



MANAGING THE PRESENT | INVESTING IN THE FUTURE



ANNUAL REPORT 2009



THE ALASKA PERMANENT FUND

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

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

09

APFC TARGET ASSET ALLOCATION

For Fiscal Year 2009



TABLE OF CONTENTS

LETTER FROM THE CHAIR — P. 4	100%
LETTER FROM THE EXECUTIVE DIRECTOR — P. 6	95%
INVESTING FOR THE LONG RUN — P. 8	90%
STOCKS — P. 10	85%
BONDS — P. 12	80%
REAL ESTATE — P. 14	75%
ALTERNATIVE INVESTMENTS — P. 16	70%
APFC INTERNSHIP PROGRAM — P. 17	65%
MANAGEMENT'S DISCUSSION AND ANALYSIS — P. 18	60%
INDEPENDENT AUDITORS' REPORT — P. 23	55%
FINANCIAL STATEMENTS — P. 24	50%
NOTES TO FINANCIAL STATEMENTS — P. 26	45%



LETTER FROM THE CHAIR

The past year was difficult for both global markets in general and the Permanent Fund's investments, producing an 18 percent loss for fiscal year 2009.

However the losses of the recent past don't completely reflect the performance of the Permanent Fund over time. Since 1977 the Permanent Fund has taken in \$14 billion in deposits from mineral royalties, court settlements and special transfers that the Legislature made from the General Fund. During that same period, the Fund paid out \$17.6 billion in dividends to Alaskans and still ended fiscal year 2009 with a value of \$30 billion.

This simple "checkbook" accounting is a clear way to see that the Permanent Fund has been and continues to be an overwhelming success, one that Alaskans should be proud of creating. Through the Fund, we've taken a portion of our nonrenewable mineral resources and turned them into a renewable financial resource that will benefit present and future generations.

This doesn't mean we should discount the events and performance of the past year and how we will proceed in the future. The Fund sustained considerable losses, particularly in its stock portfolios. While it may be tempting to place more of the allocation into conservative investments to avoid similar losses in the future, that is not the appropriate course of action for an institutional fund with a long-term investment horizon. The Board's goal is a 5 percent real rate of return over time. We recognize that it is necessary to take on a prudent level of equity risk to reach this goal.

Instead, we mitigate risk by having a well-diversified fund that is invested across a broad range of assets. In a year like the one we just came through, where almost every asset class had a negative return, even a well-diversified portfolio can't protect a fund from losses. But in most years, this is the best way to ensure that, over time, the Permanent Fund will hold its value and have a positive return.

We are changing the way we assess the investment risk of the Permanent Fund. A new asset allocation framework was adopted by the Trustees in May and took effect on the first day of Fiscal Year 2010. It groups assets by the economic conditions they are designed to address and the markets that affect them. This new allocation didn't change the investments that the Permanent Fund is in, rather it changed the way we observe these assets. For more information on our asset allocation and the reasoning behind it, please visit apfc.org.



BOARD MEMBERS: (From left)

- Emil Notti
- Bill Moran
Vice Chair
- Carl Brady
- Steve Frank
Chair
- Patrick Galvin
- Nancy Blunck

At the end of the fiscal year, Carl Brady ended his latest term on the Board. First appointed by Gov. Walter Hickel in 1991, Trustee Brady served for four years, returning to the board when he was appointed by Gov. Frank Murkowski in 2003. He served more than 10 years in all and was chair for six of those years. A long-time Alaskan, Trustee Brady brought extensive knowledge of investments at the individual and institutional level to the Permanent Fund and director skills he acquired in his service on the boards of Alaska financial institutions. He was dedicated to making the best investment decisions for the Permanent Fund, and Alaskans well into the future will benefit from his service on the Board.

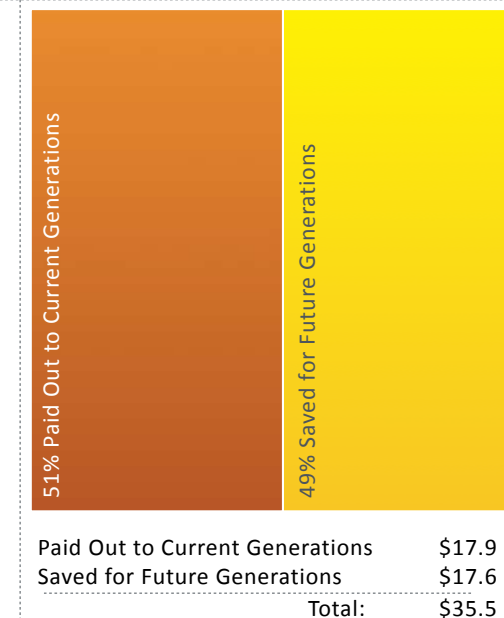
Going forward, the Board will continue to hold to this commitment to excellence demonstrated by Trustee Brady and the other Trustees that have served the Permanent Fund over the past 30 years.

Sincerely,

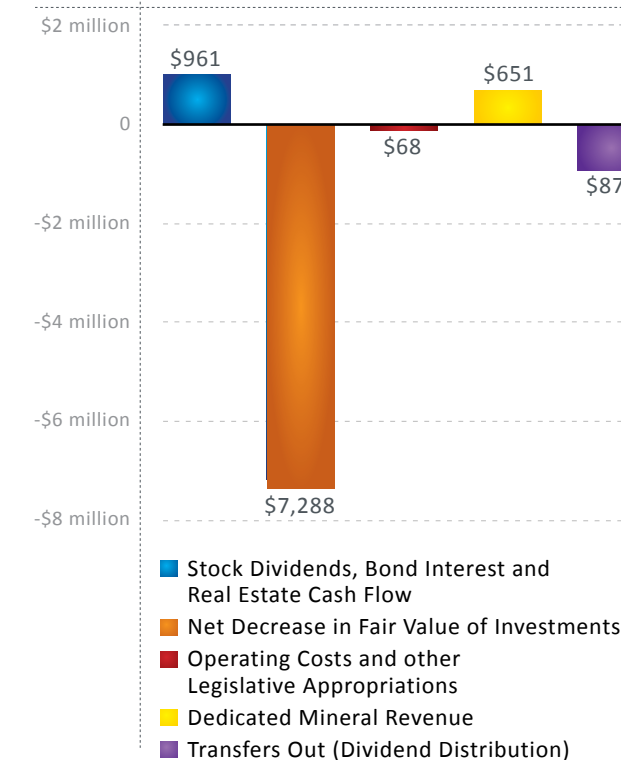
Steve Frank
Board Chair

09 USES OF FUND INCOME

Since Inception (In Billions)



09 SOURCES OF CHANGE IN FUND VALUE, FISCAL 2009



LETTER FROM THE EXECUTIVE DIRECTOR

Fiscal year 2009 was by far the most difficult in the Fund's history. Almost all asset classes had sharp losses, and the Fund had a negative return of 18 percent. It may be of some comfort that our relative performance, as compared to our peers, was competitive. However the returns on an absolute basis are very disappointing. It is often said, "Never confuse a bull market with genius." We believe the opposite is true as well.

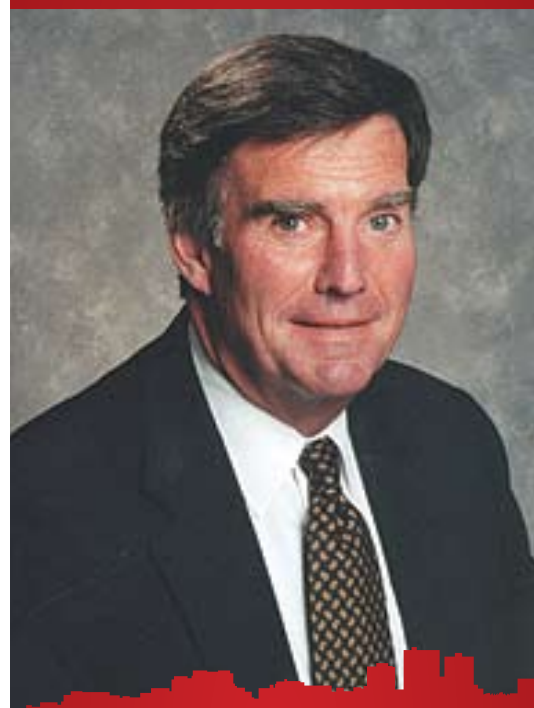
What caused this global meltdown? The answer is that a number of events combined to create a near-perfect storm of economic turmoil. The cooling off of real estate markets after 15 years of growth, combined with the poor decisions at all levels in the subprime mortgage market, started the downward trend in late 2007. Extremely strong performance for the global stock markets in the years leading up to 2008 suggested that a correction might be due there as well. Mortgage companies and banks began to fail because their underlying investments lost value, consumer confidence was shaken, investor confidence was shaken and, more importantly, confidence in the credit markets was shaken, leading to a freeze of the global credit markets. The banks' confidence in one another to repay debts sunk to incredible lows, and the TED spread (the difference between the interest rates of U.S. Treasuries and interbank loans) shot up from its usual 1 percent spread to 4.5 percent in late September.

The fiscal year started with markets heading downward, an attitude they had been in since late 2008, and the Fund lost 8.5 percent for the first quarter. The Fund's real estate portfolio had the only positive returns for this period, as commercial real estate lagged other markets in showing the effects of the recession.

The progressively worsening events in the financial sector over the fall led to a 12.2 percent loss for the second quarter of the fiscal year. The non-U.S. bond portfolio was the one bright spot, returning 6.9 percent for the quarter. Investors sought the stability of government-backed bonds in the volatile market, and the index of this portfolio is entirely comprised of these securities.

However, the non-U.S. bond portfolio returned -3.3 percent for the third quarter, mirroring the Fund's -4.9 percent return. The Fund ended March 31 with a value of \$28.3 billion, down \$7.6 billion from the beginning of the fiscal year. A rally that began in late March wasn't soon enough to provide positive returns for the third quarter, but it did carry through the spring, producing a 10.4 percent return for the Fund in the final quarter of the fiscal year.

The Fund ended the year with a value of \$30 billion. The total return of -18 percent trailed the composite benchmark return of -16.7 percent. While our individual portfolios for the most part did well against their peers, a few of them still trailed their benchmarks leading to the underperformance. For the year, U.S. and non-U.S. bonds were the only assets with positive performance, returning 3.3 percent and 3.6 percent respectively. Stocks were hit the hardest by the downturn, with U.S. stocks returning -24.8 percent, non-U.S. stocks returning -31.3 percent and global stocks returning -31.4 percent. Real estate and absolute return fared better, though still in negative territory, returning -18.4 percent and -13.2 percent respectively.



Michael J. Burns
Executive Director

Statutory net income is the amount used to calculate the dividend, and for the first time, the Fund had a statutory net loss rather than a positive return. Even in the bear market days of the '90s dot.com correction, statutory net income was at least \$250 million. But the sheer magnitude of the unrealized losses in the portfolio, which reached \$6.5 billion at one point during the fiscal year, meant that any movements within the asset allocation would necessarily create losses of a size that would dwarf the Fund's \$80 million to \$100 million monthly cash flow from rental income, bond interest and stock dividends.

The Fund's statutory net loss for fiscal year 2009 was \$2.5 billion. However, three of the previous four years had produced statutory net income at or above \$2.5 billion, so the calculation still provided a positive dividend of \$875 million for the fall of 2009.

I am pleased that three new staff members joined our team during the fiscal year. Jeff Scott came on board in November as our new Chief Investment Officer. Jeff brings a great deal of experience to his new role, including managing a \$60 billion investment fund for Microsoft Corporation. Max Giolitti joined the APFC in the new position of Head of Risk and Asset Allocation, and Clay Cummins was hired as a Real Estate Analyst in the Investments Department.

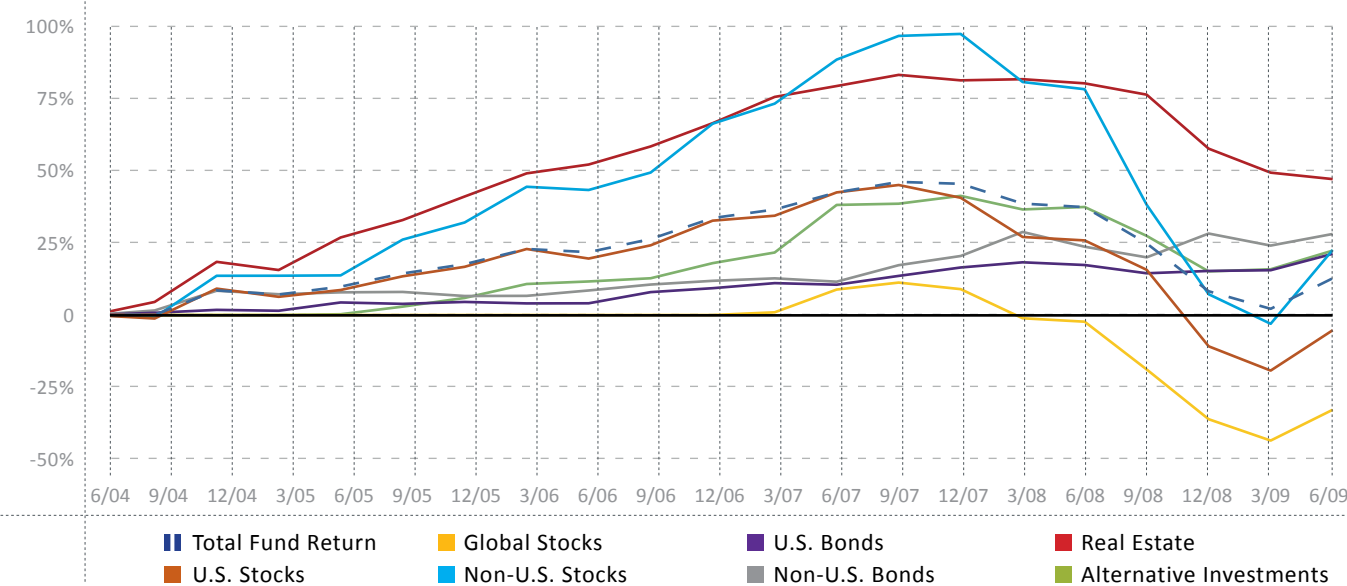
With the exception of welcoming these new staff members, it was a long and difficult year for the APFC. The spring market rallies have been welcome and have made me cautiously optimistic. I'm looking forward to what fiscal year 2010 will bring.

Sincerely,

Michael J. Burns
Executive Director

09 THE EFFECTS OF DIVERSIFICATION

Five-year Cumulative Return



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

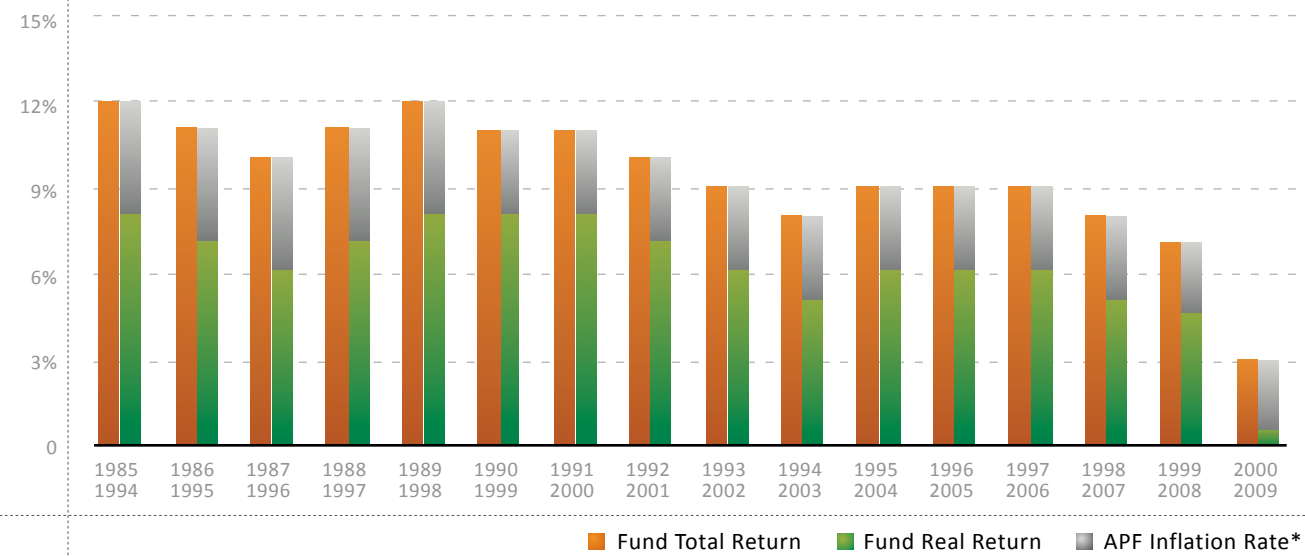
INVESTING FOR THE LONG RUN

8

The Board of Trustees' statutory direction is to generate the maximum return while protecting principal. In order to meet both of these objectives, the Board sets an asset allocation that is designed to provide a 5% real rate of return over time with a prudent level of risk.

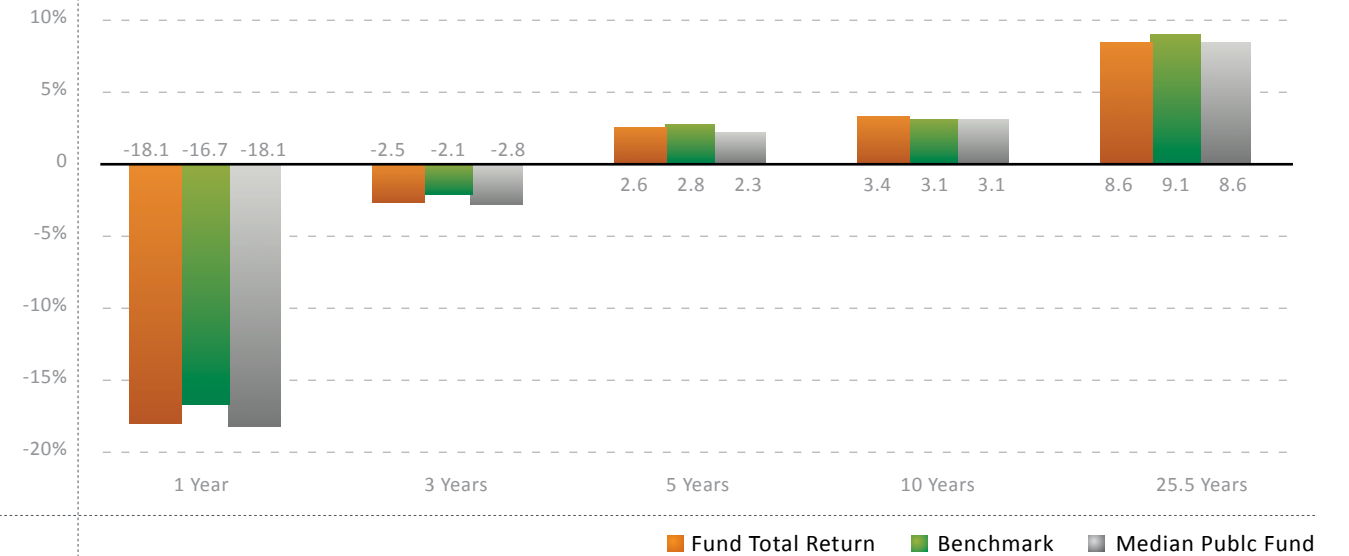
09 ROLLING 10-YEAR RETURNS

Annualized Returns for Periods Ending June 30



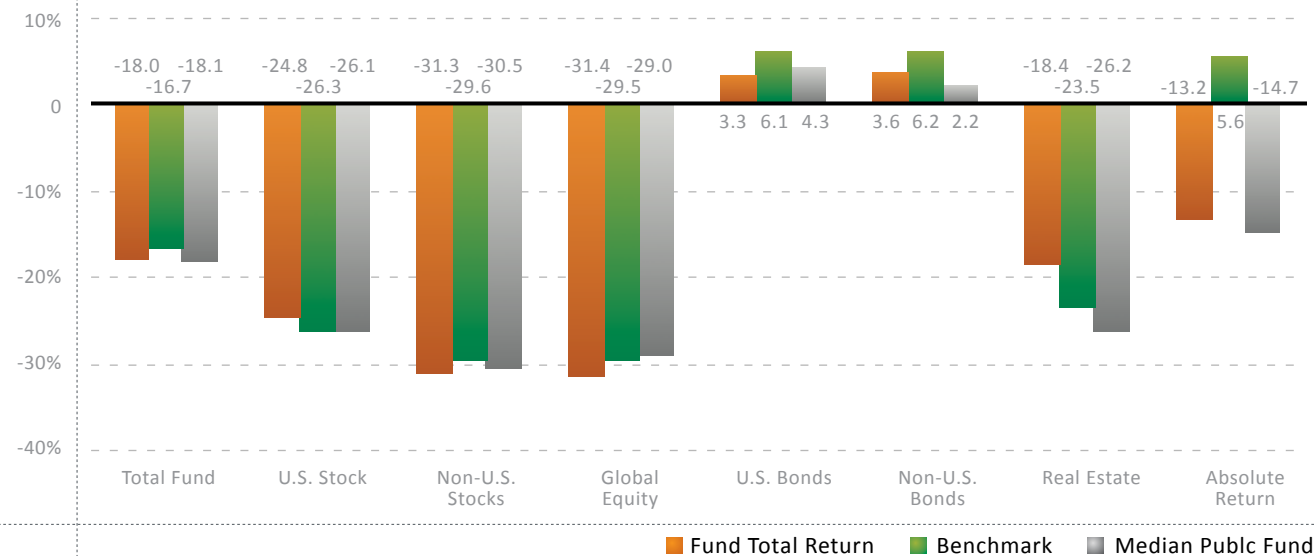
09 FUND'S LONG-TERM INVESTMENT PERFORMANCE

Annualized Returns for Periods Ending June 30, 2009

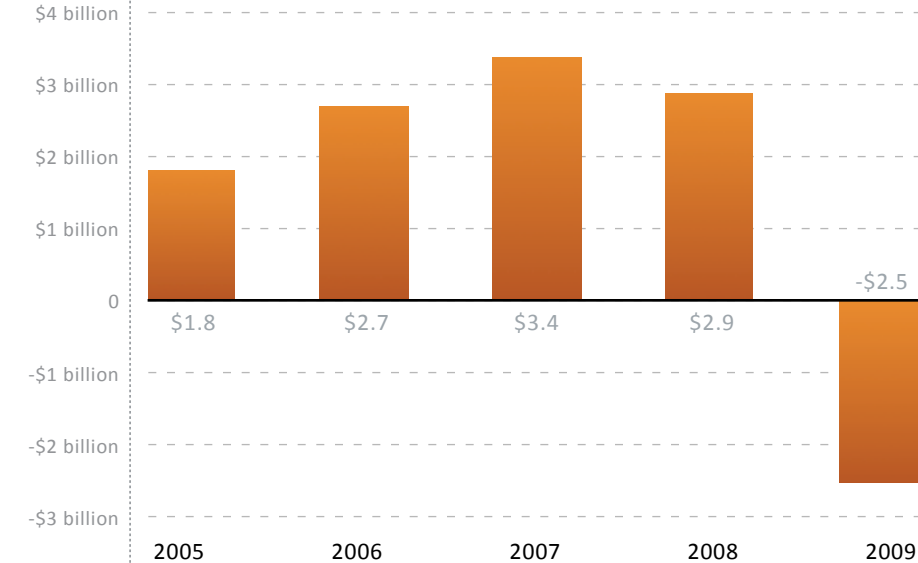


09 FUND FISCAL 2009 PERFORMANCE

Returns for Period Ending June 30, 2009



09 STATUTORY NET INCOME BY FISCAL YEAR



* See Page 27 for detailed information regarding the APF inflation rate.

9

Fiscal Year 2009 was a challenging year for the Permanent Fund as a whole and for the stock portfolios in particular. 2008 was one of the five worst years in the 218-year history of the U.S. stock market, and the non-U.S. markets didn't fare any better. During the first half of the fiscal year, stocks lost more than one-third of their value as the global financial system nearly collapsed. Fears of another Great Depression only started to subside in March 2009 as the financial system stabilized and nations around the world took steps to stimulate their economies. Following a market rebound in the last quarter, the Fund's stock portfolio ended the fiscal year on June 30 with a combined value of \$15.2 billion.

PERFORMANCE OF PORTFOLIO

The Fund's U.S. stock portfolio saw a loss of 24.8 percent, ahead of the composite benchmark return of -26.3 percent, and ended the year with a value of \$7.8 billion. The large-cap stock portfolio, which returned -24.3 percent, held up slightly better than the small-cap portfolio, which returned -26.4 percent. Higher quality, growth-oriented portfolios that were defensively positioned outperformed value-oriented portfolios exposed to cyclically sensitive sectors such as financials and consumer discretionary stocks.

The non-U.S. portfolio had a -31.3 percent return, ahead of the composite benchmark return of -31.4 percent, and finished the year at \$3.7 billion. The global portfolio had similar results, returning -31.4 percent and ending the year with a value of \$3.7 billion. The global stock portfolio benchmark is the MSCI World Index, which had a return of -29.5 percent for the fiscal year.

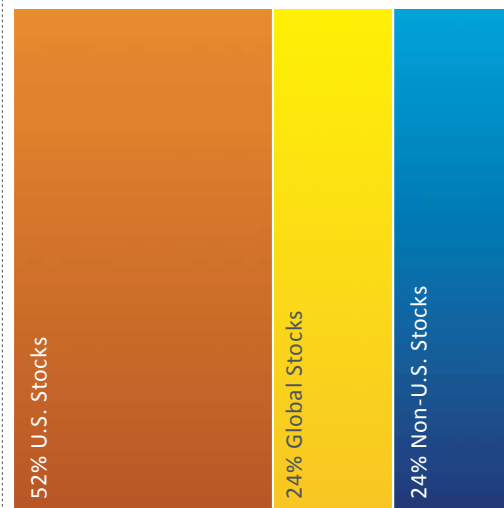
GLOBAL EFFECT

The effects of the global recession hit the value of the Fund's non-U.S. holdings especially hard. The uncertainty and volatility of the markets caused a "flight to quality" among investors, leading them back to the relatively more stable U.S. markets and driving up the value of the dollar in relationship to other currencies. Many of the Fund's non-U.S. holdings lost value in terms of their home currency and lost ground further when the exchange rate was factored in.

During the first half of the fiscal year, the Fund's emerging market portfolios suffered steep declines, returning -44.4 percent. The declines occurred as investors fled riskier assets, casting doubt on the notion that emerging economies had "decoupled" from developed economies in any meaningful way. However, the emerging market portfolio also rebounded more sharply off the March 2009 lows, ending the year with a return of -24 percent, ahead of the MSCI Emerging Markets benchmark return of -27.8 percent.

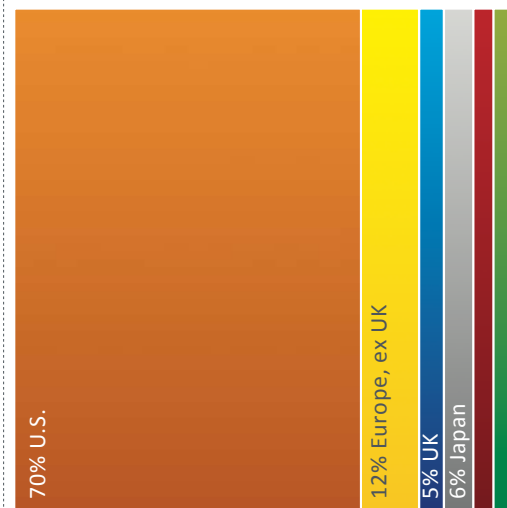
For the past several years, the Board has made significant changes to the structure of the Fund's stock portfolio, so few changes were needed during fiscal year 2009. In January, the Board made a passive addition to the global stock portfolio, transitioning a \$700 million mandate to State Street Global Advisors. As of June 30, about 60 percent of the Fund's stock portfolio was in actively managed strategies, while 40 percent was in passive index portfolios. The Fund continues to utilize active strategies more extensively in the less-efficient segments of the stock market, including the U.S. small-cap and emerging markets portfolios.

09 STOCK PORTFOLIO
By Regional Mandate (In Billions)



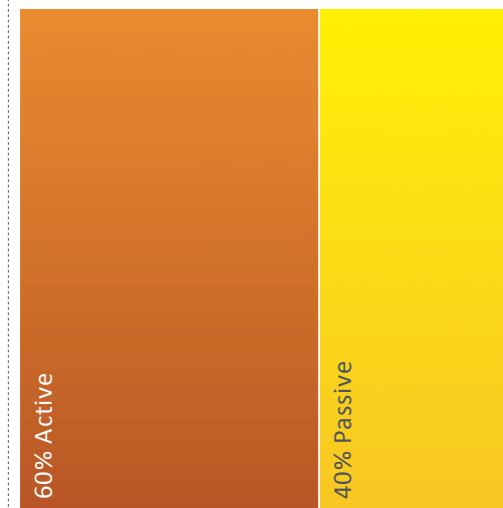
U.S. Stocks	\$7.8
Global Stocks	\$3.7
Non U.S. Stocks	\$3.7
Total:	\$15.2

09 STOCK PORTFOLIO
By Region (In Billions)



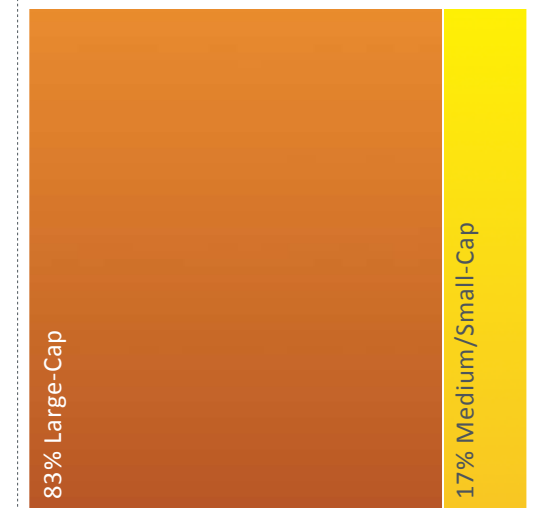
U.S.	\$10.7
Europe, ex UK	\$1.7
UK	\$0.8
Japan	\$0.9
Asia, ex Japan	\$0.5
Emerging Markets	\$0.4
Americas	\$0.2
Total:	\$15.2

09 STOCK PORTFOLIO
By Active and Passive Management Styles (In Billions)



Active	\$9.1
Passive	\$6.1
Total:	\$15.2

09 U.S. STOCK PORTFOLIO
By Company Capitalization (In Billions)



Large-Cap	\$8.9
Medium/Small-Cap	\$1.8
Total:	\$10.7

U.S. BOND PORTFOLIO

The Fund's U.S. bond portfolio returned 3.3 percent for the fiscal year, lagging the Barclay's Capital U.S. Aggregate Index which returned 6.1 percent for the period, ending with a value of \$6.2 billion.

The APFC internal fixed income portfolio returned 5.9 percent for the fiscal year, in line with the Barclay's Aggregate benchmark, and performed well against its peers. Alaska Permanent Capital Management, the Fund's external core bond manager, returned 7.1 percent. Losses in the Fund's high-yield portfolio dampened the total return for the U.S. portfolio, though both of the managers provided better returns on their mandates than the -1.9 percent return of the Barclay's Capital U.S. High Yield 2 percent Issuer Cap benchmark. Goldman Sachs High Yield returned -0.8 percent, while Capital Guardian High Yield was essentially flat for the year with a return of -.03 percent.

2008 was a difficult year for non-Treasury bonds, and this carried through into the first part of 2009. September saw high-profile bailouts and near-bankruptcies of many of the United State's most respected financial institutions in conjunction with the failure of Lehman Brothers on Sept. 15. A good indicator of the turmoil in the credit markets could be seen in the TED spread, the difference between the interest rates on interbank loans and U.S. Treasury bills, and a measure of the confidence banks have when loaning funds to each other. Generally, the spread is well under 1 percent. In late September, this spread spiked to more than 4.5 percent before slowly dropping to 1 percent and holding there until late spring. The TED spread value for this period is one indicator that highlights the extreme illiquidity during the fall of 2008 as the credit markets were essentially frozen. The eventual stabilization of the credit markets resulted in strong returns for the final quarter of fiscal year 2009 and brought the portfolio well into positive performance territory for the fiscal year.

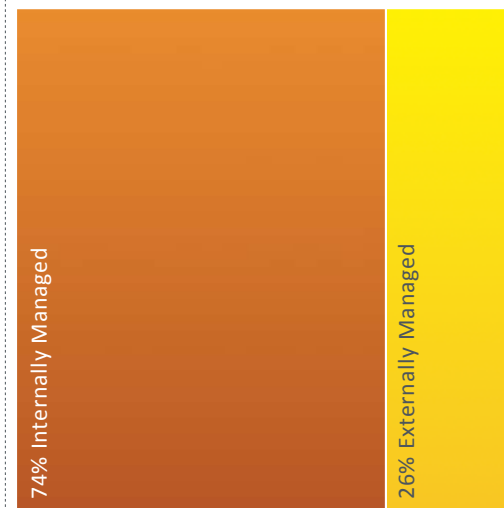
Yield spreads between government bonds and other fixed income securities began to widen in 2007, and this not only continued but dramatically increased in 2008. An example can be seen in the commercial mortgage-backed securities (CMBS) market. The decline in the real estate and credit markets contributed to the precipitous price decline of CMBS securities. However, the APFC internal fixed income team believed that those prices did not reflect the true value of the securities. They thought the underlying structure was sound and that the low pricing was based on apocalyptic default assumptions.

The team held to its strategy of buying the highest quality securities, which lead to an overweight of CMBS in the U.S. bond portfolio compared with the index. This overweight resulted in performance volatility early in the fiscal year, but CMBS securities performed very well and began to contribute positive performance to the portfolio by year-end.

NON-U.S. BOND PORTFOLIO

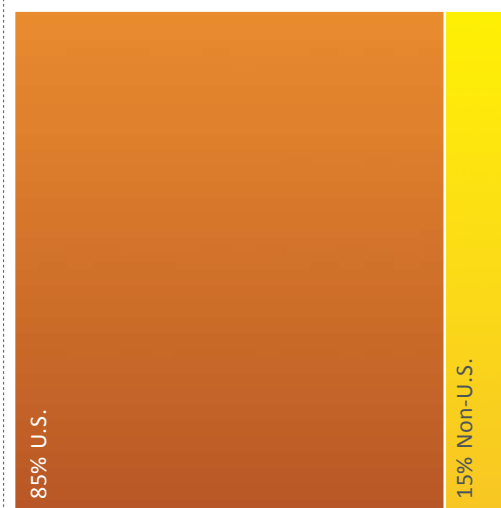
The non-U.S. bond portfolio returned 3.6 percent, behind the Citigroup Non-U.S. World Government Bond Index return of 6.2 percent for the fiscal year. The portion of the portfolio managed by Augustus Asset Management returned 3.9 percent, while Rogge Global Partners had a 3.3 percent return on their portion of the portfolio.

09 INTERNAL VS. EXTERNAL MANAGEMENT (In Billions)



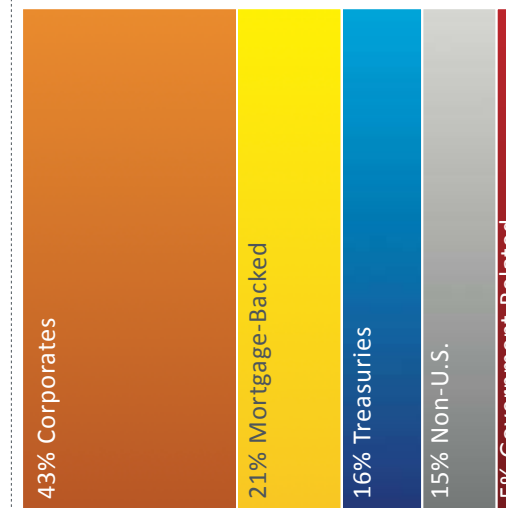
Internally Managed	\$5.1
Externally Managed	\$2.2
Total:	\$7.3

09 U.S. VS. NON-U.S. (In Billions)



U.S.	\$6.2
Non-U.S.	\$1.1
Total:	\$7.3

09 COMPOSITION OF BONDS (In Billions)



Corporates	\$3.1
Mortgage-Backed	\$1.5
Treasuries	\$1.2
Non-U.S.	\$1.1
Government-Related	\$0.4
Total:	\$7.3

REAL ESTATE

Fiscal year 2009 opened the year with its first posting of negative total returns for real estate since 1993. The deleveraging of real estate continued in the wake of the most severe recession since World War II, and real estate fundamentals continued to deteriorate with virtually all top tier markets posting decreases in occupancy and declining rent growth. Commercial lending for real estate pulled back with new tougher underwriting requirements and no CMBS issuance since June 2008.

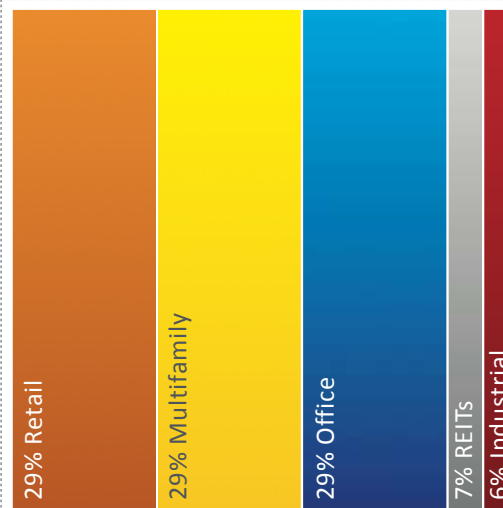
This unavailability of debt and the recessionary climate resulted in a virtual standstill in transaction levels, and commercial real estate transactions came to an abrupt halt, with only 56 sales recorded in the first half of fiscal 2009 in the National Council of Real Estate Fiduciaries National Property Index (NCREIF NPI). This mirrored the broader market, which saw transaction volume down more than 80 percent from 2008 levels.

Job-loss pressures affecting the sector and an anemic recovery may serve to lengthen the downturn in real estate. The inherent lag in real estate means that improvement in this space will only return once jobs are clearly added and consumer confidence resumes. Pricing pressure will only be relieved when commercial real estate debt returns to a level that provides for the refinancing of CMBS loans reaching maturity.

With the absence of trades, and deteriorating fundamentals, there is an expectation that distressed sales will be necessary to see transaction volumes increase. There were signs this was starting at the end of fiscal year 2009, but these types of transactions remained limited. A wide bid/ask spread between buyer and seller of real estate assets was limiting sales, but the small increase in transaction volume in June and July indicated that it was narrowing. While capital currently remains on the sidelines, a concern upon improvement is that once the wave of distressed opportunities comes crashing in, the real estate sector will look attractive again and grow competitive very quickly. Therefore, the window for correction may be quite narrow.



09 REAL ESTATE DIVERSIFICATION
As of June 30, 2009 (In Billions)



Retail	\$1.0
Multifamily	\$1.0
Office	\$1.0
REITs	\$0.2
Industrial	\$0.2
Total:	\$3.4

REAL ESTATE PORTFOLIO

The Fund's directly held real estate portfolio returned -13.5 percent, ahead of the NCREIF NPI Index return of -19.6 percent, ending the year with a value of \$3.3 billion. Going into the downturn, the APFC real estate portfolio was in relatively good shape. The predominantly core, conservatively levered portfolio did well compared with the NPI universe. The Fund's 63 properties were well diversified by size, property type and market, and fortunately had very few vacancies at the start of fiscal 2009. The APFC made no new acquisitions of real estate this fiscal year and shifted its focus to preserving cash flow by heightening property management and leasing objectives to retain existing tenants and actively compete for new ones.

AEW manages the Fund's \$156 million global real estate securities portfolio. The portfolio returned -39.8%, outperforming its benchmark, the UBS Global Real Estate Investors Index (-42 percent for the fiscal year). The significant market correction following Lehman's demise resulted in an overinvestment in real estate assets due to the denominator effect. At the end of November, the real estate portfolio was invested at 13.7 percent, outside its -3 percent/+3 percent control band. As part of a rebalancing effort, the Wellington portfolio (comprised of domestic real estate securities) was fully liquidated and another \$100 million plus was redeemed from the global securities portfolio managed by AEW.

In agreement with carrying the Fund's other assets at current market value, the real estate assets were also "marked to market" in accordance with Governmental Accounting Standards Board Statement 52 this year. This move will provide consistency between both the financial statements and investment performance reporting of results.

(From left)

600 Pine St.
Seattle, WA

120 E. 87th St.
New York, NY

Inman Park Apartments
Raleigh, NC

ALTERNATIVE INVESTMENTS

16

ABSOLUTE RETURN

The Permanent Fund's absolute return strategy portfolio had a -13.2 percent return for the fiscal year, ending on June 30 with a value of \$2.1 billion. While the Fund's absolute return portfolio fell short of its long-term return goal of LIBOR plus 4 percent, it generated competitive returns when compared with a similar style hedge fund of fund portfolios.

The Board of Trustees transferred the Crestline Investors Inc. distressed debt portfolio, which was created in 2007, from the Fund's fixed income portfolio to the absolute return portfolio due to the similarity of the portfolio with the absolute return portfolio. The Board also hired an additional distressed debt manager, Oaktree Capital Management, for a \$250 million mandate. With these two managers, portions of the Fund's portfolio are also managed by Mariner Investment Group and Lazard Asset Management, with Mariner and Crestline both holding two separate mandates within the portfolio.

INFRASTRUCTURE

The Board created an allocation to infrastructure in 2007 and made commitments to Citi Infrastructure Fund I and Global Infrastructure Partners Fund that year. At the start of fiscal year 2009, the Board made a \$500 million commitment to Goldman Sachs Infrastructure Partners Fund II.

Infrastructure investments can generally be described as assets that are usually publicly owned and operated, such as roads, airports, utilities and pipelines. They are attractive additions to the Permanent Fund, providing inflation protection and exposure to real assets but with higher-expected returns than fixed income.

The partnerships that the Permanent Fund belongs to have made investments around the world, including: London City Airport; Biffa, a waste-management company in the U.K.; Channelview, an 800-megawatt power-generation facility in Texas; and East India Petroleum, a facility that handles petrochemicals and other products at Visakhapatnam Port, India.

To date, the Fund's three partnerships have drawn down \$380 million of the \$1.4 billion that has been committed. Infrastructure partnerships are long-term investments, and, as a result, there has not been enough time in the asset class yet to provide meaningful returns.

PRIVATE EQUITY

In fiscal year 2009 the Board added a second manager to the private equity portfolio: HarbourVest Partners LLC. The firm will manage a separate account for the Permanent Fund with a discretionary, broadly diversified, global mandate. Pathway Capital Management is the Fund's original private equity manager and continues to have a discretionary global mandate.

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

To date, Pathway Capital Management has committed \$2.1 billion on behalf of the Fund, of which \$865 million has been invested. For fiscal year 2010, the Board has authorized additional commitments of \$300 million and \$200 million, respectively, by HarbourVest and Pathway.



17

APFC INTERNSHIP PROGRAM

APFC and the management firms that invest the Fund's portfolios offer internships exclusively for qualified Alaska undergraduate and graduate students. Students attending school in Alaska and Alaskans attending school out of state may qualify to work in the U.S. or even abroad as an APFC program intern.

Since the program's inception in 1988, three-quarters of the 268 interns have come from Alaska campuses: University of Alaska Anchorage, University of Alaska Fairbanks, University of Alaska Southeast and Alaska Pacific University.

Epic market turmoil made 2009 a challenging year for employment in the financial sector — for professionals and interns alike. APFC extends special thanks to our five external managers who, along with us, were able to provide opportunities for eight college students to serve internships in summer 2009.

Alaska Permanent Fund Corporation

Alaska Permanent Capital Management

GE Asset Management

McKinley Capital Management

RCM Global Investors

Sentinel RE Corporation

INTERNS: (From left)

Tyler Norrish
GE Asset Management

Alejandra Rico
APFC Finance Intern

Ellery Barron
APFC IT Intern

Lindsay Perkins
APFC Investments Intern

"The folks at APCM were very intelligent, friendly, helpful and genuinely concerned with whether or not I was learning during my time with them."

Bradley Hillwig
*Alaska Permanent Capital Management
University of Alaska, Anchorage*

MANAGEMENT'S DISCUSSION AND ANALYSIS

18

The State of Alaska Permanent Fund Corporation (APFC) management is pleased to provide the following discussion and analysis of the financial activities of the Alaska Permanent Fund (Fund) for the fiscal years ended June 30, 2009, and June 30, 2008. This discussion should be reviewed in conjunction with the financial statements and related notes which follow this section. 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. This Management's Discussion and Analysis (MD&A) is comprised of three sections: financial highlights; discussion regarding use of the financial statements and analysis of the financial statements.

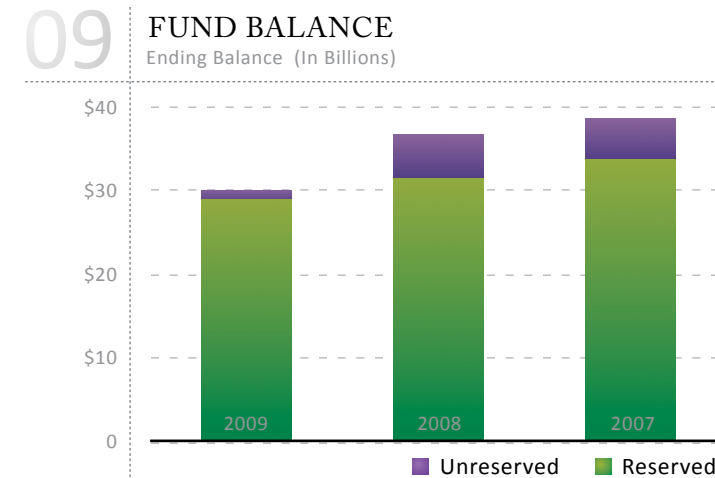
FINANCIAL HIGHLIGHTS

- Fiscal year (FY) 2009 included one of the most volatile times in the history of the financial markets. The total rate of return for Fund investments was a negative 18 percent, the largest negative return in the history of the Fund, and the prior fiscal year, 2008, had the second-largest negative return of 3.6 percent. These returns were in sharp contrast to FY 2007, which had a positive return of 17.1 percent.
- Fund values throughout the year were severely impacted by the volatile markets. While most investors were in the same predicament, it remained disheartening to see the Fund lose over \$3 billion in value in the first quarter of the fiscal year and an additional \$4 billion in the second quarter. It wasn't until the fourth fiscal quarter of 2009 that the financial markets began to make a slow recovery.
- FY 2009's deficiency of revenues under expenditures was \$6.4 billion, more than four times the prior year's loss of \$1.4 billion, which at the time had been the largest loss in the 33 year history of the Fund.
- Statutory net income, which excludes unrealized gains and losses and is used to calculate the annual State of Alaska Permanent Fund Dividend disbursement, was negative for the first time in the history of the Fund in FY 2009. The realized losses from investment transactions totaled \$3.4 billion and, when combined with cash flow income, such as interest and dividends, created a statutory net loss of \$2.5 billion. However, the prior two fiscal years, 2008 and 2007, had very high positive statutory net incomes at \$2.9 billion and \$3.5 billion respectively, which were the two highest in the history of the Fund.
- The unreserved fund balance, which consists of historical unappropriated realized earnings, ended FY 2009 at \$420 million, down significantly from FY 2008's ending balance, which was at its highest level ever at over \$5 billion.
- The State of Alaska Department of Law issued a legal opinion in June 2009 requiring the Fund to allocate unrealized gains and losses proportionately to the reserved (principal) and unreserved (realized earnings) fund balances. Previously, unrealized gains and losses had been maintained only in the principal of the Fund. A reclassification has been made to the 2008 financial statements to conform to this presentation.
- The Fund implemented a new accounting pronouncement in FY 2009, which was issued by the Governmental Accounting Standards Board (GASB). GASB Statement No. 52 (GASBS 52) requires endowments and permanent funds to carry directly owned real estate property at fair value. Prior to GASBS 52, such assets were carried in the financial statements at cost plus undistributed earnings of the property, known as the equity method. The provisions of GASBS 52 have been retrospectively applied to FY 2008.

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.

19



investments, as well as various strategies in absolute return investments and infrastructure. The securities lending collateral shown as an asset is cash received from stock and bond loans, which will be returned to the borrower at the conclusion of the loan.

Liabilities on the Balance Sheets consist mainly of obligations for investments purchased but not yet settled, shown in the accounts payable grouping, and for the annual dividend payable to the State of Alaska. Securities sold short is the market value of stocks sold by managers, but not yet owned, an investment mandate for the Fund which was terminated in FY 2009. Securities lending collateral is the cash due to be returned to borrowers of the Fund's stocks and bonds, when those borrowed assets have been returned to the Fund.

In the graph above, fund balances are shown in two different categories: reserved and unreserved. The largest portion of the fund balances is reserved (99% as of June 30, 2009) and cannot be spent by the State of Alaska. The remaining balance, the realized earnings, is available for government appropriations. The unreserved balance contracted by more than 90% in FY 2009, due to three factors: market losses of \$2.5 billion, the annual dividend payout of \$900 million, and inflation proofing of \$1.1 billion, which transfers assets from unreserved to reserved.

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 during the 12 months ending June 30, 2009, as well as the activity for the prior fiscal year.

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

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

Dedicated State revenues transferred into the Fund's principal are based on a percentage of mineral revenues received by the State, and transfers out are for two purposes: to pay the annual State of Alaska Permanent Fund Dividend per Alaska Statute 37.13.145(b); and to pay the annual deposit to the Alaska Capital Income Fund (ACIF) per Alaska Statute 37.13.145(d).

Notes to the Financial Statements

The Notes to the Financial Statements are an essential element to assist the reader in fully understanding the financial aspects of the Fund and to assist in the interpretation of all 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 provides a gauge of the financial strength of the entity. While assets of the Fund exceeded liabilities each year by a ratio of more than 15-to-1 (excluding securities lending collateral, which is held separately by the custodian for repayment to the borrower upon a loan's completion), it is important to note that the reserved fund balance may not be spent and therefore is unavailable for appropriation to satisfy the State's obligations to citizens or creditors. The following table was derived from the Balance Sheets of the Fund and provides a comparison of the change between balances at June 30 of 2009 and 2008.

BALANCE SHEETS

	June 30, 2009	June 30, 2008	Net Change	Percent
ASSETS				
Cash and Temporary Investments	\$ 2,385,558,000	819,861,000	1,565,697,000	191%
Receivables, Prepaid Expenses and Other Assets	701,379,000	1,089,255,000	(387,876,000)	-36%
Investments	29,262,254,000	37,134,700,000	(7,872,446,000)	-21%
Securities Lending Collateral Invested	2,084,425,000	2,282,400,000	(197,975,000)	-9%
Total Assets	\$ 34,433,616,000	41,326,216,000	(6,892,600,000)	-17%
LIABILITIES				
Accounts Payable	\$ 1,576,478,000	998,883,000	577,595,000	58%
Securities Sold Short	0	184,872,000	(184,872,000)	-100%
Income Distributable to the State of Alaska	856,644,000	1,326,170,000	(469,526,000)	-35%
Securities Lending Collateral	2,084,425,000	2,282,400,000	(197,975,000)	-9%
Total Liabilities	4,517,547,000	4,792,325,000	(274,778,000)	-6%
FUND BALANCES				
Reserved — Principal				
Contributions and Appropriations	30,944,699,000	29,148,930,000	1,795,769,000	6%
Unrealized Appreciation (Depreciation) - Invested Assets	(1,448,614,000)	2,064,303,000	(3,512,917,000)	-170%
Total Reserved	29,496,085,000	31,213,233,000	(1,717,148,000)	-6%
Unreserved				
Realized Earnings	440,610,000	4,968,774,000	(4,528,164,000)	-91%
Unrealized Appreciation (Depreciation) - Invested Assets	(20,626,000)	351,884,000	(372,510,000)	-106%
Total Unreserved	419,984,000	5,320,658,000	(4,900,674,000)	-92%
Total Fund Balances	29,916,069,000	36,533,891,000	(6,617,822,000)	-18%
Total Liabilities and Fund Balances	\$ 34,433,616,000	41,326,216,000	(6,892,600,000)	-17%

The most notable changes in the Fund's assets from June 30, 2008, through June 30, 2009, were due mainly to the volatile investment markets, which led to a decrease in the carrying value of invested assets by 21 percent. Cash nearly tripled from the end of FY 2008 to the end of FY 2009 for two main reasons. First, cash was built up and maintained over the fiscal year to fund the annual dividend in July, which had not happened in the prior year. Second, many of the Fund's managers held cash rather than invest in tumultuous financial market assets. In FY 2009, equities had substantial negative returns, with each equity class — domestic, non-domestic, and global — decreasing substantially. Domestic equities lost 25 percent, while non-domestic and global mandates both lost 31 percent. The prior year had seen large losses in those equity groups as well, with returns of -12 percent, -5 percent, and -10 percent respectively. Absolute return strategies and real estate also had losses during FY 2009. The only asset class to have positive returns in FY 2009 was fixed income, both domestic and non-domestic, which returned 3.3 percent and 3.6 percent respectively. The ending value of securities lending collateral invested and the related liability is dependent upon the amount of securities out on loan on a particular day. These values can change significantly from day to day, as well as from year to year, but were relatively stable from FY 2008 to FY 2009.

Accounts payable liabilities consist mainly of obligations due on securities purchased but not yet settled in exchange for cash. Those open transactions at any date can vary widely but are usually the largest portion of Fund payables, representing greater than 96 percent of the FY 2008 balance and 99 percent of the FY 2009 balance. In years prior to FY 2009, certain asset managers for the APFC were authorized to sell stocks short and reinvest the proceeds from those sales into additional stocks. The short selling mandate was terminated during FY 2009, so the liability related to those investments, securities sold short, decreased from an FY 2008 value of \$185 million to zero in FY 2009. Income distributable to the State of Alaska decreased from FY 2008 to FY 2009 by approximately \$470 million, which represents the change in the annual Alaska dividend distribution and the Alaska Capital Income Fund distribution. Most of the change stems from the dividend calculation, which is based on a five-year average of net income, excluding unrealized gains and losses. Because the FY 2009 statutory net loss of \$2.5 billion replaced the FY 2004 statutory net gain of \$1.5 billion in the average net income calculation, there was a corresponding drop of \$423 million for the annual dividend payout. At the end of FY 2007, the balance due to the State of Alaska for the dividend payout was \$989 million, showing how the payout calculation can fluctuate with the volatility of the markets. Because the Fund had realized losses during FY 2009, there was no transfer to the Alaska Capital Income Fund, while the FY 2008 transfer was \$33 million.

The total fund balance decrease between FY 2008 and FY 2009 reflects the weak financial markets. Contributions and appropriations increased, due to the annual inflation proofing transfer of \$1.14 billion, plus dedicated mineral revenues from the State of \$651 million. The fund balance at the end of FY 2009 was not quite \$30 billion, \$10 billion less than it was in mid-July 2007, before the beginning of what has been termed the global financial crisis of 2008-2009.

The following table on Page 22 is derived from the Statements of Revenues, Expenditures and Changes in Fund Balances and shows the annual activity of the Fund. The differences in FY 2008 activity as compared with FY 2009 are shown in both dollars and percentages.

During FY 2009, all sources of cash flow revenue (interest, dividends, real estate and other) were affected by the financial crisis. In general, monthly incoming cash flows decreased from \$100 million to \$80 million per month. Interest rates were lower on bonds, companies were paying out less in dividends and real estate rentals were decreased due to vacancies. The change in the fair value of investments was significant in FY 2009, at almost three times the losses suffered in FY 2008, due to the overall weakness of the financial markets. Operating expenditures decreased from FY 2008 to FY 2009 almost entirely due to lower asset management fees paid to external investment management firms, which decreased by \$16.8 million. Based on the fact that almost all management fees are calculated on asset market values, when the investment markets decline, as they did in FY 2009, fees decrease as well. Conversely, operating expenditures increased from FY 2007 to FY 2008 by \$15 million, or 20 percent, due to increases in market values in early FY 2008 (prior to the global financial crisis), which led to increases in manager fees. FY 2008 had the highest transfer in of dedicated State revenues in the history of the Fund at \$844 million, but this amount decreased by 23 percent in FY 2009, due to relatively depressed oil prices. FY 2009 saw sharp declines in oil prices, from a high monthly average in summer 2008 at \$126 per barrel to less than half that amount at \$61 per barrel in June 2009. In

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	June 30, 2009	June 30, 2008	Net Change	Percent
REVENUES				
Interest, Dividends, Real Estate and other Income	\$ 961,084,000	1,202,310,000	(241,226,000)	-20%
Decrease in the Fair Value of Investments	(7,287,655,000)	(2,489,779,000)	(4,797,876,000)	-193%
Total Revenues	(6,326,571,000)	(1,287,469,000)	(5,039,102,000)	-391%
EXPENDITURES				
Operating Expenditures	(61,214,000)	(78,414,000)	17,200,000	-22%
Other Legislative Appropriations	(6,628,000)	(6,335,000)	(293,000)	5%
Total Expenditures	(67,842,000)	(84,749,000)	16,907,000	-20%
Deficiency of Revenues Under Expenditures	\$ (6,394,413,000)	(1,372,218,000)	(5,022,195,000)	-366%
OTHER FINANCING SOURCES (USES)				
Transfers In – Dedicated State Revenues	651,435,000	844,312,000	(192,877,000)	-23%
Transfers Out – Appropriations	(874,844,000)	(1,326,170,000)	451,326,000	-34%
Net Change in Fund Balances	(6,617,822,000)	(1,854,076,000)	(4,763,746,000)	-257%
FUND BALANCES				
Beginning of Period	36,533,891,000	38,387,967,000	(1,854,076,000)	-5%
End of Period	\$ 29,916,069,000	36,533,891,000	(6,617,822,000)	-18%

winter FY 2009, prices were even lower at close to \$30 per barrel. Transfers out of the Fund are for two purposes: 1) an appropriation to fund the annual Alaska dividend payment, and 2) an appropriation to fund the Alaska Capital Income Fund. Because the dividend calculation is based on realized earnings averaged over five years, the FY 2009 results supplanted the FY 2004 results. The difference between these years was a \$4 billion decrease. Consequently, the dividend distribution fell by \$423 million, approximately 34 percent. The Alaska Capital Income Fund transfer out did not take place in FY 2009, because it is based on only one year of realized earnings, which were negative in FY 2009. The prior transfers out to the Alaska Capital Income Fund were \$33 million in FY 2008 and \$42 million in FY 2007.

ECONOMIC, INVESTMENT, AND POLITICAL FACTORS

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

ADDITIONAL INFORMATION

This financial report is designed to provide an overview of the Alaska Permanent Fund's ending net asset balances and fiscal year financial activities. This report does not include any other funds owned or managed by the State of Alaska. Due to the potential volatility of the financial markets, Fund values and income may vary greatly from time to time. 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, AK 99811-5500.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the Alaska Permanent Fund as of June 30, 2009 and 2008, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of the Alaska Permanent Fund Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Alaska Permanent Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Alaska Permanent Fund and do not purport to, and do not, present fairly the financial position of the State of Alaska as of June 30, 2009 and 2008, and changes in its financial position for the years then ended in conformity with the U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Permanent Fund as of June 30, 2009 and 2008, and its changes in financial position for the years then ended in conformity with the U.S. generally accepted accounting principles.

As more fully described in Note 1 to the financial statements, effective July 1, 2008, the Alaska Permanent Fund has changed its method of accounting for direct real estate investments due to the adoption of Governmental Accounting Standards Board Statement 52: Land and Real Estate Held as Investments by Endowments.

The management's discussion and analysis on pages 18 through 22 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

FINANCIAL STATEMENTS

24

BALANCE SHEETS

	June 30, 2009	June 30, 2008
ASSETS		
Cash and Temporary Investments	\$ 2,385,558,000	819,861,000
Receivables, Prepaid Expenses and Other Assets	701,379,000	1,089,255,000
Investments —		
Marketable Debt Securities	7,270,621,000	9,433,537,000
Preferred and Common Stock	15,231,411,000	19,936,000,000
Real Estate	3,364,047,000	4,167,018,000
Alternative Investments	3,144,054,000	3,360,899,000
Alaska Certificates of Deposit	252,121,000	237,246,000
Total Investments	29,262,254,000	37,134,700,000
Securities Lending Collateral Invested	2,084,425,000	2,282,400,000
Total Assets	\$ 34,433,616,000	41,326,216,000
LIABILITIES		
Accounts Payable	\$ 1,576,478,000	998,883,000
Securities Sold Short	0	184,872,000
Income Distributable to the State of Alaska	856,644,000	1,326,170,000
Securities Lending Collateral	2,084,425,000	2,282,400,000
Total Liabilities	4,517,547,000	4,792,325,000
FUND BALANCES		
Reserved — Principal		
Contributions and Appropriations	30,944,699,000	29,148,930,000
Unrealized Appreciation (Depreciation) on Invested Assets	(1,448,614,000)	2,064,303,000
Total Reserved	29,496,085,000	31,213,233,000
Unreserved		
Realized Earnings	440,610,000	4,968,774,000
Unrealized Appreciation (Depreciation) on Invested Assets	(20,626,000)	351,884,000
Total Unreserved	419,984,000	5,320,658,000
Total Fund Balances	29,916,069,000	36,533,891,000
Total Liabilities and Fund Balances	\$ 34,433,616,000	41,326,216,000

See Accompanying Notes to the Financial Statements.

25

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Years Ended	June 30, 2009	June 30, 2008
REVENUES		
Interest	\$ 431,696,000	549,499,000
Dividends	384,470,000	457,668,000
Real Estate and Other Income	144,918,000	195,143,000
Total Interest, Dividends, Real Estate and Other Income	961,084,000	1,202,310,000
Net Increase (Decrease) in the Fair Value of Investments —		
Marketable Debt Securities	(120,985,000)	228,671,000
Preferred and Common Stock	(5,898,285,000)	(2,631,227,000)
Real Estate	(666,947,000)	(85,541,000)
Alternative Investments	(587,761,000)	97,662,000
Foreign Currency Forward Exchange Contracts and Futures	2,254,000	(95,108,000)
Currency	(15,931,000)	(4,236,000)
Total Net (Decrease) in the Fair Value of Investments	(7,287,655,000)	(2,489,779,000)
Total Revenues	(6,326,571,000)	(1,287,469,000)
EXPENDITURES		
Operating Expenditures	(61,214,000)	(78,414,000)
Other Legislative Appropriations	(6,628,000)	(6,335,000)
Total Expenditures	(67,842,000)	(84,749,000)
(Deficiency) of Revenues (Under) Expenditures	(6,394,413,000)	(1,372,218,000)
OTHER FINANCING SOURCES (USES)		
Transfers In - Dedicated State Revenues	651,435,000	844,312,000
Transfers Out - Statutory and Legislative Appropriations	(874,844,000)	(1,326,170,000)
Net Change in Fund Balances	(6,617,822,000)	(1,854,076,000)
FUND BALANCES		
Beginning of Period	36,533,891,000	38,387,967,000
End of Period	\$ 29,916,069,000	36,533,891,000

See Accompanying Notes to the Financial Statements.

1. ENTITY

The Constitution of the State of Alaska (the "State") was amended by public referendum in 1976 to dedicate a portion of certain natural resource revenues to the Alaska Permanent Fund (the "Fund"). These contributions to the Fund are to be invested in perpetuity. In 1980, the Alaska State Legislature (the "Legislature") established the Alaska Permanent Fund Corporation (the "APFC"), a component unit of the State, to manage and invest Fund assets. The APFC is managed by a six-member board of trustees (the "Trustees") consisting of the Commissioner of Revenue, one other head of a principal state department and four governor-appointed public members with recognized competence and experience in finance, investments or other business management-related fields. Public members are appointed to staggered four year terms, may be reappointed and may only be removed by the governor for cause. The board employs an executive director who in turn employs additional staff as necessary. The Fund's assets are diversified across a wide variety of investments, in accordance with statutes, regulations and APFC investment policies. The Fund's results of operations rely largely on the success of the financial markets. Diversification aims to mitigate the effects of volatility, however, significant period-to-period fluctuations in operating results may occur.

By statute, and subsequent appropriation, (i) a portion of the annual realized earnings of the Fund is transferred to the State's dividend fund, (ii) a portion of the realized earnings sufficient to offset the effect of inflation on contributions and appropriations is transferred to the reserved 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.) is appropriated and transferred to the Alaska Capital Income Fund. The balance of the Fund's realized earnings is held in the realized earnings account and is subject to appropriation by the Legislature. Unrealized gains and losses on Fund assets are allocated proportionately between the reserved fund balance (principal) and the unreserved fund balance (realized earnings). 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, 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. Actual results could differ from those estimates.

DIVIDEND APPROPRIATIONS

Statutory net income excludes realized earnings from contributions made in the North Slope royalty case settlements (State v. Amerada Hess, et al.), and unrealized gains and losses on the Fund's investments. Current statutes require that one-half of 21 percent of the Fund's five-year rolling statutory net income be made available for the payment of dividend appropriations each year. However, amounts available for the dividend appropriations are further limited to no more than one-half of the unreserved fund balances at fiscal year end.

RESERVED FUND BALANCES

On June 16, 2009, the APFC received a State of Alaska Attorney General's Opinion clarifying the accounting treatment of unrealized gains and losses. Based on the opinion, reserved fund balances (principal) and unreserved fund balances (realized earnings) should be allocated proportionate values of the unrealized appreciation or depreciation on invested assets.

FINANCIAL STATEMENT PRESENTATION

A reclassification has been made to the 2008 financial statements to conform to 2009 presentation. This reclassification was made based on a legal opinion issued by the State of Alaska Attorney General on June 16, 2009. The effect of this reclassification on the 2008 balance sheet was to increase unreserved unrealized appreciation by \$351,884,000 and decrease reserved unrealized appreciation by the same amount.

A second reclassification has been made to the 2008 financial statements to conform to 2009 presentation. The reclassification was made based on a change in the asset classification of investments in distressed debt funds. Prior to fiscal year 2009, distressed debt was classified as marketable debt securities but is now classified as alternative investments. The effect of this reclassification on the balance sheet was to increase alternative investments by \$272,908,000 and decrease marketable debt securities by \$272,908,000.

Neither reclassification had any impact on the calculation of the State of Alaska permanent fund dividend for the years ending June 30, 2008 and 2009.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In November 2007, the Governmental Accounting Standards Board issued Statement number 52: Land and Other Real Estate Held as Investments by Endowments ("GASBS 52"). GASBS 52 requires that land and real estate held by permanent and term endowments be reported at fair value. This statement is effective as of the beginning of an entity's first fiscal year beginning after June 15, 2008, which corresponds to the Fund's fiscal year beginning July 1, 2008, and must be applied retrospectively to all periods presented. The Fund has retrospectively applied the provisions of this statement to its direct investments in real estate beginning with the year ending June 30, 2008. Application of GASBS 52 had no impact on the calculation of the State of Alaska permanent fund dividend for the years ending June 30, 2008 or 2009.

The effects on the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances as of June 30, 2008 are as follows:

	As Originally Reported	Retrospective Adjustment	Retrospectively Applied
BALANCE SHEET			
Investments – Real Estate	\$ 3,514,057,000	652,961,000	4,167,018,000
Fund Balance – Unrealized Appreciation on Invested Assets	\$ 1,763,226,000	652,961,000	2,416,187,000
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES			
Net Increase (Decrease) in the Fair Value of			
Investments – Real Estate	\$ (176,631,000)	91,090,000	(85,541,000)
Fund Balances – Beginning of Period	\$ 37,826,096,000	561,871,000	38,387,967,000
Fund Balances – End of Period	\$ 35,880,930,000	652,961,000	36,533,891,000

INFLATION PROOFING

Alaska statutes require that the contributions and appropriations of the Fund be adjusted annually to counteract the effect of inflation. Based on advice from the Alaska Department of Law, an annual intra-fund inflation proofing transfer (from unreserved to the reserved fund balance) should only occur by legislative appropriation. APFC measures inflation by the percent change in each of the two prior calendar years' averages of the United States consumer price index for all urban consumers applied against the total of the reserved fund balance, excluding unrealized gains and losses, at the end of the fiscal year. The inflation rates were 3.84 percent and 2.85 percent and were applied to the years ended June 30, 2009 and 2008, respectively.

INCOME TAXES

In the opinion of legal counsel, as integral parts of the State, the Fund and the APFC are not subject to federal or state income taxes. In addition, the Internal Revenue Code provides that gross income for tax purposes does not include income earned by a state or any subdivision thereof, which is derived from the exercise of any essential governmental function. The Fund and the APFC perform an essential governmental function and are therefore also exempt from federal income taxes under that provision.

INVESTMENTS AND RELATED POLICIES

Carrying Value of Investments

The Fund's investments are reported at fair value in the financial statements. Unrealized gains and losses are reported as components of net income. For marketable debt and equity securities including real estate investment trusts, fair values are obtained from independent sources using published market prices, quotations from national security exchanges, and security pricing services. Fair values of alternative investments that have no readily ascertainable fair value are determined by management using the fair value capital account balances nearest to the balance sheet date, adjusted for subsequent contributions, distributions and management fees. All alternative investments undergo an annual financial statement audit by independent auditors. Directly owned real estate investments are reported at fair value based upon annual independent appraisals. Fair value for interim periods are based upon 10-year discounted cash flow models prepared by real estate advisors utilizing updated property level and market-based factors as appropriate. All directly owned real estate investments undergo an annual financial statement audit by independent auditors.

Securities transactions are recorded on the trade date that securities are purchased or sold.

Domestic Equities		
Large Capitalization	21%	
Small Capitalization	5%	
Total Domestic Equities	26%	(± 6%)
International Equities		
Developed Markets	8%	
Emerging Markets	5%	
Total International Equities	13%	(± 3%)
Global Equities	14%	(± 4%)
Total Equities	53%	(± 10%)
Fixed Income		
Domestic Fixed Income	19%	(± 6%)
Non-Dollar Fixed Income	3%	(± 3%)
Total Fixed Income	22%	(± 5%)
Total Infrastructure	3%	(± 3%)
Total Real Estate	10%	(± 3%)
Total Private Equity	6%	(± 5%)
Total Absolute Return	6%	(± 3%)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to holding investments from a single issuer. The Fund manages its concentration of credit risk by following its asset allocation resolution and by diversifying investments among managers with varying investment styles and mandates. The APFC's policy for mitigating this risk of loss for fixed income and equity investments is to ensure compliance with Trustee resolutions 09-08 and 09-02, respectively, as well as investment manager contracts. Those resolutions and contracts specify concentration limits for issuers and types of investments, and place substantial limits on the use of leverage. Managers are not permitted, under any circumstances, to encumber assets beyond those held in each separate account that is managed.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The APFC requires that its core fixed income managers invest in domestic bonds and non-domestic bonds that have an implied investment grade rating as defined by the Barclays Capital U.S. Aggregate Index and the Citigroup World Government Bond Index, respectively. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within seven months. Certain non-core investment managers are allowed to invest a specified amount of funds in bonds rated below investment grade.

The APFC does not have an allocation to cash. Managers are encouraged to limit the amount of cash they hold, and most cash reflects transactions pending settlement. The APFC manages the aggregate cash position of all domestic equity managers and the internal fixed income portfolios in a Unitized Cash Fund (UCF). The UCF is primarily intended to serve as an efficient mechanism for investing daily transactional cash. UCF securities must be rated by either Moody's or Standard & Poor's equivalents of P1 or A1 for short-term investments. A second internal cash management account is maintained to invest cash balances needed for pending settlements of to-be-announced (TBA) mortgage securities in the internally-managed long term fixed income portfolio. The TBA Cash Management Account invests primarily in short-term asset-backed structured products. Such securities must have a AAA rating for asset-backed bonds and either P1 or A1 for asset-backed commercial paper.

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. For non-domestic securities held by sub-custodians, the APFC is indemnified against custodial credit risk by its primary custodian.

Investment Policy

The Trustees have established a long-term goal of achieving a 5 percent real rate of return on the investment portfolio. To achieve this target, the Trustees allocate the Fund's investments among various asset classes. In order to allow for market fluctuations and to minimize transaction costs, the Trustees also have adopted acceptable ranges around the targets. At June 30, 2009, the APFC's asset allocation policy (with acceptable ranges) is summarized in the table to the left.

In accordance with Alaska Statute 37.13.120, the Trustees have adopted regulations designating the types of assets eligible for investment. Those 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.

Foreign Currency Risk

Foreign currency risk is the risk that 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.

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 by establishing effective duration guidelines in its fixed income investment policy. Duration, which is expressed as a number of years, 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 decreasing duration and the values of those investments declining. Similarly, falling interest rates are generally associated with increasing duration and investment values. Effective duration attempts to account for the price sensitivity of a bond to changes in prevailing interest rates, including the effect of embedded options. As an example, for a bond portfolio with a duration of 5.0, a one percentage point parallel decline in interest rates would result in an approximate price increase on that bond portfolio of 5.0 percent. The APFC's investment policy specifies an effective duration range for certain long-term fixed income mandates (based on the respective portfolio's benchmark index duration) as follows: core plus fixed income portfolios 80 percent to 120 percent; non-domestic fixed income 50 percent to 150 percent; and high yield fixed income 50 percent to 200 percent. There is no duration policy for domestic core fixed income portfolios, but duration is reviewed often by investment managers, in comparison to relevant benchmarks.

For short-term debt investments, the APFC's cash management policy states that the weighted average day count cannot exceed 150 days, with a final maximum maturity of 14 months for non-securitized investments. The policy limits asset-backed securities held in cash management accounts to a maximum average life of 12 months at time of purchase.

At June 30, 2009, the Fund held fixed income investments with floating and variable interest rates, valued at \$600,972,000. These fixed income investments were both domestic and non-domestic, and had current annual interest rates ranging from 0.37 percent to 11.25 percent.

FORWARD EXCHANGE CONTRACTS

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

A minority of forward exchange contracts are intended to manage, rather than neutralize, foreign currency fluctuations. Certain managers seek to control foreign exchange effects 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 of the market's currency.

EQUITY INDEX FUTURES

Certain equity managers for the Fund are permitted to buy and sell equity index futures. The net notional fair values of such futures, but not the gross cost nor the gross fair value, are reported on the balance sheet of the Fund. Realized gains and losses on futures, as well as the net notional unrealized gains and losses, are included in the net increase or decrease in the fair value of investments.

TRANSFERS IN

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

TRANSFERS OUT

Transfers out to other State agencies are recorded when measurable.

3. CASH AND TEMPORARY INVESTMENTS

All short-term investments bear interest at competitive rates and are summarized as follows at June 30:

	2009	2008
U.S. Agencies	\$ 0	223,549,000
U.S. Treasury Bills	3,343,000	542,000
Commercial Paper	0	167,964,000
Asset-Backed Securities	0	1,633,000
Total Temporary Investments	3,343,000	393,688,000
Cash and Pooled Funds	2,382,215,000	426,173,000
Total Cash and Temporary Investments	\$ 2,385,558,000	819,861,000

U.S. treasury bills are explicitly guaranteed by the U.S. government and are not rated. At June 30, 2009, uninvested, uninsured cash of \$53,490,000 was held at the custodian or sub-custodian banks, mainly in interest bearing accounts. All remaining cash balances either were insured or were invested in short-term pooled investment funds, which were rated AAA by Standard & Poor's.

4. RECEIVABLES, PREPAID EXPENSES AND OTHER ASSETS

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

	2009	2008
Interest Receivable	\$ 79,778,000	97,710,000
Dividends Receivable	29,388,000	33,770,000
Sales Receivable	533,450,000	859,602,000
Foreign Exchange Contracts	0	4,635,000
Futures Receivable	0	90,000
Contributions Receivable	58,429,000	93,088,000
Prepaid and other Receivables	334,000	360,000
Total Receivables, Prepaid Expenses and other Assets	\$ 701,379,000	1,089,255,000

5. MARKETABLE DEBT SECURITIES

Marketable debt securities at June 30 are summarized as follows:

2009	Cost	Fair Value	Unrealized Gains/(Losses)
Treasury Notes/Bonds	\$ 1,193,909,000	1,182,206,000	(11,703,000)
Mortgage-Backed Securities	1,458,521,000	1,492,633,000	34,112,000
Other Federal Agencies	356,325,000	361,046,000	4,721,000
Corporate Bonds	3,358,475,000	3,115,422,000	(243,053,000)
Non-Domestic Bonds	1,094,072,000	1,119,314,000	25,242,000
Total Marketable Debt Securities	\$ 7,461,302,000	7,270,621,000	(190,681,000)
2008			
Treasury Notes/Bonds	\$ 1,013,786,000	1,028,425,000	14,639,000
Mortgage-Backed Securities	2,803,028,000	2,796,604,000	(6,424,000)
Other Federal Agencies	726,994,000	733,583,000	6,589,000
Corporate Bonds	3,880,577,000	3,738,415,000	(142,162,000)
Non-Domestic Bonds	1,112,834,000	1,136,510,000	23,676,000
Total Marketable Debt Securities	\$ 9,537,219,000	9,433,537,000	(103,682,000)

6. MARKETABLE DEBT CREDIT RATINGS

In order 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 a core mandate, issues falling below the minimum standards are required to be sold within seven months of the downgrade date. Account managers with non-core mandates are allowed to hold positions in assets with below investment grade ratings (high yield bonds, rated BB+ or below) based on the terms of Trustee resolutions, as further limited by the manager's contract. For purposes of this note, if credit ratings differ among Nationally Recognized Statistical Rating Organizations (NRSRO), the rating with the highest degree of risk (the lowest rating) is used. At June 30, 2009, the Fund's credit ratings for its marketable debt securities are as follows:

NRSRO Quality Rating	Domestic	Non-Domestic	Total Fair Value Holdings	Percent of
AAA	\$ 1,049,558,000	695,039,000	1,744,597,000	24.00%
AA	392,264,000	235,118,000	627,382,000	8.63%
A	783,944,000	124,211,000	908,155,000	12.49%
BBB	525,680,000	29,175,000	554,855,000	7.63%
BB	292,417,000	31,699,000	324,116,000	4.46%
B	208,428,000	2,575,000	211,003,000	2.90%
CCC	144,097,000	673,000	144,770,000	1.99%
CC	17,820,000	389,000	18,209,000	.25%
C	7,136,000	435,000	7,571,000	.10%
D	9,508,000	0	9,508,000	.13%
Total Fair Value of Rated Debt Securities	3,430,852,000	1,119,314,000	4,550,166,000	62.58%
Not Rated – Term Loans	11,887,000	0	11,887,000	.16%
Not Rated – Publicly Traded Debt	11,600,000	0	11,600,000	.16%
U.S. Government Explicitly Backed By the U.S. Government	1,409,351,000	0	1,409,351,000	19.39%
U.S. Government Implicitly Backed By the U.S. Government	1,287,617,000	0	1,287,617,000	17.71%
Total Fair Value Debt Securities	\$ 6,151,307,000	1,119,314,000	7,270,621,000	100.00%

7. MARKETABLE DEBT DEBT DURATION

In order 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 an established benchmark. At fiscal year end, the aggregate holdings of debt securities were within the required duration range in relation to such benchmarks. At June 30, 2009, the effective duration by investment type, based on fair value, is as follows:

	Percent of Bond Holdings	Duration
DOMESTIC BONDS		
Mortgages and other Structured Products	37.20%	3.33
Corporate Bonds	35.79%	5.68
Treasuries	19.26%	4.40
Government Sponsored	5.08%	4.80
Supra/Sovereign	2.67%	5.56
Total Domestic Bonds	100.00%	4.51
NON-DOMESTIC BONDS		
Government and Agency	90.12%	6.35
Corporate and other Non-Government	9.88%	3.65
Total Non-Domestic Bonds	100.00%	6.08

8. PREFERRED AND COMMON STOCK

Investments in preferred and common stock are generally held by the APFC's custodian banks in the name of the Fund. At June 30, 2009 the only exception to this was a commingled fund, Emerging Markets Growth Fund (EMGF), managed by Capital International, Inc. Commingled fund investments are held by the custodian bank of the fund manager on behalf of fund investors.

The fair values of the Fund's shares in the EMGF were \$788,281,000 and \$1,017,477,000 as of June 30, 2009 and 2008, respectively, and are included in the non-domestic values shown below. The value of the Fund's investment in the commingled fund represented approximately 7.3 percent of the total EMGF value at June 30, 2009 and 2008.

At June 30, 2008, APFC also held commingled investments in the Dodge & Cox International Stock Fund (DODFX), managed by Dodge & Cox. As of the fiscal year ending June 30, 2008 the fair value of the Fund's shares in DODFX was \$504,828,000. Investments in DODFX were liquidated during the year ended June 30, 2009.

The equity extension strategy differs from the traditional long-only equity strategy in that up to 50 percent of the account portfolio may be placed in short positions. These portfolios were liquidated during the year ended June 30, 2009. Prior to liquidation, investments were held in custody in separate accounts in the name of the Fund at a prime brokerage. The fair value of the long positions in the equity extension portfolios was \$834,010,000 as of June 30, 2008, and is included in the domestic equity values shown in the table below. The fair value of the short positions in the equity extension portfolios as of June 30, 2008 was (\$184,872,000) and is shown on the balance sheet in the liabilities section.

Preferred and common stocks at June 30 are summarized as follows:

	Cost	Fair Value	Unrealized Gains/(Losses)
2009			
Domestic	\$ 10,575,022,000	9,921,151,000	(653,871,000)
Non-Domestic	5,910,535,000	5,310,260,000	(600,275,000)
Total Preferred and Common Stock	\$ 16,485,557,000	15,231,411,000	(1,254,146,000)
2008			
Domestic	\$ 11,491,981,000	12,592,007,000	1,100,026,000
Non-Domestic	6,843,720,000	7,343,993,000	500,273,000
Total Preferred and Common Stock	\$ 18,335,701,000	19,936,000,000	1,600,299,000

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, 2009, the Fund's cash holdings and 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):

Foreign Currency	Cash	Public Equity	Debt	Private Equity	Total Foreign Currency Exposure
Australian Dollar	\$ 1,695,000	210,753,000	13,907,000	0	226,355,000
Bermudian Dollar	0	169,000	0	0	169,000
Brazilian Real	(2,964,000)	65,199,000	11,998,000	0	74,233,000
Canadian Dollar	1,777,000	209,083,000	0	0	210,860,000
Chinese Yuan Renminbi	0	367,000	0	0	367,000
Colombian Peso	0	0	7,438,000	0	7,438,000
Czech Koruna	696,000	21,389,000	35,000	0	22,120,000
Danish Krone	274,000	36,776,000	58,595,000	0	95,645,000
Egyptian Pound	0	3,951,000	0	0	3,951,000
Euro Currency	14,317,000	1,395,273,000	712,060,000	85,491,000	2,207,141,000
Hong Kong Dollar	798,000	262,551,000	0	0	263,349,000
Hungarian Forint	0	6,074,000	0	0	6,074,000
Indian Rupee	265,000	47,933,000	0	0	48,198,000
Indonesian Rupiah	7,000	1,522,000	1,244,000	0	2,773,000
Israeli Shekel	0	7,571,000	390,000	0	7,961,000
Japanese Yen	3,750,000	855,535,000	170,233,000	0	1,029,518,000
Malaysian Ringgit	0	3,738,000	0	0	3,738,000
Mexican Peso	6,000	19,641,000	9,227,000	0	28,874,000
New Zealand Dollar	111,000	1,278,000	0	0	1,389,000
Norwegian Krone	342,000	29,050,000	0	0	29,392,000
Philippine Peso	2,000	1,068,000	0	0	1,070,000
Polish Zloty	0	4,934,000	12,568,000	0	17,502,000
Pound Sterling	4,088,000	854,056,000	89,401,000	21,846,000	969,391,000
Romanian Leu	75,000	0	0	0	75,000
Singapore Dollar	282,000	52,675,000	0	0	52,957,000
South African Rand	2,000	40,674,000	0	0	40,676,000
South Korean Won	(66,000)	72,593,000	1,331,000	0	73,858,000
Swedish Krona	515,000	70,469,000	30,087,000	0	101,071,000
Swiss Franc	300,000	321,507,000	0	0	321,807,000
Taiwan Dollar	2,575,000	80,762,000	0	0	83,337,000
Thai Baht	167,000	14,029,000	855,000	0	15,051,000
Turkish Lira	57,000	30,423,000	19,357,000	0	49,837,000
Uruguayo Peso	0	0	1,761,000	0	1,761,000
Ukrainian Hryvna	3,000	450,000	0	0	453,000
Total Foreign Currency Exposure	\$ 29,074,000	4,721,493,000	1,140,487,000	107,337,000	5,998,391,000

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

10. REAL ESTATE

The APFC invests Fund assets in various forms of real estate, generally directly owned real estate interests, real estate title-holding entities, real estate investment trusts, real estate operating companies or other entities whose assets consist primarily of real property. The APFC invests Fund assets in direct real estate through its ownership of interests in corporations, limited liability companies, and partnerships that own title to the real estate. External real estate management firms administer the Fund's directly owned real estate investments.

Real estate investments are recorded in the financial statements at fair value. The fair value of real estate at June 30, 2009 and 2008 was \$3,364,047,000 and \$4,167,018,000, respectively.

Real estate investments at June 30 are summarized as follows:

	Cost	Fair Value	Unrealized Gains/(Losses)
2009			
Real Estate Investment Trusts	\$ 208,615,000	156,165,000	(52,450,000)
Alaska Residential Mortgage	36,000	36,000	0
Directly Owned Real Estate -			
Retail	631,842,000	1,027,055,000	395,213,000
Office	1,009,420,000	942,494,000	(66,926,000)
Industrial	243,032,000	237,229,000	(5,803,000)
Multifamily	1,027,634,000	1,001,068,000	(26,566,000)
Total Real Estate	\$ 3,120,579,000	3,364,047,000	243,468,000
2008			
Real Estate Investment Trusts	\$ 673,840,000	666,659,000	(7,181,000)
Alaska Residential Mortgage	41,000	41,000	0
Directly Owned Real Estate -			
Retail	617,828,000	992,507,000	374,679,000
Office	995,931,000	1,111,132,000	115,201,000
Industrial	225,529,000	277,813,000	52,284,000
Multifamily	1,001,210,000	1,112,007,000	110,797,000
Developmental	6,859,000	6,859,000	0
Total Real Estate	\$ 3,521,238,000	4,167,018,000	645,780,000

11. ALTERNATIVE INVESTMENTS

Alternative investments include absolute return strategies, distressed debt, private equity and infrastructure.

Absolute return strategies are investments in specialized funds with low market correlation. The Fund's absolute return strategies are managed through five distinct portfolios, each of which has the Fund as the only limited partner and investor ("fund-of-one"). External investment management services are provided by each fund-of-one general partner. Absolute return strategies invest in a diversified portfolio of underlying limited partnership interests or similar limited liability entities. The Fund obtains fair value estimates for its partnership interests from each fund-of-one general partner, which are subject to annual independent audits. Many absolute return investments do not have readily ascertainable fair values and may be subject to withdrawal restrictions and/or additional expenses upon early withdrawal of invested funds.

Distressed debt investments are held through a limited partnership, which invests in distressed debt type commingled limited liability funds. These investments are funded over time, as opportunities arise.

Private equity investments involve the purchase of limited partnership interests which typically invest in unlisted, illiquid common and preferred stock and, to a lesser degree, subordinated and senior debt of companies that are in most instances privately held. The APFC has hired external advisors to select limited partnership interests which are diversified by geography and strategy. This investment type is characteristically funded slowly over time as opportunities are identified by the external advisors and underlying general partners. General partners provide the Fund with fair value estimates of private equity investments utilizing the most current information available. Fair value estimates are further reviewed by the external advisor and are subject to annual audits.

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 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 makes commingled infrastructure investments through limited partnership agreements. Infrastructure investment managers provide periodic fair value estimates, which are subject to annual independent audits.

Alternative investments at June 30 are summarized as follows:

	Cost	Fair Value	Unrealized Gains/(Losses)
2009			
Absolute Return Strategy	\$ 1,817,452,000	1,787,231,000	(30,221,000)
Private Equity	865,246,000	705,097,000	(160,149,000)
Infrastructure	379,596,000	373,078,000	(6,518,000)
Distressed Debt	350,146,000	278,648,000	(71,498,000)
Total Alternative Investments	\$ 3,412,440,000	3,144,054,000	(268,386,000)
2008			
Absolute Return Strategy	\$ 1,932,780,000	2,165,153,000	232,373,000
Private Equity	666,464,000	708,997,000	42,533,000
Infrastructure	212,866,000	213,841,000	975,000
Distressed Debt	276,330,000	272,908,000	(3,422,000)
Total Alternative Investments	\$ 3,088,440,000	3,360,899,000	272,459,000

As of June 30, 2009, the APFC, on behalf of the Fund, had outstanding private equity, infrastructure and distressed debt investment commitments of approximately \$1.2 billion, \$437 million and \$140 million, respectively.

12. ALASKA CERTIFICATES OF DEPOSIT

The APFC is authorized by State regulations and Trustee resolution 09-04, to invest Fund assets in certificates of deposit or the equivalent instruments of banks, savings and loan associations, mutual savings banks and credit unions doing business in Alaska. Collateral securing these investments is either letters of credit from the Federal Home Loan Bank or pooled mortgage securities issued by U.S. government sponsored agencies.

13. SECURITIES LENDING

Under State regulation 15 AAC 137.510, the APFC is authorized to enter into securities lending transactions on behalf of the Fund. The APFC, through an agreement with the Bank of New York Mellon (the Bank), lends marketable debt and equity securities. These loans are fully collateralized with cash or U.S. government guaranteed marketable securities at not less than one hundred two percent (102 percent) of the fair value of the loaned securities for domestic securities and one hundred five percent (105 percent) of the fair value for non-domestic loaned securities. The APFC is able to sell any securities out on loan. Upon borrower default, the Bank may hold cash collateral or sell non-cash collateral. The APFC is protected from credit risk associated with the lending transactions through indemnification by the Bank against any loss resulting from counterparty failure, loss resulting from the reinvestment of collateral, default on collateral investments, or failure to return loaned securities.

Cash collateral received for securities on loan, which is required to be reported on the balance sheet of the Fund, is invested by the Bank in the name of the Fund. As of June 30, 2009, such investments were in overnight repurchase agreements, and 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 and related collateral is as follows:

	2009	2008
Fair Value of Securities on Loan	\$ 2,004,201,000	2,209,076,000
Cash Collateral	\$ 2,084,425,000	2,282,400,000

14. ACCOUNTS PAYABLE

Accounts payable include trades entered into on or before June 30 that will 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:

	2009	2008
Accrued Liabilities	\$ 14,640,000	19,979,000
Futures Payable	0	19,845,000
Securities Purchased	1,561,277,000	959,059,000
Foreign Currency Trades Payable	561,000	0
Total Accounts Payable	\$ 1,576,478,000	998,883,000

15. INCOME DISTRIBUTABLE TO THE STATE OF ALASKA

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

	2009	2008
Dividends	\$ 813,541,000	1,254,861,000
Appropriation to the Departments of -		
Health and Social Services	13,585,000	13,585,000
Revenue	7,540,000	7,910,000
Corrections	10,897,000	9,126,000
Public Safety	8,258,000	5,568,000
Administration	2,056,000	1,569,000
Legislature	767,000	588,000
Total to Dividend Fund	856,644,000	1,293,207,000
Alaska Capital Income Fund	0	32,963,000
Total Income Distributable	\$ 856,644,000	1,326,170,000

16. RESERVED AND UNRESERVED FUND BALANCES

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

	2009	2008
RESERVED		
Balance, Beginning of Year	\$ 31,213,233,000	33,446,758,000
Dedicated State Revenues	651,435,000	844,312,000
Inflation Proofing Transfer from Realized Earnings Account	1,144,334,000	807,724,000
Change in Unrealized Fair Value Depreciation on Invested Assets	(3,512,917,000)	(3,885,561,000)
Balance, End of Year	\$ 29,496,085,000	31,213,233,000
UNRESERVED		
Balance, Beginning of Year	\$ 5,320,658,000	4,941,209,000
Inflation Proofing Transfer to Reserved Fund Balance	(1,144,334,000)	(807,724,000)
Settlement Earnings Payable to the Alaska Capital Income Fund	0	(32,963,000)
Dividends Paid or Payable to the Permanent Fund Dividend Fund	(874,844,000)	(1,293,207,000)
Realized Earnings, Net of Operating Expenditures	(2,508,986,000)	2,971,047,000
Change in Unrealized Fair Value Depreciation on Invested Assets	(372,510,000)	(457,704,000)
Balance, End of Year	\$ 419,984,000	5,320,658,000
TOTAL		
Balance, Beginning of Year	\$ 36,553,891,000	38,387,967,000
Dedicated State Revenues	651,435,000	844,312,000
Settlement Earnings Payable to the Alaska Capital Income Fund	0	(32,963,000)
Dividends Paid or Payable to the Permanent Fund Dividend Fund	(874,844,000)	(1,293,207,000)
Deficiency of Investment Revenues Under Expenditures	(6,394,413,000)	(1,372,218,000)
Balance, End of Year	\$ 29,916,069,000	36,533,891,000

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

	2009	2008
Dedicated State Revenues	\$ 11,188,796,000	10,537,361,000
Special Appropriations	6,885,906,000	6,885,906,000
Inflation Proofing	12,717,086,000	11,572,752,000
Settlement Earnings	152,911,000	152,911,000
Total Contributions and Appropriations	\$ 30,944,699,000	29,148,930,000

On June 16, 2009 the APFC received a State of Alaska Attorney General's Opinion clarifying the accounting treatment of unrealized gains and losses. Based on the opinion, reserved fund balances (principal) and unreserved fund balances (realized earnings) should be allocated proportionate values of the unrealized appreciation or depreciation of invested assets. As of June 30, 2009, the net unrealized losses of the Fund were (\$1,469,240,000), of which (\$1,448,614,000) was allocated to the reserved fund balance (principal) and (\$20,626,000) was allocated to the unreserved fund balance (realized earnings).

The fiscal year ending June 30, 2009, was the first year in the history of the Fund in which realized losses exceeded realized gains. The total net realized loss of the Fund in fiscal year 2009 was \$2,508,986,000, of which \$2,475,643,000 has been included in the unreserved fund balances by reducing the beginning of year account balance, subject to approval by the governor and legislature. The remaining \$33,343,000 loss has been included in the unreserved fund balances in a separate sub-account attributable to the North Slope royalty case settlement principal (State v. Amerada Hess, et al.), subject to approval by the governor and legislature.

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, which is 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 earnings on settlements are excluded from the dividend calculation. Since 2005 these settlement earnings have been appropriated to the Alaska Capital Income Fund (ACIF). Prior to 2005, statute required such earnings to be appropriated to Fund principal. The Fund realized a loss on settlement principal of \$33,343,000 during 2009 and earnings on settlement principal of \$32,963,000 in 2008. Realized losses in 2009 were recorded in a deficit account in the realized earnings account within the unreserved fund balance. Subject to approval by the governor and legislature, future realized earnings on settlement principal will first be used to offset the fiscal year 2009 deficit sub-account. Amounts in excess of the deficit will be transferred to the ACIF.

17. STATUTORY NET INCOME

By Alaska law, statutory net income is computed in accordance with accounting principles generally accepted in the United States of America (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 (deficiency) of revenues over (under) expenditures and statutory net income differ. Statutory net income is used to compute the amount available for the annual Permanent Fund dividend.

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

	2009	2008
Deficiency of Revenues Under Expenditures	\$ (6,394,413,000)	(1,372,218,000)
Unrealized Losses	3,885,427,000	4,343,265,000
Settlement (Earnings) / Losses	33,343,000	(32,963,000)
Statutory Net Income	\$ (2,475,643,000)	2,938,084,000

18. INVESTMENT INCOME BY SOURCE

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

	2009	2008
INTEREST		
Domestic Marketable Debt Securities	\$ 383,405,000	458,049,000
Non-Domestic Marketable Debt Securities	40,134,000	47,747,000
Alaska Certificates of Deposit	3,128,000	7,327,000
Short-Term Domestic and other	7,945,000	37,797,000
Distressed Debt, Net of Fees	(2,916,000)	(1,421,000)
Total Interest	\$ 431,696,000	549,499,000
DIVIDENDS		
Domestic Stocks	\$ 163,913,000	174,329,000
Non-Domestic Stocks	220,557,000	283,339,000
Total Dividends	\$ 384,470,000	457,668,000
REAL ESTATE AND OTHER INCOME		
Directly Owned Real Estate Interest	\$ 2,000	402,000
Directly Owned Real Estate, Net Rental Income	161,603,000	163,162,000
Real Estate Investment Trust Dividends	17,591,000	33,485,000
Absolute Return Management Expenses, Net of Dividend and Interest Income	(20,440,000)	(19,367,000)
Infrastructure Fees, Net of Dividends and Interest	(25,151,000)	(15,441,000)
Private Equity Management Expenses, Net of Dividend Income	(5,840,000)	(4,168,000)
Class Action Litigation Income	4,518,000	17,244,000
Loaned Securities, Commission Recapture and other Income	12,635,000	19,826,000
Total Real Estate and other Income	\$ 144,918,000	195,143,000

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

Certain asset managers for the APFC enter into foreign currency forward exchange contracts (FX forward contracts) to buy and sell, on behalf of the Fund, specified amounts of foreign currencies at specified rates and specified future dates for the purpose of managing or optimizing foreign currency exposure. The maturity periods for outstanding contracts at June 30, 2009 ranged between 8 and 140 days.

The counterparties to the FX forward contracts consisted of a diversified group of financial institutions. The Fund is exposed to credit risk to the extent of non-performance by these counterparties. The Fund's market risk as of June 30, 2009 is limited to the difference between contractual rates and forward market rates determined at the end of the fiscal year.

Activity and balances related to FX forward contracts for fiscal year 2009 and 2008 are summarized as follows:

	2009	2008
BALANCES AT JUNE 30		
Face Value of FX Forward Contracts	\$ 2,295,286,000	3,469,659,000
Net FX Forward Contracts Receivable (Payable)	409,000	(10,758,000)
Fair Value of FX Forward Contracts	\$ 2,295,695,000	3,458,901,000
ACTIVITY FOR FISCAL YEARS ENDING JUNE 30		
Unrealized Gains (Losses)	\$ 11,411,000	(13,687,000)
Realized Losses	(990,000)	(67,924,000)
Net Increase (Decrease) in Fair Value of FX Forward Contracts	\$ 10,421,000	(81,611,000)

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

Activity and balances related to equity index futures for fiscal year 2009 and 2008 is summarized as follows:

	2009	2008
BALANCES AT JUNE 30		
Face Value of Equity Index Futures	\$ 90,285,000	80,773,000
Net Unrealized Loss on Futures	(1,181,000)	(4,362,000)
Fair Value of Equity Index Futures	\$ 89,104,000	76,411,000
ACTIVITY FOR FISCAL YEARS ENDING JUNE 30		
Unrealized Gains (Losses)	\$ 3,202,000	(5,562,000)
Realized Losses	(11,369,000)	(7,935,000)
Net Decrease in Fair Value of Futures	\$ 8,167,000	(13,497,000)

20. EXPENDITURES

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

	2009	2008
APFC OPERATING EXPENDITURES		
Salaries and Benefits	\$ 4,900,000	4,558,000
Communications	1,394,000	1,412,000
Other Expenses	461,000	575,000
Consulting Fees	415,000	843,000
Rent	358,000	364,000
Legal and Audit Fees	230,000	361,000
Travel	221,000	229,000
Property and Equipment	159,000	124,000
Public Information and Subscriptions	136,000	170,000
Subtotal APFC Operating Expenditures	8,274,000	8,636,000
INVESTMENT MANAGEMENT AND CUSTODY FEES		
Investment Management Fees	51,451,000	68,285,000
Custody and Safekeeping Fees	1,489,000	1,493,000
Subtotal Investment Management and Custody Fees	52,940,000	69,778,000
Total Operating Expenditures, Investment Management and Custody Fees	61,214,000	78,414,000
OTHER LEGISLATIVE APPROPRIATIONS FROM CORPORATE RECEIPTS		
Department of Natural Resources	5,072,000	4,781,000
Department of Law	1,477,000	1,477,000
Department of Revenue	79,000	77,000
Total other Legislative Appropriations	6,628,000	6,335,000
Total Expenditures	\$ 67,842,000	84,749,000

Appropriations from corporate receipts to other State departments are allocated by the Legislature through the budget process and are considered compensation to these departments for work done on behalf of the Fund throughout the year.

21. PENSION PLANS

All full-time, regular employees of the APFC participate in the State of Alaska Public Employees Retirement System (PERS). PERS is a multiple-employer public employee retirement system established and administered by the State to provide pension and postemployment healthcare benefits to eligible retirees. Benefit and contribution provisions are established by state law and may be amended only by the State Legislature.

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

As an integrated cost-sharing plan, the PERS system requires employers to pay a uniform contribution rate of 22 percent for the benefit of PERS members. Total salaries subject to PERS for the years ended June 30, 2009 and 2008 amounted to \$3,504,000 and \$2,997,000, respectively.

The State of Alaska has recognized a net pension obligation (NPO) in the State's Comprehensive Annual Finance Report for the fiscal years ending June 30, 2009 and 2008. The NPO is the difference between the actuarially determined rate and the contributions actually paid into PERS. The Department of Administration has estimated an NPO amount attributable to the Fund, however, it is immaterial to the Fund. As an integrated cost-sharing plan, any unfunded liabilities under the plan will be shared among all employers.

In addition to the pension plan discussed above, all APFC employees and Trustees participate in the Alaska Supplemental Benefits System Supplemental Annuity Plan (SBS-AP). The SBS-AP is a defined contribution multiple-employer plan that was created pursuant to Internal Revenue Code section 401(a), to provide benefits in lieu of those provided by the Federal Social Security System. APFC employees and Trustees contribute 6.13 percent of salaries or honorariums to SBS-AP, up to a specified maximum each year. The APFC contributes a matching 6.13 percent. Participants are eligible to withdraw from SBS-AP 60 days after termination. Total salaries and honorariums for individuals subject to SBS-AP for the years ended June 30, 2009 and 2008 amounted to \$2,912,000 and \$2,734,000, respectively.

22. SUBSEQUENT EVENTS

In connection with the preparation of the financial statements, the APFC evaluated subsequent events after the balance sheet date of June 30, 2009 through Aug. 28, 2009, which was the date the financial statements were available to be issued.

ALASKA PERMANENT FUND CORPORATION DIRECTORY

INVESTMENTS

Jeffrey Scott, *Chief Investment Officer*
Max Giolitti, *Head of Asset Allocation and Risk*
Valeria Martinez, *Investment Associate*
Lindsey Perkins, *Intern*

Fixed Income

Jim Parise, *Manager of Fixed Income Investments*
Josh Burger, *Investment Officer*
Chris Cummins, *Investment Officer*

Equity Investments

Maria Tsu, *Manager of Equity Strategies and Infrastructure*
Jiangning (Jen) Ma, *Investment Analyst*

Real Estate

Rosemarie Duran, *Manager of Real Estate Investments*
Christi Grussendorf, *Investment Officer*
Clay Cummins, *Investment Analyst*

FINANCE AND HUMAN RESOURCES

Julie Hamilton, *Director of Finance*

Finance

Kevin Buckland, *Controller*
Karen Emberton, *Senior Accountant*
Ruth Danner, *Senior Accountant*
Marilyn San Miguel, *Accountant*
Chris LaVallee, *Accountant*
Patricia Hendry, *Accountant*
Lori Van Steenwyk, *Accountant*
Alejandra Rico, *Intern*

Human Resources

Joan Cahill, *Human Resources Officer*
Shawn Lew, *Administrative Assistant*

ADMINISTRATION AND IT

Marshal Kendziorek, *Director of Administration and IT*

Administration

Kathy Thatcher, *Administrative Officer*
Moctar Diouf, *Procurement Specialist*
Kaitlin Kreuzenstein, *Administrative Assistant*

Information Technology

Robert McKnight, *Senior Information Technology Specialist*
Andrew Loney, *Information Technology Specialist*
Charlie Cardwell, *Information Technology Specialist*
Ellery Barron, *Intern*

BOARD OF TRUSTEES

Steve Frank
Chair
Bill Moran
Vice Chair
Nancy Blunck
Trustee
Carl Brady
Trustee
Patrick Galvin
Trustee
Emil Notti
Trustee

EXECUTIVE

Michael J. Burns
Executive Director
Robert Valer
Corporate Counsel
Laura Achee
Director of Communications
Joyce Andrews
Executive Assistant

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

This report was printed at a cost of \$6.64 per copy by PIP Printing.

Annual Report design by
Bradley Reid + Associates, Inc.



ANNUAL REPORT 2009