APFC ALASKA PERMANENT FUND CORPORATION

STRENGTH IN DIVERSITY

2020

Annual Report

STRENGTH IN DIVERSITY

APFC ALASKA PERMANENT FUND CORPORATION

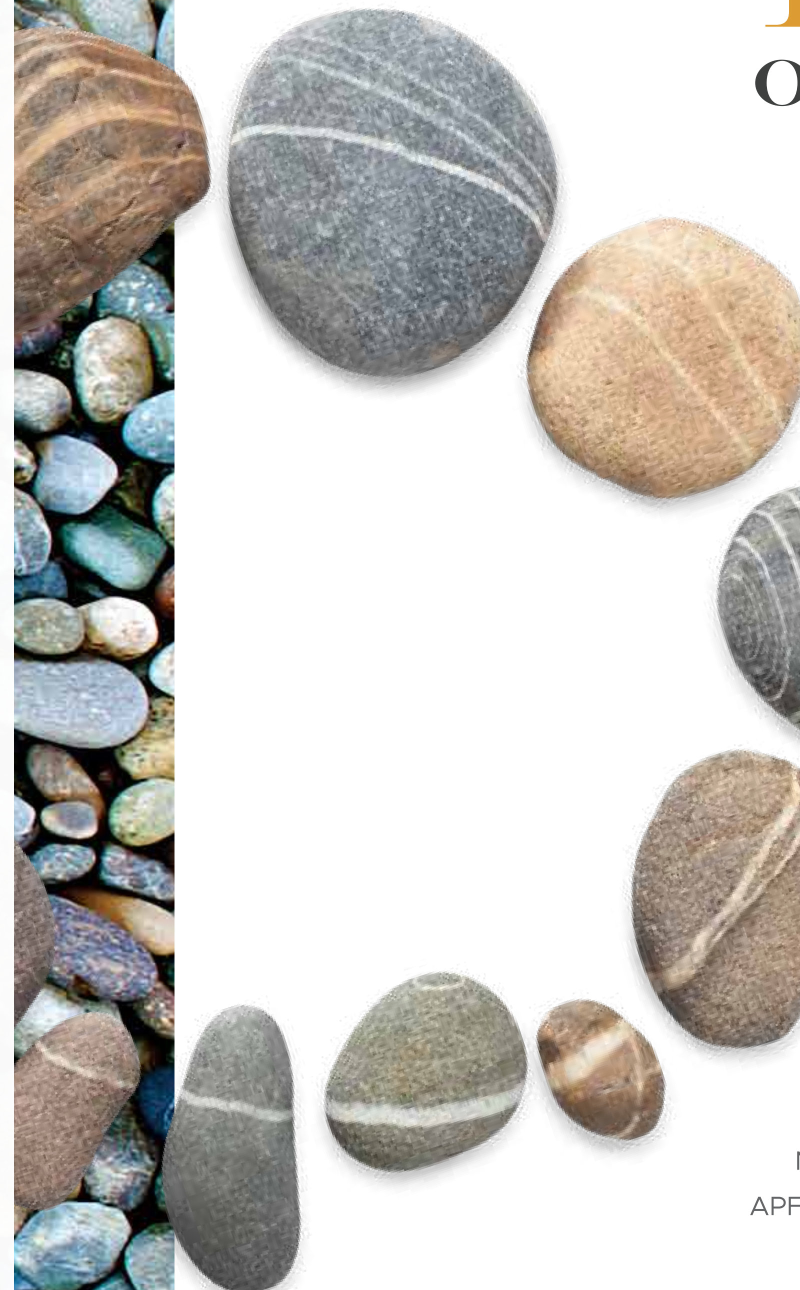
We chose the theme “Strength in Diversity” for our 40th anniversary annual report at a time when a pandemic has not only jolted world economies but is creating systemic changes to our business and personal lives. Companies large and small must rethink business models if they want to thrive in this new paradigm. Travel and tourism are viewed with caution, more Americans are working and shopping remotely, and markets have been in turmoil. In Alaska and across the nation, citizens are having frank discussions about what diversity really means.

Our team at the Alaska Permanent Fund Corporation is a cross-section of individuals of different genders, ethnicities, and education levels, from lifelong Alaskans to those originating from Argentina, Bulgaria, India, Korea, Pakistan, Russia, and Senegal. We are sub-specialized into IT, trade operations, risk, legal, administration, an investment team, and a finance team – all working together in an environment of accountability and transparency. This diversity gives us the flexibility, wisdom, and courage to manage the Alaska Permanent Fund within established parameters in accordance with the Board of Trustees’ direction for the benefit of all Alaskans - now and in the future.

The Fund itself is strong because it is invested in different asset classes and sectors in various economies around the world for two purposes: maximum growth and maximum stability. This diversity of asset allocation in public and private markets enables the Fund to grow consistently through political upheaval, technological revolutions, and economic crises near and far.

The Fund is further strengthened by a balance of internal and external management and our team’s strategic risk assessment of investments that identifies an effective balance of risk vs. reward.

Together, our staff, management, and Board of Trustees have proven there is strength in diversity.



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INTEGRITY. STEWARDSHIP. PASSION.

Commemorating 40 years of Investing for Alaska.

By providing sound stewardship and prudent investment of the Alaska Permanent Fund based on constitutional and statutory mandates, the Alaska Permanent Fund Corporation is an essential participant in Alaska’s future.

~ IN DEDICATION ~

CARL BRADY

December 11, 1943 – April 6, 2020

This annual report is dedicated to long-time Trustee Carl Brady. He first served as a Trustee in 1991, served twice as Chair, and was still serving Alaskans as Vice-Chair of the Board of Trustees when he passed this year.

During his tenure, the Corporation experienced many significant achievements in promoting and adhering to the principles of transparency, accountability, and best-in-class practices in the management of the Alaska Permanent Fund. In 2005, under his chairmanship, statutory authority was established allowing use of the Prudent Investor Rule for investing the Permanent Fund and providing for greater diversification of its portfolio into alternative asset classes, such as private equity and infrastructure.

Throughout the many years of Carl Brady's service, the Board preserved its established legacy of stewardship of the Permanent Fund to benefit all generations of Alaskans, a stewardship that continues today with our present Trustees and will endure far into the future.

"He was always willing to serve his fellow Alaskans – his contributions as a member of the Alaska Permanent Fund Board across three decades can't be overstated. Carl was a great Alaskan ..." - Alaska Governor Mike Dunleavy

VALUE GENERATED FOR ALASKA

USES OF FUND INCOME $68.5 B

(since inception, in billions)

$6.3 B | $24.4 B | $18.0 B | $8.3 B | $11.5 B

PAID OUT TO CURRENT GENERATIONS	45%	$30.7 B
POMV Distributions to General Fund	9%	
Dividend Appropriations	36%	

SAVED FOR FUTURE GENERATIONS	55%	$37.8 B
Inflation Proofing	26%	
Special Appropriations from ERA	12%	
Unspent Realized Income	17%	

ASSETS UNDER MANAGEMENT
(As of June 30, 2020)
$65,302,202,000

FY20 TOTAL RETURN
2.01%

ANNUALIZED RETURN SINCE INCEPTION
8.60%

PRINCIPAL

$52.4 B

$46.6 B | $5.8 B

- Deposits & Other Appropriations
- Unrealized Gains

EARNINGS RESERVE ACCOUNT ("ERA")

$12.9 B

$8.4 B | $1.4 B | $3.1 B

- Unspent Realized Earnings
- Unrealized Gains
- POMV Commitment FY21

SOURCES OF CHANGE IN FUND VALUE, FISCAL YEAR 2020

$1.4 B Stock dividends, bond interest, and real estate cash flow

$362 M Net increase in fair value of investments

-$128 M Operating costs and other legislative appropriations

$319 M Dedicated mineral revenue

- $2.9 B Transfers out (General Fund and Capital Income Account)

MESSAGE FROM THE BOARD CHAIR

Trustee Craig Richards, Chair
Trustee Bill Moran, Vice-Chair
Trustee Corri Feige
Trustee Lucinda Mahoney
Trustee Steve Rieger
Trustee Ethan Schutt

The celebration of the Alaska Permanent Fund Corporation's 40th anniversary has been muted by the public-health pandemic impacting our fellow Alaskans and the nation.

COVID-19, and its economic impacts, has also affected the Permanent Fund in the form of rapid and frequent changes in investment values over the last half-year. But during this period of market volatility, the Fund has held up well. Having an overweight to bonds and cash allowed us to move quickly in response to the volatile market. This action resulted in strong relative performance and ample liquidity to fulfill all our obligations and to opportunistically add to positions where we perceive there to be compelling value.

The total value of the Permanent Fund at the beginning of the fiscal year, starting July 1, 2019, was $66.3 billion. The economic crisis began to have an impact in February, and the value of the Fund on February 29, 2020, was $64.9 billion. By March 16, the Fund's value had fallen to $58.7 billion. The Fund ended the fiscal year on June 30, 2020, at $65.3 billion.

The Board of Trustees congratulates the Corporation's staff and advisers for successfully guiding the Fund through the first stage of the current economic storm.

While APFC weathers the current economic environment, we have not lost focus on the long-term transition of the Permanent Fund's role in contributing funds for the operation of state government under the percent of market value (POMV) methodology adopted by the Legislature in 2018. In fiscal year 2020, the Fund made a $2.9 billion POMV distribution to the state's general fund, and the viability of the state's fiscal year 2021 transfer of $3.1 billion has not been impacted by the recent market turmoil. The Fund now provides more than 70 percent of unrestricted state revenues. For reference, oil provided an average of 85 percent of all unrestricted state revenues for four decades, but in fiscal year 2021, oil is projected to provide 17 percent of these general funds. The Legislature's adherence to the POMV structure, in a period of fiscal difficulties for the state, is to be commended. Adherence to a rules-based framework has promoted the long-term sustainability of the Principal and Earnings Reserve Account of the Fund. The continued success of the Fund, optimizing long-term investment returns and preserving its intergenerational value, will depend on continued adherence to the laws governing transfers of money to, from, and within the Fund.

We recommend reading the Board's recently published "Trustees' Paper Volume 9," which discusses how sovereign wealth funds in resource-dependent economies around the world have, with varying degrees of success and failure, dealt with many of the problems Alaska faces today. Those lessons are critical to informing how the Permanent Fund can best be positioned for long-term success.

We recently lost one of our greatest assets when Carl Brady passed away in April. Trustee Brady, first appointed in 1991, was the Board's longest-serving member. A leader, mentor, and devotee to the betterment of Alaska, he was also a driving force in modernizing the Fund's investment philosophy to embrace higher-risk asset classes that have driven the Fund's investment returns over the last three decades. We all share his family's grief and are honored to have learned from and worked with Carl these many years.

With Trustee Brady's passing, his good friend Bill Moran, also a long-serving Trustee, was elected to fill the position of Vice-Chair. In addition, we welcomed back to the Board Steve Rieger, who previously served as Trustee from 2009-2013 and was appointed by Governor Dunleavy to the vacant public-member seat. We also welcomed Lucinda Mahoney to the seat designated for the Commissioner of Revenue. In August 2020, APFC welcomed Ethan Schutt to the Board. Trustee Schutt replaces outgoing Trustee Marty Rutherford, whose four-year term ended earlier this year. APFC thanks former Commissioner of Revenue Bruce Tangeman and outgoing Trustee Marty Rutherford for their service to the Fund and the Corporation as well as their many contributions to the State of Alaska.

The Board also welcomes two new investment advisors. Kenneth J. Frier, Principal with SECOR Asset Management, brings 30 years of experience as an institutional investor, with specialization in asset allocation and risk management. John D. Skjervem, Chief Executive Officer of Alan Biller and Associates, has decades of experience in investment-portfolio management and public finance. The APFC Board looks forward to the expertise and advice from these newest members of our team.

We would be remiss if we didn't also recognize the passing of Byron Mallot, who served as Executive Director of the Corporation and, beginning just two years after the Corporation's founding, was a public member of the Board for eight years. APFC extends our condolences to the Mallot family. We are grateful for Trustee Mallot's contributions during the earliest days of the Corporation and for his unrelenting commitment to the betterment of Alaska as a public servant.

Craig Richards, Chair

LETTER FROM THE CEO

The pandemic that appeared in the second half of FY20 struck suddenly and hard. I am very proud of our team for responding so quickly and selflessly to the challenges presented by what will be ranked as one of the toughest economic crises in history. As the world went into lockdown, our team remained fully functional, nimbly transitioning to remote worksites and acting effectively to protect the Alaska Permanent Fund from what we correctly analyzed would be an extreme market downturn while also maintaining and ultimately deploying the "dry powder" of cash positions to invest in opportunities as they developed.

Significant events, especially those affecting the entire world, change economies, and the ability to respond to those changes in a way that benefits Alaskans relies on a mutually supportive team of experts with different life experiences who understand divergent markets and how they interconnect to form the global economy. We achieve this ability through an emphasis on diversity of both asset allocation and human resources.

Looking forward, we must consider that millions of people working from home will fundamentally alter how we conduct business. Simply, people work and communicate differently today than they did even as recently as six months ago. Long-term investing success is about having a view of where one thinks the world may be headed. I see a world in which we have an opportunity to flourish with new technologies alongside traditional values. On our website, you can find an essay I authored for the Milken Institute in which I discuss in more detail how COVID-19 and the economic crisis could influence investing.

Last September in Juneau, our Corporation hosted the 11th Annual Meeting of the International Forum of Sovereign Wealth Funds, which gave us the opportunity to discuss values of good governance with our peer funds from around the world, as well as the future of the Arctic and other matters of importance to Alaskans. We were able to showcase the challenges and opportunities for investing in this part of the world. Just as important, we were able to spend time with one another and understand the differences and similarities between our countries, how many of us face the same issues, and discuss how we can create a meaningful legacy for our children and grandchildren.

One of our primary responsibilities to Alaskans is ensuring that the Fund achieves real growth. With that in mind, in June, we completed the transfer of $4.8 billion into the Fund's Principal for growth and inflation proofing as envisioned and enacted by the 31st Legislature and Governor Dunleavy. There has been passionate debate over how to address the state budget, and our leaders coming together and agreeing to invest in future generations must be commended. The Principal of the Fund has now achieved a new high-water mark, with more than $46.6 billion of permanent savings.

This year marks the end of our first five-year plan, and if recent events have made one thing clear, it is that our plan for the next five years must include continued investment in a multi-specialized team with the talent to recognize opportunities and the courage to capitalize on them.

Strength in diversity has enabled us to grow the Fund for the last 40 years, it has helped the Fund navigate the current economic crisis, and it will help the Corporation face challenges that lie ahead as the Fund plays an increasingly important role in our state.

Angela Rodell, CEO

40 YEARS OF ALASKA PERMANENT FUND CORPORATION

In 1976, Alaskans voted to amend our state Constitution to create the Permanent Fund with proceeds from lease rentals, royalties, and other mineral revenues. Four years later, the Legislature created the Alaska Permanent Fund Corporation to manage it.

ALASKA CONSTITUTION ARTICLE IX, SECTION 15

At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

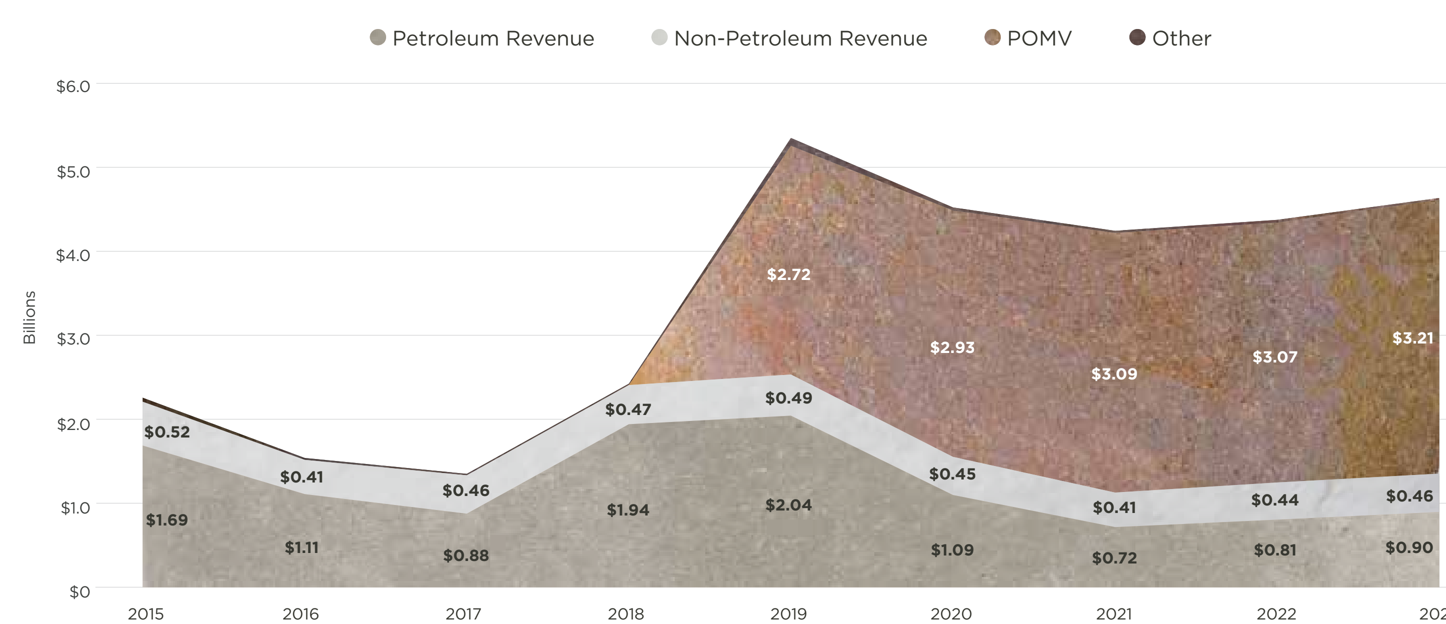
THE PERMANENT FUND'S EVOLVING ROLE IN ALASKA

The creation of the Permanent Fund represents one of Alaska's most important steps toward real and long-lasting economic diversification, strength, and stability.

For the first 40 years of the Fund, focus was on savings and investment growth, as well as payment of dividends to eligible Alaskans. Yet the Fund was established with future generations in mind, knowing an era of declining revenues from resource wealth was inevitable. This has become our current reality as plummeting oil prices and reduced production in recent years have resulted in fewer revenues for state government. The State of Alaska is responding to declining oil revenues by relying on earnings from the Permanent Fund to support essential state services, as was envisioned by those state government leaders and Alaska voters decades ago.

Today, earnings from the Fund are the primary source of General Fund revenue and an essential component of the state's fiscal health. Alaska is now, more than ever, reliant on APFC's skilled investment of the Permanent Fund to generate income to serve as a primary revenue source for the State. And just as Alaskans did 40 years ago, we invest and manage the Fund to both provide benefits to our current generation and be sustainable so it can provide benefits to future generations.

CONTRIBUTIONS TO THE UNRESTRICTED GENERAL FUND



FUND STRUCTURE

PRINCIPAL AND EARNINGS RESERVE ACCOUNT

The Alaska Permanent Fund is divided into two parts: Principal and Earnings Reserve Account ("ERA"). Both are invested using the same asset allocation, but they are very different in how they can be used:

- The **Principal** can be used only for income-producing investments per law enshrined in an amendment to the Alaska State Constitution approved through a statewide vote by Alaskans in 1976.

- The **Earnings Reserve Account** is funded with net profits made by investing the Fund and can be used by the Alaska State Legislature through its power of appropriation.

Historically, the ERA has been used primarily to pay out Permanent Fund dividends to Alaska residents each year, support costs of managing the Fund, and to grow and inflation-proof the Principal. In 2019, the Legislature began using the percent of market value draw from the ERA to contribute to the State's operating budget for services and programs, including the dividend.

PERCENT OF MARKET VALUE

Since 2003, our Board of Trustees has endorsed using a percent of market value ("POMV") method for determining how much money should be drawn from the Permanent Fund. A POMV rule allows that no more than a sustainable amount is taken from the Fund to ensure it can provide benefits for both current and future generations of Alaskans. An annual POMV draw also provides more stable and predictable payout amounts from year to year, even in down-market years, and is compatible with the Board's current investment strategy.

The POMV draw is based on a percentage of the average market value of the Fund for the first five of the preceding six fiscal years. The draw is subject to appropriation and is set in statute at 5.25 percent for fiscal years 2019-2021 and 5.0 percent from fiscal year 2022 onward. The rules-based POMV framework debuted in FY19. The FY20 POMV draw was $2.93 billion.

INFLATION PROOFING

Our first Board Chair, Elmer Rasmuson, warned that inflation was a thief that would destroy the Fund's value over time. He and subsequent Trustees successfully lobbied the Legislature to make ongoing appropriations from the ERA to the Principal to grow the Fund and to inflation proof it. This year, the Legislature transferred almost $5 billion into the Principal.

STATUTORY NET INCOME

The net investment earnings of the Fund are held in the ERA as defined in state law AS 37.13.140. Statutory net income is the direct result of investment activity (decisions to buy and sell) and excludes unrealized gains and losses. There are two components to this income that flows to the ERA annually:

1. **Operating Income:** Cash inflows from stock dividends, bond interest, and real estate rental fees that are available for deposit.

2. **Realized Capital Gains/Losses:** All the net income (i.e., realized gains minus realized losses) generated by the sale of investments.

CONTRIBUTIONS TO PRINCIPAL

(Since inception)

STATUTORY NET INCOME BY FISCAL YEAR

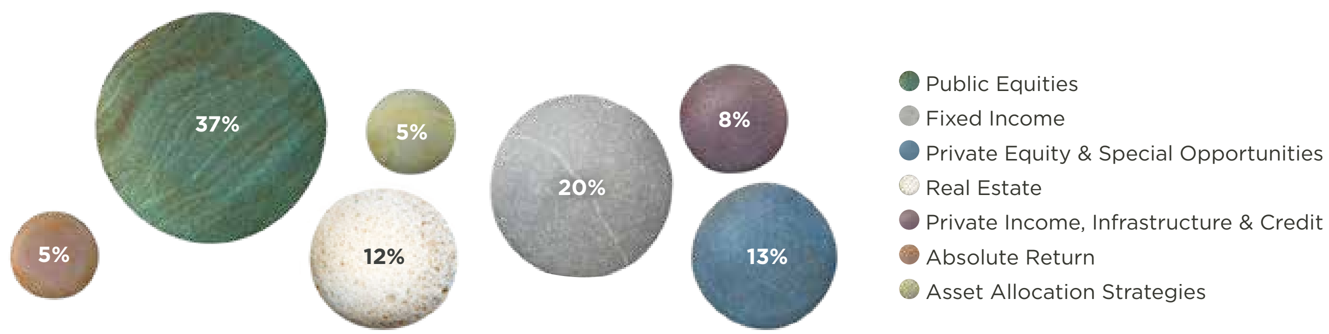
"The Fund exists as a result of the evolution of thought regarding state ownership of wealth and how it should be managed to best benefit all Alaskans – present and future. As APFC celebrates 40 years of investing for Alaskans, we are united in our stewardship of this resource."

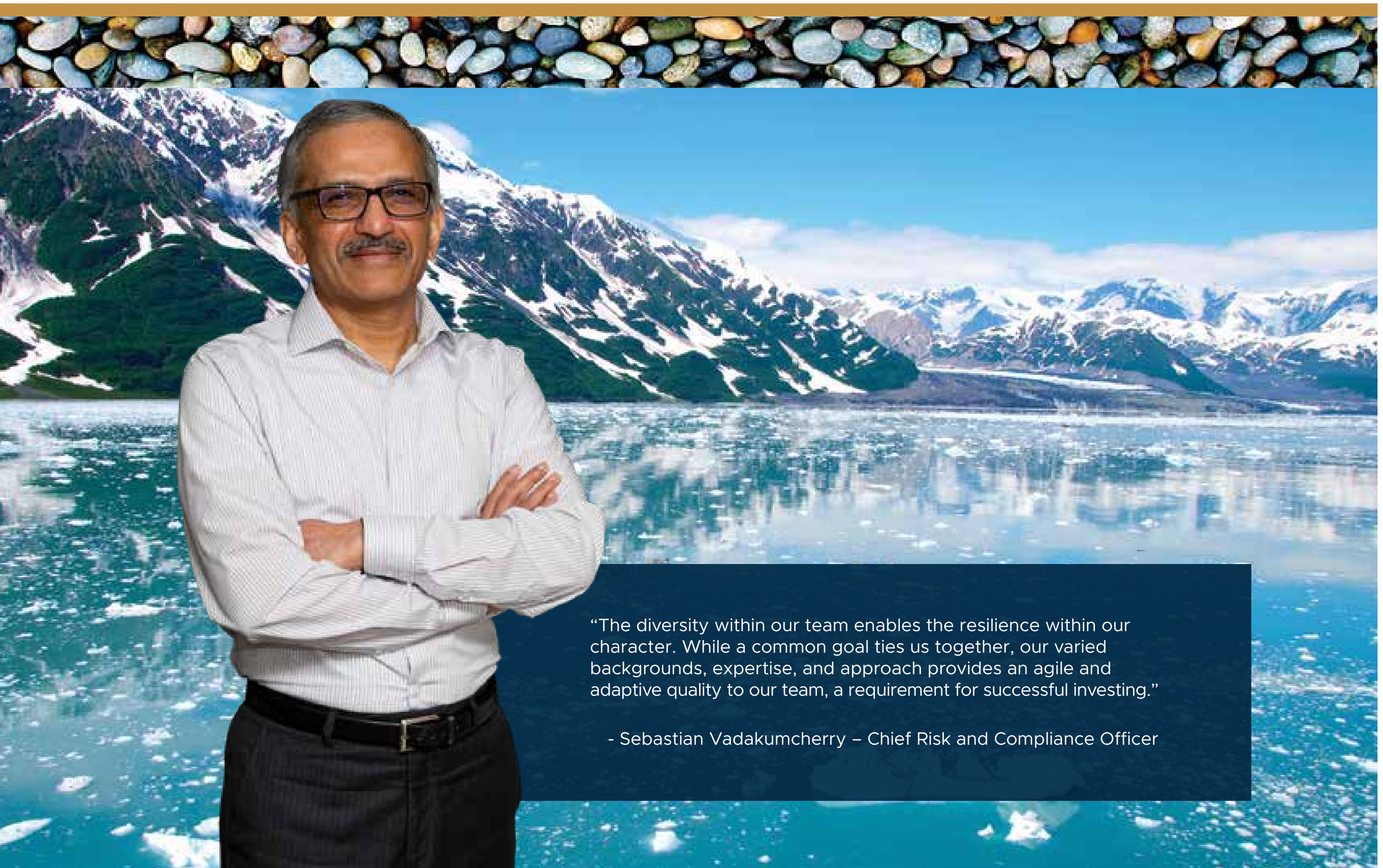
- Nellie Metcalfe – Development Operations, IT

INVESTMENT STRATEGY

The Alaska Permanent Fund in FY20 was invested in a wide range of investments in seven asset classes (which will become eight asset classes in FY21) spread across several markets, countries, and currencies to gain broad exposure to global growth and value creation. Our investment strategy allows us to take advantage of the Fund's long-term horizon and size.

FY20 ASSET ALLOCATION





"The diversity within our team enables the resilience within our character. While a common goal ties us together, our varied backgrounds, expertise, and approach provides an agile and adaptive quality to our team, a requirement for successful investing."

- Sebastian Vadakumcherry – Chief Risk and Compliance Officer

The Board of Trustees sets the Investment Policy for the Fund per statutory obligations of preserving the Principal while maximizing returns, maintaining diversification among investments, and following the Prudent Investor Rule.

As the Legislature's findings are clear that the Fund should benefit all generations of Alaskans, the Board of Trustees maintains a long-term perspective when formulating our Investment Policy and in evaluating Fund performance. The Board expects the Fund's design and performance will be evaluated using the following criteria:

1. INVESTMENT PERFORMANCE: Ability to generate an annualized return of Inflation (CPI) +5 percent over a 10-year period ("long-term target")

2. INVESTMENT RISK: Ability of the Fund to achieve the long-term target while conforming to the risk appetite approved by the Board of Trustees

APFC's investment programs are organized by asset class, and APFC staff assist the Board in engaging in an asset-allocation study for the Fund at least once every five (5) years to review asset classes, risk-return assumptions, and correlations of investment returns with applicable benchmarks and across asset classes.

A key objective of the asset allocation is the development of a diversified portfolio that specifies a long-term target position for each asset class while conforming to the risk appetite approved by the Board. Each asset class allocation has a designated long-term target position within the overall portfolio as well as maximum and minimum ranges around those targets. Ranges are specified by a "green zone" that reflects normal expected variability around the targets, a "yellow zone" that reflects potential remediation by APFC staff according to prudent portfolio management over a reasonable period of time, and a "red zone" that requires Board approval of a remediation plan within 30 days.

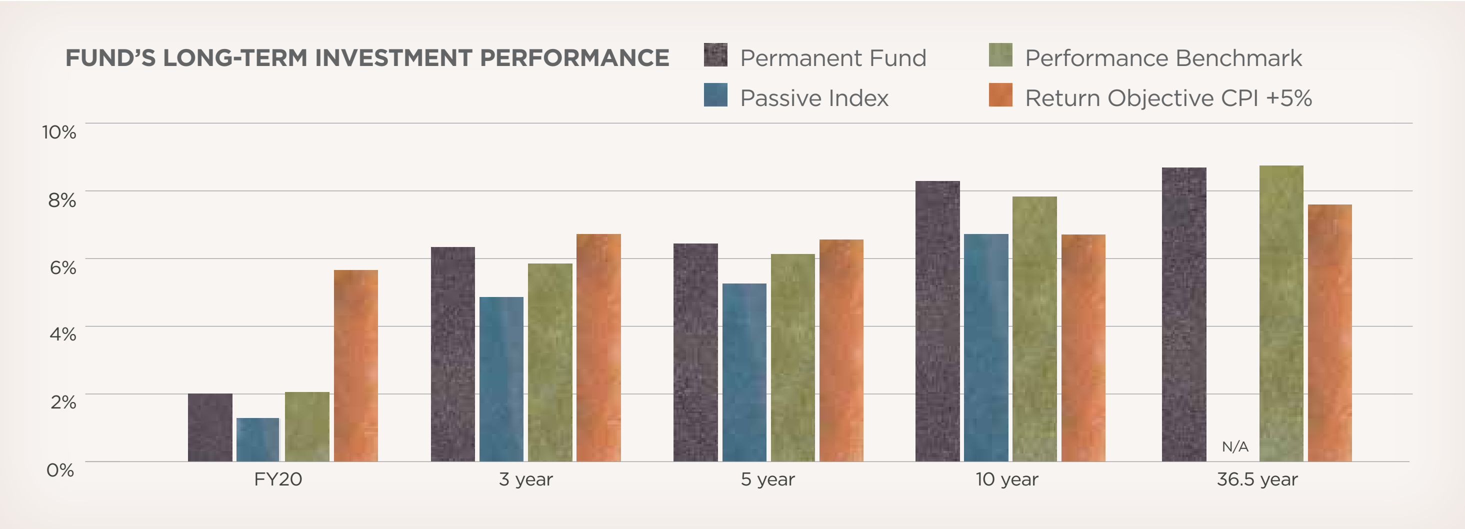
ASSET ALLOCATION AND TARGETS FY20

Asset Class	Target Allocation	Primary Liquidity	Primary Objective	Green Zone	Yellow Zone	Red Zone
Public Equities	37.0%	Liquid/ Tradable	Growth	32-42%	0-10% Beyond Green Zone	>10% Beyond Green Zone
Fixed Income Plus	20.0%	Liquid/ Tradable	Income	15-25%	0-10% Beyond Green Zone	>10% Beyond Green Zone
Private Equity & Special Opportunities	13.0%	Private	Growth	8-18%	0-5% Beyond Green Zone	>5% Beyond Green Zone
Real Estate	12.0%	Private	Income	7-17%	0-5% Beyond Green Zone	>5% Beyond Green Zone
Infrastructure & Private Income	8.0%	Private	Income	3-13%	0-5% Beyond Green Zone	>5% Beyond Green Zone
Absolute Return	5.0%	Private	Growth	2-8%	0-5% Beyond Green Zone	>5% Beyond Green Zone
Asset Allocation Strategies	5.0%	Liquid/ Tradable	Growth	2-8%	0-3% Beyond Green Zone	>3% Beyond Green Zone

PERFORMANCE

MISSION

To manage and invest the assets of the Permanent Fund and other funds designated by law.



VALUE ADDED IN FY20

Returns over the passive index benchmark

$476.6 M | **.73%**

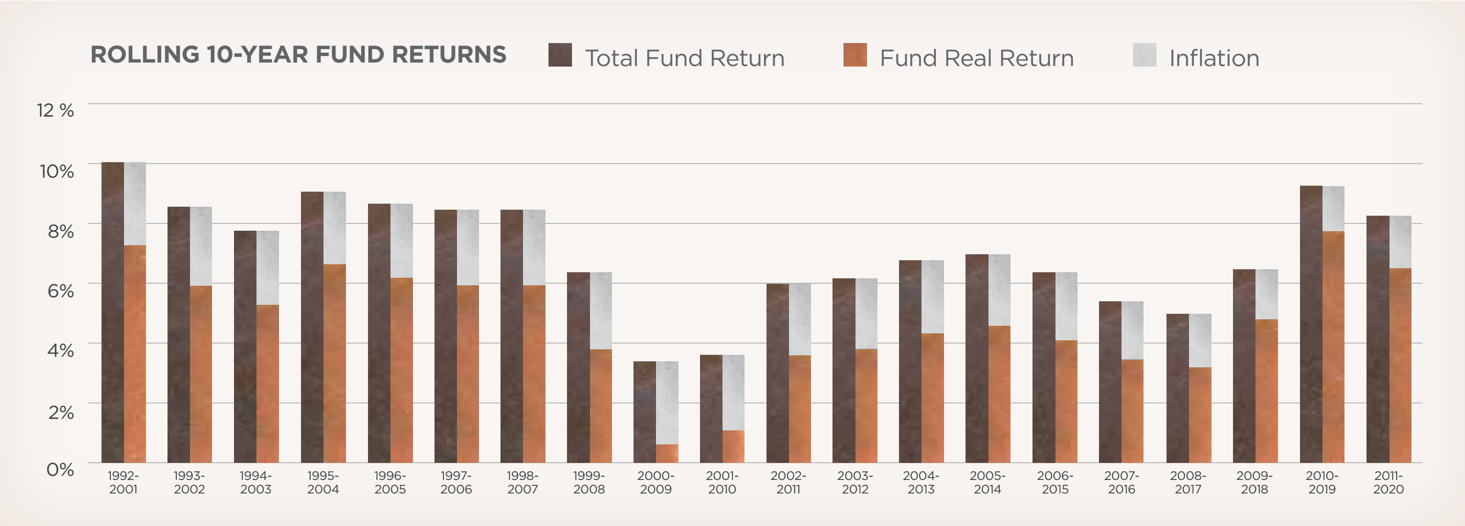
Value add | Performance add

VALUE ADDED OVER 5 YEARS

Returns over the passive index benchmark

$3.1 B | **1.19%**

Value add | Performance add



VISION

To deliver outstanding returns for the benefit of all current and future generations of Alaskans.

SUCCESS IS MEASURED AGAINST STRATEGIC BENCHMARKS OVER THREE TIME HORIZONS.

Strategic performance benchmarks are set by the Board of Trustees and are an integral part of managing the Fund, as they allow for a balanced approach to evaluating asset-class performance. The Fund's portfolio is measured against three benchmarks that are incorporated into APFC's Investment Policy:

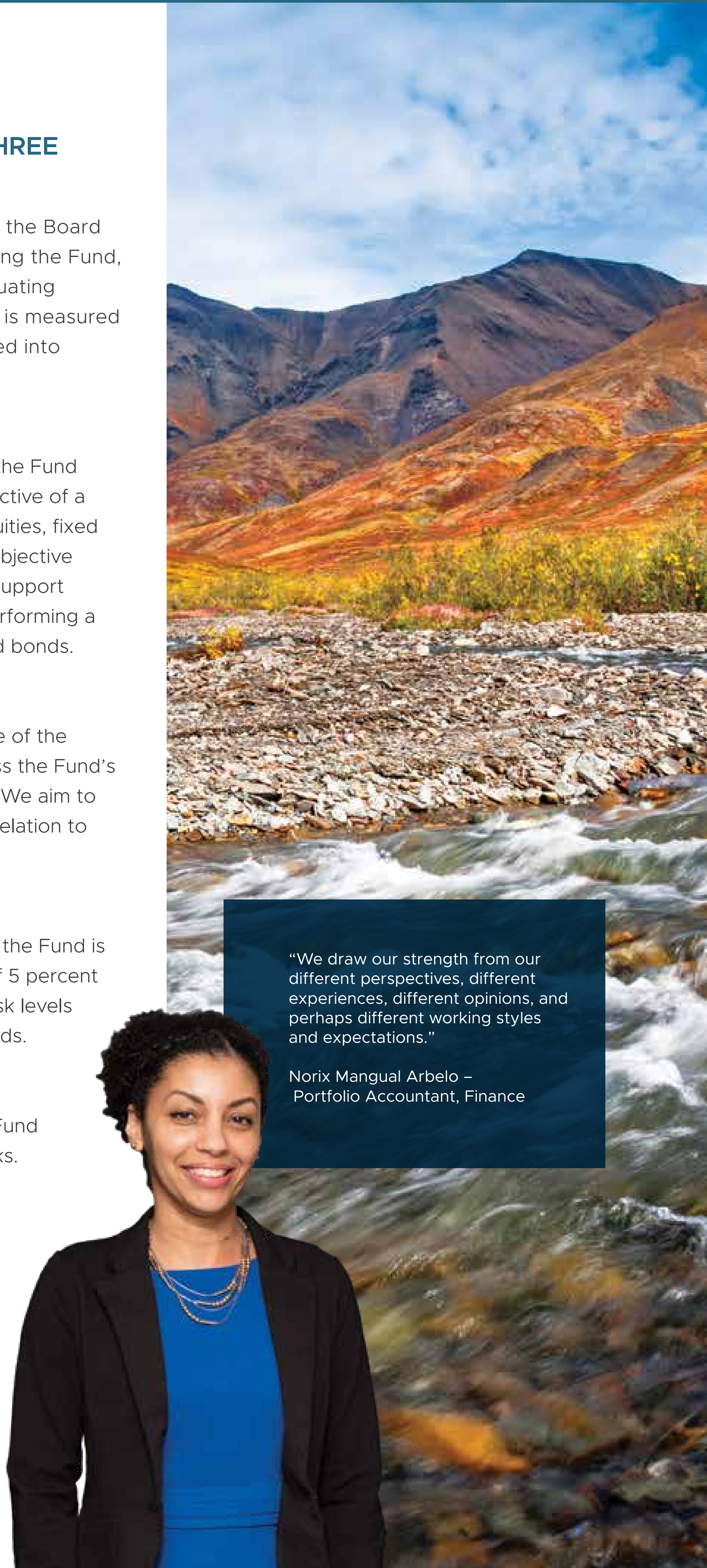
- **PASSIVE INDEX BENCHMARK**
  This short-term performance indicator for the Fund is based on a blend of passive indices reflective of a traditional portfolio consisting of public equities, fixed income, and real estate investments. The objective is to earn regularized income sufficient to support the liquidity needs of the Fund while outperforming a passive global index portfolio of stocks and bonds.

- **BLENDED PERFORMANCE BENCHMARK**
  This indicator is a blend of indices reflective of the target asset allocation and is used to assess the Fund's performance against peer investor results. We aim to achieve top quartile investment returns in relation to institutional investor peers.

- **TOTAL FUND RETURN OBJECTIVE**
  The Board's long-term investment goal for the Fund is to achieve an average real rate of return of 5 percent per year (i.e., CPI/inflation +5 percent) at risk levels consistent with large public and private funds.

VALUE ADD

The APFC team works to actively manage the Fund and meet or exceed the established benchmarks. The outperformance of the total Fund versus the passive index benchmark represents the value-added growth to the Fund that APFC's staff generates through active asset allocation and portfolio management. This value-added performance is reflective of APFC's commitment to actively manage the portfolio on a global scale.



"We draw our strength from our different perspectives, different experiences, different opinions, and perhaps different working styles and expectations."

Norix Mangual Arbelo – Portfolio Accountant, Finance

DISCUSSION OF FY2020 PERFORMANCE

It is a testament to the strength and diversity of the Alaska Permanent Fund, its managers, and advisors to have persevered through the market downturn and achieved a positive return of 2.01 percent for FY20.

After an initial drop of 10.49 percent in value over the three months ending March 31, 2020, the portfolio was able to rebuild value, recovering from one of the sharpest declines in the public-equity market ever reported, which saw a 33 percent loss within 23 days.

Fortunately, the Fund was well-positioned for the market crash, being overweight in the portfolio's cash holdings at the beginning of the market turmoil. This liquidity provided our investment team with the resources necessary to leverage opportunities, redeploy into public equities, and adhere to the target asset allocation.

As reported by Chief Investment Officer Marcus Frampton, our Investment Team shifted its view from one of caution with an overweight to cash and investment-grade fixed income in February to one with a focus on balance in accordance with the portfolio's risk perspective versus benchmark weights for asset classes. APFC staff can be commended for the deployment of $2.6 billion of capital into equity markets in the midst of the related market sell-off in March while maintaining adequate liquidity in the portfolio. At the time, that move took courage and conviction to lean into the market and adhere to the discipline of our investment strategy.

The Fund's overall performance is 8.60 percent since inception – providing enduring fiscal benefits to Alaskans.

"A diverse team and inclusive culture are what get you through tough times. An environment where people with different perspectives can disagree with each other without fear of retaliation, where they don't believe differences make them superior or inferior to one another. Diversity generates better debates, better strategy, better risk management, and better investment returns."

- Masha Skuratovskaya – Senior Portfolio Manager, Fixed Income

RISK MEASUREMENT

The Alaska Permanent Fund Corporation's mandate is to maximize the Permanent Fund's returns while maintaining risk within acceptable levels. The goal of risk management is not to avoid risk, but to understand those associated with the portfolio with the aim of managing them within acceptable levels.

We primarily measure levels of various risks relative to respective benchmarks. Key measures include tracking error and value at risk ("VaR"). The latter is a term commonly used in risk measurement and refers to the statistical measure of potential loss, or "risk." Relative VaR is the comparison of VaR of the position or portfolio compared to – or "relative" to – the VaR of the respective benchmark.

Concentration levels and correlations are also monitored. Additionally, drawdown magnitudes are estimated using stress and scenario analyses.

TYPES OF RISK

In pursuit of target returns, APFC makes investments that involve various risks, including market risk, credit risk, liquidity risk, and operational risk. In addition, APFC is exposed to other forms of risk, like legal, regulatory, and strategic risks.

Historically, equity market risk has been the predominant risk form targeted in seeking our target return. This trend is expected to continue going forward. Equity market risk exists in both our Public and Private Equity portfolios and reflects the potential for loss in value of these investments due to changes in market factors. Our investments and transactions are exposed to credit risk, as well, albeit to a lesser extent. Credit risk, mostly within our Fixed Income and Private Credit portfolios, is the possibility of loss due to a counterparty defaulting on their obligations.

We invest Alaska's Permanent Fund in a diversified portfolio of asset classes across multiple geographies, including fixed income, public equities, private equity, real estate, private infrastructure, and other alternative asset classes. While the drivers of risk may vary across investment types, the key measures of volatility, tracking error, drawdown, liquidity, concentrations, etc. are aggregated across these multiple investment types.

Our Board of Trustees approves the Corporation's Investment Policy, which governs all investment decisions. The Board also approves our strategic asset allocation, based on a detailed optimization exercise. An Investment Committee analyzes proposals, and separate investment committees for public market assets and private market asset review respective investment opportunities.

Along with return maximization, risk management forms an integral part of our strategic objective. In recognition of the relationship between return and risk, diversified portfolios are structured with investments entailing varying levels of risk commensurate with their respective expected returns.

For example, our holdings in U.S. Treasuries are relatively low risk, while our investments in venture-capital funds have exposure to higher risk. The objective is to build a balanced aggregate portfolio, across asset classes, that is expected to achieve the target return at the lowest estimated level of overall risk.

ASSET CLASSES OVERVIEW

Asset classes are managed by a dedicated team of investment professionals focused on achieving best-in-class overall performance. The Corporation's investment approach is designed to generate investment returns that efficiently reward the investment risks undertaken through the production of both regularized income and capital gains. The advantage of the Fund's long-term horizon, stable construct, and size are leveraged to create value and produce compelling returns for Alaska.

PUBLIC EQUITY STOCKS

$25.5 BILLION
as of June 30, 2020

75 COUNTRIES REPRESENTED IN HOLDINGS

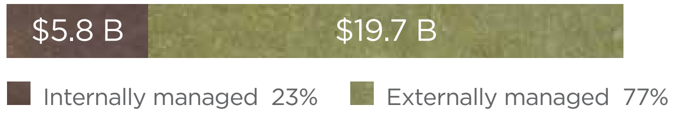
37% TARGET ASSET ALLOCATION

The **Public Equity** asset allocation is comprised of U.S. and international stocks. The portfolio is actively structured to perform well in a variety of market environments, including positively trending equity markets and weaker market environments. The components of this structure include asset allocation, external-manager selection, and internal management.

Our two primary considerations with public equities are outperformance vs. benchmark and maximizing long-term, expected return within pre-defined risk parameters. We implement strategic allocation decisions by calibrating the allocation mix across our external managers and tactical decisions through our internally managed strategy.

STOCK PORTFOLIO BY REGIONAL MANDATE

PUBLIC EQUITIES
Internal vs. External Management



This asset class has been one of the important drivers of the Permanent Fund's historical growth, primarily due to successful portfolio management anchored on two cornerstones:

ACTIVE MANAGERS
Historically, our active managers have been a consistent source of returns. We devote significant time and effort in our ongoing due diligence to ensure that they continue to deliver on the promise for which we hired them. Since 2012, over 70 percent of our active managers have outperformed their benchmarks and delivered significant positive net-of-fee active returns.

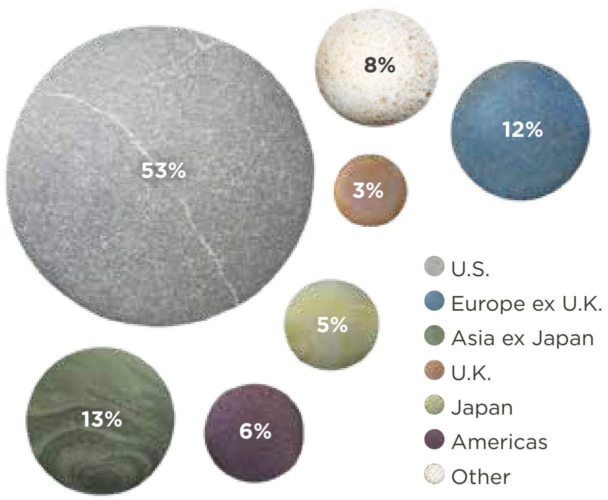
PORTFOLIO POSITIONING
We expect the portfolio's benchmark-relative positioning across segments of public equities to be beneficial in achieving greater, long-term expected returns. For short periods of time, our portfolio may perform somewhat differently than the global benchmark against which it is measured. At present, our portfolio emphasizes economically sensitive value segments and emerging-markets equities. We expect both of these areas to deliver very attractive returns over the next 3-5 years.

PERFORMANCE LAST YEAR

Fiscal year 2020 was largely an environment of investor fear and risk aversion. Investors favored the perceived safety of high-quality growth and defensive segments of the market to the exclusion of economically sensitive value segments. In such an environment, our portfolio's passive strategies, which, by their very design, provide tilt towards economically sensitive value segments, were a source of detraction from relative performance.

We view our roster of active managers as our primary and persistent source of value added as they consistently perform well for Alaska. APFC staff was instrumental in guiding the Permanent Fund through the economic crisis and investing our Public Equity portfolio for the strong rebound it experienced by the end of FY20.

STOCK PORTFOLIO BY REGION



Another noteworthy source of added value is Tactical Tilt, the internally managed strategy we've been using successfully for five years to both reduce risk and exploit market opportunities. In FY20, we initiated and maintained tactical positions in exchange-traded funds that proved very beneficial and allowed us to outperform the global benchmark and achieve significant gains.

During FY20, we expanded internal management and started Domestic Value, a low price-to-earnings strategy we expect to significantly outperform the broad domestic market over the next 3-5 years.

Our ability to be nimble in our implementation enabled the Corporation's staff to direct over $2 billion in public equities amid February/March's steep market decline, which helped the Fund's performance.

LOOKING FORWARD

Our outlook for the Fund's Public Equity portfolio is quite favorable over the next 2-3 years. We expect the monetary and fiscal environments to remain accommodative globally. Over time, we expect COVID-19-related fears to subside, which will improve the breadth in the equity markets. In particular, economically sensitive value segments and international/emerging markets have become very cheap and offer greater expected returns over the long term. We believe, as global economies continue to recover, and the current pandemic gets behind us, these markets will help the asset class deliver above-average returns over the next 2-3 years.

FIXED INCOME PLUS

BONDS, REITS, LISTED INFRASTRUCTURE

$14.3 BILLION
as of June 30, 2020

13,379 TRADES EXECUTED INTERNALLY OVER THE LAST 5 FYs

20% TARGET ASSET ALLOCATION

The **Fixed Income Plus** portfolio acts as an anchor to the Permanent Fund, providing a steady stream of income and, during a crisis or volatile market cycles, providing a source of liquidity with which we can take advantage of market dislocations. The overwhelming majority of this portfolio is managed internally by our Juneau-based trading desk, which has direct lines to all major Wall Street banks. Alaska's portfolio managers can effectively trade with the same speed and efficiency as the largest global asset managers.

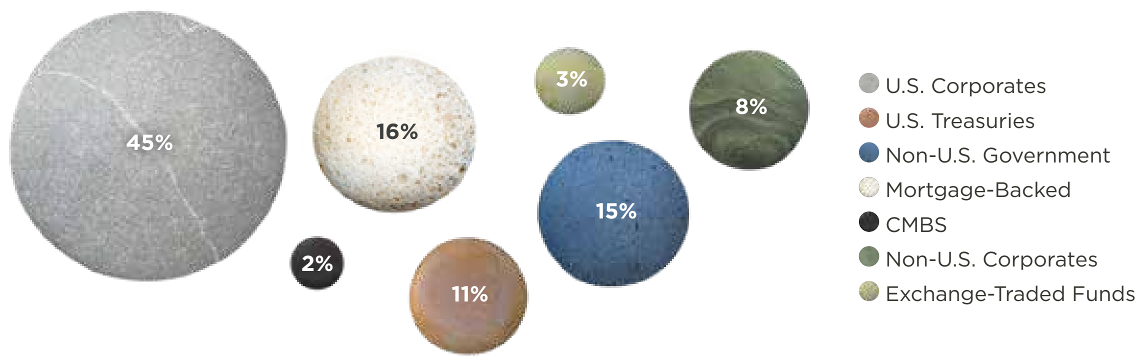
PERFORMANCE LAST YEAR

Volatility returned to the markets during FY20 as the global pandemic sent markets crashing before central banks around the world stepped in to ease the stress. Despite this, our Fixed Income Plus portfolio returned 4.19 percent, exceeding its benchmark return of 3.18 percent, while providing over $1 billion of liquidity to the Fund during the height of the related crisis.

The biggest drivers of return were U.S. aggregate, U.S. corporate, REITs, and listed infrastructure portfolios relative to their benchmarks.

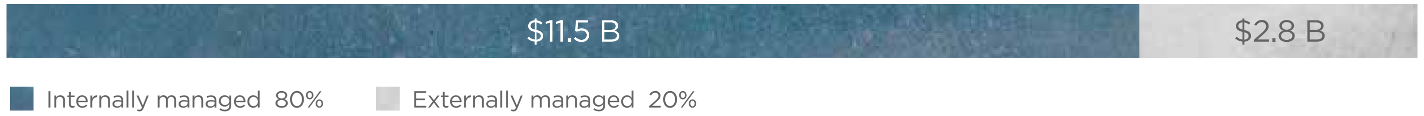
FIXED INCOME BY TYPE

Composition of Bonds



FIXED INCOME PLUS

Internal VS. External Management



The emerging-market debt mandate was transformed at the beginning of FY20. The program initially consisted of one manager who managed a blended hard currency and local currency strategy but was expanded to four managers. Two now manage a blended strategy, one manages a dedicated hard-currency strategy, and the fourth manages a dedicated local-currency strategy. This program gives the Corporation more flexibility in allocating between hard and local currencies, diversifies our manager exposure, and allows us to take advantage of specialists who dedicate their time to specific markets.

In March, credit spreads widened significantly when COVID-19 triggered a sell-off in the market. The Fixed Income Plus team took advantage of this opportunity by using cash on hand to enter the market at distressed levels. When the market later rebounded, the corporate bonds appreciated significantly, returning 9.52 percent in the last quarter of FY20.

Emerging-market debt and high-yield corporate bonds are excellent sources of income for the Permanent Fund. We positioned the cash, TIPS, and securitized portfolios to provide a steady stream of income, which gave the managers the liquidity they needed to make opportunistic investments.

Our Fixed Income Plus team partnered with the Private Income team to launch a hybrid credit effort named "Alaska Direct Alternative Credit," which has been live for two years and has allowed our internal staff to access the publicly traded, high-yield market. The Fixed Income team is hiring a new credit analyst to expand our internal capabilities.

LOOKING FORWARD

The composition of our Fixed Income Plus portfolio changed significantly at the end of the fiscal year (start of FY21). The externally managed REIT and Listed Infrastructure mandates were removed from Fixed Income Plus and replaced with an internally managed, securitized-product mandate, which consists of mortgage-backed securities, commercial-mortgage-backed securities, and asset-backed securities. These securities enhance the liquidity of the Fixed Income portfolio while reducing manager fees and taking advantage of the Corporation's in-house talent.

The Federal Reserve and other central banks have cut interest rates to historic lows in response to the COVID-19 crisis. With yields on the low end of historical averages, investors are likely to search for yield in emerging markets and high-yield bonds. Our modernized, emerging-market debt mandate and Alaska Direct Alternative Credit strategy puts the Corporation in a perfect position to succeed in the current market.

ALTERNATIVE INVESTMENTS

The term “alternative investments” refers to a broad and dynamic collection of investment assets that do not fall into conventional categories. Alternative investments have grown in scale and importance for APFC and today significantly increase the Fund’s diversification and contribute disproportionally to investment returns.

ALTERNATIVE INVESTMENTS FY20

$9.8 B Private Equity & Special Opportunities

$3.7 B Absolute Return

$1.6 B Private Credit

$1.7 B Infrastructure

$1.2 B Income Opportunities

$18.0 B Total Alternative Investments

PRIVATE EQUITY AND SPECIAL OPPORTUNITIES

$9.8 BILLION
as of June 30, 2020

$17.3 BILLION COMMITTED CAPITAL THROUGH JUNE 30, 2020

13% TARGET ASSET ALLOCATION

Private Equity and Special Opportunities (PESO) describes a broad range of investment strategies, structures, and tactics linked by several common characteristics. Most PESO investments reflect ownership interests in private companies that are inaccessible through public securities exchanges. Private investments are characterized by long investment horizons and limited liquidity but bring increased diversification and superior returns.

The Permanent Fund’s scale, patience, and structural flexibility provide a comparative advantage in private markets. The Corporation’s investment returns in PESO have consistently exceeded public and private market benchmarks. These investments have also supported the creation and expansion of over 3,000 underlying companies and generated over $6 billion in investment gains in the last 6 years.

Financial performance of our PESO portfolio in the third quarter of FY20 was weak due to the global impact of the COVID-19 pandemic. In fact, the -5.3 percent performance in that quarter was one of the worst in the program’s history. Fortunately, this was followed by a fourth-quarter performance that was one of the best in the program’s history. Given the three-month lag in performance reporting for private market assets, the losses are included in FY20 returns, and the recovery will be included in FY21 results.

In FY20, we backed new funds organized by our existing roster of skilled, specialized investment managers. We also identified and backed several investment firms that were newly created or new to us. The Corporation frequently co-invests alongside our investment partners and — when our investment horizon, scale, and structural flexibility provide an advantage — we invest directly into promising growth companies and undervalued assets. Investing through both investment funds and directly into operating companies allows APFC to identify attractive and complementary investment opportunities when and where they arise. Our successful co-investment and direct investment program has also allowed the Corporation to avoid over $180 million per year in management fees and profit-sharing that would have otherwise been paid to investors and advisors outside Alaska.

The PESO portfolio is allocated across a broad range of strategies, geographies, and industries, with 78 percent in the U.S. and 22 percent in other parts of the world. The portfolio is invested with particular emphasis on enterprise software, healthcare products and services, and financial services, but with limited exposure to more cyclical industries.

Direct and co-investments. These internally managed investments are accessed through co-investments alongside our investment partners, plus targeted direct investments into operating companies. Through the PESO program, the Corporation has invested $1.7 billion since 2013 in 40 separate companies, and investment gains now exceed $2.2 billion.

Biotechnology. Rapid advances in DNA sequencing, data science, and drug discovery have allowed and encouraged the Corporation to invest in novel ways to battle cancer, neurodegenerative diseases, and climate change. Since 2013, the Corporation has invested millions through biotech investment funds and over $450 million directly into promising biotech companies. These investments have funded innovative and successful research and development that has the potential to extend and improve the lives of millions of people.

Capital Constellation. An innovative and award-winning partnership with other global institutional investors, Capital Constellation is a joint venture spanning Europe, North America, and the Middle East that combines the expertise and capital base of three of the world’s top institutional investors – APFC, RPMI Railpen, and the Wafra Group on behalf of The Public Institution for Social Security of Kuwait – to catalyze promising, first-time private-equity and alternative managers.

LOOKING FORWARD

Our PESO portfolio is well-positioned to withstand a downturn, and our team remains focused on building to its target allocation of 19 percent of the overall Fund by FY25. While we are prepared for continued volatility, we are encouraged by the program’s resiliency in this difficult period, when the Fund’s overall performance and stability are especially important.

SPECIAL OPPORTUNITIES

Internal vs. External Management

$2.2 B | $1.4 B

Internally managed 61% | Externally managed 39%

PRIVATE EQUITY

Internal vs. External Management

$2.4 B | $3.8 B

Internally managed 39% | Externally managed 61%

PRIVATE INCOME:
INFRASTRUCTURE, PRIVATE CREDIT, AND INCOME OPPORTUNITIES

$4.5 BILLION
as of June 30, 2020

$650 MILLION COMMITTED CAPITAL

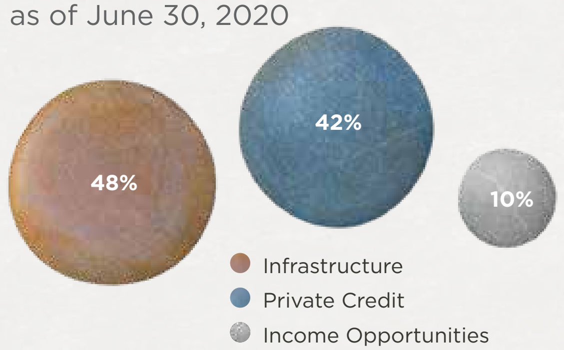
8% TARGET ASSET ALLOCATION

Private Income refers to a diversified mix of strategies and investments that include infrastructure (mostly power generation, telecom, transportation, energy, data infrastructure), private credit (senior secured loans, specialty finance), and other income opportunities (timber, agriculture, life settlements, single-family rental homes). These investments provide the Permanent Fund with diversification, inflation protection, current income generation, and capital appreciation.

The Private Income composite returned -0.39 percent for FY20, but it should be noted that the performance for these alternative assets is lagged by three months. For the same time period, Infrastructure returned -2.27 percent, Private Credit returned 0.58 percent, and Income Opportunities returned 2.35 percent. Long-term returns remain positive, with the Private Income composite's 5-year return coming in at 10.18 percent.

During FY20, the Corporation sold a large portfolio of infrastructure assets in a secondary market transaction in what has been widely reported as the largest such transaction of its kind. This sale allowed the Corporation to lock in meaningful gains on the underlying portfolio and to de-risk our remaining Infrastructure portfolio, which appears well-positioned to weather turbulent markets and capitalize on long-term trends, such as those supporting digital assets and renewable power generation.

PRIVATE INCOME
as of June 30, 2020



INFRASTRUCTURE

COVID-19 has had a significant impact on our infrastructure assets, both positive and negative. On the positive side, telecom assets have proven their resiliency and seen supportive trends as many people worked remotely, and internet traffic continued to grow. On the negative side, passenger transportation assets were hard hit due to travel restrictions and hunker-down directives.

Global oil demand destruction also negatively impacted our energy assets, although cash flows have proven stable and have benefited from limited directed commodity price exposure. Despite recent challenges, we have confidence in the long-term strength and resiliency of our investments, as we've invested through and alongside best-in-class managers in critical assets that have stable, predictable cash flows and top-tier management teams.

PRIVATE CREDIT

Credit markets saw substantial impacts from the COVID-19 pandemic, with major dislocations in public markets in late March followed by private-credit activity drying up. When deal flow picked back up, spreads had widened significantly as borrowers and lenders alike faced increased uncertainty. Although markets rebounded over the last few months of FY20, uncertainty remains, and the future of many businesses remains unsettled. Our team is focused on monitoring the health of our current portfolio while identifying promising investments and strategies.

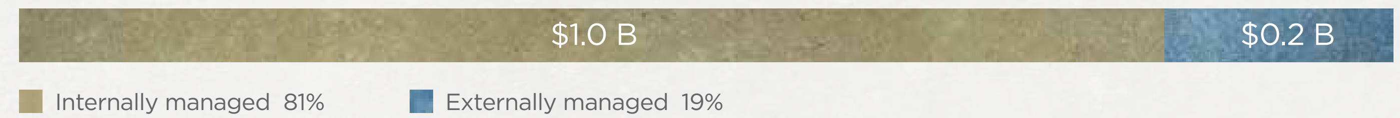
INCOME OPPORTUNITIES

Within our Income Opportunities portfolio, which is a broad mix of investments with common themes of protected cash flows, inflation linkage, or current income production, the most notable investment over the past year was Generate Capital, which returned 38 percent for the year. Our team was able to partially exit this direct investment after only three years at an attractive value, locking in gains and providing liquidity for the Fund.

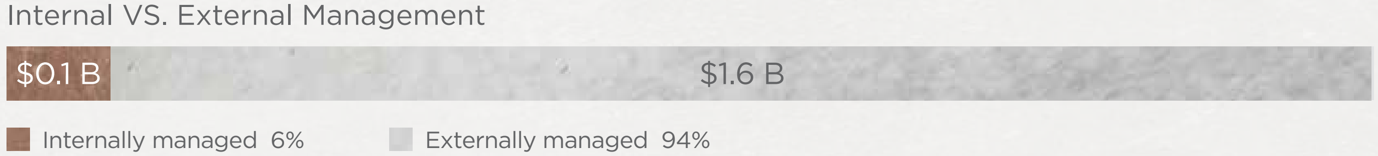
LOOKING FORWARD

Our team has centered recent activity in Private Income on the most resilient assets, such as telecom, power generation, and storage assets. In credit, we are seeing increased deal flow and are focused on loans to companies that are either minimally affected by the pandemic or have strong balance sheets and quality management teams to weather the storm. Our team remains focused, disciplined, and patient and will continue to act swiftly when attractive opportunities arise.

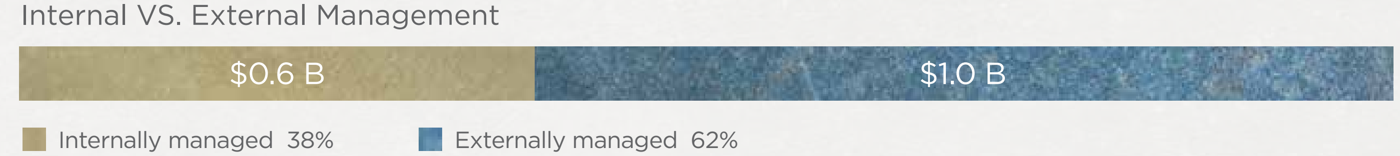
INCOME OPPORTUNITIES
Internal VS. External Management



INFRASTRUCTURE
Internal VS. External Management



PRIVATE CREDIT
Internal VS. External Management



ABSOLUTE RETURN

$3.7 BILLION
as of June 30, 2020

18 MANAGERS

5% TARGET ASSET ALLOCATION

Our **Absolute Return** strategy aims to provide the Fund with a consistent, uncorrelated return that is accretive to the overall target return. The portfolio offers better liquidity than most alternative investments while investing in a diversified range of geographies, securities, and strategies. Over the long term, the objective of this portfolio is to produce positive returns uncorrelated to the traditional asset classes, and we look to achieve that goal by identifying a diverse set of strategies that individually are neutral to market betas while also exhibiting low, pairwise correlations amongst themselves.

In the process of combining diversified and uncorrelated returns, the resulting absolute return may appear low relative to traditional asset classes. Also, in the short term, correlations can drift away from their long-run averages, resulting in a short-term return stream that disappoints relative to expectations. However, we are convinced this uncorrelated stream of returns will prove valuable within the Corporation's aggregate portfolio, especially in episodes when traditional asset classes experience higher levels of volatility.

Since our team endeavored to restructure this portfolio from a fund-of-funds approach to a portfolio of directly selected strategies about 4 years ago, the portfolio has largely delivered on objectives, producing a positive annualized 4.8 percent return and 4 percent volatility, at less than 50 percent correlation to the 60/40 portfolio.

In FY20, the overall Absolute Return portfolio generated a positive 1.46 percent return, outperforming the industry HFRI benchmark, which returned a negative -0.54 percent. The main contribution on the positive side came from various market neutral strategies, while the main detraction came from the remaining small exposure to legacy fund-of-fund assets.

The portfolio is currently allocated to 50% equity relative value, 25% directional macro, and 25% event driven, fixed income relative value, and systematic futures strategies.

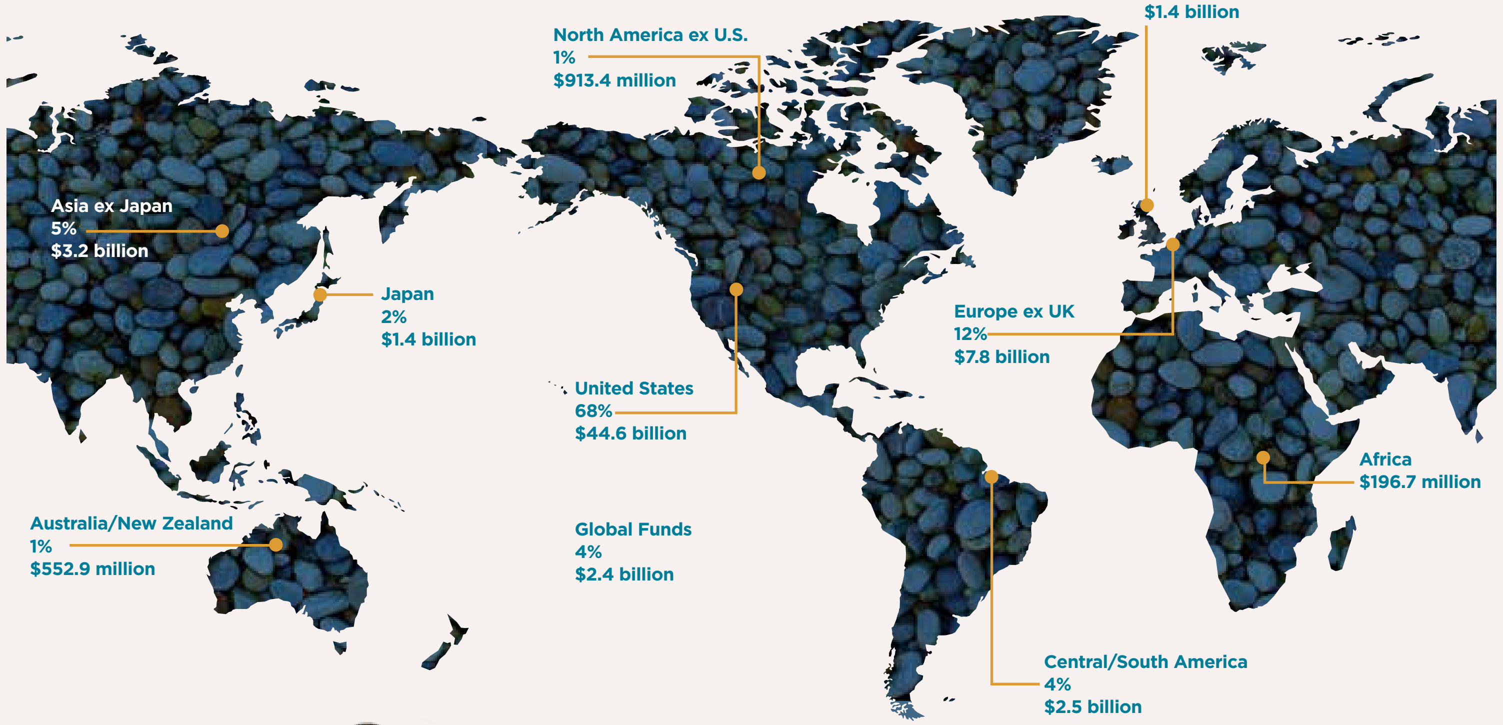
LOOKING FORWARD

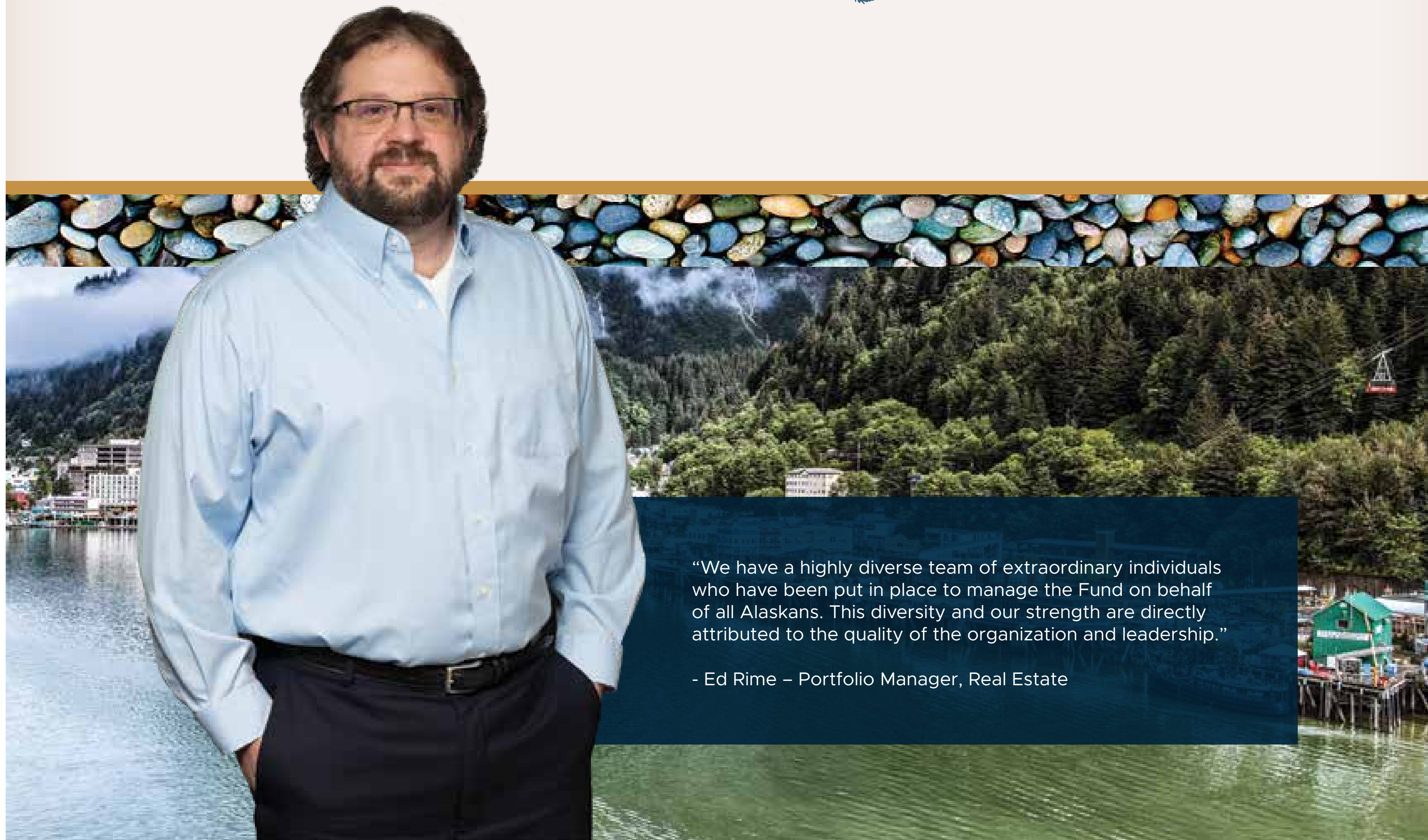
The outlook for this asset class is positive, especially in the context of significantly depressed long-term risk premia (the amount by which a higher-risk asset is expected to outperform known return on a risk-free asset) and increased volatility associated with traditional asset classes. At this juncture, it is even more important to remain focused on sourcing uncorrelated returns, and we expect to be actively engaged in increasing the allocation to such strategies.

ABSOLUTE RETURN
Internal VS. External Management

PARTNERSHIPS AROUND THE WORLD

We actively partner with leading investment managers and institutional investors on every continent but Antarctica, which gives Alaska access to the most compelling investment opportunities around the globe as they arise. We seek international partnerships for all assets in the entire portfolio to maximize the Fund's performance.





"We have a highly diverse team of extraordinary individuals who have been put in place to manage the Fund on behalf of all Alaskans. This diversity and our strength are directly attributed to the quality of the organization and leadership."

- Ed Rime – Portfolio Manager, Real Estate

REAL ESTATE

$3.9 BILLION
as of June 30, 2020

54 PROPERTIES

12% TARGET ASSET ALLOCATION

Real Estate is an essential component of the Permanent Fund's overall portfolio but is a long-term asset class, and its performance should be measured on that basis. The Fund has partial or complete ownership of residential, retail, industrial, and office buildings in the U.S. and abroad, including full ownership of the Michael J. Burns Building in Juneau, which houses our offices.

In the extremely low-interest-rate environment the world has experienced for the past decade (which saw rates drop even lower in the affected last two quarters of FY20), real estate is one of the only major investment areas on which the Fund can rely for attractive yield. As with most high-quality, institutional real estate portfolios, our portfolio delivers mid-single digit cash yields backed by a diverse set of creditworthy tenants and typically "class A" underlying properties.

In addition, with unprecedented central bank monetary action and fiscal response in the form of stimulus measures to the global financial crisis of 2008-2009 and now accelerating with the driven economic contraction, our real estate portfolio provides important inflation protection to the Fund's overall portfolio in the event that inflation resurges in the country.

REAL ESTATE
Internal vs. External Management

Internally managed 92% Externally managed 8%

Following the divestiture of the vast majority of the Corporation's multi-family portfolio in 2018, our Real Estate portfolio has a significantly higher exposure to retail and significantly lower exposure to multi-family than the National Council of Real Estate Investment Fiduciaries index benchmark against which our portfolio is measured. This sector positioning led to the portfolio's flat performance for the fiscal year vs. a ~5 percent return on the benchmark as adjustments to the appraised value of certain properties offset cash yield generated by the portfolio.

Our Real Estate team has been very active on the new investment side in the wake of the market disruptions caused by COVID. Areas of focus have included opportunistic credit and the multi-family and industrial sectors as the team builds the portfolio up from the current ~6 percent exposure as a percentage of the Fund to the ultimate asset allocation target of 12 percent. Meanwhile, asset management of existing properties has remained a core focus and competency.

In the midst of and aftermath of the market disruption to credit markets broadly, and commercial mortgage markets specifically, our team committed several hundred million dollars to fund strategies focused on opportunistic credit strategies in real estate. The Investment Team also sees opportunities around residential development activities (including on parcels already owned by the Corporation) as work-life arrangements shift going forward.

Life Science Plaza in Houston, Texas.

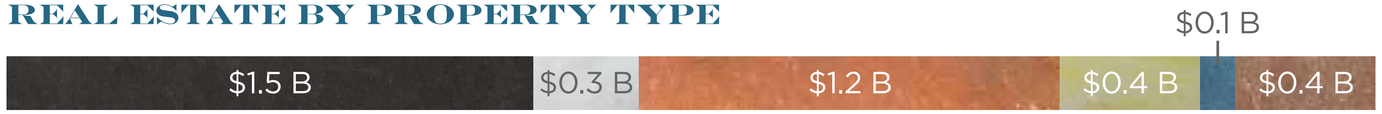
Tysons Corner Center in Fairfax County, Virginia.

LOOKING FORWARD

The outlook for real estate as an asset class is quite varied based on rapidly changing dynamics for individual property types and geographies. The multi-family and industrial sectors have been the two clear winners of trends in play in the past decade, trends that have only accelerated during the related economic contraction. Demand for residential apartments is likely to remain strong, and reduction in market interest rates led by the Federal Reserve lowering the fed funds target has been supportive of valuations. Shifting supply chains and growth of e-commerce at the expense of brick-and-mortar retail sales have been a wind at the back of the industrial real estate sector. Conversely, certain other sectors may face headwinds going forward; these include "B" and "C" mall retail properties and, potentially, some urban real estate assets across sector types. The office sector is more difficult to provide an outlook on as the trend towards additional remote work will likely be offset, to a degree, by a shift away from open office spaces and higher employees per square foot in office settings.

At a high level, however, real estate remains perhaps the purest asset class from which the Corporation can derive a go-forward return of CPI +5 percent. This is driven by cap rates around 5 percent for institutional properties and rental rates that, over time, tend to increase with inflation.

REAL ESTATE BY PROPERTY TYPE



Retail 39% Multifamily 8% Office 31% Industrial 10% Hotel 2% Indirect 10%

ASSET ALLOCATION STRATEGIES

$3.8 BILLION
as of June 30, 2020

1 INTERNAL CASH MANAGER

3 RISK PARITY MANAGERS

5% TARGET ASSET ALLOCATION

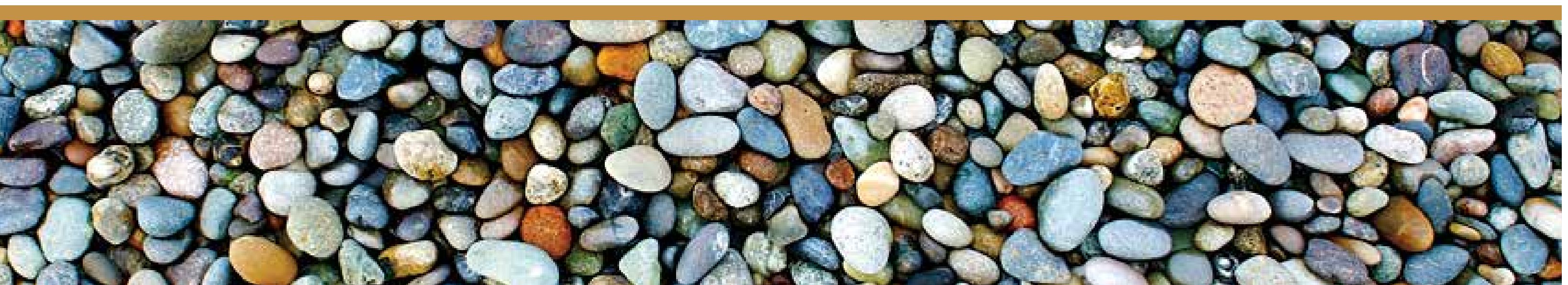
The **Asset Allocation Strategies** portfolio is comprised of the Total Cash portfolio and the Risk Parity portfolio. The Cash Portfolio provides stability, liquidity, and risk balance through diversification benefits relative to other, riskier asset classes. The Risk Parity portfolio is a multi-manager portfolio that provides risk-balanced exposure to multiple sources of excess expected return. The goal of risk parity is to build diversified portfolios in which various asset classes contribute equal amounts of risk. These strategies are designed to control and balance risk.

The Cash Portfolio is primarily managed internally, and the Fund's exposure to cash is determined by the Corporation's liquidity needs, time horizon, and risk tolerance given the market environment.

Our Internal Cash account was essential for the Corporation to navigate the volatile period in the second half of FY20 as well as to rebalance the portfolio. Despite selling an overwhelming majority of assets during this time, the portfolio still outperformed its benchmark and other market funds of similar characteristics, returning 1.75 percent for FY20 vs. the 90-day T-bill benchmark return of 1.63 percent.

ASSET ALLOCATION STRATEGIES BY TYPE

$3.8 B



During FY20, we moved cash management primarily in-house, given that we had the resources, and our staff began preparations to start trading repurchase agreements in-house.

We reduced the amount exposed to equities and fixed income derivatives through the liquidity overlay program and maintained an overweight to cash as part of the Corporation's investment strategy and risk budget. This allowed us to maintain proper liquidity to take advantage of market corrections. In addition, having an overweight to cash helped maintain the desired risk level for the Fund to counterbalance the overweight in other, riskier assets.

The $625 million Risk Parity portfolio is managed externally by three managers and is intended to deliver long-term returns of CPI +5 percent or better while investing in various liquid asset classes that contribute equal amounts of risk. Risk Parity portfolios will generally be less correlated to traditional markets and less concentrated by the volatility of stocks.

The severe market turmoil in February and March resulted in negative returns for Risk Parity and many other portfolios. However, capital markets showed a strong recovery during the fourth quarter of FY20, and the portfolio benefitted from a diverse set of return drivers, with all asset classes contributing positively to the return. We continue to see this positive momentum into the new fiscal year, with managers recovering all the losses from the beginning of the year.

In March 2020, we reduced our exposure to Risk Parity by half as part of a rebalance into equities during a market drawdown. Risk Parity investments are a source of liquidity for the Corporation. As markets started to recover and the Corporation had more capital to invest, we brought Risk Parity allocation back to its target of around 1 percent of the Fund.

LOOKING FORWARD

We will be looking at ways to enhance the return of our cash portfolios by introducing new instruments, such as repurchase agreements. This portfolio will continue to play a vital role, providing stability and liquidity for the Fund, which will help the Corporation achieve our overall objectives.

We believe that during uncertain times like these, it is prudent to rely on diversification and downside mitigation tools, via explicit hedges, portfolio-construction techniques, or solutions with an asymmetrical profile. The Risk Parity team employs these tools for portfolio construction and implementation. Risk Parity portfolios could play an important role as investors face the challenges of a low-yielding environment in which the return on cash is close to zero. By aiming for a specific risk target, Risk Parity portfolios can help compensate for the loss in return of traditional portfolios. In addition, given that these portfolios are more balanced and less equity-centric than traditional portfolios, they may react better to changing asset volatility as they remain diversified.

MANAGEMENT AND PERFORMANCE FEES

Managing an investment fund is a balance, not only of risk and return, but of cost and reward. In addition to making reasoned investment decisions, managing the costs of investing the Alaska Permanent Fund is a crucial part of the Corporation's fiduciary duties. The fees associated with externally managed assets generally consist of two types: management fees and performance fees.

MANAGEMENT FEES

Management fees are paid to an external manager to compensate the manager regardless of the rate of return on invested assets. Total investment management fees paid, including both external and internal management, was $383.2 million for FY20. This equates to 0.58 percent or 58 basis points of all assets under management valued at $65.8 billion as of June 30, 2020, including Alaska Mental Health Trust Authority. The Corporation has three methods for the tracking and payment of management fees:

FEES FUNDED BY INVESTMENTS

$276.1 M

The investment manager retains fees from the assets under its management. The fee amounts are netted against the income before it is distributed back to the Fund and are not part of the annual Corporation's management fee allocation in the operating budget.

FEES FUNDED BY INVESTMENT MANAGEMENT APPROPRIATION

$92.3 M

Fees are paid directly by the Corporation after an invoice is received. These investment fees reflect the value of assets under management, contractual fee terms for external management, and the internal costs associated with effective portfolio management, such as investment systems, due diligence, and custody fees. These management fees for both external and internal portfolio management are funded through the investment management fee allocation of the Corporation's appropriation in the state's operating budget.

APFC OPERATIONS APPROPRIATION

$14.9 M

The Corporation's operating expenses are directly related to the management of all assets in the portfolio. This category includes personal services, travel, contractual services, commodities, and equipment. These costs are funded through the operations allocation of the Corporation's appropriation in the state's operating budget.

PERFORMANCE FEES

Performance fees are paid to an external manager after the invested assets have generated a return on investment above an agreed-upon hurdle rate. Once a manager has generated a return on investment in excess of the agreed-upon benchmark, the manager is entitled to share in a portion of the profits earned above the benchmark. The distinction between management and performance fees is important because a year in which the Corporation pays high-performance fees is a year in which the Corporation's assets have performed well above expectations. For FY20, performance fees amounted to $236.3 million. Generally, performance fees associated with the public markets are funded by appropriation based on invoices, and the performance fees for private market assets are funded by the investments and netted out of the returns.

The fee amounts presented are unaudited and reflect the most current and complete information available. Visit our website at apfc.org to view the Quarterly Investment Management Fee Report that the Board receives as part of their standard board meeting packet. It is also posted under the Report Archive.

ALASKA PROGRAMS AND COMMITMENTS

INTERNSHIP PROGRAM

Unfortunately, we had to suspend our internship program this year due to COVID-19. The Corporation has provided more than 300 internships to outstanding young Alaskans since 1988, and we remain fully committed to the program, which allows future leaders to work with and learn from some of the world's leading financial experts.

Providing internships in a real work environment is just part of our commitment to finding ways to provide ongoing, meaningful opportunities for Alaskans both at the Corporation and with our external partners. We are also developing other ways to educate our younger generation in financial literacy and about the Permanent Fund and the value it brings to Alaska.

APFC also planned to partner with the Alaska Fellows Program to bring on a Fellow to evaluate portfolio risks in the autumn of 2020. The Fellow was slotted to work primarily with our risk management team and perform functions on assessing climate and private-assets risk. Due to COVID-19, this fellowship has also been postponed for a year.

ALASKA INVESTMENT PROGRAM

APFC's statutory responsibilities pertaining to in-state investments are set forth in AS 37.13.120 (c), which specifies if an Alaska investment has equivalent risk and expected return comparable to or better than a similar non-Alaska investment, the Alaska investment should be preferred.

As of June 30, 2020, 0.87 percent of the Fund's portfolio totaling $558.2 million is invested in-state through Alaska-based external investment managers and ownership of APFC's office building in Juneau. The two Alaska firms that manage Fund assets are Alaska Permanent Capital and McKinley Capital. The Fund owns the Michael J. Burns Building in Juneau as part of its Real Estate portfolio. The Corporation's offices are on the third floor, and other space is leased to Merrill Lynch, the Department of Administration, and the Department of Education and Early Development.

The Corporation also has an In-State Emerging Manager Program based on actions taken by the Board in 2018 through the passage of Resolution 18-03. This resolution directs the implementation of an In-State Emerging Manager program with an initial allocation of up to $200 million within the Private Equity and Special Opportunities asset allocation. As of June 30, 2020, this program represented 0.31 percent of the total Fund value. The goal of the Emerging Manager Program is to seed new private equity or venture capital fund managers in Alaska. Our Alaska Investment Program is managed by two external fund managers, with McKinley Capital Management LLC focusing on private equity and Barings LLC focusing on Infrastructure and Private Credit. One of the critical elements is that the investment decision making lies with the external managers and not with the APFC to avoid undue political/state influence.

ALASKA PERMANENT FUND CORPORATION

40 YEARS OF VALUES IN ACTION




The close-knit team at the Alaska Permanent Fund Corporation is a diverse group of just under 50 dedicated professionals in the fields of investment, accounting, legal, trade operations, risk, IT, and administration who work together to manage what has become the state's most valuable financial asset.

That's a big responsibility. But throughout the last 40 years, this team has worked diligently to protect and increase the Fund's value by remaining strictly apolitical, forging strong partnerships, taking advantage of unique investment opportunities, and implementing safe, but successful, investment strategies.

We believe staying true to our values will help the Corporation ensure a healthy Permanent Fund for today's generation of Alaskans and for their descendants who will pass this vital resource on generation after generation far into the future.

VALUES IN ACTION

As the Fund has grown over the past 40 years, so has the APFC team. From its start as a two-person operation, the team has matured into one recognized by its peers around the world. Here are some of the honors bestowed on the Corporation and its staff during the past year.

- ***The Sovereign Wealth Fund Institute*** ranked CEO **Angela Rodell** fourth in the world on its list of Public Investor 100 most "significant, resilient, and impactful" executives.

- ***Trusted Insight*** named Chief Investment Officer **Marcus Frampton** one of its 2019 Distinguished Chief Investment Officers, calling him "an innovative leader who generously shares knowledge and time to encourage collaboration." ***Chief Investment Officer Magazine*** named Frampton to its Power 100 of 2019, which honors asset owners who have "distinguished themselves in navigating a changing, and often perilous, market landscape."

- ***Chief Investment Officer Magazine*** selected **Tom O'Day**, Portfolio Manager – Fixed Income, for its NextGen award.

- ***Private Equity International*** nominated **APFC** for Institutional Limited Partner of the Year in 2019 for the third consecutive year.

- ***Pitchbook*** selected the **Alaska Permanent Fund Corporation** as one of the savviest sovereign wealth funds due to its increased allocation to private markets and the growing sophistication of the portfolio.

STRENGTH IN DIVERSITY

While it is an honor to be recognized by our global peers, our inspiration comes from our mandate to manage and invest the assets of the Permanent Fund for today's generation of Alaskans and their descendants for generations to come.

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying balance sheets of the Alaska Permanent Fund (the Fund) as of June 30, 2020 and 2019, and the related statements of revenues, expenditures and changes in fund balances for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Permanent Fund as of June 30, 2020 and 2019, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Emphasis of a Matter

As discussed in note 1, the financial statements present only the Alaska Permanent Fund and do not purport to, and do not, present fairly the financial position of the State of Alaska as of June 30, 2020 and 2019, or changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matter

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2020, on our consideration of the Alaska Permanent Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

KPMG LLP

September 3, 2020
Anchorage, Alaska

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Alaska Permanent Fund Corporation ("APFC") management is pleased to provide this Management's Discussion and Analysis ("MD&A") of the financial activities of the Alaska Permanent Fund ("Fund" or "Permanent Fund") for the fiscal years ended June 30, 2020 and June 30, 2019. This narrative is intended to provide management's insight into the results of operations from the past two fiscal years and highlight specific factors that contributed to those results. The MD&A is comprised of three sections: financial highlights, discussion regarding use of the financial statements, and analysis of the financial statements; the sections should be reviewed together with the financial statements and related notes that follow it.

FINANCIAL HIGHLIGHTS

- Public markets experienced extreme volatility during the year as the impacts of COVID-19 were felt across the globe. The Fund ended the fiscal year ("FY") at 2.01 percent total return. While representing a strong recovery from the lows experienced in the third quarter, these results were not as strong as the 6.32 percent of FY2019 and were well below the average over the Fund's history. Total fund return for FY2020 just slightly underperformed the performance benchmark of 2.05 percent by 4 basis points. FY2020's results are substantially below the mid-point of the range of returns since 1985, which have ranged from -17.96 percent to 25.58 percent.

- FY2020's excess of revenues over expenditures (net income) was $1.6 billion. This represents a decrease from FY2019 of $2.1 billion and is also significantly lower than FY2018's level of $5.5 billion.

- During FY2018, legislation was passed which, subject to appropriation, provides for a transfer from the Earnings Reserve Account to the General Fund to help balance the State's budget. The amount of the transfer is based upon a percentage of the average market value of the Fund at the end of the first five of the preceding six fiscal years. The funding for the Alaska Permanent Fund dividend is then transferred from the General Fund. The June 30, 2019 balance sheet reflects a $1.9 billion commitment of fund balance for the appropriation that was transferred to the General Fund during FY2020. An additional $1 billion was appropriated after year end bringing the total transfer for FY2020 to $2.9 billion. The June 30, 2020 balance sheet reflects a $3.1 billion commitment of fund balance for the appropriation to be transferred to the General Fund in FY2021.

- The portion of dedicated State of Alaska revenues deposited into the principal (or "corpus") of the Fund is based on mineral prices and production. In FY2020, this amount came in at $319 million, well below FY2019's deposits of $385 million. For FY2018 and FY2019, the amount appropriated by the Legislature was limited to the Constitutionally required level of 25 percent of mineral royalties and related payments. It did not include the additional amount required by statute on select leases, which had historically been appropriated. If the additional amount required by statute had been appropriated by the Legislature, the deposits into principal would have been approximately $100 million larger in FY2019 and $80 million larger in FY2018. During FY2020, legislation was passed by the Legislature, but vetoed by the Governor, to transfer the additional amounts for both years from the Earnings Reserve Account to the corpus. Subsequent to the end of FY2020, additional legislation was passed by the Legislature, but vetoed by the Governor, to transfer these amounts. The amounts shown on the financial statements are limited to the deposits that were appropriated.

- Inflation proofing of the Fund's corpus is outlined in Alaska Statute and, like the transfer to the General Fund, is subject to appropriation. In FY2020, the inflation rate was 1.81 percent, resulting in a transfer of $758 million to the corpus. In FY2019, the statutory inflation rate was 2.44 percent which resulted in a transfer to principal of $989 million. There was no appropriation for inflation proofing for FY2016 – FY2018. If appropriated, the transfers for these three years would have totaled $1.4 billion.

- During FY2019, legislation was passed to transfer $4 billion from the Earnings Reserve Account to the corpus in FY2020. This amount is reflected as committed fund balance on the June 30, 2019 balance sheet. The transfer was completed on June 30, 2020.

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, 2020, as well as the prior fiscal year's ending balances at June 30, 2019.

Assets are grouped into broad categories for ease of readability and analysis. Receivables include cash not yet received from the sale of investments, as well as dividends and interest receivable from stock and bond holdings. Investments are broken out by traditional asset class and are shown at market value. The securities lending cash 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 investments purchased but not yet settled (shown in the accounts payable grouping), the amount payable to the State of Alaska for the Alaska Capital Income Fund, and 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 three categories: non-spendable, committed, and assigned.

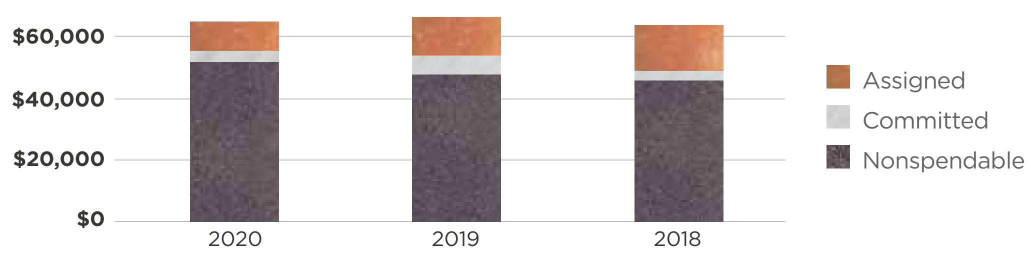
- The largest category is non-spendable (80 percent as of June 30, 2020) which is not available for government appropriation by the State of Alaska.

- Committed fund balance (5 percent as of June 30, 2020) represents amounts that have been signed into law before the end of our fiscal year, for transfer to another account or purpose during the subsequent fiscal year. In both years, this includes the legislation which took effect at the beginning of FY2019, which provides for a percent-of-market-value transfer from the Earnings Reserve Account to the General Fund. For FY2019, it also includes legislative action to transfer an additional $4 billion from the earnings reserve account to the corpus.

- The remaining balance (the assigned fund balance) is available for government appropriation. The assigned fund balance decreased by 22 percent from FY2019 to FY2020, from $12.5 billion to $9.8 billion. Generally, four factors contribute significantly to changes in the assigned fund balance: investment cash flow income including transactional realized gains and losses (statutory net income); the State of Alaska general fund transfer; inflation proofing (a transfer of assets from the assigned to the non-spendable fund balance); and the change in unrealized gains and losses allocated to the assigned fund balance. During FY2020, the amounts contributing to the net decrease of approximately $2.7 billion in the assigned fund balance were:

  (i) realized income of $3.1 billion;
  (ii) an additional transfer to the General Fund for FY2020 that was appropriated during FY2020;
  (iii) the commitment of $3.1 billion for transfer to the General Fund;
  (iv) an inflation proofing transfer to non-spendable of $758 million; and
  (v) the allocation of a portion of unrealized gains and losses, which decreased from FY2019 to FY2020 by $1 billion, to a balance of $1.4 billion.

FUND BALANCES
June 30 (in millions)



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 FY2020 and FY2019.

Revenues are shown in two sections on the statement, separating cash receipts of various investment holdings such as interest, dividends, and real estate rental income, from the change in value of investment holdings. The first section of the revenues also includes miscellaneous income such as class action litigation proceeds and securities lending income. The second section of revenues ("Net increase (decrease) in the fair value of investments") includes both realized and unrealized gains and losses on investments. Realized gains and losses are produced only through the sale of investments, while unrealized gains and losses are the result of changes in the fair value of investments without a sale of those investments. Realized and unrealized gains and losses are summarized by asset class to match the groupings on the Balance Sheets and represent the total net increase or decrease for the year in each asset category.

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

Dedicated State revenues transferred into the Fund's principal are based on a percentage of mineral revenues that the State receives. Transfers out of the Fund are (i) the percent-of-market-value transfer to the General Fund and (ii) the annual deposit to the Alaska Capital Income Fund (ACIF).

NOTES TO THE FINANCIAL STATEMENTS

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

FINANCIAL STATEMENT ANALYSIS

This section of the MD&A is intended to provide an analysis of past fiscal years' activities and specific contributors to changes in the net assets of the Fund. The fund balance serves to provide a gauge of the financial strength of the Fund. While assets of the Fund exceeded liabilities each year by double-digit ratios (excluding securities lending collateral, held separately by the custodian for repayment to the borrower upon a loan's completion), the non-spendable fund balance is unavailable for appropriation. The table set forth below was derived from the Balance Sheets of the Fund, and provides a comparison of the change between balances of June 30, 2020 and 2019.

	June 30			
Balance Sheets	**2020**	**2019**	**Net change**	**Percent**
Assets				
Cash and temporary investments	$ **4,815,872,000**	4,585,921,000	229,951,000	5%
Receivables, prepaid expenses and other assets	**2,194,723,000**	673,595,000	1,521,128,000	226%
Investments	**60,893,991,000**	61,948,996,000	(1,055,005,000)	(2)%
Securities lending collateral	**1,540,240,000**	2,840,792,000	(1,300,552,000)	(46)%
Total assets	$ **69,444,826,000**	70,049,304,000	(604,478,000)	(1)%
Liabilities				
Accounts payable	**2,581,892,000**	879,776,000	1,702,116,000	193%
Income distributable to the State of Alaska	**20,492,000**	28,469,000	(7,977,000)	(28)%
Securities lending collateral	**1,540,240,000**	2,840,792,000	(1,300,552,000)	(46)%
Total liabilities	$ **4,142,624,000**	3,749,037,000	393,587,000	10%
Fund balances				
Nonspendable:				
Permanent Fund corpus - contributions and appropriations	**46,618,846,000**	41,542,110,000	5,076,736,000	12%
Unrealized appreciation on invested assets	**5,789,217,000**	6,277,500,000	(488,283,000)	(8)%
Total nonspendable	**52,408,063,000**	47,819,610,000	4,588,453,000	10%
Committed:				
General Fund appropriation	**3,091,493,000**	1,933,084,000	1,158,409,000	60%
Permanent Fund corpus	**—**	4,000,000,000	(4,000,000,000)	n/a
Total committed	**3,091,493,000**	5,933,084,000	(2,841,591,000)	(48)%
Assigned for future appropriations:				
Realized earnings	**8,378,305,000**	10,121,532,000	(1,743,227,000)	(17)%
Unrealized appreciation on invested assets	**1,424,341,000**	2,426,041,000	(1,001,700,000)	(41)%
Total assigned	**9,802,646,000**	12,547,573,000	(2,744,927,000)	(22)%
Total fund balances	$ **65,302,202,000**	66,300,267,000	(998,065,000)	(2)%
Total liabilities and fund balances	$ **69,444,826,000**	70,049,304,000	(604,478,000)	(1)%

The value of the Fund's assets, excluding securities lending collateral, increased slightly between June 30, 2019 and June 30, 2020. The value of the Fund's assets is most significantly impacted by investment performance. Comparative performance for each asset class is shown below:

	FY2020	FY2019
Public Equity	**0.41%**	2.96%
Fixed Income Plus	**4.19%**	9.28%
Private Equity & Special Opportunities	**1.94%**	19.18%
Real Estate	**-0.16%**	-1.29%
Infrastructure & Private Income	**-0.39%**	10.94%
Absolute Return	**1.46%**	1.94%
Asset Allocation	**-0.25%**	2.50%
TOTAL FUND	**2.01%**	6.32%

The ending values of securities lending collateral invested and the related liability are dependent upon the amount of securities out on loan on any particular day. These values can change significantly from day to day and year to year, depending on activity in the market. The average value of assets on loan during FY2020 was $7.9 billion, with a low of $5.7 billion and a high of $9.3 billion. The Fund had earnings from securities lending of $31.4 million during FY 2020, a significant increase from $27 million received in FY2019.

In the liability section of the Balance Sheets, accounts payable primarily consist of obligations due, but not yet settled, on securities purchased. The open transactions can vary widely from day to day and are usually the largest portion of Fund payables, representing 99 percent and 97 percent of the FY2020 and FY2019 accounts payable balances, respectively. The increase of $1.7 billion, or 193 percent, from FY2019 to FY2020 was primarily due to an increase in pending fixed income purchases of $1.6 billion caused by rebalancing at the end of the fiscal year.

The sole amount due to the State of Alaska at the end of FY2020 and FY2019 is the transfer to the Alaska Capital Income Fund (ACIF). This amount is calculated based on realized earnings and was $20.5 million for FY2020 and $28.5 million for FY2019. The $8 million decrease from the prior year is caused by lower realized returns in FY2020 versus FY2019.

Total fund balance decreased by 2 percent from FY2019 to FY2020, with a decrease of $1 billion, consistent with the 2.01 percent total return for the year and the net transfers out of the Fund. Components of this decrease were increases of $1.4 billion in stock dividends, bond interest, and cash flow income from other investments, $319 million in dedicated mineral deposits, and an increase in the fair value of investments of $362 million offset by operating expenses of $128 million, and the General Fund transfer of $2.9 billion. Deposits from the State of Alaska were down 17 percent from the FY2019 dedicated revenues of $385 million.

In comparison, total fund balance increased from FY2018 to FY2019 by 2 percent, or $1.4 billion, due to net income of the Fund of $3.8 billion and transfers in (State dedicated mineral revenues of $385 million), partially offset by transfers out (General Fund of $2.7 billion and ACIF of $22 million).

The table on the next page is derived from the Statements of Revenues, Expenditures and Changes in Fund Balances, and shows the annual activity of the Fund. The differences in activity in FY2020 as compared to FY2019 are shown in both dollars and percentages.

Statements of Revenues, Expenditures and Changes in Fund Balances	Year Ended June 30 2020	2019	Net change	Percent
Revenues				
Total interest, dividends, real estate and other income	$ **1,402,898,000**	1,554,748,000	(151,850,000)	(10)%
Total net increase in the fair value of investments	**361,738,000**	2,352,276,000	(1,990,538,000)	(85)%
Total revenues	**1,764,636,000**	3,907,024,000	(2,142,388,000)	(55)%
Expenditures				
Operating expenditures	**(120,382,000)**	(132,567,000)	12,185,000	(9)%
Other legislative appropriations	**(7,792,000)**	(8,783,000)	991,000	(11)%
Total expenditures	**(128,174,000)**	(141,350,000)	13,176,000	(9)%
Excess of revenues over expenditures	**1,636,462,000**	3,765,674,000	(2,129,212,000)	(57)%
Other financing sources (uses)				
Transfers in – dedicated State revenues	**319,049,000**	385,231,000	(66,182,000)	(17)%
Transfers out – appropriations	**(2,953,576,000)**	(2,744,983,000)	(208,593,000)	8%
Net change in fund balances	**(998,065,000)**	1,405,922,000	(2,403,987,000)	(171)%
Fund balances				
Beginning of period	**66,300,267,000**	64,894,345,000	1,405,922,000	2%
End of period	$ **65,302,202,000**	66,300,267,000	(998,065,000)	(2)%

During FY2020, cash flow revenue from interest, dividends, real estate, and other sources was slightly less than FY2019 levels at $117 million per month on average, down from $130 million per month on average in FY2019. FY2019 cash flow income was down slightly from $132 million per month on average in FY2018.

The change in the fair value of investments decreased by 85 percent from a $2.4 billion gain in FY2019 to a $362 million gain in FY2020. The portfolio broadly experienced extreme drawdowns in value during the third quarter due to the COVID-19 pandemic. Markets partially recovered in the fourth quarter but returns were significantly lower in FY2020 than in FY2019. FY2019's change in fair value of investments was a 43 percent decrease from the $4.1 billion gain in FY2018.

Operating expenditures decreased from FY2019 to FY2020 by 9 percent. This decrease was slightly higher than the decrease experienced between FY2018 and FY2019 of 3 percent. The volatility between years is mainly caused by fluctuations in amounts paid in investment management fees. Investment management fees depend upon assets under management by external managers and their performance relative to their benchmarks. Market volatility and changes to asset allocation can cause fees to fluctuate.

Transfers in of dedicated State revenues decreased from FY2019 to FY2020 by 17 percent ($66 million) and totaled $319 million compared to $385 million in FY2019. These transfers totaled $353 million in FY2018. The Alaska Constitution requires that at least 25% of mineral royalties and related payments received by the State be transferred to the Permanent Fund. State statutes mandate an additional 25% on select leases be deposited. Transfers in of dedicated state revenues under these statutes are subject to legislative appropriation. The budget appropriations for FY2018 and FY2019 failed to include amounts required by statute beyond the constitutional floor of 25 percent. In the absence of an appropriation for the additional amounts, they were not transferred.

Therefore, amounts shown in the financial statement for FY2019 are limited to the amount required by the Constitution.

Transfers out of the Fund are for two purposes: 1) an appropriation to the General Fund and 2) an appropriation to fund the Alaska Capital Income Fund (ACIF). The General Fund and ACIF transfers are subject to legislative appropriation. The total transfer amount is shown as committed fund balance at the end of the year in which the appropriation is made, and the commitment is released when the transfer to the General Fund is made. The amount originally appropriated for the General Fund for FY2020 was $1.9 billion. In August 2019, an additional $1 billion was appropriated for FY2020, but because of the timing, that amount is not reported as committed at June 30, 2020. The FY2021 appropriation of $3.1 billion is shown as committed as of June 30, 2020, based on appropriations authorized as of that date. The ACIF transfer is based on realized earnings for only one year; it is not averaged over multiple years. ACIF realized earnings of $21 million in FY2020 and $29 million in FY2019. The earnings for FY2018 were $43 million.

ECONOMIC, INVESTMENT, AND POLITICAL FACTORS

The market value of and earnings from the Fund's assets are directly impacted by the volatility of the financial markets, as well as investment decisions made by the Trustees, internal Fund management, and external Fund investment managers. Diversification of asset allocation and diversification of investments within each allocation are intended to mitigate the risk of volatility of the financial markets. The APFC, as a component unit of the State of Alaska, is subject to legislative changes that govern the APFC and the Fund.

ADDITIONAL INFORMATION

This financial report is designed to provide an overview of the Alaska Permanent Fund's ending net asset balances and fiscal year financial activities. This report does not include any other funds owned or managed by the State of Alaska or APFC. Due to the potential volatility of the financial markets, Fund values and income may vary greatly from period to period. For more information on the Fund, both current and historical, readers are encouraged to visit www.apfc.org, or send specific information requests to the Alaska Permanent Fund Corporation at P.O. Box 115500, Juneau, Alaska 99811-5500.

Balance sheets

	June 30, 2020	June 30, 2019
Assets		
Cash and temporary investments	$ **4,815,872,000**	4,585,921,000
Receivables, prepaid expenses and other assets	**2,194,723,000**	673,595,000
Investments:		
Marketable debt securities	**13,595,452,000**	13,725,033,000
Preferred and common stock	**25,109,759,000**	24,253,205,000
Real estate	**4,303,604,000**	5,755,856,000
Absolute return	**4,288,542,000**	4,327,475,000
Private credit	**1,890,392,000**	1,816,276,000
Private equity	**9,803,985,000**	8,770,247,000
Infrastructure	**1,902,257,000**	3,300,904,000
Total investments	**60,893,991,000**	61,948,996,000
Securities lending collateral	**1,540,240,000**	2,840,792,000
Total assets	$ **69,444,826,000**	70,049,304,000
Liabilities		
Accounts payable	**2,581,892,000**	879,776,000
Income distributable to the State of Alaska	**20,492,000**	28,469,000
Securities lending collateral	**1,540,240,000**	2,840,792,000
Total liabilities	$ **4,142,624,000**	3,749,037,000
Fund balances		
Nonspendable:		
Permanent Fund corpus - contributions and appropriations	**46,618,846,000**	41,542,110,000
Unrealized appreciation on invested assets	**5,789,217,000**	6,277,500,000
Total nonspendable	**52,408,063,000**	47,819,610,000
Committed:		
General Fund appropriation	**3,091,493,000**	1,933,084,000
Permanent Fund corpus	—	4,000,000,000
Total committed	**3,091,493,000**	5,933,084,000
Assigned for future appropriations:		
Realized earnings	**8,378,305,000**	10,121,532,000
Unrealized appreciation on invested assets	**1,424,341,000**	2,426,041,000
Total assigned	**9,802,646,000**	12,547,573,000
Total fund balances	$ **65,302,202,000**	66,300,267,000
Total liabilities and fund balances	$ **69,444,826,000**	70,049,304,000

See accompanying notes to the financial statements.

Statements of revenues, expenditures and changes in fund balances

	Year Ended June 30, 2020	2019
Revenues		
Interest	**$ 492,899,000**	564,063,000
Dividends	**515,335,000**	590,980,000
Real estate and other income	**394,664,000**	399,705,000
Total interest, dividends, real estate and other income	**1,402,898,000**	1,554,748,000
Net increase (decrease) in the fair value of investments:		
Marketable debt securities	**433,840,000**	718,789,000
Preferred and common stock	**40,654,000**	393,520,000
Real estate	**(456,356,000)**	(63,998,000)
Absolute return	**44,446,000**	56,604,000
Private credit	**(5,146,000)**	40,983,000
Private equity	**885,987,000**	1,232,440,000
Infrastructure	**(347,896,000)**	344,267,000
Foreign currency forward exchange contracts and futures	**(7,001,000)**	79,107,000
Currency	**(226,790,000)**	(449,436,000)
Total net increase in the fair value of investments	**361,738,000**	2,352,276,000
Total revenues	**1,764,636,000**	3,907,024,000
Expenditures		
Operating expenditures	**(120,382,000)**	(132,567,000)
Other legislative appropriations	**(7,792,000)**	(8,783,000)
Total expenditures	**(128,174,000)**	(141,350,000)
Excess (deficiency) of revenues over expenditures	**1,636,462,000**	3,765,674,000
Other financing sources (uses)		
Transfers in - dedicated State revenues	**319,049,000**	385,231,000
Transfers out - statutory and legislative appropriations	**(2,953,576,000)**	(2,744,983,000)
Net change in fund balances	**(998,065,000)**	1,405,922,000
Fund balances		
Beginning of period	**66,300,267,000**	64,894,345,000
End of period	**$ 65,302,202,000**	66,300,267,000

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. ENTITY

The Constitution of the State of Alaska ("State") was amended by public referendum in 1976 to dedicate a portion of certain natural resource revenues to the Alaska Permanent Fund ("Fund"). Contributions to the Fund are to be invested in income-producing investments authorized by law. In 1980, the Alaska State Legislature ("Legislature") established the Alaska Permanent Fund Corporation ("APFC"), a State governmental instrumentality within the Department of Revenue, to manage and invest Fund assets. The APFC is managed by a six-member board of trustees ("Trustees" or "Board") consisting of the Commissioner of Revenue, one other head of a principal state department, and four public members with recognized competence and experience in finance, investments, or other business management related fields. The Governor appoints the public members to staggered four-year terms, and can remove public members only for cause. The Board employs an executive director who in turn employs additional staff as necessary. The Fund's assets are diversified across a wide variety of investments in accordance with statutes, regulations, and APFC's investment policy. The Fund's investment performance is generally related to the success of the financial markets. While diversification aims to mitigate volatility, significant period-to-period fluctuations in investment performance may occur.

By annual appropriation, the APFC transfers (i) a portion of the Fund's realized earnings to the State's general fund, (ii) a portion of realized earnings sufficient to offset the effect of inflation on contributions and appropriations to the nonspendable balance of the Fund, and (iii) realized earnings on the balance of the North Slope royalty case settlement money (*State v. Amerada Hess, et al.*) to the Alaska Capital Income Fund (ACIF). The remaining balance of the Fund's realized earnings (referred to in Alaska Statute as the Earnings Reserve Account) is held in the assigned fund balance by the APFC and is subject to appropriation by the Legislature. The nonspendable fund balance (referred to in the Alaska Constitution as the principal) includes the historical cost basis of contributions and appropriations. Because the Alaska Constitution specifies that principal can only be used for income-producing investments, it is unavailable for appropriation by the Legislature. Unrealized gains and losses (appreciation/depreciation) on Fund assets are allocated proportionately between the principal and the Earnings Reserve Account. 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 Earnings Reserve Account in 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, private equity, infrastructure, and private credit investments and the related unrealized gains and losses thereon are particularly sensitive estimates. Actual results could differ from those estimates.

Cash and temporary investments

The amounts shown on the balance sheets as cash and temporary investments include cash on deposit at the custodian bank, cash swept to overnight investment funds, cash held at futures brokers, U.S. Treasury bills, and the net fair value of foreign exchange forward contracts. The APFC's asset allocation includes approximately two percent in 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.

General Fund appropriations

In FY2018 the Legislature passed Senate Bill 26, which created a percent of market value draw on the Earnings Reserve Account for transfer to the general fund. Alaska Statute 37.13.140 was amended to specify the formula for percent of market value as 5.25% of the average market value of the fund as of June 30 for the first five of the preceding six fiscal years, including the fiscal year just ended. The average market value of the fund includes the Earnings Reserve Account, but not the principal attributed to the settlement of *State v. Amerada Hess*. This legislation took effect for FY2018 and replaced the appropriation to the dividend fund. The amount appropriated prior to year-end as transferrable to the general fund for the next fiscal year is shown as committed fund balance on the financial statements at June 30.

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 rates for the years ended June 30, 2020 and 2019 were 1.81 percent and 2.44 percent, respectively. This resulted in transfers to principal of $758 million in FY2020 and $989 million in FY2019.

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 principal and the Earnings Reserve Account.

- **Nonspendable fund balance**
  Nonspendable fund balance includes items that cannot be spent. This includes the corpus of the Permanent Fund, and the unrealized gains and losses allocated to it.

- **Committed fund balance**
  Committed fund balance can only be used for specific purposes subject to constraints imposed by a formal action of the Alaska Legislature, the State's highest level of decision-making authority. This formal action is the passage of a law creating, modifying or rescinding an appropriation. Earnings Reserve Account amounts appropriated to the General Fund are included in this classification. The commitment will be released when the transfer to the General Fund has been made. In FY2019, a commitment to principal is also included as committed fund balance.

- **Assigned fund balance**
  Assigned fund balance includes amounts that are constrained by the State's intent to be used for a specific purpose, but are not committed. The Alaska Legislature is the body authorized by the Alaska Constitution to assign amounts to a specific purpose. Alaska Statute 37.13.020 authorizes the Legislature to assign funds in the Earnings Reserve Account. The Earnings Reserve Account includes realized earnings and the unrealized gains and losses allocated to it.

Forward exchange contracts

Fund managers enter into a variety of forward currency contracts in their trading activities and management of foreign currency exchange rate risk exposure. These contracts are typically intended to neutralize the effect of foreign currency fluctuations, and the contract amounts do not appear on the balance sheet. Realized gains and losses are included in the net increase/decrease in the fair value of investments at the time the contract is settled and determined based on the difference between the contract rate and the market rate at the time of maturity or closing. Unrealized gains and losses are also included in the net increase/decrease in the fair value of investments, and are calculated based on the difference between the contract rate and a forward market rate determined as of the balance sheet date.

A portion of the investment in 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.

Futures

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

Income taxes

In the opinion of legal counsel, the Fund should not be subject to United States federal income taxation under the doctrine of implied statutory immunity for states 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. The Fund may be subject to tax in certain international jurisdictions.

Investments and related policies

Carrying value of investments

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

State investment regulations

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

Investment policy – Asset allocation

The Trustees have established a long-term goal of achieving a five percent real rate of return over time on the Fund's investment portfolio. To help achieve this goal, the Trustees allocate the Fund's investments among various asset classes. At June 30, 2020, the APFC's strategic asset allocation targets were as follows:

ASSET CLASS	ASSET CLASS TARGET
Public Equities	37%
Fixed Income Plus	20%
Private Equity & Special Opportunities	13%
Real Estate	12%
Infrastructure & Private Income	8%
Absolute Return	5%
Asset Allocation	5%

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 asset class, the APFC's chief investment officer has discretionary authority to permit target deviations within one specified range (referred to as the "green zone" in the investment policy), the APFC's executive director can approve target deviations for up to 90 days within a broader range (the "yellow zone"), and the Board can approve operating for longer than 30 days within a third range (the "red zone"). For example, the target dollar allocation for the public equities class is 37 percent, with the green zone range set at plus or minus five percent, the yellow zone range set at zero to ten percent beyond the green zone, and red zone range set at greater than ten percent beyond the green zone. 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, both internal and external, invest in domestic and non-domestic bonds that have an explicit or implied investment grade rating. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within seven months. Certain high yield investment managers are allowed to invest a specified amount of funds in bonds rated below investment grade.

Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure the Fund's deposits may not be returned. The APFC generally requires that all investment securities at custodian banks be held in the name of the Fund or the APFC (on behalf of the Fund). For the Fund's non-domestic securities held by most sub-custodians, the APFC's primary custodian provides contractual indemnities against sub-custodial credit risk. Excess cash in custodial accounts is swept daily to a money market fund. Late deposits of cash which miss the money market sweep deadline are deposited to an interest-bearing account at the custodian.

Foreign currency risk

Foreign currency risk is the risk of loss from adverse changes in foreign currency exchange rates. Foreign currency risk is managed through foreign currency forward contracts, and by diversifying assets into various countries and currencies.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The APFC manages the Fund's exposure to interest rate risk in part through tracking error guidelines set forth in the APFC's investment policy. Duration is an indicator of a portfolio's market sensitivity to changes in interest rates. In general, the major factors affecting duration are, in order of importance, maturity, prepayment frequency, level of market interest rates, size of coupon, and frequency of coupon payments. Rising interest rates generally translate into the value of fixed income investments declining, while falling interest rates are generally associated with increasing value. Effective duration attempts to account for the price sensitivity of a bond to changes in prevailing interest rates, including the effect of embedded options. As an example, for a bond portfolio with a duration of five years, a one percentage point parallel decline in interest rates would result in an approximate price increase on that bond portfolio of five percent.

At June 30, 2020, the Fund held fixed income investments with floating, variable, and step interest rates, valued at $533,539,000. These fixed income investments were both domestic and non-domestic, and had current annual interest rates ranging from 0 to 13 percent.

Transfers in

Contributions from dedicated State revenues are recorded when certain revenues defined by the constitution, or by statute and legislative appropriation, are received or reported by the Alaska Department of Natural Resources and are available to meet current obligations. Contributions from appropriations and other sources are recorded when received.

Transfers out

Transfers out to other State agencies are recorded when measurable and represent a present obligation to pay.

3. CASH AND TEMPORARY INVESTMENTS

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

	2020	2019
Cash	$ 1,062,878,000	121,377,000
Pooled Funds	3,665,096,000	2,728,476,000
Commercial Paper	37,812,000	456,893,000
U.S. Treasury Bills	50,086,000	1,279,175,000
Total Cash & Temporary Investments	**$ 4,815,872,000**	4,585,921,000

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

4. RECEIVABLES, PREPAID EXPENSES AND OTHER ASSETS

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

	2020	2019
Interest receivable	$ 103,433,000	113,958,000
Dividends receivable	64,392,000	71,058,000
Sales receivable	1,999,461,000	422,647,000
Dedicated state revenues receivable	27,437,000	65,932,000
Total receivables, prepaid expenses and other assets	**$ 2,194,723,000**	673,595,000

5. MARKETABLE DEBT SECURITIES

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

2020		Cost	Fair value	Unrealized gains (losses)
Treasury and government notes/bonds	**$**	**1,450,630,000**	**1,481,186,000**	**30,556,000**
Mortgage-backed securities		**2,087,591,000**	**2,111,917,000**	**24,326,000**
Corporate bonds		**5,803,147,000**	**6,216,160,000**	**413,013,000**
Commercial mortgage/asset-backed securities		**244,299,000**	**256,740,000**	**12,441,000**
Non-U.S. treasury and government bonds		**2,049,619,000**	**2,009,412,000**	**(40,207,000)**
Non-U.S. corporate bonds		**1,082,211,000**	**1,133,916,000**	**51,705,000**
Bond-backed exchange traded funds		**412,428,000**	**386,121,000**	**(26,307,000)**
Total marketable debt securities	**$**	**13,129,925,000**	**13,595,452,000**	**465,527,000**
2019				
Treasury and government notes/bonds	$	1,546,459,000	1,564,359,000	17,900,000
Mortgage-backed securities		1,127,812,000	1,136,605,000	8,793,000
Corporate bonds		6,012,209,000	6,264,994,000	252,785,000
Commercial mortgage/asset-backed securities		287,649,000	292,357,000	4,708,000
Non-U.S. treasury and government bonds		2,367,247,000	2,400,936,000	33,689,000
Non-U.S. corporate bonds		1,048,517,000	1,076,962,000	28,445,000
Bond-backed exchange traded funds		984,350,000	988,820,000	4,470,000
Total marketable debt securities	$	13,374,243,000	13,725,033,000	350,790,000

6. MARKETABLE DEBT CREDIT RATINGS

To manage credit risk for marketable debt securities, the APFC monitors fair values of all securities daily and routinely reviews its investment holdings' credit ratings. For accounts with an investment grade mandate, issues falling below the minimum standards are required to be sold within seven months of the downgrade date. Minimum standards are a Standard & Poor's Corporation rating BBB or better, or Moody's Investors Service, Inc. rating of Baa or better, or a comparable rating by another Nationally Recognized Statistical Rating Organizations (NRSRO) or by a recognized rating service in the jurisdiction of the issuer. Managers with high yield mandates are allowed to hold positions in assets with below investment grade ratings (high yield bonds) based on the terms of their contracts. For purposes of this note, if credit ratings differ among the NRSROs used, the rating with the highest degree of risk (the lowest rating) is reported. At June 30, 2020, the Fund's credit ratings for its marketable debt securities are as follows:

NRSRO quality ratings		Domestic	Non-domestic	Total fair value	Percentage of holdings
AAA	$	298,514,000	189,478,000	487,992,000	3.59%
AA		435,294,000	312,185,000	747,479,000	5.50%
A		1,635,608,000	782,266,000	2,417,874,000	17.78%
BBB		2,621,198,000	977,179,000	3,598,377,000	26.47%
BB		809,382,000	302,323,000	1,111,705,000	8.18%
B		472,499,000	207,401,000	679,900,000	5.00%
CCC		137,970,000	52,650,000	190,620,000	1.40%
CC		3,484,000	12,246,000	15,730,000	0.12%
C		483,000	—	483,000	0.00%
D		6,622,000	22,178,000	28,800,000	0.21%
Total fair value of rated debt securities		**6,421,054,000**	**2,857,906,000**	**9,278,960,000**	**68.25%**
Commingled bond funds		434,521,000	1,000	434,522,000	3.20%
Not rated		13,155,000	285,421,000	298,576,000	2.20%
U.S. government explicitly backed by the U.S. government (AA)		2,034,888,000	—	2,034,888,000	14.97%
U.S. government implicitly backed by the U.S. government (AA)		1,548,506,000	—	1,548,506,000	11.39%
Total fair value debt securities	**$**	**10,452,124,000**	**3,143,328,000**	**13,595,452,000**	**100.00%**

7. MARKETABLE DEBT DURATION

To manage its interest rate risk on marketable debt securities, the APFC monitors fair values daily and routinely reviews portfolio effective duration in comparison to established benchmarks. At June 30, 2020, the effective duration by investment type, based on fair value, is as follows:

	Percent of bond holdings	Duration (Years)
Domestic bonds		
Treasury and government notes/bonds	14.17%	8.25
Mortgage-backed securities	20.21%	1.91
Corporate bonds	59.47%	7.72
Commercial mortgage and asset-backed securities	2.46%	3.82
Bond-backed exchange traded funds	3.69%	—
Total domestic bonds	**100.00%**	**6.24**
Non-domestic bonds		
Non-U.S. treasury and government bonds	63.93%	8.02
Non-U.S. corporate bonds	36.07%	7.37
Bond-backed exchange traded funds	0.00%	—
Total non-domestic bonds	**100.00%**	**7.79**

8. PREFERRED AND COMMON STOCK

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

Preferred and common stocks and commingled stock funds at June 30 are summarized as follows, which include the net fair value of equity index futures of $2.6 million as of June 30, 2020 and $1.3 million as of June 30, 2019:

2020	**Cost**	**Fair value**	**Unrealized holding gains (losses)**
Direct investments			
Domestic stock	**$ 11,122,771,000**	**12,969,390,000**	**1,846,619,000**
Non-domestic stock	**10,941,930,000**	**11,298,111,000**	**356,181,000**
Commingled funds	**866,224,000**	**842,258,000**	**(23,966,000)**
Total preferred and common stock	**$ 22,930,925,000**	**25,109,759,000**	**2,178,834,000**
2019			
Direct investments			
Domestic stock	$ 9,632,786,000	11,805,605,000	2,172,819,000
Non-domestic stock	10,974,207,000	11,948,439,000	974,232,000
Commingled funds	452,859,000	499,161,000	46,302,000
Total preferred and common stock	$ 21,059,852,000	24,253,205,000	3,193,353,000

9. FOREIGN CURRENCY EXPOSURE

Foreign currency risk arises when a loss could result from adverse changes in foreign currency exchange rates. Foreign currency risk is managed by the international investment managers in part through their decisions to enter into foreign currency forward contracts. Foreign currency risk is also managed through the diversification of assets into various countries and currencies. At June 30, 2020, the Fund's cash holdings, foreign currency forward contracts, non-domestic public and private equity, and debt securities had exposure to foreign currency risk as follows (shown in U.S. dollar equivalent at fair value and based on the currency in which the securities are held and traded):

Foreign currency	**Cash and equivalents**	**Foreign exchange forward contracts**	**Public/private equity, real estate, infrastructure**	**Debt**	**Total foreign currency exposure**
Australian Dollar	$ 96,406,000	(32,908,000)	331,562,000	29,178,000	424,238,000
Brazil Real	1,763,000	10,923,000	131,543,000	34,889,000	179,118,000
Canadian Dollar	59,546,000	(154,125,000)	441,215,000	23,180,000	369,816,000
Chilean Peso	236,000	(6,175,000)	7,684,000	14,100,000	15,845,000
Chinese Yuan Renminbi	3,769,000	(69,737,000)	281,573,000	86,264,000	301,869,000
Colombian Peso	1,951,000	(4,802,000)	1,157,000	30,363,000	28,669,000
Czech Koruna	237,000	8,676,000	1,654,000	8,700,000	19,267,000
Danish Krone	4,347,000	(2,148,000)	131,098,000	–	133,297,000
Dominican Republic Peso	–	–	–	301,000	301,000
Egyptian Pound	73,000	(1,911,000)	154,000	1,794,000	110,000
Euro Currency	169,340,000	(619,612,000)	2,577,500,000	401,438,000	2,528,666,000
Hong Kong Dollar	46,586,000	(40,150,000)	1,119,826,000	–	1,126,262,000
Hungarian Forint	370,000	1,592,000	8,860,000	7,026,000	17,848,000
Indian Rupee	1,163,000	(10,557,000)	234,187,000	–	224,793,000
Indonesian Rupiah	2,833,000	(19,421,000)	50,469,000	63,026,000	96,907,000
Israeli Shekel	1,101,000	(8,368,000)	22,208,000	11,634,000	26,575,000
Japanese Yen	144,181,000	(295,081,000)	1,247,616,000	354,969,000	1,451,685,000
Malaysian Ringgit	2,024,000	(6,372,000)	24,029,000	30,620,000	50,301,000
Mexican Peso	5,971,000	(20,063,000)	45,121,000	70,966,000	101,995,000
New Taiwan Dollar	832,000	(8,260,000)	302,763,000	–	295,335,000
New Zealand Dollar	9,314,000	37,587,000	13,604,000	5,070,000	65,575,000
Nigerian Naira	–	(835,000)	–	–	(835,000)
Norwegian Krone	645,000	(68,873,000)	39,312,000	16,346,000	(12,570,000)
Pakistan Rupee	–	–	13,000	–	13,000
Peruvian Sol	178,000	(6,885,000)	–	12,208,000	5,501,000
Philippines Peso	84,000	(5,452,000)	6,829,000	–	1,461,000
Polish Zloty	600,000	13,491,000	23,785,000	14,939,000	52,815,000
Pound Sterling	74,751,000	(258,045,000)	870,912,000	83,556,000	771,174,000
Qatari Riyal	552,000	(346,000)	10,853,000	–	11,059,000
Romanian Leu	130,000	3,242,000	–	4,202,000	7,574,000
Russian Ruble	1,838,000	(14,050,000)	7,980,000	60,232,000	56,000,000
Saudi Arabian Riyal	112,000	–	11,539,000	–	11,651,000
Serbian Dinar	182,000	–	–	5,423,000	5,605,000
Singapore Dollar	43,160,000	(37,894,000)	45,914,000	11,828,000	63,008,000
South African Rand	6,241,000	(11,788,000)	64,114,000	38,470,000	97,037,000
South Korean Won	2,100,000	(28,045,000)	319,326,000	38,170,000	331,551,000
Swedish Krona	9,529,000	(18,936,000)	166,830,000	11,085,000	168,508,000
Swiss Franc	12,267,000	586,000	390,249,000	–	403,102,000
Thailand Baht	1,908,000	12,152,000	43,273,000	19,525,000	76,858,000
Turkish Lira	639,000	(1,425,000)	36,934,000	3,642,000	39,790,000
UAE Dirham	393,000	–	10,040,000	–	10,433,000
Ukraine Hryvana	6,000	–	–	2,107,000	2,113,000
Uruguayan Peso	–	–	–	576,000	576,000
Total foreign currency exposure	**$ 707,358,000**	**(1,664,015,000)**	**9,021,726,000**	**1,495,827,000**	**9,560,896,000**

Cash amounts in the schedule above include receivables, payables, certificates of deposit, and cash balances in each related currency. If payables exceed receivables and cash balances in a currency, then the total cash balance for that currency will appear as a negative value. The remaining Fund assets are invested in U.S. cash, equities, and debt, as well as in direct real estate properties, absolute return and similar funds, and infrastructure, all of which are denominated in U.S. dollars, and are not included in the schedule above.

10. REAL ESTATE

The Fund holds a variety of real estate interests, including directly owned real estate, real estate investment trusts, multi-family and industrial real estate operating companies, private real estate funds, and other entities in which the assets consist primarily of real property. The Fund's directly owned real estate is through ownership of interests in corporations, limited liability companies, and partnerships that hold title to the real estate. External institutional real estate management firms administer the Fund's directly owned real estate investments.

The APFC periodically reviews real estate investments for other than temporary impairment. During FY2020, it was determined that one direct real estate holding was impaired because it was more likely than not that the Fund would not recover the carrying cost over the remaining estimated holding period of the asset. In order to reflect the impairment in statutory net income and fund balance classifications, $7.9 million of unrealized losses were realized through a write-down of cost to fair value. In FY2019, two real estate holdings were impaired with a related write-down of $138.9 million. Real estate investments at June 30 are summarized as follows:

2020		Cost	Fair value	Unrealized holding gains (losses)
Real estate investment trusts	**$**	**180,293,000**	**214,924,000**	**34,631,000**
Real estate funds and notes		**343,755,000**	**363,572,000**	**19,817,000**
American Homes 4 Rent II		**128,620,000**	**147,555,000**	**18,935,000**
Directly owned real estate -				
Retail		**785,771,000**	**1,540,130,000**	**754,359,000**
Office		**1,014,231,000**	**1,241,455,000**	**227,224,000**
Hotel		**59,448,000**	**66,205,000**	**6,757,000**
Industrial		**255,714,000**	**409,290,000**	**153,576,000**
Multifamily		**220,439,000**	**320,473,000**	**100,034,000**
Total real estate	**$**	**2,988,271,000**	**4,303,604,000**	**1,315,333,000**
2019				
Real estate investment trusts	$	1,367,325,000	1,541,897,000	174,572,000
Real estate funds and notes		130,655,000	125,621,000	(5,034,000)
American Homes 4 Rent II		135,603,000	155,256,000	19,653,000
Directly owned real estate -				
Retail		749,920,000	1,766,138,000	1,016,218,000
Office		1,125,817,000	1,366,596,000	240,779,000
Hotel		59,252,000	73,481,000	14,229,000
Industrial		287,206,000	407,955,000	120,749,000
Multifamily		219,680,000	318,912,000	99,232,000
Total real estate	$	4,075,458,000	5,755,856,000	1,680,398,000

As of June 30, 2020, the APFC, on behalf of the Fund, had outstanding future funding commitments of $600 million for real estate fund investments.

11. ALTERNATIVE INVESTMENTS

Alternative investments include the Fund's investments in absolute return and risk parity strategies, private equity, infrastructure, and private credit. The APFC periodically reviews alternative investments for other than temporary impairment.

Absolute return strategies are investments in specialized funds that seek to deliver returns that are largely uncorrelated with traditional market driven asset classes. The Fund invested in two absolute return limited partnerships in which the Fund was the only limited partner ("fund-of-one"); both are currently in liquidation. The Fund also holds direct hedge fund investments, in which the Fund is one of many limited partners. Risk parity strategies also seek to deliver returns that are largely uncorrelated with global public markets, however they do so through allocation of risk rather than allocation of capital. External investment management services for both strategies are provided by institutional investment managers who have acknowledged their status as fiduciaries to the Fund. Because of the off-exchange and private nature of many absolute return strategies, investments may have no readily determinable fair value, and the estimated fair values could differ significantly from values that would be obtained in a market transaction for the assets. Risk parity strategy investments are generally more liquid but may also not have readily determinable fair value depending on the underlying investments of a given fund. For both strategies, each manager provides the Fund with fair value estimates of partnership interests and undergoes an annual independent audit.

The Fund holds private equity through investments in limited liability companies and limited partnerships that typically invest in unlisted, illiquid common and preferred stock and, to a lesser degree, subordinated and senior debt of companies that are in most instances privately held. The APFC has hired external advisors to assist in the selection of private equity holdings diversified by geography and strategy. Private equity is funded slowly over time as opportunities are identified by APFC staff, the external advisors, and the underlying fund managers. The underlying private equity funds provide the Fund with fair value estimates of the investments utilizing the most current information available. In addition, the external advisors review the fair value estimates and the underlying private equity funds undergo annual independent audits. Private equity investments by their nature generally have no readily determinable fair value, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

During FY2020, it was determined that 20 private equity funds were impaired because it was more likely than not that the Fund would not recover their carrying cost over the remaining estimated holding period of the assets. In order to reflect the impairment in statutory net income and fund balance classifications, $195.2 million of unrealized losses were realized through a write-down of cost to fair value. In FY2019, 17 private equity funds were impaired with a related write-down of $61.5 million. These impairments have no impact on the carrying value of investments or on the net increase in the fair value of private equity investments.

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

During FY2020, it was determined that one infrastructure fund was impaired because it was more likely than not that the Fund would not recover the carrying cost over the remaining estimated holding period of the asset. In order to reflect the impairment in statutory net income and fund balance classifications, $24.5 million of unrealized losses were realized through a write-down of cost to fair value. There were no infrastructure impairments in FY2019.

At the end of FY2020, the Fund sold five infrastructure investments on the secondary market with total proceeds of $637 million.

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

During FY2020, it was determined that three private credit funds were impaired because it was more likely than not that the Fund would not recover the carrying cost over the remaining estimated holding period of the asset. In order to reflect the impairment in statutory net income and fund balance classifications, $41.8 million of unrealized losses were realized through a write-down of cost to fair value. In FY2019, one private credit fund was impaired with a related write-down of $41.7 million.

Alternative investments at June 30 are summarized as follows:

2020	Cost	Fair value	Unrealized holding gains (losses)
Absolute return	**$ 3,989,336,000**	**4,288,542,000**	**299,206,000**
Private equity	**7,162,435,000**	**9,803,985,000**	**2,641,550,000**
Infrastructure	**1,728,714,000**	**1,902,257,000**	**173,543,000**
Private credit	**1,760,455,000**	**1,890,392,000**	**129,937,000**
Total alternative investments	**$ 14,640,940,000**	**17,885,176,000**	**3,244,236,000**
2019			
Absolute return	$ 4,086,304,000	4,327,475,000	241,171,000
Private equity	6,376,004,000	8,770,247,000	2,394,243,000
Infrastructure	2,618,523,000	3,300,904,000	682,381,000
Private credit	1,644,463,000	1,816,276,000	171,813,000
Total alternative investments	$ 14,725,294,000	18,214,902,000	3,489,608,000

As of June 30, 2020, the APFC, on behalf of the Fund, had outstanding future funding commitments of $100 million for absolute return, $4.8 billion for private equity, $1.9 billion for infrastructure, and $1.2 billion for private credit investments. Many alternative investments have liquidity constraints and may not be available for cash withdrawal until a specified period of time has elapsed.

12. SECURITIES LENDING

State regulations at 15 AAC 137.510 and APFC investment policy authorize the APFC to enter into securities lending transactions on behalf of the Fund. Through a contract with the Bank of New York Mellon (the Bank), the Fund lends marketable debt and equity securities to borrowers who are banks and broker-dealers. The loans are collateralized with cash or certain marketable securities. Under APFC's contract with the Bank, the Bank must mark the loaned securities and collateral to the market daily, and the loan agreements require the borrowers to maintain the collateral at not less than 102 percent of the fair value of the loaned securities for domestic securities (and non-domestic loaned securities denominated in U.S. dollars) and not less than 105 percent of the fair value for other non-domestic loaned securities. The APFC can sell securities that are on loan. If a borrower fails to return the loaned securities (borrower default), the Bank can use cash collateral (and the proceeds on the sale of any noncash 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 of New York Mellon on behalf of the Fund. As of June 30, 2020, 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:

	2020	2019
Fair value of securities on loan, secured by cash collateral	**$ 1,512,625,000**	2,784,825,000
Cash collateral	**1,540,240,000**	2,840,792,000
Fair value of securities on loan, secured by non-cash collateral	**6,126,859,000**	6,431,804,000
Non-cash collateral	**6,699,184,000**	6,976,507,000

The Fund receives 80 percent of earnings derived from securities lending transactions, and the Bank of New York Mellon retains 20 percent. During the years ended June 30, 2020 and 2019, the Fund incurred no losses from securities lending transactions. The Fund received income of $31.4 million and $27.0 million from securities lending for the years ended June 30, 2020 and 2019, respectively, which is recorded in real estate and other income on the statements of revenues, expenditures and changes in fund balances.

13. ACCOUNTS PAYABLE

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

	2020	2019
Accrued liabilities	**$ 30,885,000**	22,582,000
Securities purchased	**2,551,007,000**	857,194,000
Total accounts payable	**$ 2,581,892,000**	879,776,000

14. STATUTORY AND LEGISLATIVE APPROPRIATIONS

Historically, the Legislature has appropriated 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. Beginning with FY2019, legislation requires that, upon appropriation, a portion of the realized earnings be transferred to the State's General Fund instead of the Dividend Fund, based upon a percent-of-market-value calculation. The amount transferred to the general fund for the dividend and State operating expenses was $2,933,084,000 in FY2020. The amount appropriated for FY2021, which is shown as committed as of June 30, 2020, is $3,091,493,000.

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. Statutory and legislative appropriations made during the years ended June 30 are summarized as follows:

	2020	2019
Income distributed during the year:		
General fund transfer	**$ 2,933,084,000**	2,722,654,000
Income distributable at year end:		
Alaska Capital Income Fund	**20,492,000**	22,329,000
Total statutory and legislative appropriations	**$ 2,953,576,000**	2,744,983,000

Appropriations for APFC operating expenses and other specific State agencies are made separately and are detailed in Note 20.

15. FUND BALANCES

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

	2020	2019
Nonspendable		
Balance, beginning of year	$ **47,819,610,000**	46,029,992,000
Dedicated State revenues	**319,049,000**	385,231,000
Inflation proofing transfer from assigned	**757,687,000**	989,484,000
FY19 commitment to principal	**4,000,000,000**	–
Change in unrealized appreciation on invested assets	**(488,283,000)**	414,903,000
Balance, end of year	**$ 52,408,063,000**	47,819,610,000
Committed		
Balance, beginning of year	$ **5,933,084,000**	2,722,654,000
General Fund transfer to liability	**(1,933,084,000)**	(2,722,654,000)
General Fund commitment	**3,091,493,000**	1,933,084,000
FY19 commitment to principal	**(4,000,000,000)**	4,000,000,000
Balance, end of year	**$ 3,091,493,000**	5,933,084,000
Assigned		
Balance, beginning of year	$ **12,547,573,000**	16,141,699,000
Inflation proofing transfer to nonspendable	**(757,687,000)**	(989,484,000)
General Fund commitment	**(3,091,493,000)**	(1,933,084,000)
Additional transfer to General Fund	**(1,000,000,000)**	–
FY19 commitment to principal	**–**	(4,000,000,000)
Settlement earnings payable to the ACIF	**(20,492,000)**	(22,329,000)
Realized earnings, net of operating expenditures	**3,126,445,000**	3,327,384,000
Change in unrealized appreciation on invested assets	**(1,001,700,000)**	23,387,000
Balance, end of year	**$ 9,802,646,000**	12,547,573,000
Total		
Balance, beginning of year	$ **66,300,267,000**	64,894,345,000
Dedicated State revenues	**319,049,000**	385,231,000
General Fund transfer	**(1,933,084,000)**	(2,722,654,000)
Additional transfer to General Fund	**(1,000,000,000)**	–
Settlement earnings payable to the ACIF	**(20,492,000)**	(22,329,000)
Excess of investment revenues over expenditures	**1,636,462,000**	3,765,674,000
Balance, end of year	**$ 65,302,202,000**	66,300,267,000

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

	2020	2019
Dedicated State revenues	**$ 17,596,589,000**	17,277,539,000
Special appropriations	**10,885,906,000**	6,885,906,000
Inflation proofing	**17,983,440,000**	17,225,753,000
Settlement earnings	**152,911,000**	152,912,000
Total contributions and appropriations	**$ 46,618,846,000**	41,542,110,000

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, 2020, the Fund's net unrealized gain was $7,213,558,000, of which $5,789,217,000 was allocated to the nonspendable fund balance and $1,424,341,000 was allocated to the assigned fund balance. As of June 30, 2019, the Fund's net unrealized gain was $8,703,541,000, of which $6,277,500,000 was allocated to the nonspendable fund balance and $2,426,041,000 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 $20,492,000 during FY2020 and $22,329,000 during FY2019.

16. FAIR VALUE MEASUREMENT

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

Level 1 – Quoted prices for identical assets in an active market.

Level 2 – Inputs, other than quoted prices, that are observable for the asset, either directly or indirectly.

Level 3 – Unobservable inputs. Unobservable inputs should only be used to the extent that observable inputs are not available for a particular asset.

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

	Measured using input levels			Measured using	
2020	Level 1	Level 2	Level 3	NAV	Total
Marketable debt securities	$ 1,868,303,000	11,650,169,000	76,980,000	—	13,595,452,000
Preferred and common stock	24,923,991,000	3,000	—	185,765,000	25,109,759,000
Real estate	214,971,000	—	—	4,088,633,000	4,303,604,000
Absolute return	—	—	—	4,288,542,000	4,288,542,000
Private credit	—	—	—	1,890,392,000	1,890,392,000
Private equity	93,761,000	—	—	9,710,224,000	9,803,985,000
Infrastructure	195,710,000	—	—	1,706,547,000	1,902,257,000
Total investments	$ 27,296,736,000	11,650,172,000	76,980,000	21,870,103,000	60,893,991,000

	Measured using input levels			Measured using	
2019	Level 1	Level 2	Level 3	NAV	Total
Marketable debt securities	$ 2,557,871,000	11,065,117,000	102,045,000	—	13,725,033,000
Preferred and common stock	24,002,932,000	—	—	250,273,000	24,253,205,000
Real estate	1,546,464,000	—	—	4,209,392,000	5,755,856,000
Absolute return	—	—	—	4,327,475,000	4,327,475,000
Private credit	—	—	—	1,816,276,000	1,816,276,000
Private equity	235,221,000	—	—	8,535,026,000	8,770,247,000
Infrastructure	793,183,000	—	—	2,507,721,000	3,300,904,000
Total investments	$ 29,135,671,000	11,065,117,000	102,045,000	21,646,163,000	61,948,996,000

Marketable debt securities and preferred and common stock classified as level 1 are valued using prices quoted in active markets for those securities. Debt securities classified as level 2 are valued using matrix pricing. Pricing is sourced from various sources. Marketable debt securities valued at level 3 are term loans.

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

Absolute return investments are reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Absolute return investments undergo annual independent financial statement audits. The redemption notice period is from 1-91 days and the frequency of redemption is daily to quarterly.

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

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

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

17. STATUTORY NET INCOME

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

The APFC periodically reviews investments for other than temporary impairment of value. Investments with fair values significantly less than costs over multiple reporting periods may be considered impaired if the cost basis will not be recovered over the investment's remaining estimated holding period. If an other than temporary impairment is determined to exist for an investment, a realized loss will be recorded which will replace the previously recorded unrealized loss. Carrying value will not be affected, but the reclassification of the loss from unrealized to realized will affect the statutory net income of the Fund. During FY2020, approximately $269 million of net impairments were recorded. During FY2019, approximately $242 million of impairments were recorded.

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

	2020	2019
Excess of revenues over expenditures	$ **1,636,462,000**	3,765,674,000
Unrealized (gains) losses	**1,489,983,000**	(438,290,000)
Settlement earnings	**(20,492,000)**	(22,330,000)
Statutory net income	$ **3,105,953,000**	3,305,054,000

18. INVESTMENT INCOME BY SOURCE

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

	2020	2019
Interest		
Marketable debt securities	$ **457,889,000**	481,213,000
Short-term and other	**35,010,000**	82,850,000
Total interest	$ **492,899,000**	564,063,000
Total dividends	$ **515,335,000**	590,980,000
Real estate and other income		
Directly owned real estate net rental income	**106,130,000**	121,337,000
Real estate investment trust dividends	**56,422,000**	60,498,000
Real estate fund and notes, net of fees	**661,000**	(3,842,000)
Absolute return dividend and interest income	**11,000**	6,457,000
Private credit interest income, net of fees	**63,577,000**	48,246,000
Infrastructure interest and dividend income, net of fees	**84,576,000**	58,903,000
Private equity dividend income, net of fees	**46,471,000**	76,439,000
Class action litigation income	**4,861,000**	3,773,000
Loaned securities, commission recapture and other income	**31,955,000**	27,894,000
Total real estate and other income	$ **394,664,000**	399,705,000

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, 2020 ranged between one and 274 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 nonperformance by these counterparties. The Fund's market risk as of June 30, 2020 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 FY2020 and FY2019 are summarized as follows:

	2020	2019
Balances at June 30		
Face value of FX forward contracts	**$ 3,154,765,000**	5,470,398,000
Net unrealized holding gains (losses) on FX forward contracts	**5,660,000**	(21,501,000)
Fair value of FX forward contracts	**$ 3,160,425,000**	5,448,897,000
Activity for fiscal years ending June 30		
Change in unrealized holding gains (losses)	**$ 27,160,000**	(42,730,000)
Realized gains (losses)	**24,322,000**	92,635,000
Net increase in fair value of FX forward contracts	**$ 51,482,000**	49,905,000

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

Activity and balances related to futures in equity accounts for FY2020 and FY2019 is summarized as follows:

	2020	2019
Balances at June 30		
Face value of equity index futures	**$ 38,952,000**	76,167,000
Net unrealized holding gains (losses) on futures	**2,587,000**	1,258,000
Fair value of equity index futures	**$ 41,539,000**	77,425,000
Activity for fiscal years ending June 30		
Change in unrealized holding gains (losses)	**$ 1,316,000**	9,157,000
Realized gains (losses)	**(1,865,000)**	(16,828,000)
Net increase (decrease) in fair value of equity index futures	**$ (549,000)**	(7,671,000)

Activity and balances related to futures in fixed income accounts for FY2020 and FY2019 is summarized as follows:

	2020	2019
Balances at June 30		
Face value of U.S. Treasury index futures	**$ 100,596,000**	335,184,000
Net unrealized holding losses on futures	**(707,000)**	(4,049,000)
Fair value of U.S. Treasury index futures	**$ 99,889,000**	331,135,000
Activity for fiscal years ending June 30		
Change in unrealized holding gains (losses)	**$ 3,322,000**	38,447,000
Realized losses	**(60,613,000)**	(3,043,000)
Net increase (decrease) in fair value of U.S. Treasury index futures	**$ (57,291,000)**	35,404,000

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 activity amounts shown above are included in the Fund's financial statements in the Foreign currency forward exchange contracts and futures line on the Statement of Revenues, Expenditures and Changes in Fund Balances.

20. EXPENDITURES

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

	2020	2019
APFC operating expenditures		
Salaries and benefits	**$ 10,296,000**	9,562,000
Communications and electronic services	**5,493,000**	4,277,000
Consulting fees	**4,116,000**	4,482,000
Training, supplies, services and other	**1,007,000**	615,000
Rent	**507,000**	504,000
Travel	**431,000**	566,000
Legal and audit fees	**1,486,000**	988,000
Property and equipment	**837,000**	3,948,000
Public information and subscriptions	**171,000**	122,000
Subtotal APFC operating expenditures	**24,344,000**	25,064,000
Investment management and custody fees		
Investment management fees	**94,706,000**	106,131,000
Custody and safekeeping fees	**1,332,000**	1,372,000
Subtotal investment management and custody fees	**96,038,000**	107,503,000
Total operating expenditures, investment management and custody fees	**$ 120,382,000**	132,567,000
Other legislative appropriations from corporate receipts		
Department of Natural Resources	**6,132,000**	6,045,000
Department of Law	**1,562,000**	2,644,000
Department of Revenue	**98,000**	94,000
Total other legislative appropriations	**$ 7,792,000**	8,783,000
Total expenditures	**$ 128,174,000**	141,350,000

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

21. PENSION PLANS

All APFC full-time, regular employees participate in the State of Alaska Public Employees Retirement System (PERS). PERS is a multiple-employer public employee retirement system established and administered by the State to provide pension and post-employment healthcare benefits to eligible retirees. The PERS financial report can be obtained from the State of Alaska's Retirement and Benefits website. Benefit and contribution provisions are established by state law and can be amended only by the Legislature.

PERS consists of Defined Contribution Retirement (PERS-DCR) and Defined Benefit Retirement (PERS-DBR) plans. Employees who entered the system on or after July 1, 2006 participate in the PERS-DCR plan. Employees who entered the system prior to July 1, 2006 participate in the PERS-DBR plan. PERS-DBR employees contribute 6.75 percent of their annual salaries to PERS and PERS-DCR members contribute 8 percent.

As an integrated cost sharing plan, the PERS system requires employers to pay a uniform contribution rate of 22 percent of eligible employee salaries for the benefit of PERS members. Total salaries subject to PERS for the years ended June 30, 2020 and 2019 amounted to $7,114,000 and $6,574,000, respectively.

In addition to the pension plan discussed above, all APFC employees and Trustees participate in the Alaska Supplemental Benefits System Supplemental Annuity Plan (SBS-AP). The SBS-AP is a multiple-employer defined contribution plan created pursuant to Internal Revenue Code section 401(a) to provide benefits in lieu of those provided by the Federal Social Security System. Each year, APFC employees and Trustees contribute 6.13 percent of salaries or honoraria, up to a specified maximum, to SBS-AP. The APFC contributes a matching 6.13 percent. Participants are eligible to withdraw from SBS-AP 60 days after termination of employment or service as a Trustee. Total salaries and honoraria for individuals subject to SBS-AP for the years ended June 30, 2020 and 2019 amounted to $5,141,000 and $4,860,000, respectively.

NOTES TO FINANCIAL STATEMENTS

APFC STAFF

as of June 30, 2020

EXECUTIVE

Angela Rodell, Chief Executive Officer
Chris Poag, General Counsel
Paulyn Swanson, Communications Manager
Jennifer Thorsteinson, Executive Administrative Specialist

FINANCE

Valerie Mertz, Chief Financial Officer
Valeria Buschfort, Senior Portfolio Accountant II
Christopher LaVallee, Senior Portfolio Accountant II
Jacki Mallinger, Portfolio Accountant II
Norix Mangual Arbelo, Portfolio Accountant

INVESTMENT OPERATIONS

Joe Shinn, Investment Operations Manager
Alex Smith, Investment Operations Analyst

INVESTMENTS

Marcus Frampton, Chief Investment Officer
Ross Alexander, Portfolio Manager - Private Income
Tim Andreyka, Senior Portfolio Manager - Real Estate
Chris Cummins, Senior Portfolio Manager - Fixed Income
Moctar Diouf, Investment Analyst - Public Equities
Rose Duran, Director of Investments - Real Estate
Christi Grussendorf, Investment Analyst - Real Estate
Catherine Hatch, Investment Analyst
Yup Kim, Senior Portfolio Manager - Private Equity & Special Opportunities
Valeria Martinez, Director of Investments - Asset Allocation Portfolio
Steve Moseley, Director of Investments - Alternatives
Youlian Ninkov, Senior Portfolio Manager - Absolute Return
Tom O'Day, Portfolio Manager - Fixed Income
Matt Olmsted, Senior Portfolio Manager - Fixed Income
Jim Parise, Director of Investments - Fixed Income
Rachel Price, Investment Analyst
Logan Rahn, Associate - Private Income
Rafael Ramirez, Portfolio Manager - Private Equity & Special Opportunities
Fawad Razzaque, Director of Investments - Public Equities
Edward Rime, Portfolio Manager - Real Estate
Masha Skuratovskaya, Senior Portfolio Manager - Fixed Income

RISK & COMPLIANCE

Sebastian Vadakumcherry, Chief Risk and Compliance Officer
Katherine Smith, Compliance Officer

INFORMATION TECHNOLOGY

Scott Balovich, Director of IT
Shawn Calhoon, Senior IT Systems Engineer
Mason Kullander, IT Specialist
Nellie Metcalfe, Development Operations
Larissa Murray, IT Specialist

OPERATIONS

Sara Race, Administrative Operations Manager
Alyssa Fischer, Administrative Specialist
Janice Hotch, Administrative Specialist II - Procurement

HUMAN RESOURCES

Chad Brown, Human Resources Manager
Danielle Graham, HR Generalist

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