985,000	—	383,985,000	5.07%
Not rated	4,220,000	19,657,000	23,877,000	0.32%
U.S. government, explicitly backed by the U.S. government (AA)	2,270,459,000	—	2,270,459,000	30.00%
U.S. government, implicitly backed by the U.S. government (AA)	508,309,000	—	508,309,000	6.71%
Total Fair Value Debt Securities	$ 5,795,284,000	1,773,371,000	7,568,655,000	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, 2012, 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	36.59%	7.15
Mortgage-backed securities	11.53%	3.16
Corporate bonds	46.22%	6.84
Commercial mortgage and asset-backed securities	5.66%	3.39
Total Domestic Bonds	100.00%	6.33
Non-Domestic Bonds		
Non-U.S. treasury and government bonds	69.31%	6.24
Non-U.S. corporate bonds	30.69%	5.90
Total Non-Domestic Bonds	100.00%	6.14

8. Preferred and Common Stock

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

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 $12.3 million as of June 30, 2012 and $5.1 million as of June 30, 2011:

	Cost	Fair Value	Unrealized Holding Gains
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
2011			
Direct Investments			
Domestic stock	$ 7,248,012,000	9,086,194,000	1,838,182,000
Non-domestic stock	6,891,512,000	8,167,105,000	1,275,593,000
Commingled funds	1,697,111,000	1,810,973,000	113,862,000
Total Preferred and Common Stock	$ 15,836,635,000	19,064,272,000	3,227,637,000

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, 2012, 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	$ 665,000	(2,704,000)	417,588,000	—	415,549,000
Brazilian Real	2,806,000	(230,000)	107,718,000	36,817,000	147,111,000
British Pound Sterling	1,585,000	(557,000)	1,324,507,000	97,674,000	1,423,209,000
Canadian Dollar	1,702,000	(1,422,000)	599,188,000	45,842,000	645,310,000
Chilean Peso	47,000	—	2,144,000	7,438,000	9,629,000
Chinese Yuan Renminbi	—	—	1,582,000	—	1,582,000
Colombian Peso	8,000	—	2,262,000	28,348,000	30,618,000
Czech Koruna	46,000	(96,000)	769,000	5,260,000	5,979,000
Danish Krone	1,070,000	(14,000)	52,907,000	—	53,963,000
Egyptian Pound	5,000	—	248,000	—	253,000
Euro Currency	16,648,000	(8,841,000)	1,806,100,000	220,144,000	2,034,051,000
Hong Kong Dollar	3,478,000	3,000	385,389,000	—	388,870,000
Hungarian Forint	31,000	—	732,000	3,473,000	4,236,000
Indian Rupee	274,000	3,000	88,011,000	—	88,288,000
Indonesian Rupiah	23,000	4,000	67,446,000	5,726,000	73,199,000
Israeli Shekel	603,000	(17,000)	25,713,000	660,000	26,959,000
Japanese Yen	12,005,000	3,422,000	1,284,795,000	208,676,000	1,508,898,000
Malaysian Ringgit	609,000	(17,000)	20,393,000	10,734,000	31,719,000
Mexican Peso	6,965,000	(1,562,000)	49,321,000	63,072,000	117,796,000
Moroccan Dirham	9,000	—	126,000	—	135,000
New Zealand Dollar	138,000	(237,000)	12,392,000	—	12,293,000
Norwegian Krone	(114,000)	2,072,000	36,029,000	4,902,000	42,889,000
Philippine Peso	(1,971,000)	(3,000)	10,924,000	17,340,000	26,290,000
Polish Zloty	1,065,000	(137,000)	9,064,000	6,497,000	16,489,000
Russian Ruble	—	—	—	9,362,000	9,362,000
Singapore Dollar	1,013,000	45,000	95,386,000	—	96,444,000
South African Rand	32,000	(25,000)	59,104,000	10,448,000	69,559,000
South Korean Won	(243,000)	(615,000)	180,879,000	36,242,000	216,263,000
Swedish Krona	1,103,000	2,469,000	162,131,000	25,811,000	191,514,000
Swiss Franc	6,770,000	(1,340,000)	404,779,000	—	410,209,000
Taiwan Dollar	362,000	—	85,087,000	—	85,449,000
Thai Baht	—	—	85,893,000	311,000	86,204,000
Turkish Lira	(4,117,000)	(3,000)	44,528,000	20,675,000	61,083,000
Uruguayan Peso	—	—	3,633,000	15,064,000	18,697,000
Total Foreign Currency Exposure	$ 52,617,000	(9,802,000)	7,426,768,000	880,516,000	8,350,099,000

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 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. 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/(Losses)
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
2011			
Real estate investment trusts	$ 225,939,000	292,888,000	66,949,000
Alaska residential mortgage	21,000	21,000	—
Directly owned real estate:			
Earnest money - pending purchase	2,771,000	2,771,000	—
Retail	673,070,000	1,192,533,000	519,463,000
Office	1,056,142,000	958,096,000	(98,046,000)
Industrial	248,006,000	248,743,000	737,000
Multi-family	978,110,000	1,028,302,000	50,192,000
Total Real Estate	$ 3,184,059,000	3,723,354,000	539,295,000

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. 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 investments or 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
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
2011				
Real return	$	2,864,271,000	3,164,561,000	300,290,000
Absolute return		2,200,847,000	2,530,937,000	330,090,000
Private equity		1,247,827,000	1,378,117,000	130,290,000
Infrastructure		656,198,000	786,916,000	130,718,000
Distressed and mezzanine debt		456,735,000	531,116,000	74,381,000
Total Alternative Investments	$	7,425,878,000	8,391,647,000	965,769,000

As of June 30, 2012, the APFC, on behalf of the Fund, had outstanding future funding commitments of: $1.4 billion for private equity; $787 million for infrastructure; and $344 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

In fiscal year 2011, the APFC added two emerging market multi-asset class mandates; portfolios that will 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
2012				
Emerging Markets Total Opportunities	$	599,504,000	524,814,000	(74,690,000)
2011				
Emerging Markets Total Opportunities	$	589,377,000	582,809,000	(6,568,000)

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.

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, 2012, 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:

		2012	2011
Fair value of securities on loan	$	3,104,391,000	3,426,988,000
Cash collateral	$	3,334,722,000	3,617,520,00

The Fund receives 80 percent of earnings derived from securities lending transactions, and the Bank retains 20 percent. During the years ended June 30, 2012 and 2011, the Fund incurred no losses from securities lending transactions. The Fund received income of $6,691,000 and $8,957,000 from securities lending for the years ended June 30, 2012 and 2011, 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:

		2012	2011
Accrued liabilities	$	19,096,000	19,364,000
Securities purchased		733,821,000	649,631,000
Total Accounts Payable	$	752,917,000	668,995,000

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 qualifying 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:

		2012	2011
Dividends	$	565,290,000	758,450,000
Appropriation to the Departments of:			
Health and Social Services		16,825,000	16,285,000
Revenue		8,221,000	8,310,000
Corrections		14,890,000	15,920,000
Administration		—	1,648,000
Total to Dividend Fund		605,226,000	800,613,000
Alaska Capital Income Fund		17,081,000	12,791,000
Total Income Distributable	$	622,307,000	813,404,000

17. Fund Balances

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

	2012	2011
Nonspendable		
Balance, beginning of year	$ 37,832,394,000	32,044,974,000
Dedicated State revenues	915,098,000	886,989,000
Inflation-proofing transfer from assigned fund balance	1,073,117,000	533,182,000
Change in unrealized fair value appreciation (depreciation) on invested assets	(1,568,132,000)	4,367,249,000
Balance, End of Year	$ 38,252,477,000	37,832,394,000
Assigned		
Balance, beginning of year	$ 2,307,820,000	1,209,837,000
Inflation-proofing transfer to nonspendable fund balance	(1,073,117,000)	(533,182,000)
Dividends paid or payable to the Permanent Fund Dividend Fund	(605,226,000)	(800,613,000)
Settlement earnings payable to the ACIF	(17,081,000)	(12,791,000)
Realized earnings, net of operating expenditures	1,585,129,000	2,168,379,000
Change in unrealized fair value appreciation/(depreciation) on invested assets	(116,943,000)	276,190,000
Balance, End of Year	$ 2,080,582,000	2,307,820,000
Total		
Balance, beginning of year	$ 40,140,214,000	33,254,811,000
Dedicated State revenues	915,098,000	886,989,000
Dividends paid or payable to the Permanent Fund Dividend Fund	(605,226,000)	(800,613,000)
Settlement earnings payable to the ACIF	(17,081,000)	(12,791,000)
Excess/(deficit) of investment revenues over expenditures	(99,946,000)	6,811,818,000
Balance, End of Year	$ 40,333,059,000	40,140,214,000

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

	2012	2011
Dedicated State revenues	$ 13,670,321,000	12,755,223,000
Special appropriations	6,885,906,000	6,885,906,000
Inflation-proofing	14,323,386,000	13,250,269,000
Settlement earnings	152,911,000	152,911,000
Total Contributions and Appropriations	$ 35,032,524,000	33,044,309,000

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, 2012, the Fund's net unrealized gain was $3,395,089,000, of which $3,219,953,000 was allocated to the nonspendable fund balance and $175,136,000 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 $17,081,000 during FY 2012 and $25,304,000 during FY 2011. Realized earnings in FY 2011 on settlement principal were first used to offset the remaining deficit subaccount of $12,513,000. The remaining earnings of $12,791,000 were transferred to the ACIF.

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 2012, approximately $163 million of impairments were recorded. During FY 2011, no impairments were recorded.

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

	2012	2011
Excess (deficit) of revenues over expenditures	$ (99,946,000)	6,811,818,000
Unrealized (gains) losses	1,685,075,000	(4,643,439,000)
Settlement earnings	(17,081,000)	(25,304,000)
Statutory Net Income	$ 1,568,048,000	2,143,075,000

19. Investment Income by Source

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

		2012	2011
Interest			
Marketable debt securities	$	288,524,000	279,707,000
Alaska certificates of deposit		1,848,000	1,890,000
Short-term domestic and other		6,898,000	2,123,000
Total Interest	$	297,270,000	283,720,000
Dividends			
Domestic stocks	$	237,253,000	107,030,000
Non-domestic stocks		239,112,000	352,823,000
Total Dividends	$	476,365,000	459,853,000
Real Estate and Other Income			
Directly owned real estate interest	$	1,000	1,000
Directly owned real estate net rental income		155,719,000	127,306,000
Real estate investment trust dividends		11,089,000	12,552,000
Real return interest and dividends		26,641,000	30,038,000
Absolute return management expenses, net of dividend and interest income		(16,881,000)	(17,138,000)
Distressed and mezzanine debt interest income, net of fees		28,850,000	1,040,000
Infrastructure interest and dividend income, net of fees		2,615,000	(3,291,000)
Private equity management expenses, net of dividend income		(2,020,000)	5,335,000
Class action litigation income		1,695,000	3,393,000
Loaned securities, commission recapture and other income		7,058,000	9,590,000
Total Real Estate and Other Income	$	214,767,000	168,826,000

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, 2012 ranged between 2 and 157 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, 2012 is limited to the difference between contractual rates and forward market rates determined at the end of the fiscal year.

Activity and balances related to FX forward contracts for fiscal year 2012 and 2011 are summarized as follows:

		2012	2011
Balances at June 30			
Face value of FX forward contracts	$	2,712,297,000	2,528,767,000
Net unrealized holding losses on FX forward contracts		(9,633,000)	(5,195,000)
Fair Value of FX Forward Contracts	$	2,702,664,000	2,523,572,000
Activity for Fiscal Years Ending June 30			
Change in unrealized holding losses	$	(4,250,000)	(3,634,000)
Realized gains (losses)		47,696,000	(122,114,000)
Net Increase (Decrease) in Fair Value of FX Forward Contracts	$	43,446,000	(125,748,000)

Certain APFC equity investment managers are permitted to trade in equity index futures for the Fund's account, and, beginning in FY 2012, the internal fixed income management team started trading U.S. Treasury futures. Equity index futures are traded in both domestic and non-domestic markets based on an underlying stock exchange value. Equity and fixed income index futures are settled with cash for the net difference between the trade price and the settle price.

Activity and balances related to equity index futures for fiscal year 2012 and 2011 are summarized as follows:

		2012	2011
Balances at June 30			
Face value of equity index futures	$	124,318,000	149,868,000
Net unrealized holding gains on equity futures		12,280,000	5,083,000
Fair Value of Equity Index Futures	$	136,598,000	154,951,000
Activity for Fiscal Years Ending June 30			
Change in unrealized holding gains	$	7,146,000	10,279,000
Realized gains (losses)		(25,045,000)	22,895,000
Net Increase (Decrease) in Fair Value of Futures	$	(17,899,000)	33,174,000

Activity and balances related to U.S. Treasury futures for fiscal year 2012 and 2011 are summarized as follows:

		2012	2011
Balances at June 30			
Face value of U.S. Treasury futures	$	81,372,000	—
Net unrealized holding losses on futures		(932,000)	—
Fair Value of U.S.Treasury Futures	$	80,440,000	—
Activity for Fiscal Years Ending June 30			
Change in unrealized holding losses	$	(932,000)	—
Realized gains		43,000	—
Net Decrease in Fair Value of U.S.Treasury Futures	$	(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:

		2012	2011
APFC Operating Expenditures			
Salaries and benefits	$	5,302,000	5,489,000
Communications and electronic services		1,566,000	1,557,000
Consulting fees		532,000	351,000
Training, supplies, services and other		453,000	459,000
Rent		388,000	364,000
Travel		308,000	259,000
Legal and audit fees		244,000	227,000
Property and equipment		109,000	136,000
Public information and subscriptions		103,000	95,000
Subtotal APFC operating expenditures		9,005,000	8,937,000
Investment Management and Custody Fees			
Investment management fees		81,244,000	81,502,000
Custody and safekeeping fees		1,113,000	1,146,000
Subtotal investment management and custody fees		82,357,000	82,648,000
Total operating expenditures, investment management and custody fees		91,362,000	91,585,000
Other Legislative Appropriations from Corporate Receipts			
Department of Natural Resources		5,460,000	5,297,000
Department of Law		1,477,000	1,478,000
Department of Revenue		88,000	85,000
Total other Legislative appropriations		7,025,000	6,860,000
Total expenditures	$	98,387,000	98,445,000

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, 2012 and 2011 amounted to $3,618,000 and $3,829,000, 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, 2012 and 2011 amounted to $2,927,000 and $2,863,000, respectively.

Board of Trustees

Annual Report 2012

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