

35

• ~ years strong ~ •



YESTERDAY, TODAY & TOMORROW

Alaska Permanent Fund Corporation, 2011 Annual Report
Built on a solid foundation, since 1976.

YESTERDAY, TODAY & TOMORROW



ALASKA PERMANENT FUND CORPORATION *2011 Annual Report*

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)*



| | |
|-------------------------------------|--------|
| 50% Paid Out to Current Generations | \$19.6 |
| 50% Saved for Future Generations | \$19.6 |
| Total: | \$39.2 |

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LETTER FROM THE CHAIR

The Permanent Fund had an outstanding fiscal year, returning just over 20 percent and ending slightly above \$40 billion. This is the first time the Fund’s year-end value has closed at over \$40 billion and only the third time the returns have broken the 20 percent threshold. These are the kinds of figures that Alaskans like to hear, but they do not tell the whole story.

It is important to remember that the board of trustees does not chase returns. Our goal is a positive rate of return over the long term and that is our focus when we build a portfolio that does not change in response to short-term market conditions. Just as the significant drop in the Fund’s value three years ago did not generate a radical shift in our allocation, the returns we have seen this year will not cause us to move more heavily into the assets that were the most successful.

While we report annual returns, they are a somewhat incomplete measure and do not fully reflect the Permanent Fund’s success in meeting its statutory obligation to benefit both current and future generations of Alaskans. This is why we also report the Fund’s performance over three, five and 10-year periods, as well as the return over the entire 27.5-year period for which we have comparable data (see page 8). But there are other ways to measure the Fund’s success besides returns.

One way is by looking at the cash flow into and out of the Permanent Fund. Since the Fund was created 35 years ago by Alaska voters, it has paid out \$19.2 billion in dividends, more than the \$15.6 billion in mineral revenues and other deposits it has taken in, and was still worth \$40.1 billion on June 30.

Another way to measure success is the recognition that the Permanent Fund has received from its peers and outside groups. A few years ago, the Peterson Institute ranked the Alaska Permanent Fund as the most transparent of all of the sovereign

wealth funds, providing a clear picture to Alaskans of the Fund’s investments and performance. When the International Monetary Fund led the discussion with other sovereign wealth funds to draft the Santiago Principles for transparent governance, much of the document was based on the Alaska Permanent Fund Corporation’s current practices.

Managing the investment risk within a portfolio is important, as important as achieving positive returns. Over the last few years, the board has implemented new programs designed to improve the Corporation’s risk management. We will never be able to quantify the effect on the Fund’s returns that these programs generate, but we are confident that the Fund is better for having them in place, and count them as an important tool in managing risk.

We have had a great deal of recognition and interest from our peers regarding these risk management programs, another sign of our success. Our staff has spoken with representatives from other large public funds, including those in Norway, Singapore, Korea, Abu Dhabi, New York, California and Massachusetts. And in December, we were honored with the Industry Innovator Award from aiCIO for our work in this area.

Alaskans can have confidence that, from the Corporation’s creation, the Board has focused on the most prudent course of management, taking steps to manage risk while working to generate solid returns. And the Board appreciates all of the hard work that the Corporation’s staff puts in to assist us in managing the Fund. This has been and will always be our mission: Yesterday. Today. Tomorrow.

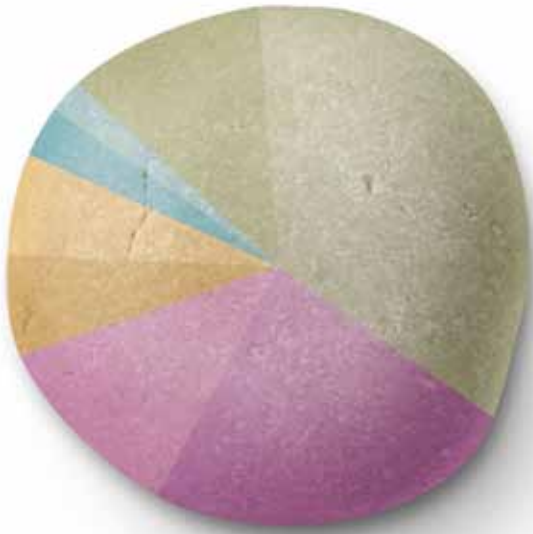
William S. Moran
William Moran



Board Members (from left): Steve Frank, William Moran (Chair), Larry Hartig, Steve Rieger (Vice Chair), Nancy Blunck, Bryan Butcher

APFC TARGET ASSET ALLOCATION

By Traditional Asset Class for Fiscal Year 2011



- 36% Stocks
- 23% Bonds
- 12% Real Estate
- 6% Private Equity
- 6% Absolute Return
- 3% Infrastructure Investments
- 2% Cash
- 12% Other

APFC TARGET ASSET ALLOCATION

By Economic Condition For Fiscal Year 2011

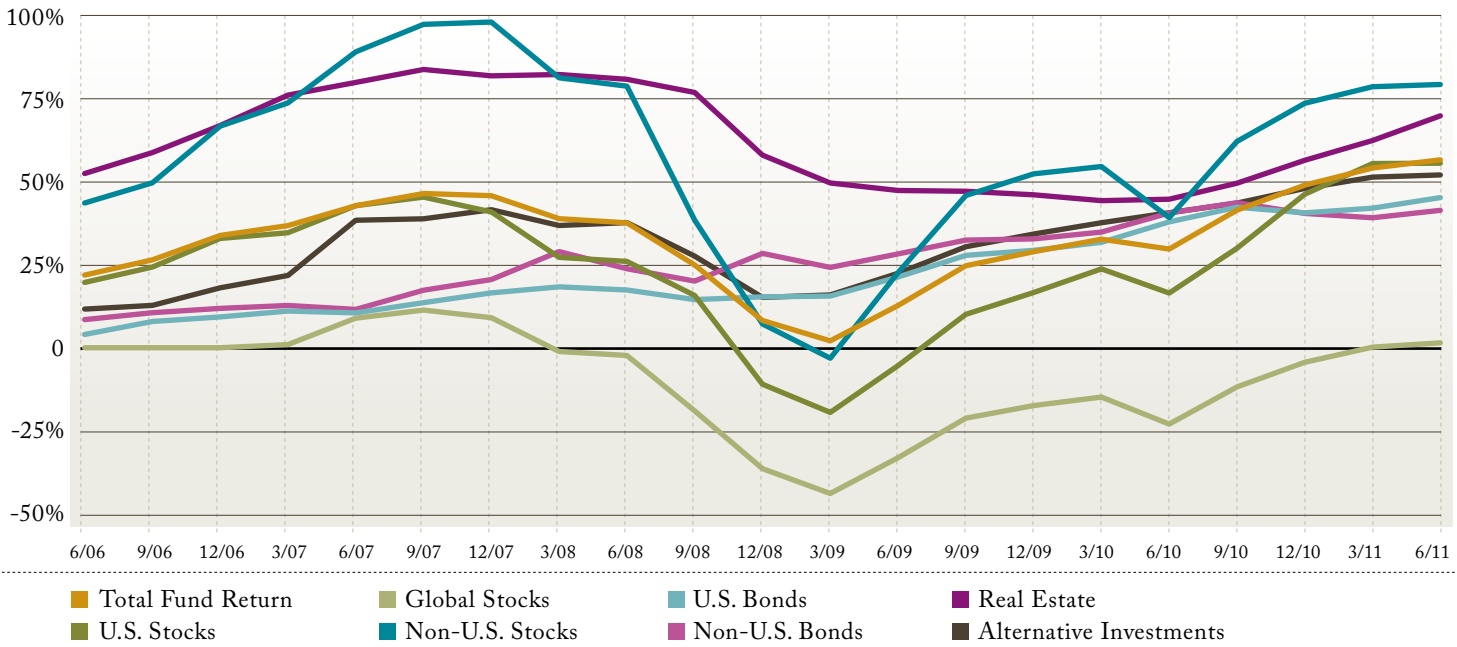


- 2% Cash
- 6% Interest Rates
- 53% Company Exposure
- 18% Real Assets
- 21% Special Opportunities

THE EFFECTS OF DIVERSIFICATION

Five-Year Cumulative Return

Each asset class in which the Board invests reacts differently under the same market conditions. Often when one asset class has strong returns, another will have lower or even negative returns. By diversifying the Fund’s investments across a number of asset types, the Board better ensures a positive return under a range of market conditions and lowers the total risk of the portfolio.



LETTER FROM THE EXECUTIVE DIRECTOR



After the storms of 2008, fiscal year 2011 was a long stretch of clear weather. Markets were occasionally troubled but, overall, performed very well. The Alaska Permanent Fund’s portfolios benefited from this period of growth, returning 20.6 percent for fiscal year 2011, and ended June 30 with a value of \$40.1 billion. This is the third highest return in the Fund’s history and the first time the return has been over 20 percent since 1986. It is also the first time that the Fund’s year-end value closed at over \$40 billion.

This is outstanding performance, especially in light of the challenges that markets faced during this time: a sluggish economic recovery and continued unemployment, Greece and Ireland’s debt woes, political upheaval in the Middle East, Japan’s earthquake. Yet despite all these hurdles, markets kept moving forward for most of the year.

In the first half of the fiscal year, performance was strong in the stock and real estate markets as confidence returned, while bonds suffered as investors sought returns over safety. In the U.S., the Federal Reserve’s quantitative easing program drove down bond yields and worries over sovereign debt woes impacted non-U.S. bonds, adding to their performance difficulties.

In the latter half of the year, stock markets faced some troubles as the aforementioned natural and political events began to have an effect. Stocks were down for most of the final quarter until a year-end rally pulled performance back up. Real estate still had positive performance, although at a slightly slower pace in the last six months of the year, and bonds started to see a turnaround, first in the U.S. and then overseas.

As I mentioned above, the Fund returned 20.6 percent, which trailed the benchmark return of 21.5 percent. Stocks were the greatest contributor to the Fund’s overall performance, with the U.S. portfolio returning 33.4 percent, the non-U.S. portfolio returning 28.7 percent and the global portfolio returning 31.5 percent. The Fund’s stock portfolio comprises roughly half of the Permanent Fund’s total value.

The Fund’s real estate portfolio gained 16.9 percent for the fiscal year, reflecting the recovery that finally reached real estate shortly before the start of the fiscal year. U.S. bonds had a solid year, with the Fund’s portfolio gaining 5.3 percent. Non-U.S. bonds were essentially flat at 0.6 percent, but were ahead of their benchmark return of 0.5 percent.

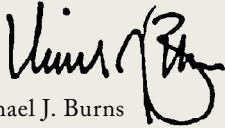
Alternative assets also added to the positive performance for the fiscal year. The Fund’s absolute return portfolio gained 8.0 percent for the fiscal year. This portfolio includes funds that specialize in absolute return strategies, distressed debt, mezzanine debt and other directed investments. The real return portfolio returned 17.0 percent for the period. This portfolio is comprised of five mandates, with each manager allowed to set his or her asset allocation within the risk parameters set by the APFC. This allows him or her to select from the same range of asset types found within the rest of the Permanent Fund.

The Fund earned \$2.1 billion in statutory net income. This is the value that is used to calculate the annual Permanent Fund Dividend, which will be distributed to eligible Alaskans in the fall. Based on this calculation, the APFC will transfer \$801 million to the Permanent Fund Dividend Division for the dividend payment. The dividend transfer for the distribution in 2010 was \$858 million.

There were four new additions to the Permanent Fund team during the fiscal year: John Seagren is the Corporation’s new controller, Tim Davis joined APFC as an IT Specialist, Bir Ganguly is our new Investment Analyst for Risk, and Robin Strader is the new Executive Assistant for executive staff and the Board.

Of course, additions usually follow departures. Joyce Andrews was with the Permanent Fund for 15 years before she retired in December. She supported the Board and staff of APFC in a range of administrative positions. Kevin Buckland, APFC’s controller, transitioned to the CFO position at the Alaska Mental Health Trust at the start of the fiscal year. He will continue to work closely with APFC as we manage a portion of the trust’s assets. Marshal Kendziorek served as APFC’s Director of Information Technology for ten years before moving on to new opportunities this spring.

Jeff Scott, Chief Investment Officer, and Max Giolitti, Director of Asset Allocation and Risk, left the Corporation shortly after the close of the fiscal year. During their tenure at the APFC, Jeff and Max redesigned the way we manage and monitor risk, a project that has attracted attention from around the world and that will benefit Alaskans for years to come. We wish all of them well in their future endeavors.

Sincerely,

Michael J. Burns
Executive Director



SOURCES OF CHANGE IN FUND VALUE

Fiscal 2011 (In Millions)

- Stock Dividends, Bond Interest and Real Estate Cash Flow
- Net Increase in Fair Value of Investments
- Operating Costs and other Legislative Appropriations
- Dedicated Mineral Revenue
- Transfers Out (Dividend Distribution and Alaska Capital Income Account)

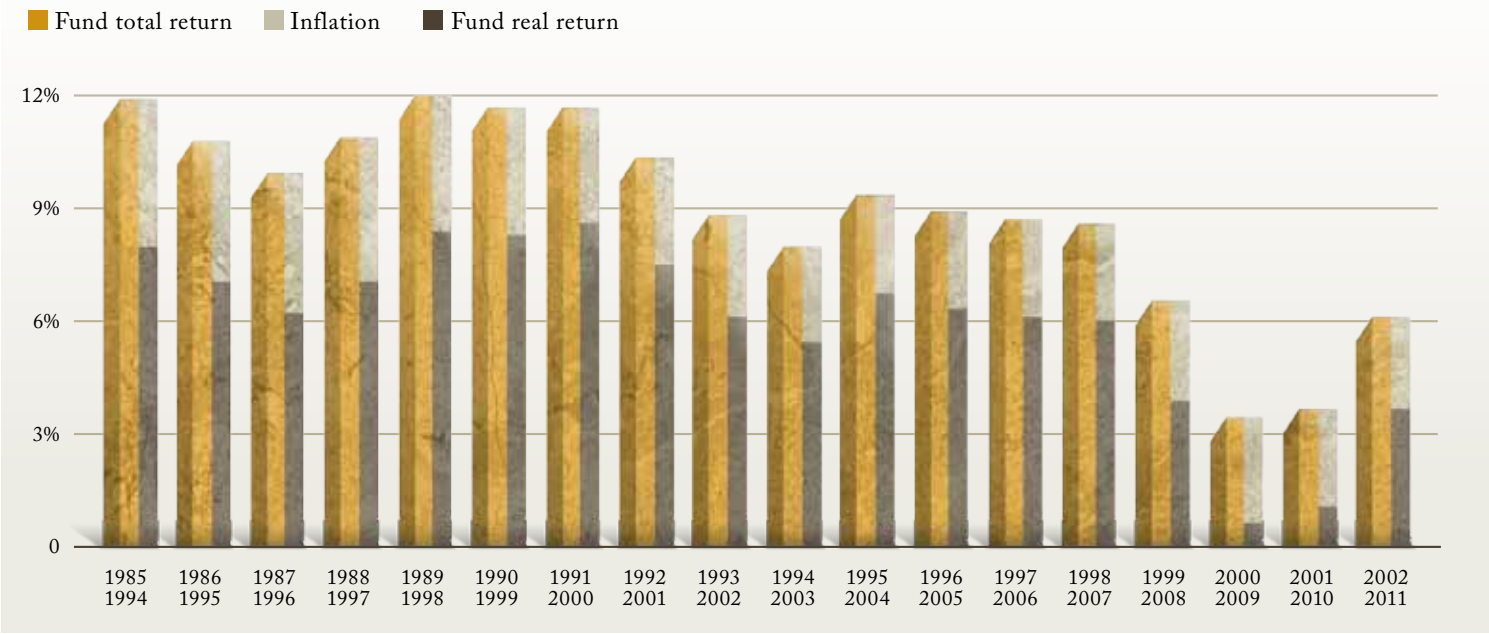


INVESTING FOR THE LONG RUN

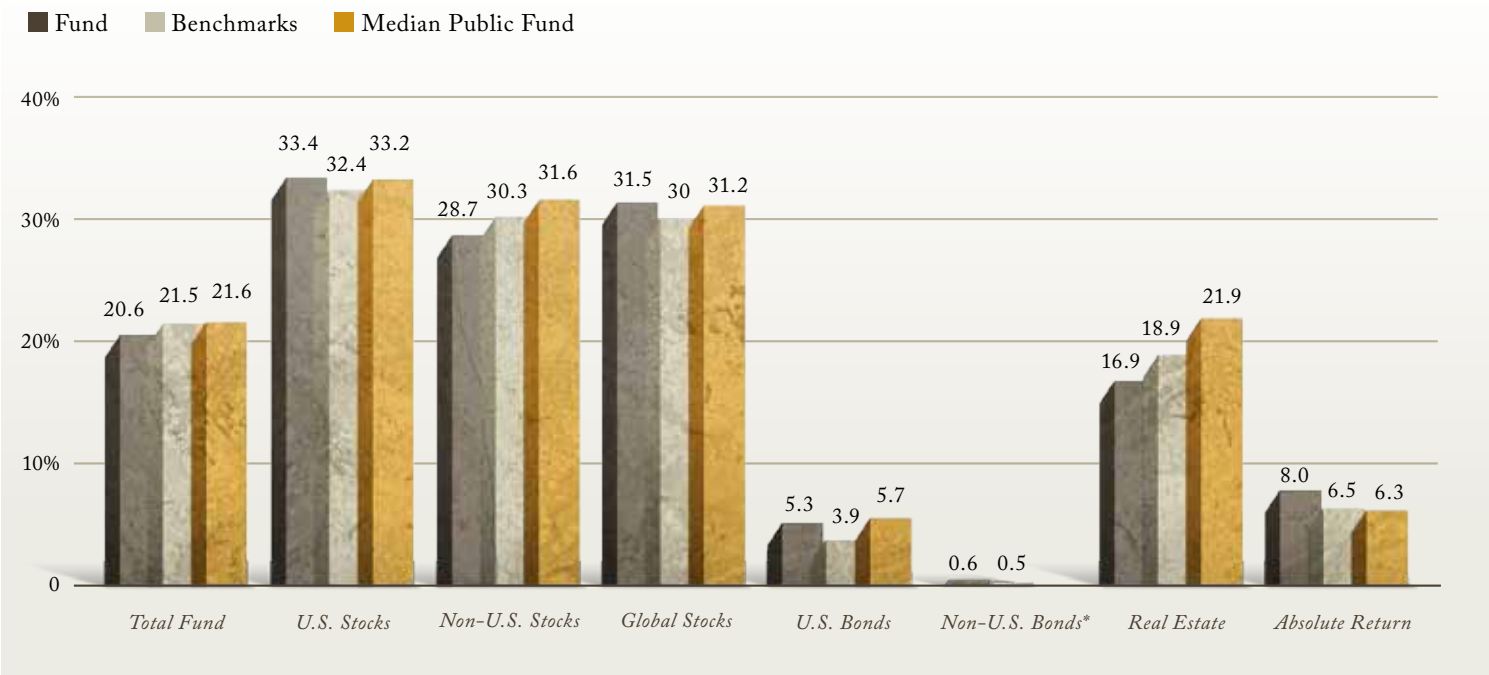
The Board of Trustees’ statutory direction is to generate the maximum return while protecting principal. To meet both of these objectives, the Board sets an asset allocation that is designed to provide a five percent real rate of return over time with a prudent level of risk.

ROLLING 10-YEAR RETURNS

Annualized Returns for Periods Ending June 30



FUND FISCAL 2011 PERFORMANCE



*Due to differences in hedging strategies, there is no meaningful peer group against which to measure returns.

FUND’S LONG-TERM INVESTMENT PERFORMANCE

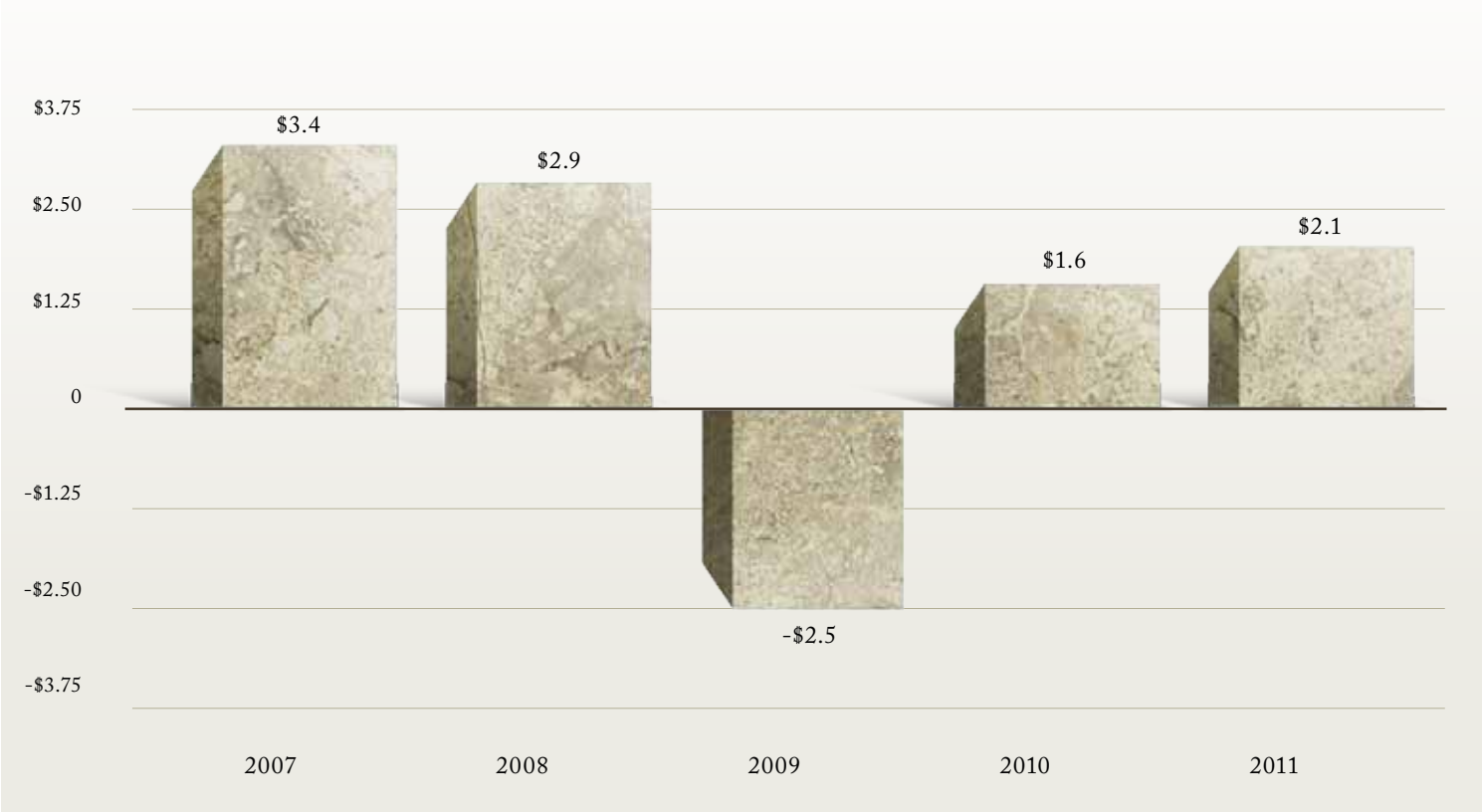
Annualized Returns for Periods Ending June 30, 2011



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.



Global stock markets had a very good year, despite the continued slow recovery in the U.S. economy, debt concerns in certain European countries, natural disasters and political unrest. While stocks were down in May and June, robust gains during the first half of fiscal year 2011, followed by modest second-half gains, resulted in stock returns in the 25 to 35 percent range for most major U.S. and overseas stock indices for the year.

Markets started off strong in July, rallying from the spring downturn of the prior fiscal year. Every region saw positive returns, with emerging, U.S. and European markets in the lead. The expectation of market-dampening inflation in China proved unfounded, while the weakened Euro supported exports from the region. Despite August fears of a double-dip recession, investor anticipation of further easing by the Federal Reserve resulted in solid gains for stocks in the first fiscal quarter.

The upward momentum continued through the second quarter of the fiscal year for U.S. and non-U.S. markets. The extension of tax cuts and the Federal Reserve’s quantitative easing program buoyed domestic markets, while Ireland worked to solve its debt problems. The third fiscal quarter also started out strong, but the tsunami and nuclear crisis in Japan and turmoil in the Middle East had a dampening effect and added to market volatility.

Although the positive returns continued through April, worries over U.S. economic data, the specter of Greece defaulting on its debts and a slowing economy in China resulted in a volatile quarter that ended with essentially flat performance for stocks.

Portfolio Performance

The Permanent Fund’s stock portfolios had outstanding performance for the fiscal year returning 30 percent or more, despite losses at the end of the period. The Fund’s U.S. portfolio returned 33.4 percent, ahead of the Russell 3000 return of 32.4 percent, ending the year with a value of \$6.4 billion.

The Fund’s U.S. small-cap stock managers dominated large-cap managers for the entire year, and produced an eye-popping 39.2 percent return, well ahead of the extraordinary 31.8 percent return that large-cap managers produced. For the most part, managers with growth mandates outperformed those with value mandates over the course of the year, an expected outcome as the economic recovery moves from the early to later stages.

The Fund’s non-U.S. portfolio returned 28.7 percent, trailing the MSCI All Country World ex U.S. Index return of 30.3 percent, and had a value of \$8.1 billion on June 30. The \$4.6 billion global portfolio gained 31.5 percent, modestly ahead of the MSCI World Index return of 30.5 percent. Although emerging markets did incredibly well, with the Fund’s portfolios returning around 25 percent, they weren’t the leaders that they have been in past years.

Structured for Balance

In the spring of 2010, staff began a project to restructure the mandates within the Fund’s stock portfolio and work continued through fiscal year 2011. The objectives were to:

- reduce the number of active mandates to focus on managers who had a proven track record of adding value above benchmark performance;
- add passive and quasi-passive mandates to increase flexibility to manage exposures and risks across market segments, especially for non-U.S. markets;
- modify benchmarks for existing mandates to allow for more flexibility and to better reflect managers’ strengths and potential growth opportunities;
- and expand the Fund’s non-U.S. stock investments.

While most of the restructuring took place prior to the start of the fiscal year, in fiscal 2011 passive emerging markets and international small-cap mandates and a quasi-passive non-U.S. mandate were added. The quasi-passive mandate provides broad exposure to developed markets outside the U.S. and tilts toward value and smaller companies. Several global mandates were also broadened to allow investment in emerging markets based on the relative attractiveness of these markets compared to developed-country stock markets. The restructuring was largely completed by June 30, 2011. As of that date, the Fund’s stock portfolio was approximately 55 percent active, 30 percent passive and 15 percent quasi-passive.

STOCK PORTFOLIO

By Regional Mandate as of June 30, 2011
(In Billions)



| | |
|---------------------|--------|
| 34% U.S. Stocks | \$6.4 |
| 24% Global Stocks | \$4.6 |
| 42% Non U.S. Stocks | \$8.1 |
| Total: | \$19.1 |

STOCKS PORTFOLIO

By Region as of June 30, 2011 (In Billions)



| | | | |
|---------------------|--------|-------------|-------|
| 45% U.S. | \$8.6 | 8% Japan | \$1.5 |
| 18% Europe, ex U.K. | \$3.5 | 8% Americas | \$1.5 |
| 12% Asia, ex Japan | \$2.3 | 2% Other | \$0.4 |
| 7% U.K. | \$1.3 | | |
| Total: | \$19.1 | | |

U.S. STOCK PORTFOLIO

By Company Capitalization as of June 30, 2011
(In Billions)



| | |
|-------------------|-------|
| 17% Small/Mid-Cap | \$1.1 |
| 83% Large-Cap | \$5.3 |
| Total: | \$6.4 |

STOCK PORTFOLIO

By Active and Passive Management Styles as of June 30, 2011
(In Billions)



| | |
|-------------------|--------|
| 55% Active | \$10.4 |
| 30% Passive | \$5.8 |
| 15% Quasi-Passive | \$2.9 |
| Total: | \$19.1 |

BONDS

U.S. bond markets started the year in positive territory, the result of a flight to safety as concerns rose over debt-troubled Greece and Ireland. Over the fall and winter, investors’ confidence in the stock market returned and bond yields rose as investors rebalanced from bonds to stocks. Domestic bond markets recovered more quickly than overseas markets, especially as Middle East political turmoil, continued sovereign debt default concerns and the Japanese earthquake affected those regions. By year-end, markets had turned up again, providing positive gains for U.S. bonds, but fairly flat returns for non-U.S. markets.

U.S. Portfolio

The Fund’s U.S. portfolio returned 5.3 percent for the fiscal year, ahead of the Barclays Aggregate Bond Index Return of 3.9 percent, ending with a value of \$5.5 billion. The APFC internal bond portfolio returned 4.7 percent for the period and the Treasury Inflation Protected Securities (TIPS) component returned 7.7 percent. Alaska Permanent Capital Management’s \$538 million TIPS portfolio also returned 7.7 percent for the year. Both TIPS portfolios were in line with the benchmark return of 7.7 percent. U.S. high yield bonds performed very well and Capital Guardian’s high yield mandate returned 14.6 percent, slightly behind the 15.1 percent composite benchmark, finishing the year with a value of \$206 million. Oaktree Capital Management took over the Fund’s second high yield mandate during the fiscal year, so returns are not available for the full period. The Oaktree portfolio returned 5.9 percent for the last six months of the fiscal year and ended the year with \$363 million

under management.

Non-U.S. Portfolio

The Permanent Fund’s non-U.S. portfolio returned 0.6 percent, ahead of the Barclay’s Capital Global Treasury ex-U.S. benchmark return of 0.5 percent and ended the year with a value of \$1.9 billion. Global Asset Management had a flat return for the \$398 million in assets under management, at 0.04 percent, while Rogge Asset Management returned 1.0 percent and ended the year with a value for their mandate of \$451 million.

This year, the APFC added a specific mandate for emerging market debt. The Fund has had investments in emerging market stocks and bonds in the past as part of larger mandates, but this is the first specific mandate for emerging market debt. The allocation is a reflection of the efforts these countries are making toward transparency and stability, which has lowered overall risk for emerging market corporate and government bonds. With rising debt levels and struggling economies in the developed markets, the growth potential of emerging market countries combined with the lowered investment risk makes them an attractive addition to the Fund’s portfolios. The Capital Guardian High Yield Emerging Market mandate returned 15.5 percent for the second half of the fiscal year, ending on June 30 with a value of \$434 million.



BOND PORTFOLIO

By Region as of June 30, 2011 (In Billions)

| | |
|----------------------|-------|
| ■ 74% U.S. Bonds | \$5.5 |
| ■ 26% Non-U.S. Bonds | \$1.9 |
| Total: | \$7.4 |

BOND PORTFOLIO

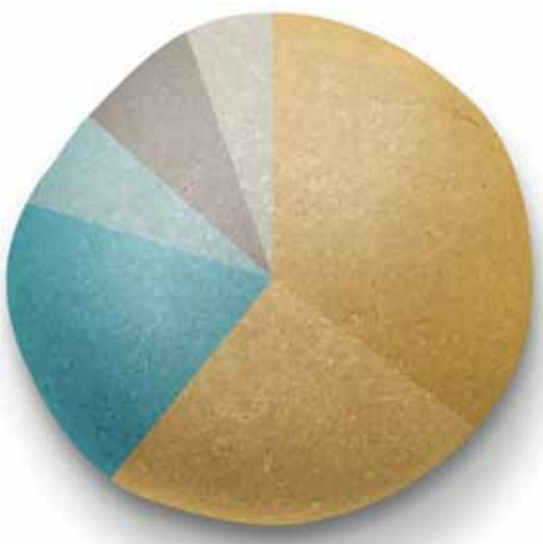
By Internal vs. External Management
as of June 30, 2011 (In Billions)



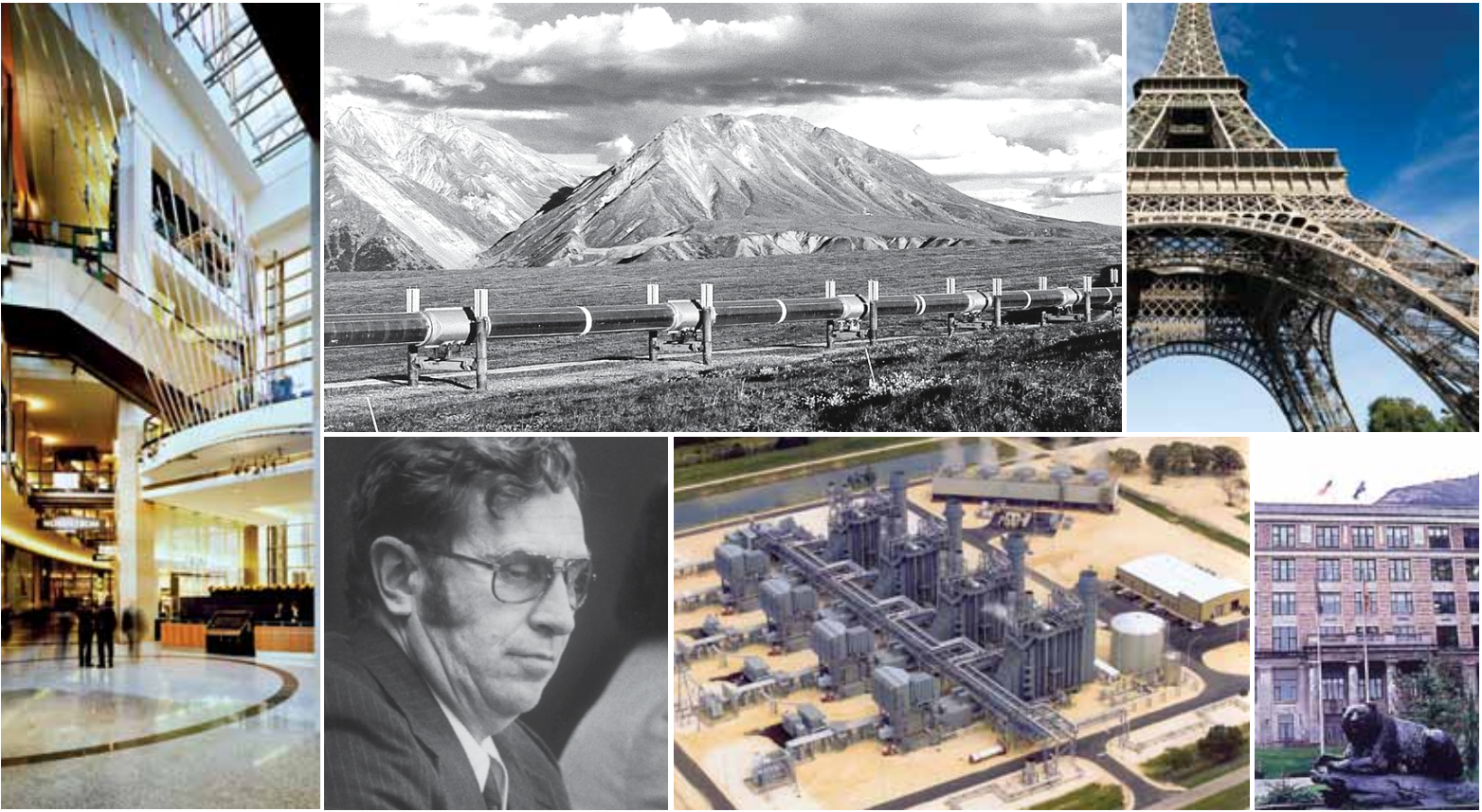
| | |
|--------------------------|-------|
| ■ 69% Internally Managed | \$5.1 |
| ■ 31% Externally Managed | \$2.3 |
| Total: | \$7.4 |

BOND PORTFOLIO

By Security Type as of June 30, 2011 (In Billions)



| | |
|-------------------------------------|-------|
| ■ 35% U.S. Corporates | \$2.6 |
| ■ 26% U.S. Treasury Notes and Bonds | \$1.9 |
| ■ 19% Non-U.S. Government | \$1.4 |
| ■ 7% Non-U.S. Corporates | \$0.5 |
| ■ 8% Mortgage-Backed | \$0.6 |
| ■ 5% CMBS | \$0.4 |
| Total: | \$7.4 |



REAL ESTATE

Real estate continued its recovery from the financial crisis through fiscal year 2011. The improvement is in large part due to the unfreezing of the credit markets and fundamentals beginning to improve in a few large metro areas of the U.S.

Greater access to credit has given sellers confidence to place their larger, well-located office and multi-family properties on the market. Secondary markets and unstabilized properties have farther to go. Although jobs reports have not necessarily been favorable, there has been enough optimism and increased consumer confidence to entice capital to move from the sidelines and engage the real estate market in search of yield and long-term returns. As consumer confidence returned and institutions became willing to lend again, both sales volume and property values began to recover. This increased activity has created upward momentum, which carried through the fiscal year.

The Permanent Fund’s \$3.7-billion real estate portfolio returned 16.9 percent, trailing the target return of 18.9 percent. Performance was strongest in the first half of the fiscal year and, while it slowed slightly, returns remained positive for the duration of the period.

Private Real Estate

The Permanent Fund’s direct real estate portfolio showed promising gains, returning 16.5 percent (net of fees) for the fiscal year and ending with a value of \$2.9 billion. Private real estate closely mirrored the NCREIF NPI (pre fee) annual return of 16.7 percent.

The Fund owns 54 individual properties and there were no sales or acquisitions during the fiscal year. While the fund continues to review potential acquisitions, many of the quality properties that have come on the market have inspired intense bidding wars. The APFC has stayed the course with conservative underwriting and by remaining patient, while competitors with ready capital were willing to make purchases without any due diligence or at levels significantly above what APFC staff considered reasonable. In the interim, staff has continued to focus on controlling costs at existing properties, upgrading the frontline management staff and working to attract and maintain quality tenants in the Fund’s properties.

The Permanent Fund’s directly owned real estate properties outperformed the NPI in all property types, except for the office sector, which slightly trailed the benchmark return. This component of the portfolio continues to struggle the most, as a good number of these assets are located in secondary markets and non-prominent locations, and suffer poor appreciation and decreased revenue streams from lower occupancy rates. The strategy going forward is to acquire more desirable properties with regard to

quality and location while disposing of the less desirable properties within the portfolio as real estate markets gain momentum.

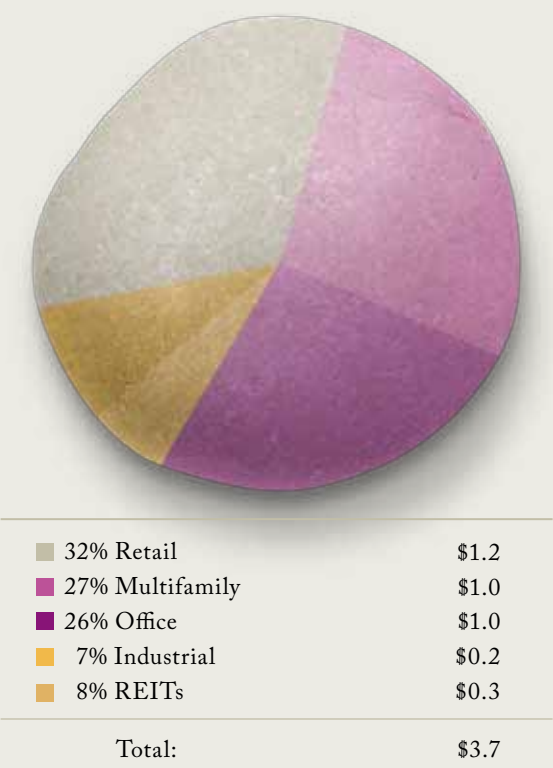
Simpson Housing L.L.L.P., a real estate operating company in which the Permanent Fund is an investor with the State of Michigan Retirement System, returned 10.2 percent and ended June 30 with a value of \$596 million. Simpson develops, owns, and manages multifamily residential properties throughout the United States. Simpson leased up and stabilized a number of newly constructed projects this last fiscal year, which enhanced returns. Additionally, multifamily properties continued their strong outperformance overall.

Public Equity Real Estate

Following on the gains from the prior fiscal year, real estate investment trusts (REITs) had another outstanding year. The portfolio, managed for the Fund by AEW Global, returned 38.1 percent and ended the fiscal year on June 30 with a value of \$304 million. The UBS Global Investors REIT Index benchmark return was 39.0 percent. The Fund’s relative performance during the fiscal year was marked by mixed results in the three regions, with the outperformance achieved in Europe overshadowed by marked underperformance in North America and to a lesser extent, Asia and the Pacific Basin.

REAL ESTATE PORTFOLIO

By Property Type as of June 30, 2011 (In Billions)



APFC INTERNSHIP PROGRAM

APFC Thanks Our 2011 Participating External Managers

- Rogge Global Partners
- RCM Global Investors
- McKinley Capital Management
- L&B Realty Advisors, LLP
- GE Asset Management
- Crestline Investors, Inc.
- Alaska Permanent Capital Management

“Being responsible for things I initially had no experience doing made my internship much more interesting and expanded how I approach problems and assess information.”

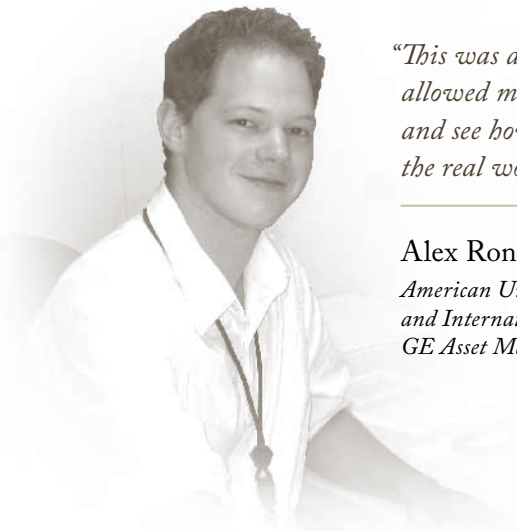
Jamnah Morton
Columbia University Computer Science undergraduate
Crestline Investors, Inc., Fort Worth, TX



“The experience broadened my view of the financial services industry and encouraged me to pursue it as a career. This internship was a big step in that direction.”

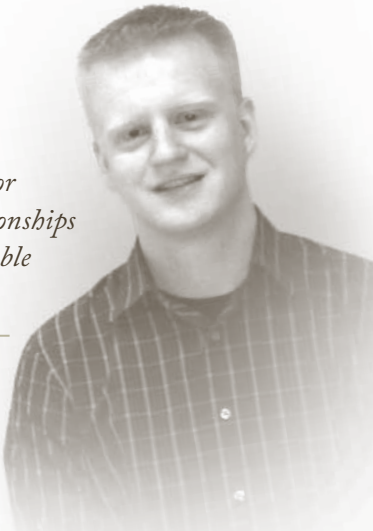
Debbie Haddox
UAA Business Administration graduate student
Alaska Permanent Capital Management,
Anchorage, AK

In a year marked by a dearth of summer employment opportunities for students, APFC teamed with our external money managers to sustain our 24-year tradition of opening doors of opportunity for Alaska college students. Nine students of good academic standing at their respective schools worked in high-caliber investment firms throughout



“This was a great opportunity that allowed me to gain investment skills and see how a financial firm works in the real world.”

Alex Ronchetti
American University Business Administration
and International Studies undergraduate
GE Asset Management, Stamford, CT



“I will look back on this internship as a major stepping stone in my career path. The relationships and experiences I take with me are invaluable and will last a lifetime.”

Joseph Shinn
UAF Finance undergraduate
Rogge Global Partners, NY, NY

“I am proud to say that I couldn’t have asked for a better place to learn and grow.”

Qingjia Li
UAF Accounting undergraduate
APFC Finance Department, Juneau, AK

the U.S. this summer under the auspices of the APFC intern program. APFC and our managers strive to challenge these ambitious students through caring mentors who provide meaningful work combined with exposure to many facets of this dynamic industry.

ALTERNATIVE INVESTMENTS AND SPECIAL OPPORTUNITIES

Absolute Return, Distressed Debt and Mezzanine Debt

Five managers oversee the Fund’s seven mandates covering the absolute return, distressed debt and mezzanine debt mandates. The managers are Audax Management Company, Mariner Investment Group, Lazard Asset Management, Oaktree Capital Management and Crestline Investors, Inc.

Absolute return strategy mandates are constructed from a variety of securities that are selected to achieve a target return within defined risk limits. Distressed debt is typically investments 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. Mezzanine debt provides a private financing tool for corporations to fund actions such as buyouts and acquisitions. It has characteristics similar to both equity and debt, and falls ahead of equity but subordinate to senior debt in a company’s capital structure.

The Permanent Fund’s absolute return, distressed debt and mezzanine debt portfolio gained 8.0 percent for the fiscal year, ending on June 30 with a value of \$3.1 billion. For the same period, the return of the LIBOR plus 4 percent benchmark for the absolute return strategy mandates was 4.3 percent while the return of the LIBOR plus 6 percent benchmark for the distressed debt mandates was 6.3 percent.

Other Multi-Asset Strategies

REAL RETURN

Real return managers create a fund with the full range of liquid asset classes that are found in the Permanent Fund. They have the same overarching risk and return guidelines that the Fund must follow, but are allowed to set their 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 17.0 percent and it ended June 30 with a total value of \$3.2 billion.

EMERGING MARKETS

At the end of the fiscal year, 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. Capital Guardian Trust Company was given a \$200 million mandate, while PIMCO was given a \$400 million

mandate. The two managers had not been in place long enough during the fiscal year to provide a meaningful return.

Infrastructure

The Permanent Fund has commitments to three infrastructure funds: Citi Infrastructure Partners, L.P. (CIP) , Global Infrastructure Partners, L.P. (GIP) and Goldman Sachs Infrastructure Partners II, L.P. (GSIP II). To date, the Fund’s three partnerships have drawn down \$850 million of the \$1.35 billion that has been committed. Infrastructure partnerships are long-term investments and, as a result, there has not been enough time in the asset class yet to provide meaningful returns.

Infrastructure investments can generally be described as critical service assets with high barriers to entry, such as toll roads, airports, regulated utilities and pipelines. The partnerships to which the Permanent Fund has committed have made investments around the world, including the U.S., U.K., Spain, Australia, Canada, Argentina and India. Acquisitions by the partnerships during this fiscal year include Port of Brisbane, a landlord port; DP World Australia, a container terminal operator; Endesa Gas, a Spanish gas transport and distribution company; and an additional investment by YVR Airport Services in three airports in northern England.

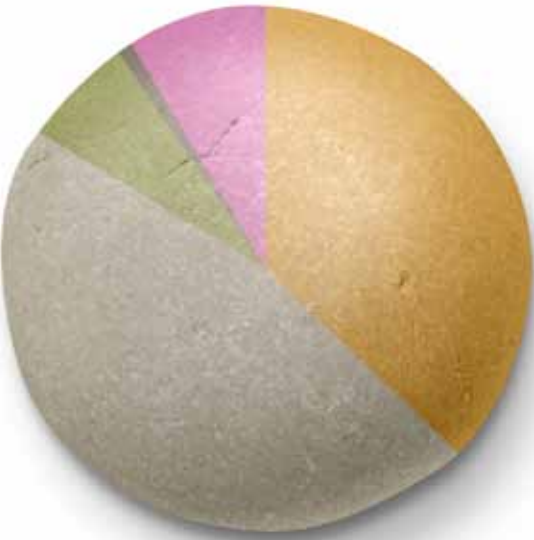
Private Equity

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 2011, the two managers committed \$750 million to 23 new private equity partnerships. This brings the total amount committed to this asset class to \$3.0 billion. Of this committed amount, \$1.6 billion has been drawn down for private equity investments and \$317 million has been distributed back to the Fund. For fiscal year 2012, the Board has allocated an additional \$600 million, divided between HarbourVest and Pathway.

Private equity is by nature an illiquid investment, so a rapid deployment of the Fund’s commitment to this asset class isn’t possible. These investments can take years to come to fruition, although premium returns are expected in exchange for this illiquidity. As a result, the Fund has not seen enough private equity investments mature since the program began in 2004 to provide a meaningful return estimate.

ABSOLUTE RETURN INVESTMENTS

By Fund Type as of June 30, 2011 (In Millions)



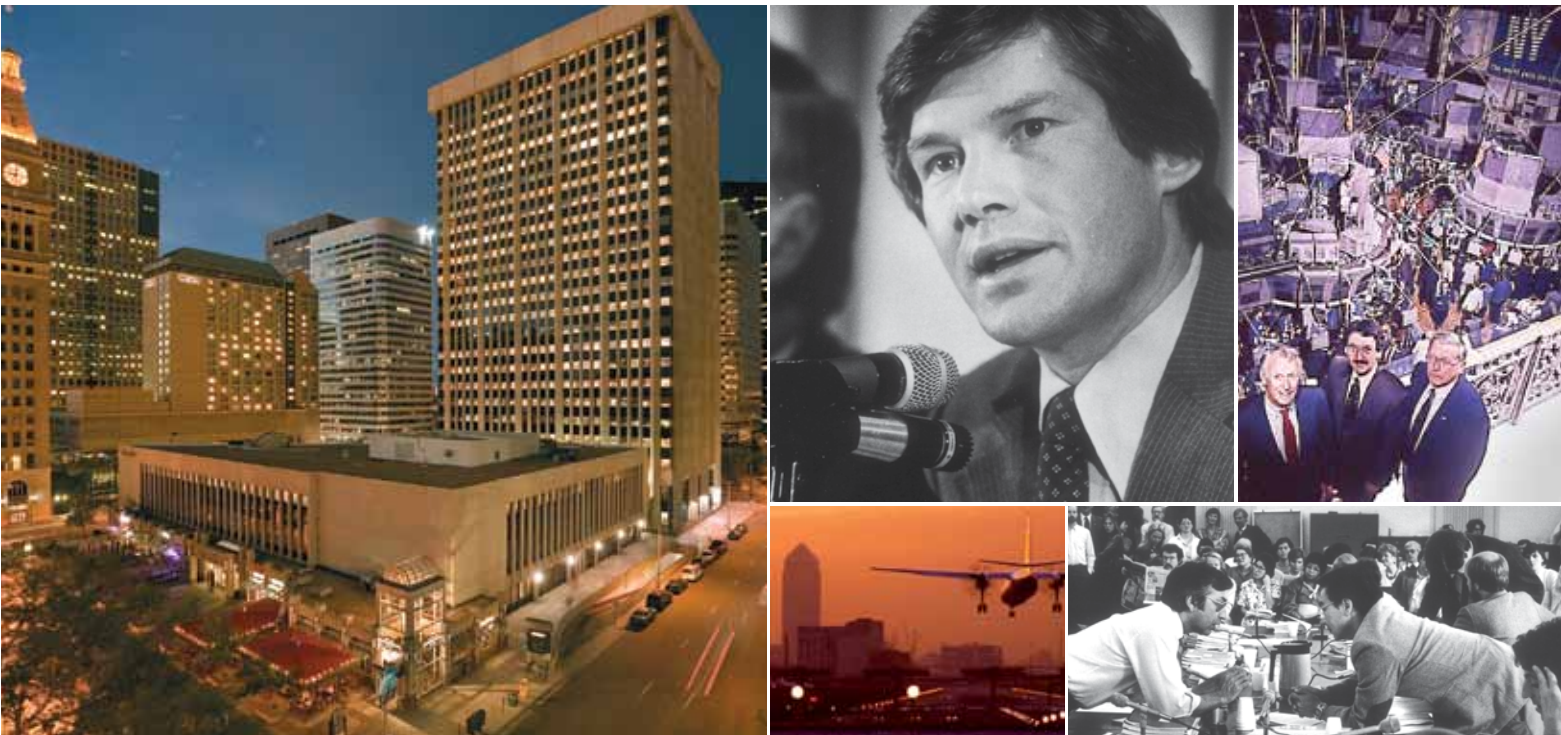
| | |
|----------------------------------|---------|
| 37% Absolute Return | \$2,531 |
| 46% Real Return | \$3,164 |
| 7% Distressed Debt | \$467 |
| 1% Mezzanine Debt | \$64 |
| 9% Emerging Market Opportunities | \$583 |
| Total: | \$6,809 |

INFRASTRUCTURE INVESTMENTS

By Sector as of June 30, 2011 (In Millions)



| | |
|---------------------|-------|
| 32% Energy | \$210 |
| 45% Transportation | \$296 |
| 17% Water | \$113 |
| 6% Waste Management | \$37 |
| Total: | \$656 |



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, 2011 and June 30, 2010. 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 - and should be reviewed together with the financial statements and related notes that follow it.

Financial Highlights

- In fiscal year (“FY”) 2011, the Fund ended positively with a total investment return of 20.6 percent, the third highest return in the history of the Fund, behind FY 1985 (25.6 percent) and FY 1986 (23.1 percent).
- FY 2011’s excess of revenues over expenditures was \$6.8 billion, the highest in the history of the Fund, and almost double FY 2010’s excess of revenues over expenditures of \$3.5 billion. With these two strong consecutive years, the Fund has recovered the losses of FY 2008 and FY 2009 (\$7.8 billion) and is again at its pre-2008 global financial crisis value of \$40 billion.
- The Alaska Permanent Fund dividend is calculated using a five-year rolling average of net income as described in Alaska Statutes, which excludes unrealized gains and losses (statutory net income). The FY 2011 rolling average did not change significantly from FY 2010 because the oldest year’s (FY 2006’s) statutory net income of \$2.7 billion was replaced by FY 2011 statutory net income of \$2.1 billion, a decrease of approximately 20 percent. Because the formula is a five-year average, and only one half of that amount is paid out for dividends, the total dividend payment decreased by only five percent, from \$858 million in FY 2010 to \$801 million in FY 2011.
- The Fund invested in one new investment mandate during FY 2011, a focus on all-emerging-markets opportunities. This mandate allows different types of investment vehicles, such as stocks and bonds, within emerging market countries. The APFC hired two managers for this new mandate, providing one with \$400 million to invest and the other with \$200 million.
- The portion of dedicated State of Alaska revenues deposited into the principal of the Fund is based on mineral prices and production. In FY 2011, the deposits exceeded FY 2010’s

deposits by more than 30 percent. With dedicated revenue deposits of \$887 million, FY 2011 had the highest mineral revenue deposits in the history of the Fund. Production has decreased, but oil prices have increased significantly.

- Inflation-proofing of the Fund’s corpus is outlined in Alaska Statutes. In FY 2011, the inflation rate was 1.64 percent, and \$533 million was transferred to the nonspendable fund balance for inflation-proofing. In FY 2010, for the first time in the history of the Fund, the inflation-proofing calculation produced a negative number, at negative .36 percent. Therefore, no inflation-proofing was made to the Fund in FY 2010.
- In FY 2010, the Fund implemented a new accounting pronouncement issued by the Governmental Accounting Standards Board (“GASB”). GASB Statement Number 54 (GASBS 54) requires all governmental entities to redefine their fund balances based on a hierarchy of five different categories. Upon implementation, what was previously titled “reserved” fund balances in the Fund’s financial statements and reports (and referred to as “principal” in Alaska Statutes) was renamed to “nonspendable” fund balances in the financial statements and reports, and what was previously titled “unreserved” fund balances in the financial statements and reports (and referred to as “earnings reserve” in Alaska Statutes) was renamed to “assigned” fund balances in the financial statements and reports. But no amounts were reclassified between these categories of the fund balances.

Using the Financial Statements

This section of the MD&A aims to provide an introduction to the Fund’s required financial statement components, which include: Balance Sheets; Statements of Revenues, Expenditures and Changes in Fund Balances; and Notes to the Financial Statements.

BALANCE SHEETS

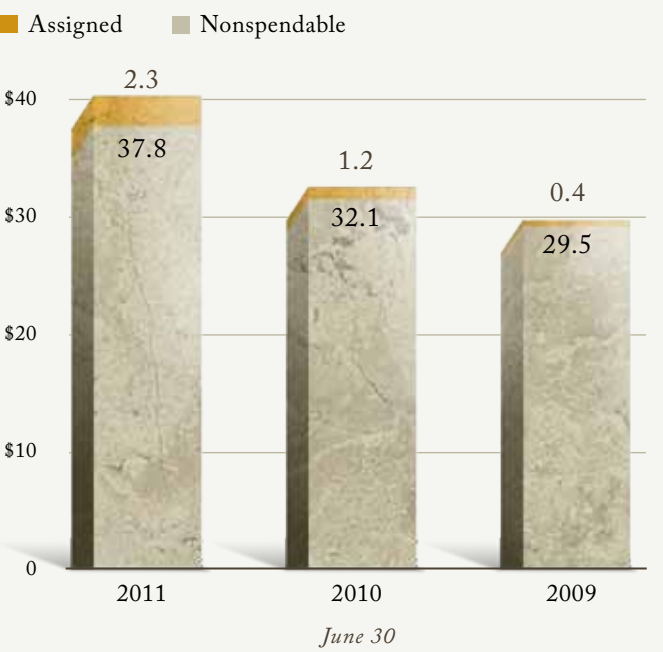
The Balance Sheets present all assets, liabilities and fund balances of the Fund as of June 30, 2011, as well as the prior fiscal year’s ending balances at June 30, 2010.

Assets are grouped into broad categories for ease of readability and analysis. Receivables include cash not yet received from the sale of investments, as well as dividends and interest receivable from stock and bond holdings. Real estate assets shown on the Balance Sheets include both direct investments in real estate properties and stock holdings of real estate investment trusts (REITs). The securities lending collateral (cash received from the borrower on loans of securities 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 (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 (94 percent as of June 30, 2011) 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 almost doubled from FY 2010 to FY 2011, from \$1.2 billion to \$2.3 billion. Generally, only four factors contribute significantly to changes in the assigned fund balance: investment cash flow income including transactional realized gains and losses; the State of Alaska dividend payout; 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 2011, factors that contributed to a net increase of approximately \$1 billion in the assigned fund balance were (i) realized income of \$2.1 billion, (ii) the dividend payout of \$801 million, (iii) the inflation-proofing transfer of \$533 million, and (iv) the allocation of a portion of unrealized gains and losses (which amount increased from FY 2010 to FY 2011 by \$276 million, to a balance of \$292 million).

FUND BALANCE Ending Balance (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 2011 and FY 2010.

Revenues are shown in two sections on the statement, separating cash receipts of various investment holdings, such as interest, dividends and real estate rental income, from the change in value of investment holdings. The first section of the revenues also includes miscellaneous income, such as class action litigation proceeds and securities lending income. The second section of revenues includes both realized and unrealized gains and losses on investments. Realized gains and losses are produced only through the sale of investments, while unrealized gains and losses are the result of changes in the fair value of investments without a sale of those investments. Realized and unrealized gains and losses are summarized by broad asset class that are similar to 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 in fully understanding all financial aspects of the Fund and to interpreting the major components of the financial statements. The Notes to the Financial Statements can be found immediately following the Statements of Revenues, Expenditures and Changes in Fund Balances.

Financial Statement Analysis

This section of the MD&A is intended to provide an analysis of past fiscal years’ activities and specific contributors to changes in the net assets of the Fund. The fund balance serves to provide a gauge of the financial strength of the Fund. While assets of the Fund exceeded liabilities each year by double-digit

ratios (excluding securities lending collateral, held separately by the custodian for repayment to the borrower upon a loan’s completion), the nonspendable fund balance is unavailable for appropriation. The table set forth below was derived from the Balance Sheets of the Fund, and provides a comparison of the change between balances of June 30, 2011 and 2010.

BALANCE SHEETS as of June 30

| Assets | 2011 | 2010 | Net Change | Percent |
|--|-------------------|----------------|---------------|---------|
| Cash and temporary investments | \$ 1,659,878,000 | 1,519,515,000 | 140,363,000 | 9 % |
| Receivables, prepaid expenses and other assets | 574,715,000 | 238,963,000 | 335,752,000 | 141 % |
| Investments | 39,388,020,000 | 32,696,290,000 | 6,691,730,000 | 20 % |
| Securities lending collateral invested | 3,617,520,000 | 2,598,126,000 | 1,019,394,000 | 39 % |
| Total assets | \$ 45,240,133,000 | 37,052,894,000 | 8,187,239,000 | 22 % |
| Liabilities | | | | |
| Accounts payable | \$ 668,995,000 | 341,974,000 | 327,021,000 | 96 % |
| Income distributable to the State of Alaska | 813,404,000 | 857,983,000 | (44,579,000) | (5)% |
| Securities lending collateral | 3,617,520,000 | 2,598,126,000 | 1,019,394,000 | 39 % |
| Total liabilities | 5,099,919,000 | 3,798,083,000 | 1,301,836,000 | 34 % |
| Fund Balances | | | | |
| Nonspendable | | | | |
| Permanent Fund corpus — contributions and appropriations | 33,044,309,000 | 31,624,137,000 | 1,420,172,000 | 4 % |
| Not in spendable form — unrealized appreciation on invested assets | 4,788,085,000 | 420,837,000 | 4,367,248,000 | 1,038 % |
| Total nonspendable | 37,832,394,000 | 32,044,974,000 | 5,787,420,000 | 18 % |
| Assigned for future appropriations | | | | |
| Realized earnings | 2,015,742,000 | 1,193,949,000 | 821,793,000 | 69 % |
| Unrealized appreciation on invested assets | 292,078,000 | 15,888,000 | 276,190,000 | 1,738 % |
| Total assigned | 2,307,820,000 | 1,209,837,000 | 1,097,983,000 | 91 % |
| Total Fund balances | 40,140,214,000 | 33,254,811,000 | 6,885,403,000 | 21 % |
| Total liabilities and Fund balances | \$ 45,240,133,000 | 37,052,894,000 | 8,187,239,000 | 22 % |

The most notable change in the Fund’s assets from June 30, 2010 to June 30, 2011 was a 20 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. The prior fiscal year also saw strong gains in all

equity mandates, although those returns were less than half of the FY 2011 returns. In FY 2010, equities returned 15.9 percent for domestic and 11.8 and 11.6 percent for the non-domestic and global equity mandates, 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. No asset classes had negative returns in FY 2011, and in FY 2010 only real estate had a negative return, at -0.6 percent. In FY 2011, real

estate returned a strong 16.9 percent, and the newly established real return mandate returned 17 percent.

Due primarily to timing, receivables increased significantly from FY 2010 to FY 2011. As of June 30, 2011, the balance due on assets sold but not yet settled was up more than 150 percent over the prior year, moving from \$142 million to \$374 million. The amount receivable from the State of Alaska for dedicated deposits to principal was also up significantly due to timing of those receipts. The ending value of securities lending collateral invested and the related liability is dependent upon the amount of securities out on loan on any particular day. These values, which can change significantly from day to day and year to year, were up 39 percent from FY 2010 to FY 2011. This increase fits in with the slow market trend of investors getting back into borrowing securities, an investment approach not heavily used during the extreme markets of 2008-2009.

In the liability section of the Balance Sheets, accounts payable primarily consist of obligations due, but not yet settled, on securities purchased. The open transactions can vary extensively from day to day and are usually the largest portion of Fund payables, representing greater than 97 percent of the FY 2011 accounts payable balance and 94 percent of the FY 2010 balance. Most of the increase from FY 2010 to FY 2011 was due to bonds that had been purchased for \$411 million, but not yet settled as of June 30, 2011. As of June 30, 2010, only \$199 billion was due on such payables. The remaining increase in payables was primarily related to equities, which had been purchased but not yet settled, and was \$121 million as of June 30, 2010 versus \$238 million as of June 30, 2011.

Income distributable to the State of Alaska, which is based primarily on the dividend calculation mandated by statute, decreased slightly from FY 2010 to FY 2011. The dividend calculation is based on a five-year rolling average of statutory net income (which excludes unrealized gains and losses). Because the FY 2011 statutory net income of \$2.1 billion replaced the FY 2006 statutory net income of \$2.7 billion in the rolling average, there was only a small change in the calculated amount due to the State. As of June 30, 2009, a similar balance of \$857 million was due to the State. However, at the end of FY 2008, the balance due to the State of Alaska for the dividend payout was \$1.3 billion. This illustrates how the payout calculation can fluctuate significantly from year to year.

Because the Fund incurred realized losses during FY 2009, there was no transfer to the Alaska Capital Income Fund (ACIF) for that year, and the ACIF’s \$33.3 million deficit was retained in a

subaccount of the assigned fund balances. During FY 2010 and FY 2011, realized earnings of \$20.8 million and \$25.3 million, respectively, were attributed to the ACIF and used to offset the deficit in the subaccount, with the excess earnings in FY 2011 of \$12.8 million payable to the ACIF.

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 fund balance at the end of FY 2011 was \$40.1 billion, approximately \$10 billion greater than it was at the end of FY 2009 (two years earlier), reflecting the recent turbulent financial markets.

The table on the following 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 2010 as compared to FY 2011 are shown in both dollars and percentages.

During FY 2011, cash flow revenue from dividends, real estate, and other sources began to see some recovery from the 2008 global financial crisis. However, interest rates remained low on bonds. Total cash flow income increased from an average of \$67 million per month in FY 2010 to \$76 million per month in FY 2011. By comparison, FY 2008 averaged slightly more than \$100 million per month and FY 2009 averaged \$80 million per month. The change in the fair value of investments was strong in FY 2011, more than doubling FY 2010’s gains. 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 are calculated on market values of assets under management, and when those market values increase, as they did in FY 2011, fees increase as well.

Transfers in of dedicated State revenues increased from FY 2010 to FY 2011 by 31 percent (\$208 million) making FY 2011 the year with the highest State revenue deposit in the history of the Fund. Oil prices have been volatile over the past four years, and while production continues to decline in Alaska, the price of oil (and therefore revenues to the State of Alaska) continued to increase over the past fiscal year.

Transfers out of the Fund are for two purposes: 1) an appropriation to fund the Permanent Fund dividend payment,

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended June 30

| Revenues | 2011 | 2010 | Net Change | Percent |
|---|-------------------|----------------|---------------|---------|
| Interest, dividends, real estate and other income | \$ 912,399,000 | 800,634,000 | 111,765,000 | 14 % |
| Increase in the fair value of investments | 5,997,864,000 | 2,792,457,000 | 3,205,407,000 | 115 % |
| Total revenues | 6,910,263,000 | 3,593,091,000 | 3,317,172,000 | 92 % |
| Expenditures | | | | |
| Operating expenditures | (91,585,000) | (69,092,000) | (22,493,000) | 33 % |
| Other Legislative appropriations | (6,860,000) | (6,712,000) | (148,000) | 2 % |
| Total expenditures | (98,445,000) | (75,804,000) | (22,641,000) | 30 % |
| Excess of revenues over expenditures | 6,811,818,000 | 3,517,287,000 | 3,294,531,000 | 94 % |
| Other Financing Sources (Uses) | | | | |
| Transfers in – dedicated State revenues | 886,989,000 | 679,438,000 | 207,551,000 | 31 % |
| Transfers out – appropriations | (813,404,000) | (857,983,000) | 44,579,000 | (5)% |
| Net change in Fund balances | 6,885,403,000 | 3,338,742,000 | 3,546,661,000 | 106 % |
| Fund Balances | | | | |
| Beginning of period | 33,254,811,000 | 29,916,069,000 | 3,338,742,000 | 11 % |
| End of period | \$ 40,140,214,000 | 33,254,811,000 | 6,885,403,000 | 21 % |

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 2011 results supplanted the FY 2006 results, and because the difference in statutory net income between these years decreased by \$546 million, the dividend distribution decreased by \$57 million in FY 2011. The ACIF transfer out did not take place in FY 2009 nor in FY 2010. That transfer is based on realized earnings for only one year; it is not averaged over multiple years. In FY 2009, those earnings were negative \$33.3 million. ACIF earnings were positive in FY 2010 and FY 2011 at \$20.8 million and \$25.3 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 prior two transfers to the Alaska Capital Income Fund were \$33 million in FY 2008 and \$42.3 million in FY 2007.

Economic, Investment and Political Factors

The market value of and earnings from the Fund’s assets are directly impacted by the volatility of the financial markets, as well as 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. Subsequent to June 30, 2011, the financial markets experienced extreme volatility, with the daily Fund returns as low as -2.5 percent and cumulative negative returns as severe as -7.7 percent. 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.

THE BOARD OF TRUSTEES

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

We have audited the accompanying balance sheets of Alaska Permanent Fund (Fund), as of June 30, 2011 and 2010, 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Alaska Permanent Fund and do not purport to, and do not, present fairly the financial position of the State of Alaska as of June 30, 2011 and 2010, and changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Permanent Fund as of June 30, 2011 and 2010, and 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 9, 2011 on our consideration of the Fund’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management’s discussion and analysis on pages 17 through 21 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Anchorage, Alaska
September 9, 2011

BALANCE SHEETS

As of June 30

| <i>Assets</i> | <i>2011</i> | <i>2010</i> |
|--|--------------------------|-----------------------|
| Cash and temporary investments | \$ 1,659,878,000 | 1,519,515,000 |
| Receivables, prepaid expenses and other assets | 574,715,000 | 238,963,000 |
| Investments — | | |
| Marketable debt securities | 7,408,228,000 | 6,347,889,000 |
| Preferred and common stock | 19,064,272,000 | 16,379,187,000 |
| Real estate | 3,723,354,000 | 3,273,363,000 |
| Real return | 3,164,561,000 | 2,483,299,000 |
| Absolute return, distressed debt and mezzanine debt | 3,062,053,000 | 2,452,623,000 |
| Private equity | 1,378,117,000 | 1,017,919,000 |
| Infrastructure | 786,916,000 | 524,412,000 |
| Emerging markets total opportunities | 582,809,000 | — |
| Alaska certificates of deposit | 217,710,000 | 217,598,000 |
| Total investments | 39,388,020,000 | 32,696,290,000 |
| Securities lending collateral invested | 3,617,520,000 | 2,598,126,000 |
| <i>Total assets</i> | <i>\$ 45,240,133,000</i> | <i>37,052,894,000</i> |
| <i>Liabilities</i> | | |
| Accounts payable | \$ 668,995,000 | 341,974,000 |
| Income distributable to the State of Alaska | 813,404,000 | 857,983,000 |
| Securities lending collateral | 3,617,520,000 | 2,598,126,000 |
| <i>Total liabilities</i> | <i>5,099,919,000</i> | <i>3,798,083,000</i> |
| <i>Fund balances</i> | | |
| Nonspendable | | |
| Permanent Fund corpus — contributions and appropriations | 33,044,309,000 | 31,624,137,000 |
| Not in spendable form — unrealized appreciation on invested assets | 4,788,085,000 | 420,837,000 |
| Total nonspendable | 37,832,394,000 | 32,044,974,000 |
| Assigned for future appropriations | | |
| Realized earnings | 2,015,742,000 | 1,193,949,000 |
| Unrealized appreciation on invested assets | 292,078,000 | 15,888,000 |
| Total assigned | 2,307,820,000 | 1,209,837,000 |
| <i>Total Fund balances</i> | <i>40,140,214,000</i> | <i>33,254,811,000</i> |
| <i>Total liabilities and Fund balances</i> | <i>\$ 45,240,133,000</i> | <i>37,052,894,000</i> |

See Accompanying Notes to the Financial Statements.

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Years Ended June 30

| <i>Revenues</i> | <i>2011</i> | <i>2010</i> |
|--|----------------------|----------------------|
| Interest | \$ 283,720,000 | 298,170,000 |
| Dividends | 459,853,000 | 351,017,000 |
| Real estate and other income | 168,826,000 | 151,447,000 |
| <i>Total interest, dividends, real estate and other income</i> | <i>912,399,000</i> | <i>800,634,000</i> |
| Net increase (decrease) in the fair value of investments — | | |
| Marketable debt securities | 235,396,000 | 495,740,000 |
| Preferred and common stock | 4,359,550,000 | 1,796,933,000 |
| Real estate | 403,286,000 | (167,428,000) |
| Real return | 402,290,000 | 1,220,000 |
| Absolute return, distressed debt and mezzanine debt | 211,026,000 | 311,423,000 |
| Private equity | 216,339,000 | 161,249,000 |
| Infrastructure | 113,730,000 | 17,735,000 |
| Emerging markets total opportunities | (6,938,000) | — |
| Foreign currency forward exchange contracts and futures | (92,574,000) | 96,430,000 |
| Currency | 155,759,000 | 79,155,000 |
| <i>Total net increase in the fair value of investments</i> | <i>5,997,864,000</i> | <i>2,792,457,000</i> |
| <i>Total revenues</i> | <i>6,910,263,000</i> | <i>3,593,091,000</i> |
| <i>Expenditures</i> | | |
| Operating expenditures | (91,585,000) | (69,092,000) |
| Other legislative appropriations | (6,860,000) | (6,712,000) |
| <i>Total expenditures</i> | <i>(98,445,000)</i> | <i>(75,804,000)</i> |
| <i>Excess of revenues over expenditures</i> | <i>6,811,818,000</i> | <i>3,517,287,000</i> |
| <i>Other financing sources (uses)</i> | | |
| Transfers in - dedicated state revenues | 886,989,000 | 679,438,000 |
| Transfers out - statutory and legislative appropriations | (813,404,000) | (857,983,000) |
| <i>Net change in fund balances</i> | <i>6,885,403,000</i> | <i>3,338,742,000</i> |
| <i>Fund balances</i> | | |
| Beginning of period | 33,254,811,000 | 29,916,069,000 |
| End of period | \$ 40,140,214,000 | 33,254,811,000 |

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 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 annual realized earnings to the State’s dividend fund, (ii) a portion of the realized earnings sufficient to offset the effect of inflation on contributions and appropriations to the nonspendable balance of the Fund, and (iii) realized earnings on the balance of the North Slope royalty case settlement money (State v. Amerada Hess, et al.) to the Alaska Capital Income Fund (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.

The Fund’s financial statements generally follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The APFC has elected not to follow subsequent private-sector guidance for the financial statements of the Fund.

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.

Equity index futures

Certain equity managers for the Fund are permitted to buy and sell equity index futures. The gross fair value of equity index futures

does not appear in the balance sheets. The net unrealized gain or loss on open futures trades is included in 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, based on the difference between the contract purchase price and the current value of the futures index as of the balance sheet date.

Financial statement presentation

A reclassification has been made to the 2010 financial statements to conform to the 2011 presentation. This reclassification was made to segregate realized currency gains and losses from security gains and losses. Historically, currency gains and losses related to security sales have been included in the increase or decrease in the fair value of that investment class. Beginning in fiscal year (FY) 2011, and as reclassified for FY 2010, realized currency gains and losses on any investment activity will be included in the net increase or decrease in the fair value of currency. In the FY 2010 Statement of Revenues, Expenditures and Changes in Fund Balances, \$90,451,000 was reclassified from the net increase in the fair value of marketable debt securities (\$21,448,000), preferred and common stock (\$67,916,000), and real estate (\$1,087,000) to the net increase in the fair value of currency. The reclassification had no impact on the change in fund balances or the calculation of the State of Alaska permanent fund dividend for the years ending June 30, 2011 and 2010.

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 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.

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, 2011 was 1.64 percent, and \$533,182,000 was transferred from the assigned to the nonspendable fund balance. The calculated rate for FY 2010 was a negative .36 percent; therefore, there was no legislative appropriation for inflation-proofing for the year ended June 30, 2010.

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

NOTES TO THE FINANCIAL STATEMENTS (cont.)

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, 2011, the APFC’s strategic asset allocation targets were as follows:

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

Capital that is not invested in the special opportunities risk class resides in the company exposure risk class. To allow for market fluctuations and to minimize transaction costs, the Trustees have adopted ranges that permit percentage deviations from the strategic asset allocation targets in accordance with specified reporting requirements and other procedures. Generally, for each risk and asset class, the APFC’s chief investment officer has discretionary authority to permit target deviations within one specified range (referred to as the “green zone” in the investment policy), the APFC’s executive director can approve target deviations for up to 90 days within a broader range (the “yellow zone”), and the Board can approve operating for longer than 30 days within a third range (the “red zone”). For example,

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

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributable to holding investments from a single issuer. The APFC manages the Fund’s concentration of credit risk by following its strategic asset allocation policy, diversifying investments among managers with varying investment styles and mandates, and monitoring tracking error. Tracking error is a measure of how closely a portfolio follows the index to which it is benchmarked. The APFC’s policy for mitigating this risk of loss for fixed income and equity investments is to ensure compliance with APFC investment policy and investment manager contracts. There is no single-issuer exposure within the APFC portfolio that comprises five 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 managed by Invesco Aim Advisors, Inc. Late deposits of cash which miss the money market sweep deadline are deposited to an interest bearing account at the custodian.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk 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, 2011, the Fund held fixed income investments with floating, variable, and step interest rates, valued at \$346,583,000. These fixed income investments were both domestic and non-domestic, and had current annual interest rates ranging from 0 to 10.5 percent.

Transfers In

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

Transfers Out

Transfers out to other State agencies are recorded when measurable.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

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:

| | <i>2011</i> | <i>2010</i> |
|---|-------------------------|----------------------|
| Cash and pooled funds | \$ 1,656,603,000 | 1,512,025,000 |
| U.S. Treasury bills | 3,275,000 | 7,490,000 |
| <i>Total cash and temporary investments</i> | <i>\$ 1,659,878,000</i> | <i>1,519,515,000</i> |

U.S. Treasury bills are explicitly guaranteed by the U.S. government. At June 30, 2011, uninvested cash of \$72,663,000 was held at the custodian, subcustodian, or futures broker banks, primarily in interest-bearing accounts. All remaining cash balances were invested in a money market fund managed by Invesco Aim Advisors, Inc.

4. RECEIVABLES, PREPAID EXPENSES AND OTHER ASSETS

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

| | <i>2011</i> | <i>2010</i> |
|---|-----------------------|--------------------|
| Interest receivable | \$ 77,934,000 | 66,626,000 |
| Dividends receivable | 40,630,000 | 29,483,000 |
| Sales receivable | 374,196,000 | 142,091,000 |
| Contributions receivable | 81,955,000 | 763,000 |
| <i>Total receivables, prepaid expenses and other assets</i> | <i>\$ 574,715,000</i> | <i>238,963,000</i> |

5. MARKETABLE DEBT SECURITIES

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

| <i>2011</i> | <i>Cost</i> | <i>Fair value</i> | <i>Unrealized holding gains</i> |
|---|-------------------------|----------------------|---------------------------------|
| 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 |
| <i>Total marketable debt securities</i> | <i>\$ 7,050,207,000</i> | <i>7,408,228,000</i> | <i>358,021,000</i> |
| <i>2010</i> | | | |
| Treasury and government notes/bonds | \$ 2,434,459,000 | 2,532,883,000 | 98,424,000 |
| Mortgage-backed securities | 443,138,000 | 462,837,000 | 19,699,000 |
| Corporate bonds | 1,467,558,000 | 1,564,227,000 | 96,669,000 |
| Commercial mortgage/asset-backed securities | 285,827,000 | 303,233,000 | 17,406,000 |
| Non-U.S. Treasury and government bonds | 1,112,011,000 | 1,119,796,000 | 7,785,000 |
| Non-U.S. corporate bonds | 341,376,000 | 364,913,000 | 23,537,000 |
| <i>Total marketable debt securities</i> | <i>\$ 6,084,369,000</i> | <i>6,347,889,000</i> | <i>263,520,000</i> |

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, 2011), issues falling below the minimum standards are required to be sold within seven months of the downgrade date. Managers with high yield mandates (approximately 13 percent of bond mandates at June 30, 2011) 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 Nationally Recognized Statistical Rating Organizations (NRSRO) used, the rating with the highest degree of risk (the lowest rating) is reported. At June 30, 2011, the Fund’s credit ratings for its marketable debt securities are as follows:

| <i>NRSRO quality rating</i> | <i>Domestic</i> | <i>Non-domestic</i> | <i>Total fair value</i> | <i>Percent of holdings</i> |
|--|-------------------------|----------------------|-------------------------|----------------------------|
| AAA | \$ 406,345,000 | 588,915,000 | 995,260,000 | 13.44% |
| AA | 188,566,000 | 505,170,000 | 693,736,000 | 9.36% |
| A | 1,039,723,000 | 259,995,000 | 1,299,718,000 | 17.54% |
| BBB | 794,776,000 | 318,956,000 | 1,113,732,000 | 15.03% |
| BB | 77,187,000 | 131,522,000 | 208,709,000 | 2.82% |
| B | 59,493,000 | 62,056,000 | 121,549,000 | 1.64% |
| CCC | 41,927,000 | 1,198,000 | 43,125,000 | 0.58% |
| CC | 4,154,000 | — | 4,154,000 | 0.06% |
| C | 4,312,000 | 718,000 | 5,030,000 | 0.07% |
| <i>Total fair value of rated debt securities</i> | <i>2,616,483,000</i> | <i>1,868,530,000</i> | <i>4,485,013,000</i> | <i>60.54%</i> |
| Commingled bond funds | 353,509,000 | — | 353,509,000 | 4.77% |
| Not rated | 8,985,000 | 14,226,000 | 23,211,000 | 0.31% |
| U.S. government explicitly backed by the U.S. government (AAA) | 2,047,332,000 | — | 2,047,332,000 | 27.64% |
| U.S. government implicitly backed by the U.S. government (AAA) | 499,163,000 | — | 499,163,000 | 6.74% |
| <i>Total fair value debt securities</i> | <i>\$ 5,525,472,000</i> | <i>1,882,756,000</i> | <i>7,408,228,000</i> | <i>100.00%</i> |

Subsequent to fiscal year end, on August 5, 2011, Standard & Poor’s downgraded its long-term sovereign credit rating on U.S. issued and U.S. backed securities from AAA to AA+. If this event had occurred prior to fiscal year end, then the U.S. securities shown above valued at \$2,546,495,000 would have been reported with a rating of AA.

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, 2011, the effective duration by investment type, based on fair value, is as follows:

| | <i>Percent of bond holdings</i> | <i>Duration</i> |
|---|---------------------------------|-----------------|
| Domestic bonds | | |
| Treasury and government notes/bonds | 34.95% | 6.71 |
| Mortgage-backed securities | 10.76% | 4.23 |
| Corporate bonds | 47.79% | 6.31 |
| Commercial mortgage and asset-backed securities | 6.50% | 3.04 |
| <i>Total domestic bonds</i> | <i>100.00%</i> | <i>6.00</i> |
| Non-domestic bonds | | |
| Non-U.S. treasury and government bonds | 74.00% | 5.98 |
| Non-U.S. corporate bonds | 26.00% | 5.94 |
| <i>Total non-domestic bonds</i> | <i>100.00%</i> | <i>5.97</i> |

NOTES TO THE FINANCIAL STATEMENTS (cont.)

8. PREFERRED AND COMMON STOCK

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

The Fund invests in commingled stock funds, which are held by the custodian bank of the fund manager on behalf of fund investors. The commingled stock funds held as of June 30, 2011 were: the Emerging Markets Growth Fund (EMGF) managed by Capital International, Inc.; the International Small Company Portfolio (DFISX) managed by Dimensional Fund Advisors LP; and the DFA International Small Cap Value Portfolio (DISVX) managed by Dimensional Fund Advisors LP.

The fair values of the Fund’s shares in the EMGF were \$1,316,974,000 and \$1,066,422,000 as of June 30, 2011 and 2010, respectively, and are included in the non-domestic values shown below. The value of the Fund’s investment in the commingled fund represented approximately 7.9 and 8.3 percent of the total EMGF value at June 30, 2011 and 2010, respectively.

The fair values of the Fund’s shares in the DFISX funds were \$251,872,000 and \$184,424,000 as of June 30, 2011 and 2010, respectively, and are included in the non-domestic values shown below. The fair values of the Fund’s shares in the DISVX funds were \$243,072,000 and \$179,106,000 as of June 30, 2011 and 2010, respectively, and are included in the non-domestic values shown below. The value of the Fund’s investment in the DFISX fund represented approximately 4.0 percent and 4.2 percent of the total DFISX value at June 30, 2011 and 2010, respectively. The value of the Fund’s investment in the DISVX fund represented approximately 3.0 percent and 2.7 percent of the total DISVX value at June 30, 2011 and 2010, respectively.

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

| <i>2011</i> | <i>Cost</i> | <i>Fair value</i> | <i>Unrealized holding gains/(losses)</i> |
|---|--------------------------|-----------------------|--|
| Domestic stock | \$ 8,945,123,000 | 10,897,167,000 | 1,952,044,000 |
| Non-domestic stock | 6,891,512,000 | 8,167,105,000 | 1,275,593,000 |
| <i>Total preferred and common stock</i> | <i>\$ 15,836,635,000</i> | <i>19,064,272,000</i> | <i>3,227,637,000</i> |
| <i>2010</i> | | | |
| Domestic stock | \$ 8,734,594,000 | 8,855,374,000 | 120,780,000 |
| Non-domestic stock | 7,830,107,000 | 7,523,813,000 | (306,294,000) |
| <i>Total preferred and common stock</i> | <i>\$ 16,564,701,000</i> | <i>16,379,187,000</i> | <i>(185,514,000)</i> |

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, 2011, the Fund’s cash holdings, non-domestic public and private equity, and debt securities had exposure to foreign currency risk as follows (shown in U.S. dollar equivalent at fair value and based on the currency in which the securities are held and traded):

| <i>Foreign currency</i> | <i>Cash</i> | <i>Public equity</i> | <i>Debt</i> | <i>Private equity</i> | <i>Total foreign currency exposure</i> |
|--|----------------------|----------------------|----------------------|-----------------------|--|
| Argentina Peso | \$ (19,000) | — | 3,459,000 | — | 3,440,000 |
| Australian Dollar | 11,655,000 | 421,115,000 | — | 6,957,000 | 439,727,000 |
| Brazilian Real | 2,299,000 | 115,461,000 | 38,363,000 | — | 156,123,000 |
| British Pound Sterling | 825,000 | 1,410,159,000 | 76,855,000 | 28,480,000 | 1,516,319,000 |
| Canadian Dollar | 11,100,000 | 699,633,000 | 72,512,000 | — | 783,245,000 |
| Chilean Peso | 13,000 | 1,373,000 | — | — | 1,386,000 |
| Colombian Peso | 5,000 | 850,000 | 22,941,000 | — | 23,796,000 |
| Czech Koruna | (41,000) | 742,000 | 6,850,000 | — | 7,551,000 |
| Danish Krone | 1,326,000 | 59,544,000 | 13,249,000 | — | 74,119,000 |
| Egyptian Pound | 5,000 | 1,983,000 | — | — | 1,988,000 |
| Euro Currency | (31,314,000) | 2,145,950,000 | 341,545,000 | 175,682,000 | 2,631,863,000 |
| Hong Kong Dollar | 10,538,000 | 439,920,000 | — | — | 450,458,000 |
| Hungarian Forint | — | 913,000 | 6,272,000 | — | 7,185,000 |
| Indian Rupee | 250,000 | 80,511,000 | — | — | 80,761,000 |
| Indonesian Rupiah | (1,803,000) | 44,237,000 | 32,257,000 | — | 74,691,000 |
| Israeli Shekel | 2,917,000 | 47,152,000 | 1,798,000 | — | 51,867,000 |
| Japanese Yen | 11,539,000 | 1,346,629,000 | 236,817,000 | — | 1,594,985,000 |
| Malaysian Ringgit | 240,000 | 25,840,000 | 17,416,000 | — | 43,496,000 |
| Mexican Peso | 262,000 | 30,900,000 | 53,558,000 | — | 84,720,000 |
| Moroccan Dirham | 12,000 | 182,000 | — | — | 194,000 |
| New Zealand Dollar | 307,000 | 15,159,000 | — | — | 15,466,000 |
| Norwegian Krone | (204,000) | 46,480,000 | — | — | 46,276,000 |
| Philippine Peso | 44,000 | 965,000 | 19,113,000 | — | 20,122,000 |
| Polish Zloty | 9,000 | 27,448,000 | 12,432,000 | — | 39,889,000 |
| Russian Ruble | — | — | 12,267,000 | — | 12,267,000 |
| Singapore Dollar | 3,820,000 | 88,478,000 | — | — | 92,298,000 |
| South African Rand | (516,000) | 62,357,000 | 8,342,000 | — | 70,183,000 |
| South Korean Won | (460,000) | 166,680,000 | 37,573,000 | — | 203,793,000 |
| Swedish Krona | 1,698,000 | 193,031,000 | 32,352,000 | 23,000 | 227,104,000 |
| Swiss Franc | 9,791,000 | 477,379,000 | — | — | 487,170,000 |
| Taiwan Dollar | 1,221,000 | 134,940,000 | — | — | 136,161,000 |
| Thai Baht | (1,562,000) | 49,964,000 | 1,887,000 | — | 50,289,000 |
| Turkish Lira | — | 30,099,000 | 36,226,000 | — | 66,325,000 |
| Uruguayan Peso | — | — | 15,558,000 | — | 15,558,000 |
| <i>Total foreign currency exposure</i> | <i>\$ 33,957,000</i> | <i>8,166,074,000</i> | <i>1,099,642,000</i> | <i>211,142,000</i> | <i>9,510,815,000</i> |

Cash amounts in the schedule above include receivables, payables, and cash balances in each related currency. If payables exceed receivables and cash balances in a currency, then the total cash balance for that currency will appear as a negative value.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

10. REAL ESTATE

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

| <i>2011</i> | <i>Cost</i> | <i>Fair value</i> | <i>Unrealized holding gains/(losses)</i> |
|----------------------------------|-------------------------|----------------------|--|
| 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 |
| Multifamily | 978,110,000 | 1,028,302,000 | 50,192,000 |
| <i>Total real estate</i> | <i>\$ 3,184,059,000</i> | <i>3,723,354,000</i> | <i>539,295,000</i> |
| <i>2010</i> | | | |
| Real estate investment trusts | \$ 213,706,000 | 211,498,000 | (2,208,000) |
| Alaska residential mortgage | 29,000 | 29,000 | — |
| Directly owned real estate - | | | |
| Retail | 650,694,000 | 1,040,027,000 | 389,333,000 |
| Office | 1,030,217,000 | 883,744,000 | (146,473,000) |
| Industrial | 247,206,000 | 214,713,000 | (32,493,000) |
| Multifamily | 997,120,000 | 923,352,000 | (73,768,000) |
| <i>Total real estate</i> | <i>\$ 3,138,972,000</i> | <i>3,273,363,000</i> | <i>134,391,000</i> |

Subsequent to fiscal year end 2011, one real estate property was sold. The industrial building, located in California, was sold for \$22.2 million (which approximated the carrying value of the property at June 30, 2011), incurring a realized loss of \$5.3 million.

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 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 do not have readily ascertainable fair values and may be subject to withdrawal restrictions and/or additional expenses upon early withdrawal of invested funds.

The Fund holds private equity through investments in limited liability companies and limited partnerships that typically invest in unlisted, illiquid common and preferred stock and, to a lesser degree, subordinated and senior debt of companies that are in most instances privately held. The APFC has hired external advisors to select private equity holdings diversified by geography and strategy.

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

Infrastructure investments involve ownership or operating agreements in essential long-term service assets with high barriers to entry. Examples of infrastructure assets include: toll roads; airports; deep water ports; communication towers; and energy generation, storage and transmission facilities. Investments in this asset class are expected to have inflation protection attributes and exhibit low correlations with other major asset classes in the Fund’s investment strategy. The Fund holds infrastructure investments through commingled funds organized as limited partnerships whose investment managers provide periodic fair value estimates. The limited partnerships undergo annual independent audits. Infrastructure investments by their nature generally have no readily ascertainable market prices, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

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

| <i>2011</i> | <i>Cost</i> | <i>Fair value</i> | <i>Unrealized holding gains/(losses)</i> |
|--------------------------------------|-------------------------|----------------------|--|
| 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 |
| <i>Total alternative investments</i> | <i>\$ 7,425,878,000</i> | <i>8,391,647,000</i> | <i>965,769,000</i> |
| <i>2010</i> | | | |
| Real return | \$ 2,511,165,000 | 2,483,299,000 | (27,866,000) |
| Absolute return | 1,955,415,000 | 2,163,647,000 | 208,232,000 |
| Private equity | 1,036,852,000 | 1,017,919,000 | (18,933,000) |
| Infrastructure | 503,763,000 | 524,412,000 | 20,649,000 |
| Distressed and mezzanine debt | 243,768,000 | 288,976,000 | 45,208,000 |
| <i>Total alternative investments</i> | <i>\$ 6,250,963,000</i> | <i>6,478,253,000</i> | <i>227,290,000</i> |

As of June 30, 2011, the APFC, on behalf of the Fund, had outstanding future funding commitments of: \$1.6 billion for private equity; \$636 million for infrastructure; and \$775 million for distressed and mezzanine debt investments combined.

12. ALASKA CERTIFICATES OF DEPOSIT

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

NOTES TO THE FINANCIAL STATEMENTS (cont.)

13. SECURITIES LENDING

State regulations at 15 AAC 137.510 and APFC investment policy authorize the APFC to enter into securities lending transactions on behalf of the Fund. Through a contract with the Bank of New York Mellon (the Bank), the Fund lends marketable debt and equity securities to borrowers who are banks and broker-dealers. The loans are collateralized with cash or 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, 2011, 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:

| | <i>2011</i> | <i>2010</i> |
|----------------------------------|------------------|---------------|
| Fair value of securities on loan | \$ 3,426,988,000 | 2,452,813,000 |
| Cash collateral | \$ 3,617,520,000 | 2,598,126,000 |

The Fund receives 80 percent of earnings derived from securities lending transactions, and the Bank retains 20 percent. During the years ended June 30, 2011 and 2010, the Fund incurred no losses from securities lending transactions. The Fund received income of \$8,957,000 and \$9,475,000 from securities lending for the years ended June 30, 2011 and 2010, respectively, which is recorded in real estate and other income on the statements of revenues, expenditures and changes in fund balances.

14. ACCOUNTS PAYABLE

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

| | <i>2011</i> | <i>2010</i> |
|------------------------|----------------|-------------|
| Accrued liabilities | \$ 19,364,000 | 21,269,000 |
| Securities purchased | 649,631,000 | 320,705,000 |
| Total accounts payable | \$ 668,995,000 | 341,974,000 |

15. INCOME DISTRIBUTABLE TO THE STATE OF ALASKA

The Legislature appropriates portions of the Fund’s statutory net income to the Permanent Fund Dividend Fund (Dividend Fund), a sub-fund of the State’s general fund created in accordance with Alaska Statute 43.23.045 and administered by the Alaska Department of Revenue. The Dividend Fund is used primarily for the payment of dividends to qualified Alaska residents. In addition, the Legislature has appropriated a portion of the dividend distribution to fund various other agency activities. Per statute, realized earnings on the principal balance of the dedicated State revenues from the North Slope royalty case settlements (State v. Amerada Hess, et al.) have been appropriated from the Fund to the Alaska Capital Income Fund (ACIF) established under Alaska Statute 37.05.565. Funds in the ACIF may be further appropriated for any public purpose. During years with net realized losses, no funds are transferred to the ACIF. Income distributable to the State at June 30 is summarized as follows:

| | <i>2011</i> | <i>2010</i> |
|---------------------------------------|----------------|-------------|
| Dividends | \$ 758,450,000 | 815,903,000 |
| Appropriation to the Departments of : | | |
| Health and Social Services | 16,285,000 | 13,585,000 |
| Revenue | 8,310,000 | 8,261,000 |
| Corrections | 15,920,000 | 10,037,000 |
| Public Safety | — | 7,607,000 |
| Administration | 1,648,000 | 1,883,000 |
| Legislature | — | 707,000 |
| Total to Dividend Fund | 800,613,000 | 857,983,000 |
| Alaska Capital Income Fund | 12,791,000 | — |
| Total income distributable | \$ 813,404,000 | 857,983,000 |

16. FUND BALANCES

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

| | <i>2011</i> | <i>2010</i> |
|--|-------------------|----------------|
| Nonspendable | | |
| Balance, beginning of year | \$ 32,044,974,000 | 29,496,085,000 |
| Dedicated state revenues | 886,989,000 | 679,438,000 |
| Inflation-proofing transfer from assigned fund balance | 533,182,000 | — |
| Change in unrealized fair value appreciation on invested assets | 4,367,249,000 | 1,869,451,000 |
| Balance, end of year | \$ 37,832,394,000 | 32,044,974,000 |
| Assigned | | |
| Balance, beginning of year | \$ 1,209,837,000 | 419,984,000 |
| Inflation-proofing transfer to nonspendable fund balance | (533,182,000) | — |
| Dividends paid or payable to the Permanent Fund Dividend Fund | (800,613,000) | (857,983,000) |
| Settlement earnings payable to the Alaska Capital Income Fund (ACIF) | (12,791,000) | — |
| Realized earnings, net of operating expenditures | 2,168,379,000 | 1,611,322,000 |
| Change in unrealized fair value appreciation on invested assets | 276,190,000 | 36,514,000 |
| Balance, end of year | \$ 2,307,820,000 | 1,209,837,000 |
| Total | | |
| Balance, beginning of year | \$ 33,254,811,000 | 29,916,069,000 |
| Dedicated State revenues | 886,989,000 | 679,438,000 |
| Dividends paid or payable to the Permanent Fund Dividend Fund | (800,613,000) | (857,983,000) |
| Settlement earnings payable to the ACIF | (12,791,000) | — |
| Excess of investment revenues over expenditures | 6,811,818,000 | 3,517,287,000 |
| Balance, end of year | \$ 40,140,214,000 | 33,254,811,000 |

NOTES TO THE FINANCIAL STATEMENTS (cont.)

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

| | <i>2011</i> | <i>2010</i> |
|---|--------------------------|----------------|
| Dedicated State revenues | \$ 12,755,223,000 | 11,868,234,000 |
| Special appropriations | 6,885,906,000 | 6,885,906,000 |
| Inflation-proofing | 13,250,269,000 | 12,717,086,000 |
| Settlement earnings | 152,911,000 | 152,911,000 |
| <i>Total contributions and appropriations</i> | <i>\$ 33,044,309,000</i> | 31,624,137,000 |

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, 2011, the Fund’s net unrealized gain was \$5,080,163,000, of which \$4,788,085,000 was allocated to the nonspendable fund balance and \$292,078,000 was allocated to the assigned fund balance.

During the fiscal years 1990 through 1999, the Fund received dedicated State revenues from North Slope royalty case settlements (State v. Amerada Hess, et al.). Accumulated settlement related activity, included in the contributions and appropriations balance of the Fund at June 30, is \$424,399,000. By statute, realized earnings from these settlement payments are to be treated in the same manner as other Fund income, except that these settlement earnings are excluded from the dividend calculation and are not subject to inflation-proofing. Since 2005, the Legislature has appropriated these settlement earnings to the Alaska Capital Income Fund (ACIF). Prior to 2005, the statute required such earnings to be appropriated to Fund principal. The Fund realized earnings on settlement principal of \$25,304,000 during FY 2011 and \$20,830,000 during FY 2010. Realized losses in 2009 were recorded in a deficit account in the realized earnings account within the assigned fund balance, and realized gains and earnings were recorded in the same account to offset prior losses. Realized earnings in FY2011 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.

17. STATUTORY NET INCOME

By Alaska law, statutory net income is computed in accordance with U.S. generally accepted accounting principles (GAAP), excluding settlement income from the North Slope royalty case (State v. Amerada Hess, et al.) and any unrealized gains or losses. However, the excess of revenues over expenditures is required by GAAP to include unrealized gains and losses and income, regardless of source. Consequently, GAAP excess of revenues over expenditures and statutory net income differ. Statutory net income is used to compute the amount available for the annual Permanent Fund dividend.

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

| | <i>2011</i> | <i>2010</i> |
|--------------------------------------|-------------------------|-----------------|
| Excess of revenues over expenditures | \$ 6,811,818,000 | 3,517,287,000 |
| Unrealized gains | (4,643,439,000) | (1,905,965,000) |
| Settlement earnings | (25,304,000) | (20,830,000) |
| <i>Statutory net income</i> | <i>\$ 2,143,075,000</i> | 1,590,492,000 |

18. INVESTMENT INCOME BY SOURCE

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

| | <i>2011</i> | <i>2010</i> |
|---|-----------------------|--------------|
| Interest | | |
| Domestic marketable debt securities | \$ 244,176,000 | 252,536,000 |
| Non-domestic marketable debt securities | 35,531,000 | 42,698,000 |
| Alaska certificates of deposit | 1,890,000 | 2,279,000 |
| Short-term domestic and other | 2,123,000 | 657,000 |
| <i>Total interest</i> | <i>\$ 283,720,000</i> | 298,170,000 |
| Dividends | | |
| Domestic stocks | \$ 107,030,000 | 142,190,000 |
| Non-domestic stocks | 352,823,000 | 208,827,000 |
| <i>Total dividends</i> | <i>\$ 459,853,000</i> | 351,017,000 |
| Real estate and other income | | |
| Directly owned real estate interest | \$ 1,000 | 2,000 |
| Directly owned real estate net rental income | 127,306,000 | 138,203,000 |
| Real estate investment trust dividends | 12,552,000 | 8,949,000 |
| Real return interest and dividends | 30,038,000 | 8,188,000 |
| Absolute return management expenses net of dividend and interest income | (17,138,000) | (15,958,000) |
| Distressed and mezzanine interest income, net of fees | 1,040,000 | (4,758,000) |
| Infrastructure fees, net of interest and dividend income | (3,291,000) | 6,311,000 |
| Private equity dividend income, net of management expenses | 5,335,000 | (4,880,000) |
| Class action litigation income | 3,393,000 | 5,344,000 |
| Loaned securities, commission recapture and other income | 9,590,000 | 10,046,000 |
| <i>Total real estate and other income</i> | <i>\$ 168,826,000</i> | 151,447,000 |

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

Certain APFC external investment managers enter into foreign currency forward exchange contracts (FX forward contracts) to buy and sell specified amounts of foreign currencies for the Fund at specified rates and future dates for the purpose of managing or optimizing foreign currency exposure. The maturity periods for outstanding contracts at June 30, 2011 ranged between 1 and 154 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, 2011 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 2011 and 2010 are summarized as follows: | <i>2011</i> | <i>2010</i> |
|--|-------------------------|---------------|
| Balances at June 30 | | |
| Face value of FX forward contracts | \$ 2,528,767,000 | 2,011,514,000 |
| Net unrealized loss on FX forward contracts | (5,195,000) | (1,475,000) |
| <i>Fair value of FX forward contracts</i> | <i>\$ 2,523,572,000</i> | 2,010,039,000 |
| Activity for fiscal years ending June 30 | | |
| Unrealized losses | \$ (3,634,000) | (3,871,000) |
| Realized gains (losses) | (122,114,000) | 90,601,000 |
| <i>Net increase (decrease) in fair value of FX forward contracts</i> | <i>\$ (125,748,000)</i> | 86,730,000 |

Certain APFC equity investment managers are permitted to trade in equity index futures for the Fund’s account. Equity index futures are traded in both domestic and non-domestic markets based on an underlying stock exchange value. Equity index futures are settled with cash for the net difference between the trade price and the settle price.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

Activity and balances related to equity index futures for fiscal year 2011 and 2010 is summarized as follows:

| | 2011 | 2010 |
|--|----------------|-------------|
| Balances at June 30 | | |
| Face value of equity index futures | \$ 149,868,000 | 100,649,000 |
| Net unrealized gain (loss) on futures | 5,083,000 | (5,003,000) |
| Fair value of equity index futures | \$ 154,951,000 | 95,646,000 |
| Activity for fiscal years ending June 30 | | |
| Unrealized gains (losses) | \$ 10,279,000 | (4,017,000) |
| Realized gains | 22,895,000 | 13,717,000 |
| Net increase in fair value of futures | \$ 33,174,000 | 9,700,000 |

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.

20. EXPENDITURES

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

| | 2011 | 2010 |
|--|---------------|------------|
| APFC Operating expenditures | | |
| Salaries and benefits | \$ 5,489,000 | 5,190,000 |
| Communications and electronic services | 1,557,000 | 1,887,000 |
| Training, supplies, services and other | 459,000 | 434,000 |
| Rent | 364,000 | 354,000 |
| Consulting fees | 351,000 | 698,000 |
| Travel | 259,000 | 249,000 |
| Legal and audit fees | 227,000 | 271,000 |
| Property and equipment | 136,000 | 149,000 |
| Public information and subscriptions | 95,000 | 118,000 |
| Subtotal APFC operating expenditures | 8,937,000 | 9,350,000 |
| Investment management and custody fees | | |
| Investment management fees | 81,502,000 | 58,471,000 |
| Custody and safekeeping fees | 1,146,000 | 1,271,000 |
| Subtotal investment management and custody fees | 82,648,000 | 59,742,000 |
| Total operating expenditures, investment management and custody fees | 91,585,000 | 69,092,000 |
| Other Legislative appropriations from corporate receipts | | |
| Department of Natural Resources | 5,297,000 | 5,153,000 |
| Department of Law | 1,478,000 | 1,477,000 |
| Department of Revenue | 85,000 | 82,000 |
| Total other Legislative appropriations | 6,860,000 | 6,712,000 |
| Total expenditures | \$ 98,445,000 | 75,804,000 |

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

21. PENSION PLANS

All APFC full-time, regular employees participate in the State of Alaska Public Employees Retirement System (PERS). PERS is a multiple-employer public employee retirement system established and administered by the State to provide pension and postemployment healthcare benefits to eligible retirees. 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 eight 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, 2011 and 2010 amounted to \$3,829,000 and \$3,646,000, respectively.

The State has recognized a net pension obligation (NPO) in the State’s Comprehensive Annual Finance Report for the fiscal years ending June 30, 2011 and 2010. The NPO is the difference between the actuarially determined rate and the contributions actually paid into PERS. The Department of Administration has estimated an NPO amount attributable to the Fund; however, it is immaterial to the Fund. As an integrated cost sharing plan, any unfunded liabilities under the plan will be shared among all employers.

In addition to the pension plan discussed above, all APFC employees and Trustees participate in the Alaska Supplemental Benefits System Supplemental Annuity Plan (SBS AP). The SBS AP is a multiple-employer defined contribution plan created pursuant to Internal Revenue Code section 401(a) to provide benefits in lieu of those provided by the Federal Social Security System. Each year, APFC employees and Trustees contribute 6.13 percent of salaries or 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, 2011 and 2010 amounted to \$2,863,000 and \$2,871,000, respectively.

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2011 Annual Report*

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