

# ALASKA PERMANENT FUND CORPORATION

## SECOND QUARTER REPORT, FISCAL 2005

DECEMBER 31, 2004

### Portfolio performance

After a slow first quarter, rallies in the US and international stock markets created strong growth for the Permanent Fund in the second quarter of fiscal year 2005. As seen in the charts below, all of the Fund's asset classes produced positive returns. This is not a usual occurrence—bonds and stocks are often counter cyclical.

The increased rate of growth almost carried the Fund's value to \$30 billion, reaching \$29.984 billion on December 31<sup>st</sup>. In a smaller milestone, the Fund arrived at \$29 billion in November, crossing that threshold for the first time in four years. As a long term investor, we note these are simply high water marks, and the Fund can drop in value if the markets take a downward turn.

Uncertainty over a major event, such as a presidential election, can limit investors' enthusiasm. Once the uncertainty is

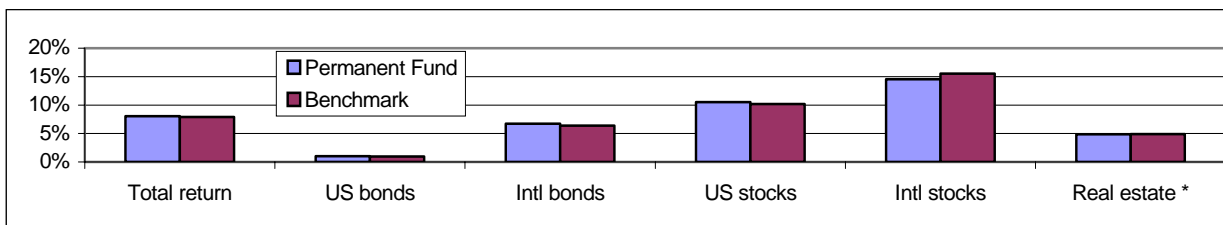
resolved, market performance can improve. The conclusion of the US Presidential election may have created a "relief rally" in early November, kicking off the upward trend that lasted through December. The persistence of the rally has been attributed to a number of possible causes, including the continued advance in globalization, high corporate profitability and the unexpectedly slow rise of interest rates.

### High oil prices have little effect

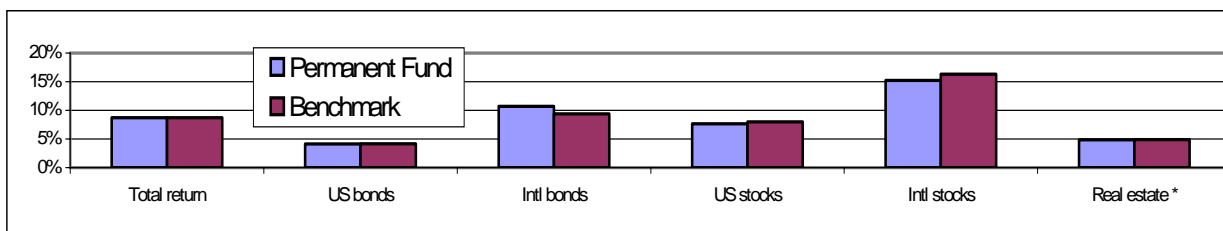
Although oil prices were high for most of October, this had little effect on the Fund, and may have contributed to the low investment returns at the start of the quarter. High oil prices can dampen stock market returns, and more than half of the Fund is invested in stocks. While higher oil prices do lead to an increase in the 25 percent of state oil royalties that the Fund receives, it is a small increase (tens of

*(Continued on page 2)*

### Second quarter performance by asset class



### Year to date performance by asset class



\* Real estate returns as of September 30, 2004.

# APFC Financial summary

	FY04 June 30, 2004	FY05 Second qtr Oct—Dec	FY05 year to date (Dec. 31, 2004)
<b>Fund value</b>	27.40 billion	n/a	29.98 billion
<b>Rate of return</b>	14.20%	<b>8.05%</b>	8.70%
<b>Statutory net income</b>	1.5 billion	<b>485 million</b>	802 million
<b>Unrealized gains (losses)</b>	1.9 billion	<b>1.74 billion*</b>	1.57 billion*
<b>Dedicated state revenues</b>	353 million	<b>125 million</b>	211 million

\* The Fund experienced net unrealized losses in the first quarter of the fiscal year.

*(Continued from page 1)*

millions) compared to the Fund's overall value of almost \$30 billion.

### What about the dividend?

It is important to note that a large increase in Fund value does not immediately translate into a larger dividend. The current dividend calculation is based on the statutory realized income of the Fund, while most of the growth this quarter came in the form of unrealized gains in the stock portfolios. Also, the formula uses an average of the realized income over five years, including fiscal years 2002 and 2003 when realized income was low during the bear market. At this time, the APFC estimates that the Fall 2005 dividend will be in the same range as the 2004 checks.

### Questions or comments? Contact:

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### WWW.APFC.ORG

Visit the APFC web site for a comprehensive look at the Fund's financial and performance information.

