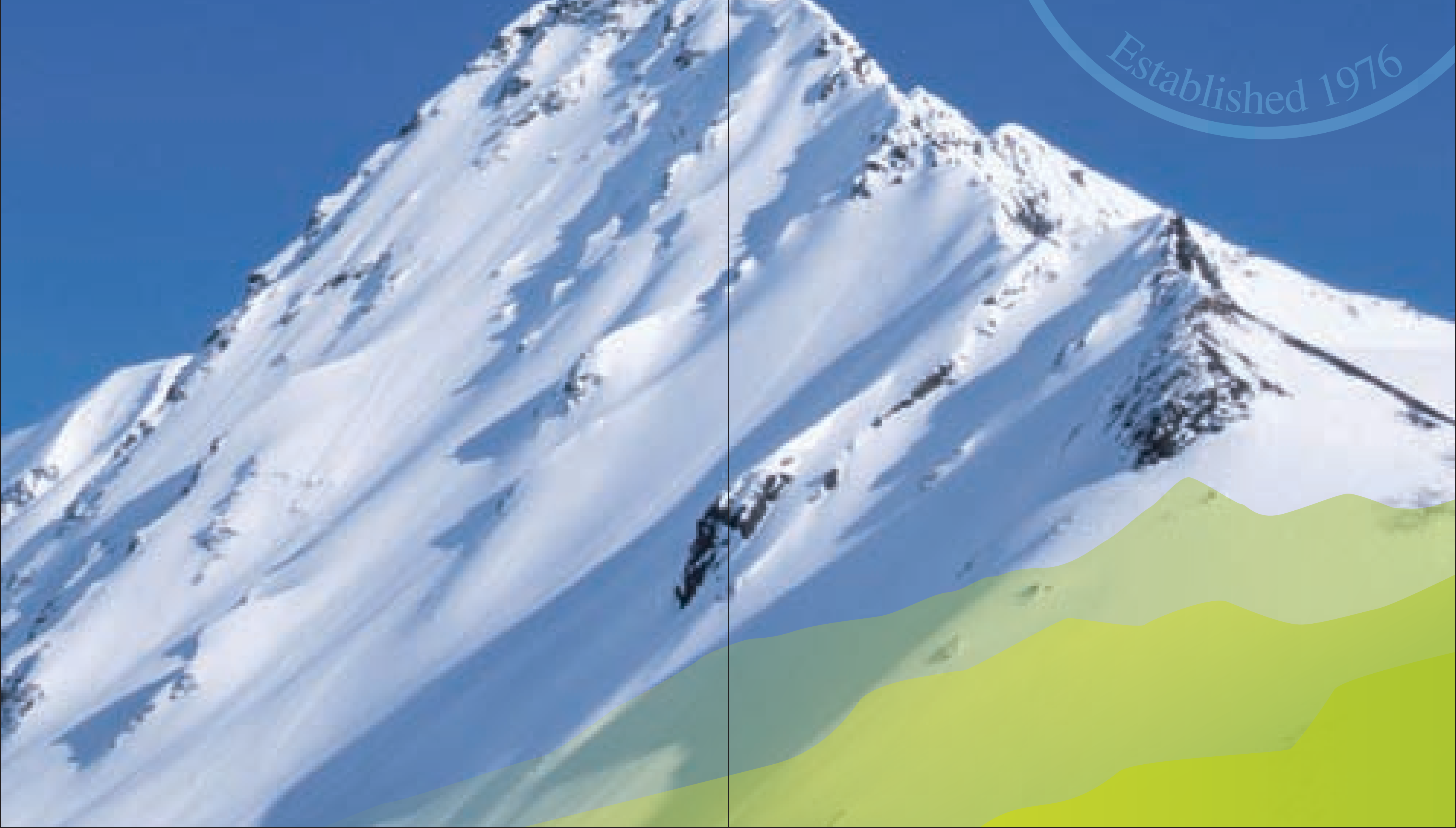
APFC Mission

- Maximize the value of Alaska's oil revenues through prudent long-term investment and protection of principal to produce income to benefit all current and future generations of Alaskans.

An Alaskan's Guide to the Permanent Fund



Quick Start Guide

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Letter from the Chair

On behalf of my fellow Trustees, I am pleased to present the 12th edition of An Alaskan's Guide to the Permanent Fund. The Guide is designed to provide the reader with a basic understanding of the Permanent Fund, its history, how it is managed and invested and how the dividend payment is determined each year. This publication is part of a broader effort on the part of the Board of Trustees to ensure that Alaskans have the information to keep abreast of the Fund's performance and financial status.

As I write this, there have been 50 Trustees to date who have served on the Alaska Permanent Fund Corporation's Board, a few of whom have served on the Board more than once. A lot has changed in the investment world over the tenure of these Trustees. What hasn't changed is that all of the Trustees, from the first six to our present Board, have approached this service with the understanding that an incredible amount of responsibility is on our shoulders. We strive to make the best decisions we can for the Fund to ensure its health for all generations of Alaskans. And we are dedicated to making information about the Fund clear and easy to access. I know that future Trustees will feel this same commitment as well.

I encourage you to check in on what is happening at the APFC. After you read this Guide, visit our Web site to get the most current financial and performance information. Use the online form to e-mail us your questions. Attend one of our Board meetings in Juneau, Anchorage or Fairbanks. The Permanent Fund is a resource that benefits all Alaskans, and we hope that you will take the opportunity to learn more about it.

Sincerely,

Steve Frank
Chair

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Chapter 1

How the Permanent Fund Began

A Brief History of the Fund's Creation

A good time to begin a history of the Permanent Fund is 1969. That was the year the state auctioned off the drilling rights on 164 tracts of state-owned land at Prudhoe Bay. Everyone knew there was a tremendous amount of oil on the North Slope, and the rights to drill for that oil would go to those oil companies making the highest bids. This famous Prudhoe Bay bonus lease sale netted Alaska **$900 million in lease bonuses**.

This lease sale not only provided the state with an immediate $900 million, it also put the state into the oil exploration and development business for the long term, with the winning oil companies as its partners. The state owned the land, and the oil companies had the resources and the technology to get the oil out of the ground. It was the beginning of an extremely profitable partnership.

This sudden nine-fold increase in state revenues kicked off quite a debate among Alaskans about what to do with all this newfound wealth.

For the state, the first question was, "Should the $900 million be spent or saved?" It was a huge windfall for a government that had just passed a budget for the previous year of only $112 million. This sudden nine-fold increase in state revenues kicked off quite a debate among Alaskans about what to do with all this newfound wealth.

▶ The State of Alaska auctions Prudhoe Bay oil leases in 1969

The consensus was that the $900 million should be spent — to provide for basic community needs such as water, sewer, roads, schools, airports, etc., and to help meet the pressing human needs of health, education and social services.

The student loan program and the now-defunct longevity bonus were two benefits started with a portion of that $900 million. However, it wasn't long before the spending consensus was forgotten and a statewide, negative reaction to the "wasting of the $900 million" began to develop.

The money hadn't been wasted, but Alaska is such a large area with so many needs that it was difficult for some citizens to appreciate where the money had gone. As a new state, Alaska lagged the rest of the nation in providing basic infrastructure for its citizens, and even $900 million was not enough to catch up. Fortunately, more money was on the way. Prudhoe Bay was proving to be the largest oil field in North America, and to bring that oil to market, work was starting on the world's largest privately-financed construction project — the trans-Alaska oil pipeline.

As a result, by the mid-1970s, Alaska was once again riding high on the roller coaster cycle of boom and bust, and pipeline construction was the biggest boom yet. Nonetheless, there were Alaskans with a sense of history who remembered the previous windfall (the $900 million) and how that had produced only temporary relief. These people began wondering how the state could get permanent benefits from its great oil bonanza.

Alaska has always had many natural resources, but in the past, development of these resources seemed more profitable to people who lived elsewhere. **For example, in the 1880s, the Russians profited handsomely from the sale of Alaska furs in Europe and Russia. At the turn of the century, outsiders poured into the state to make their fortunes in Alaska gold**. Later, Alaska seafood, copper, timber and eventually oil were offered for resource exploitation, and the benefits flowed primarily to outsiders.

Consequently, in 1955-56, when the delegates to Alaska's constitutional convention met in Fairbanks to write what would become the new state constitution, they wanted to make sure that Alaskans primarily benefited from the development of Alaska's natural resources.

To accomplish this, they added the following provision to the Alaska Constitution:

- **Article VIII. Section 2. General Authority.** – "The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people (emphasis added)."

The philosophy in this constitutional provision helps explain some of the thought that went into the creation of the Permanent Fund. Because the Permanent Fund was created as a consequence of the development of one of the state's greatest natural resources — oil — this constitutional provision provides the basis for using the income of the Fund for the maximum benefit of its people.

As construction of the trans-Alaska oil pipeline neared completion, Alaskans became increasingly convinced that it would be wise to take at least a portion of the future oil wealth and save it rather than spend it. Through the political process, this popular idea was turned into a ballot proposition, which was placed before the voters in the 1976 General Election. The constitutional amendment read as follows:

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

▶ Gov. Jay Hammond signs the bill creating the Alaska Permanent Fund Corporation in 1980

Supporters of this proposed constitutional amendment offered three basic arguments:

- The Fund would help to create an investment base from which to generate future income. Then, when oil revenues ran out, there would still be a major source of state revenues to pay the costs of basic government services.
- The Fund would remove a significant portion of the oil revenues from the legislative spending stream, thus reducing the opportunities for excessive spending by the Legislature.
- The Fund would prudently take some of the non-renewable oil wealth and transform it into a renewable source of wealth for future generations of Alaskans.

> The unique appeal of these three arguments helped secure the needed plurality. By a margin of 75,588 to 38,518, voters said "yes" to amending the Alaska Constitution and creating the Alaska Permanent Fund. On Feb. 28, 1977, the Fund received its first deposit of dedicated oil revenues.

The Concept of Dedicated Funds

It is worth noting why the Permanent Fund was established by public approval of a constitutional amendment rather than by simple enactment of legislation. It has to do with the concept of dedicated funds.

▶ Bill Egan, Chair of the Alaska Constitutional Convention, signs the new Alaska Constitution in 1956

The authors of the state constitution specifically prohibited the dedication of state revenues. They believed it was important that no portion of money received by the state be automatically assigned, on a continuous basis, for any special spending purpose; all revenues were to flow directly into the General Fund, the state's all-purpose spending account.

The dedicated funds prohibition was intended to ensure that the people's elected representatives would have the right and the ability, each year, to make their own decisions about how best, at that time, to spend state revenues. The people, by popular vote, created a specific exception to this prohibition against dedicated funds when they created the Permanent Fund. The principal of the Fund is a dedicated fund set aside specifically for the purpose of investing.

That exception to the prohibition of dedicated funds, however, does not apply to the income of the Permanent Fund. In fact, the constitutional amendment creating the Permanent Fund, specifically states:

> "**Income of the Permanent Fund** shall be deposited in the General Fund unless otherwise provided by law."

The Fund's Early Years

When the voters of Alaska established the Alaska Permanent Fund in 1976, they created an entity unlike any other in the world and embarked on an adventure in innovative but untested public policy.

With a long history of boom-and-bust cycles, Alaska had never had a great deal of economic stability. The Permanent Fund offered a hope for that stability, but it remained for lawmakers to create the investment structure that would accomplish it. For the next four years, from 1976 to 1980, Alaskans studied and debated the basic question: Should the Permanent Fund be managed as an investment fund for the future, with its income distributed and measured over the long term, or should it be managed as a development bank and used to force-feed Alaska's economy in the short term?

Those arguing in favor of the development bank concept believed that the Fund should be managed to help new and existing businesses in Alaska. This approach would broaden the economy, increase the number of jobs and make Alaska less dependent on oil revenues in the future by developing other sources of income for the state. This was to be accomplished through investing the Fund in business loans or grants within Alaska.

Others thought the Fund should be considered an investment fund and that the paramount concern should be protection of the principal. They maintained that the prudent investor rule should be adhered to and all investments should be of trust-grade quality and at market rates.

Finally, in 1980, our elected representatives accepted the investment fund concept and a critically important threshold was passed.

The Permanent Fund would be managed independently from the state treasury to separate the saving from the spending function. Investments in Alaska would only be made when the risk level and the expected return

▶ Alaska Permanent Fund Corporation office in Juneau

were comparable to other available investment opportunities, but Fund earnings would be available for use by the Legislature.

As for economic development, the Legislature decided to promote that through creation or expansion of different state agencies, designed to leverage a part of the oil money not deposited in the Permanent Fund, with additional capital from outside the state.

> Should the Permanent Fund be managed as a savings trust for the future, with its income to be distributed and measured over the long term, or should it be managed as a development bank and used to force-feed Alaska's economy in the short term?

Thus, without using any of the Permanent Fund, the Alaska Housing Finance Corporation, the Alaska Industrial Development and Export Authority and the now-defunct Alaska Renewable Resources Corporation were established, and billions of dollars in loans were available to Alaskan homeowners and businesses.

Timeline

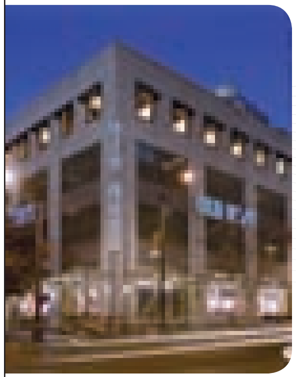
A History of Alaska's Permanent Fund (1969-2009)

1969 The Prudhoe Bay oil lease sale brings in $900 million in revenues, a significant windfall for Alaska. Some suggest saving some or all of the $900 million, however it is spent during the next few years on capital projects and programs such as the Alaska Student Loan program and the Alaska Longevity Bonus.

1976 In the Nov. 2 General Election, Alaska voters approve a constitutional amendment establishing the Permanent Fund by a margin of 75,588 to 38,518.

1977 On Feb. 28, the Permanent Fund receives its first deposit of dedicated oil revenues totaling $734,000. At first, the Fund is invested entirely in bonds. The Legislature begins four years of public discussions regarding whether the Permanent Fund should be managed as an investment fund or as an economic development bank.

1980 The Alaska Legislature creates the Alaska Permanent Fund Corporation to manage the investments of the Permanent Fund and places a list of allowed investments into state law. About $900 million in surplus oil revenues is deposited in the Permanent Fund by special appropriation.



The Legislature also approves the first Permanent Fund Dividend program. The program was ruled unconstitutional by the U.S. Supreme Court because individual dividend payments varied based on length of residency.

1982 The Alaska Legislature, at the request of the Board of Trustees, enacts inflation proofing to protect the Fund's purchasing power. The first Permanent Fund dividend check of $1,000 is distributed. The Legislature pays this first dividend, not with Permanent Fund income, but with surplus oil revenues.

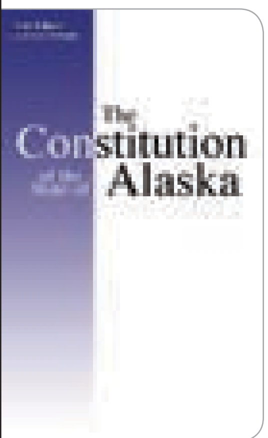
1983 Following changes to the statutory investment list, the Permanent Fund makes its first investment in the stock market and, later that year, in directly held real estate.

1987 Despite the stock market crash in October 1987, the Permanent Fund's performance ranks in the top 9 percent of all public funds in the United States. Total annual output of oil in the trans-Alaska oil pipeline peaks at 2 million barrels per day.

1989 Permanent Fund assets reach $10 billion.

1990 After the Legislature expands the statutory investment list, the Permanent Fund begins to invest in stock and bond markets outside the United States.

1993 Permanent Fund assets reach $15 billion.



1998 For the first time, Fund earnings exceed state oil revenues as the Fund reaches the $25 billion mark.

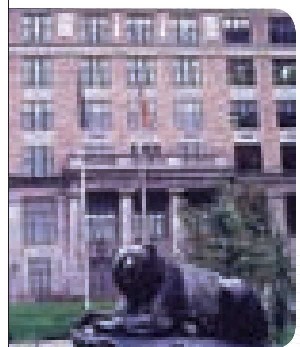
1999 The Legislature increases the Fund's investment flexibility to allow up to 5 percent of the Fund's value to be invested in alternative investments.

2000 Trustees remain committed to a long-term, diverse investment strategy as the stock market begins a sharp decline that will last for three years. Trustees further diversify the Fund's investment portfolio and increase the stock allocation to 53 percent.

2001 After careful study and discussion, the Board of Trustees formally endorses a constitutional amendment to change Permanent Fund payouts to a percent of the Fund's total value (POMV). The first of a series of resolutions that would place this proposed change on a general election ballot are introduced in the Legislature at the Board's request.

2002 The bear market that began in 2000 leads to the Fund's first negative return in 2002. These market conditions carry through 2003.

2004 The Permanent Fund invests in two new asset classes: absolute return strategy funds and private equity. The Legislature changes state law to require cause before any of the four public members of the Board of Trustees may be removed, helping insulate the Board members from political pressure.



2005 The Legislature makes a significant change in how Permanent Fund investments are determined by removing the allowed investment list from state law. From now on, Trustees make investment decisions solely under the guidelines of the prudent investor rule. Fund assets reach $30 billion.

2006 The Fund reaches $35 billion in value, an increase of $5 billion from the prior year.

2007 The Trustees add a new asset class, infrastructure, to the Fund's investments. Several years of strong returns carry the Permanent Fund's value to $40 billion.

2008 A correction that began late the year before causes markets to drop dramatically, and makes 2008 one of the five worst years in the 218-year history of the U.S. stock market. Oil prices climb to $140 per barrel, and despite declining production, produce the highest mineral deposits to the Fund's principal to date: $844 million.

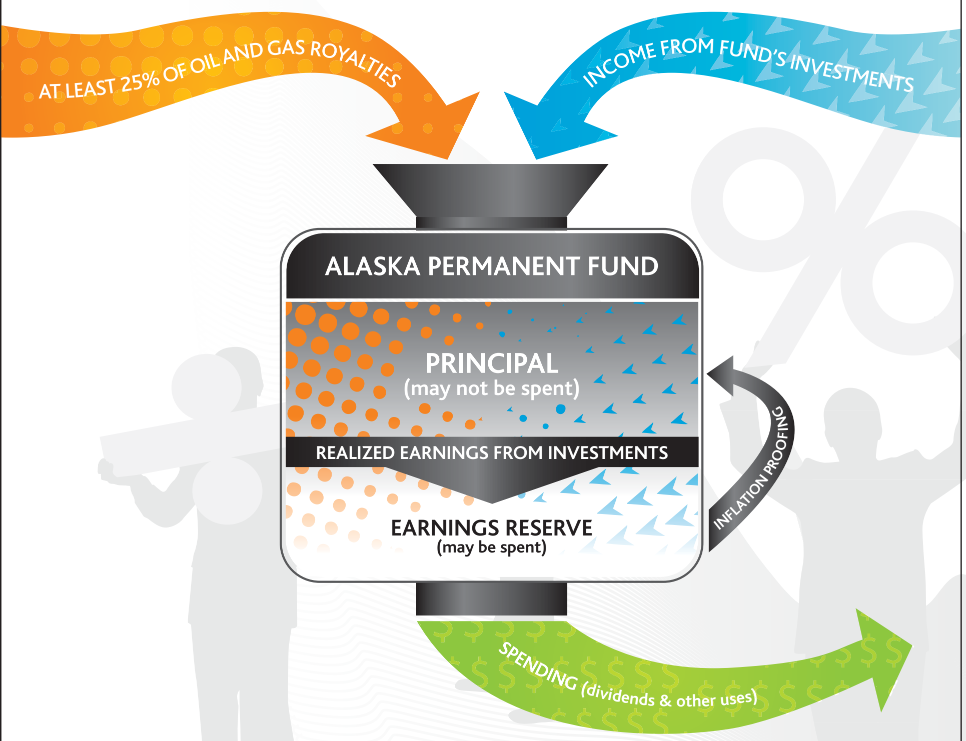
2009 Continued bear market conditions decrease the Fund's value from its $40 billion peak in 2007 to $26 billion shortly after the start of the year; however the Fund turns upward with a spring market rally.

Chapter 2

How the Permanent Fund Works

The Permanent Fund has two parts: principal and income. The principal is the permanent part of the Permanent Fund. It can be invested, but it cannot be spent without a vote of the people.

Income is money received from the investment of the principal and from the reinvestment of undistributed earnings. Income can be spent by the



Legislature or reinvested. In the past, most of the income left over after dividends and inflation proofing was appropriated to the principal. However, in recent years, Alaskans have begun to discuss alternative uses for the undistributed earnings. Some Alaskans say these should be used to support state services and programs. Others say that time has not yet come.

Sources of Permanent Fund Principal

The principal of the Fund comes from four sources:

1. dedicated oil revenues automatically deposited in the Fund in accordance with the state constitution,
2. additional funds deposited by special legislative appropriation,
3. income from the Fund's earnings reserve that the Legislature transfers to principal for inflation proofing
4. and unrealized gains or losses, which are dependent on the market volatility on the value of investments.

How Assets are Invested

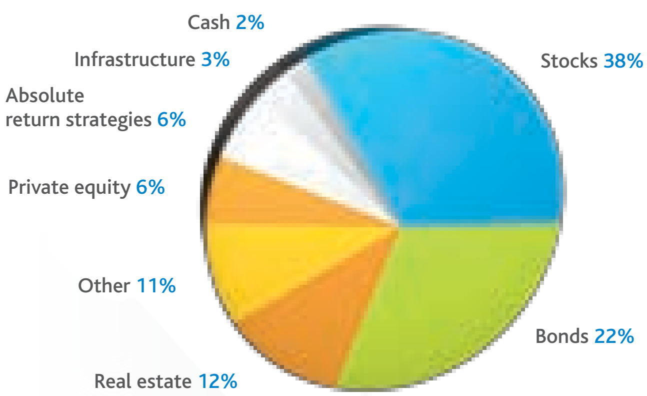
Fund assets are invested to earn income. As all investments carry some degree of risk, the Fund is invested prudently to reduce the risk. The primary emphasis in all investment decisions is to maintain the safety of the principal. Maximizing return on investment is secondary.

The emphasis on safety is reflected in the Fund's investment policies and strategies:

- The Fund can only invest in income-producing investments.
- All investments must conform to the prudent investor rule. This fiduciary standard requires that investment decisions be made with prudence, intelligence and discretion. Central to the prudent investor rule is diversification among many investment types to protect the investor from temporary declines in any one investment class.

ASSET ALLOCATION
by traditional asset classes, 2009

Updated at **apfc.org**



- All investments are made with an eye toward the bottom line — income. No investments are made for political or social reasons.
- The Fund's investment policy ensures broad diversification, competitive rates of return and high-quality investments.

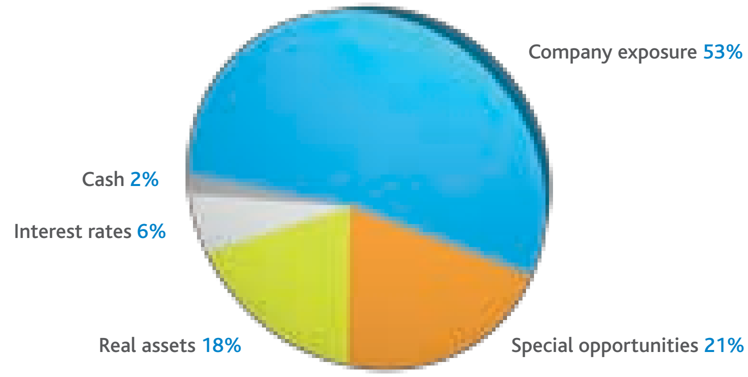
How Investment Decisions are Made

Investment decisions are based on an investment strategy adopted by the Board of Trustees. The strategy is designed to produce an average annual real rate of return of 5 percent over the long term. To achieve the target return, each year the Trustees set a target asset allocation. This asset allocation determines the types and percentages of investments.

Over time the Trustees have gradually guided the Fund from a portfolio entirely in bonds to a portfolio that is diversified across asset types. As new investment opportunities appear, the Trustees evaluate these investments to determine if they will fit within the Fund's risk and return targets.

ASSET ALLOCATION
by economic conditions, 2009

Updated at **apfc.org**



In the past, the target asset allocation was broken down by the traditional asset classes: stocks, bonds, real estate and alternative investments. In 2009, the Trustees recognized that some investments might have more in common with investments from other asset classes with regard to their expected levels of risk and return. For example, at times, corporate bonds act more like stocks than they act like U.S. Treasuries. This makes sense when you consider that the companies that issue these corporate bonds are the same companies traded in the stock markets. Grouping corporate bonds alongside stocks allows the Trustees and staff to better evaluate the Fund's exposure to public companies.

While the underlying assets stayed substantially the same, this lead to a new grouping of investments by characteristics, rather than by asset class:

- **Cash** - The cash allocation is designed to let the Fund build up reserves over the course of the year to meet its expected liabilities, primarily the annual dividend payment each July. This group is made up of liquid investments with durations of less than 12 months.

- **Interest rates** - Securities with low credit risk usually perform better than other investments in times of deflation or market crises. This group includes U.S. Treasury bonds and non-U.S. government bonds.
- **Company exposure** - When the economy is performing well, most public and private companies are performing well. Investing in corporations allows the Permanent Fund to benefit in times of growth and prosperity. U.S. and non-U.S. stocks, Corporate investment grade and high yield bonds, bank loans and private equity make up the investments in this group.

Board Investment Philosophy

- Risk Posture: The Board's overriding investment objective for the Fund is to maintain the safety of principal while maximizing total return. Therefore, it will always act to ensure that the level of investment risk in the Fund is prudent and does not jeopardize that primary objective.
- Return: The Board believes that, over the long term, there exists a relationship between the level of investment risk taken and the rate of expected investment return. It believes that the assumption of a moderate level of risk is reasonable and justified to enhance potential long-term returns, understanding that it will produce a wider range of expected returns than more conservative asset mixes. This range of expected returns will narrow as the investment time horizon is lengthened, which fits well with the Fund's role as a long-term investor.
- Diversification: Diversification is the primary technique used by the Board to reduce risk and enhance returns.

- **Real assets** - The value of real assets hedge inflation risk, helping protect the Fund's real value over time. This group includes real estate, infrastructure and TIPS.
- **Special opportunities** - This allocation allows the Permanent Fund to invest in special opportunities and to take advantage of dislocations in the markets. Absolute return, distressed debt, commercial mortgage backed bonds, and other strategies as they arise will be placed in the special opportunities group.

While this new grouping makes it easier for the Trustees to accurately assess the overall risk and return potential for the Permanent Fund, it is still important to understand the underlying asset classes that make up these investments.

Bonds

The Fund's bond portfolio is invested in U.S. and non-U.S. bonds. The non-U.S. bonds that the Fund owns are primarily securities issued by overseas governments. The U.S. portion of the portfolio includes U.S. Treasury bonds, corporate bonds, mortgage and commercial mortgage backed bonds, and asset backed bonds. The APFC manages the majority of the bond portfolio in-house, but also uses external managers to increase the portfolio's diversification and lower risk.

BOND DIVERSIFICATION BY TYPE

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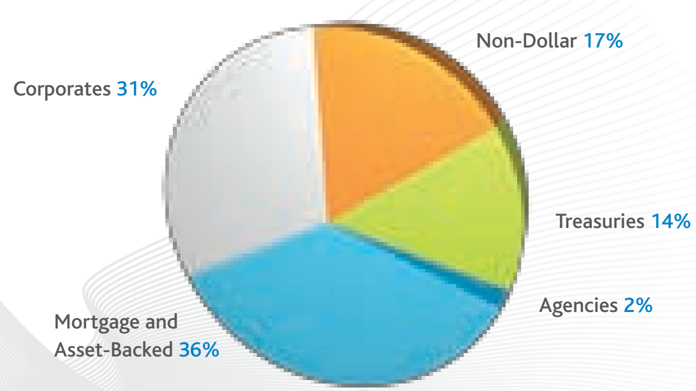

STOCK DIVERSIFICATION BY REGION

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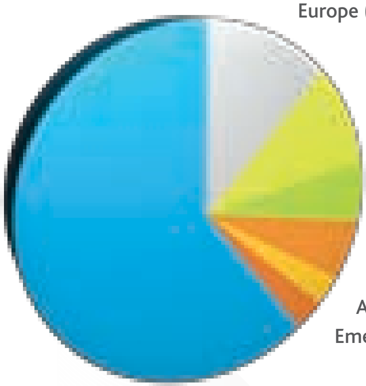

Stocks

Stocks make up a significant portion of the Fund's asset allocation, and on any given day the Fund is invested in more than 3,000 companies around the world. In contrast to bonds, all of the stocks that the Fund owns are managed externally by more than 30 financial management firms. The Trustees work to build a diversified portfolio across a number of criteria, and management firms are selected based on their specialized knowledge in areas such as investment style (growth versus value stocks) or company size (large cap versus small/mid-cap).

While most of the portfolio is actively managed, some of the shares that the Fund holds are passively managed. Active management allows the managers to actively buy and sell stocks based on their expert knowledge and research, while passive management mirrors a market index or sector. Active management generally carries greater risk than passive management, but can offer greater returns.

REAL ESTATE DIVERSIFICATION BY PROPERTY TYPE

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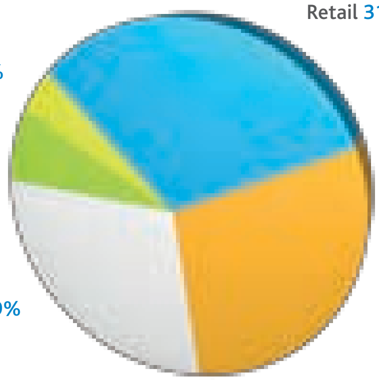
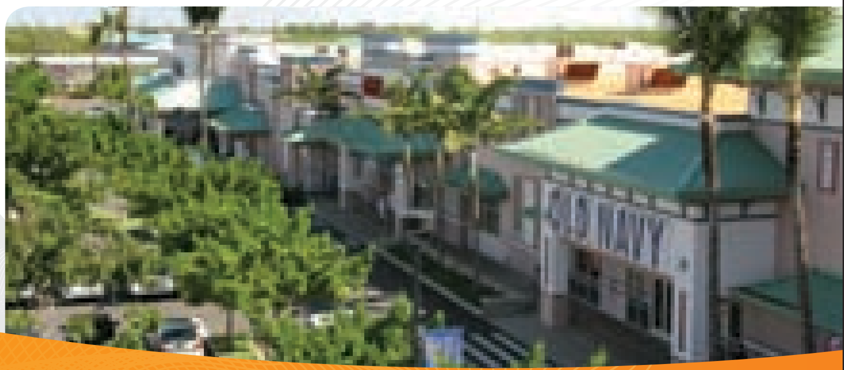


Real Estate

The Fund's real estate investments include both directly held properties, primarily majority or wholly owned, and REITs (real estate investment trusts). While the directly held properties are limited to the U.S., the Fund is able to achieve global diversification through the REITs portfolio. The directly held properties are located in cities and communities around the U.S., and are diversified across a range of property types: office buildings, retail shopping centers, industrial parks and multi-family complexes.

▶ Maui Marketplace, Kahului, Hawaii



Alternative Investments

Some investments don't fall into the traditional asset classes of stocks, bonds or real estate. The benefits of these investments are that they can move in disharmony from traditional asset classes or provide greater returns in exchange for lower liquidity. When added to a portfolio of traditional assets, alternative investments can bring additional diversification to the Fund to help protect its value in changing market conditions.

Private equity investments are made directly in private corporations (corporations that are not publicly traded in the stock and bond markets). These types of investments are not as liquid as publicly traded securities, so as an incentive for investors, they may offer a better rate of return on investments. Investments can take the form of partial ownership of a company or loans made to the company.

General partnerships and venture capital firms make private equity investments on behalf of their investors. Intermediaries, such as Pathway Capital Management, evaluate the performance of these firms and make funding decisions on behalf of the Permanent Fund.

▶ Channelview is an 800 megawatt natural gas-fired cogeneration facility in Texas that provides steam and electric power

▶ London City Airport is the U.K.'s leading business airport with 10 airlines serving 32 destinations across the U.K. and Europe

Absolute return strategies are private investment partnerships that use multiple stock and bond investment strategies to achieve a target return on investments. Many of the strategies involve sophisticated hedging and arbitrage techniques. Absolute return programs use risk control techniques to produce results with low correlation to stocks and bonds and which seek to limit downside risk. Some funds are a collection of other funds and are know as fund-of-funds.

Infrastructure investments are facilities or services that are typically owned and managed by governments, such as toll roads, airports or electric utilities. Large institutional investors in Australia, Canada and Europe have been active in the development of this asset class.

Infrastructure has some appealing characteristics for the Fund's portfolio, as it has similarities to real estate, fixed income and private equity and provides some protection from inflation. In general, infrastructure investments provide a steady return over a long time.

The Board of Trustees does not make infrastructure investment decisions in-house. Instead, investments are made in a large number of assets around the world through pooled funds with other investors. Owning shares in many properties rather than directly investing in just a few properties creates greater diversification and lower risk for the infrastructure portfolio.

Commitment to Alaska

The Fund has always provided benefits to the people of Alaska. Maintaining safety of principal and producing a competitive rate of return are the APFC's primary responsibilities. But, there are other ways the APFC provides benefits to the state. One is the APFC's Alaska college student internship program.

The intern program, which began in 1988 as a way for the Fund to help young Alaskans gain entry into the field of finance and investing, is a cooperative effort between the APFC and its various investment managers. Students are accepted to intern either directly with the APFC or with one of the Fund managers. Designed to serve as a career springboard for Alaska college students, the program has a high success rate of permanent job placement.

Another method of investing in the state and its residents is the Fund's Alaska banks CD program, which provides up to $300 million to in-state financial institutions at competitive rates.

Lastly, the APFC manages another fund, besides the Permanent Fund: the Alaska Mental Health Trust Fund.

▶ University of Alaska student Seth Holden interned with McKinley Capital Management in Anchorage, summer 2005

▶ Daniel Gillespie, Intern
Alaska Permanent Capital Management, 2007

▶ David Rushbrook, Intern
McKinley Capital Management, 2007

▶ Olga Panitch, Intern
Rogge Global Partners, 2007

What Happens to Permanent Fund Income

Realized income earned from the Fund's investments is accounted for in the earnings reserve account per statute. On June 30 of each year, the Legislature appropriates funds from the account for dividends, inflation proofing and for whatever other lawful purpose the Legislature may designate. All income in the earnings reserve is available for appropriation.

The Dividend Formula

Each year, the dividend distribution is calculated using a formula set in state law. The formula is based on an average of the Fund's income over five years in order to produce a more stable flow of dividend amounts from year to year.

Once the dividend amount has been calculated, the next step is to determine if enough income is available in the earnings reserve account to pay the dividend. While the full amount of the earnings reserve account is available for appropriation, the principal is not. It is possible that, in a given year, the calculation may produce a dividend although the funds may not be available to pay it.

The dividend program has created a broad and powerful constituency for the Fund by annually distributing to every qualified applicant a portion of the Fund's earnings. From 1982 through 2008, the dividend program paid out about $16.7 billion to Alaskans through the annual distribution of dividend checks.

This program has a significant effect on the state's economy. Dividends represent an important source of income for some Alaskans, particularly those in rural Alaska.

The dividend program is administered by the Dividend Division of the Department of Revenue. Alaskans must apply each year to receive a dividend.

How to Calculate the Dividend

- **ADD:** statutory net income of the last five years
- **MULTIPLY:** by 21 percent
- **DIVIDE:** by 2
- **DIVIDE:** by number of eligible applicants

= AMOUNT OF DIVIDEND

ANNUAL PER CAPITA DIVIDEND

1982	$1,000.00
1983	$386.15
1984	$331.29
1985	$404.00
1986	$556.26
1987	$708.19
1988	$826.93
1989	$873.16
1990	$952.63
1991	$931.34
1992	$915.84
1993	$949.46
1994	$983.90
1995	$990.30
1996	$1,130.68
1997	$1,296.54
1998	$1,540.88
1999	$1,769.84
2000	$1,963.86
2001	$1,850.28
2002	$1,540.76
2003	$1,107.56
2004	$919.84
2005	$845.76
2006	$1,106.96
2007	$1,654.00
2008	$2,069.00

Saving and Investing to Beat Inflation

- **Compound Interest** – Elmer Rasmuson, the first chair of the APFC, called "compound interest" one of our greatest inventions. Compounding interest helps money invested at a rate of interest (or return) grow larger faster.

The Rule of 72

The rule of 72 estimates how long it takes to double your money at a given compound interest rate.

Suppose your interest rate is 5 percent.

72 ÷ 5 = years it will take for your investment to double.

For example: You invest $100 in a bank account that pays 5 percent interest.

72 ÷ 5 = 14.4; it will take about 14 years for the $100 to grow to $200.

- **Saving** – To do even better, add more money to your initial investment every month for bigger, faster growth.
- **The "thief in the night" — inflation** – Compound interest makes your money grow faster, but meanwhile, inflation makes prices rise, so your money buys less. Rasmuson also had a name for inflation — "a thief in the night" — that "steals" your money's purchasing power at the rate of about 3 percent per year on average. That's why people try to find investments that return more than the rate of inflation, or what investors call **"real return."**

Total rate of return - rate of inflation = real rate of return

The Permanent Fund is invested to earn a 5 percent real rate of return. Over time, the Fund has beaten that target, averaging a real rate of return over 24 years of about 6.7 percent.

Inflation Proofing Fund Principal

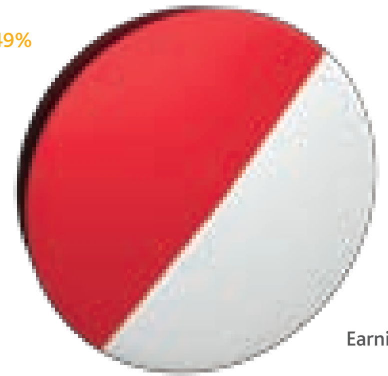
Inflation proofing protects the Fund principal by providing for the retention of Fund income each year sufficient to compensate for the effect of inflation on principal.

Cumulative through fiscal year 2008, inflation proofing has transferred more than $11.6 billion from the Fund's earnings reserve to the Fund's principal.

USE OF FUND EARNINGS

$35.5 billion since inception in realized earnings

Updated at apfc.org



USE OF FUND EARNINGS DATA BREAKOUT

Saved for future generations	**$17.5 billion (49%)**
Inflation proofing principal	$12.7
Special appropations to principal	$4.3
Retained in earnings reserve	$0.5
Spent for current generations	**$18.0 billion (51%)**
Permanent Fund dividends	$17.6
General Fund	$0.4

FUND REALIZED EARNINGS

Statutory net income (in billions)

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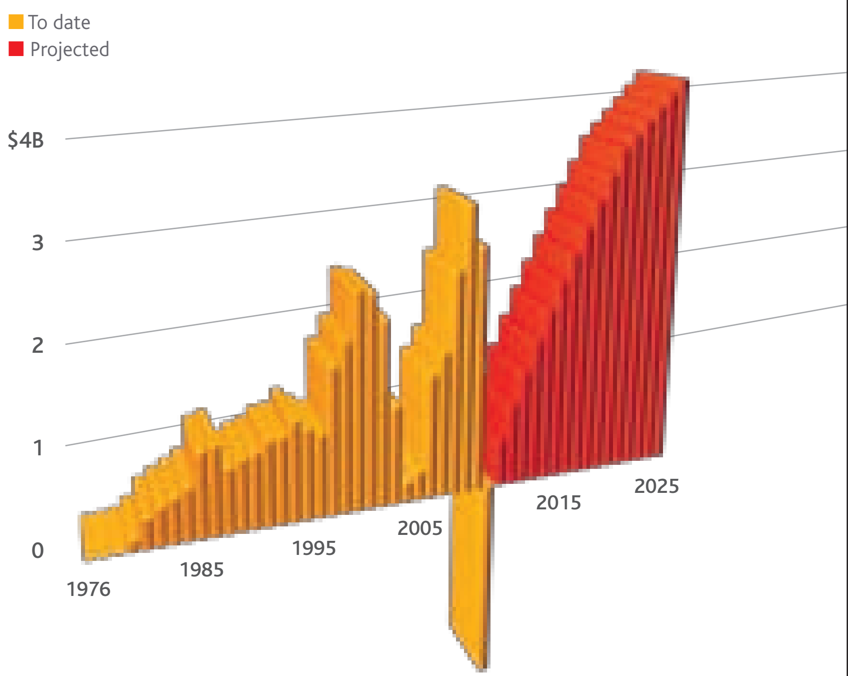


The amount transferred from earnings for inflation proofing is calculated by multiplying the change in the average U.S. consumer price index between the two prior calendar years by the principal balance at the end of the fiscal year.

Income for Other Purposes

Residual income remains in the earnings reserve account and is invested with the Fund's principal. The Legislature may appropriate funds from the earnings reserve account for any lawful purpose.

Who Manages the Permanent Fund

The Legislature created the Alaska Permanent Fund Corporation (APFC) in 1980 to manage the Fund's investments. The APFC operates as a quasi-independent state entity, designed to be insulated from political decisions yet accountable to the people as a whole.

This establishment as a corporation protects the Fund's focus on long-term performance by keeping it as removed as possible from short-term political considerations.

While the Legislature wanted the APFC to be independent, it also recognized the need for the corporation to be responsive to changes in state policy and be accountable to the people of Alaska through their elected representatives.

This critical balance of independence and accountability is attained through the Board of Trustees and by the requirement that the APFC report to the Legislative Budget and Audit Committee and have its budget approved each year by the Legislature.

APFC Board of Trustees

Corporate policy for the APFC is set by a six-person Board of Trustees. Four of the Trustees are public members, persons who possess recognized competence and expertise in finance, investments and other business management-related fields. The four public members are appointed by the governor to staggered, four-year terms, and, each year, one of them is elected to serve as chair.

The other two Trustees include the Commissioner of Revenue and another cabinet member of the governor's choice.

The Board's Goals

- **Maintain the real value of the Permanent Fund over time.** Consider the acceptable level of total risk to the Fund when constructing the investment portfolio.
- **Maximize the Fund's total return over time.** Achieve a long-term real rate of return of 5 percent per year, after accounting for the effect of inflation.
- **Recognize the long-term importance of the Permanent Fund to the State of Alaska and its people.** Provide timely and objective information to the administration, the Legislature and the people of Alaska on all public policy and investment issues affecting the Fund.

APFC Staff

The Trustees employ an executive director who hires staff to conduct day-to-day operations of the corporation. **By design, the APFC operates a lean organization and outsources to outside professionals as needed to manage, analyze and monitor investments and returns.** In-house staff work in the following functional areas: executive, investments, finance, information technology, administration and communications.

The corporation operates on receipts from Fund investments. Expenditures typically run about 0.0021 percent of assets under management each year. The APFC operates as one of the most cost-effective institutional investors in the nation.

Legislative Oversight

The APFC reports to the Legislative Budget and Audit Committee, the government entity responsible for Fund oversight. The legislature annually approves the APFC's budget, thus injecting yet another level of checks and balances.

Board of Trustees (Since Inception)

Elmer Rasmuson
1980-1982
Banker

Thomas Williams
1980-1982 Commissioner
of Revenue

Robert Ward
1980-1982 Commissioner
of Transportation

Peter McDowell
1980-1982
Economist

Wilson Condon
1980-1982 Attorney General
1995-2002 Commissioner of Revenue

George Rogers
1980-1983
Economist/Historian*

Arnold G. Espe
1980-1986
Banker*

Byron I. Mallott
1982-1991 Business Executive*
1998-2000 APFC Executive Director

Robert D. Heath
1983-1984 Commissioner
of Revenue

Steve Cowper
1983-1985 Former Legislator,
former Governor*

Norman Gorsuch
1983-1985
Attorney General

Clyde Sherwood
1983-1987
Business Executive*

*Served as Chair

Mary Nordale
1984-1986 Commissioner
of Revenue

Hugh Malone
1985-1986 Former Legislator
1986-1990 Commissioner of Revenue

Grace Berg Schaible
1987-1989 Attorney General
1995-1997 Attorney*

Marc Langland
1987-1991
Banker

John Kelsey
1987-1995
Valdez Business Executive

Doug Bailey
1989-1990
Attorney General*

Charles H. Parr
1989-1991
Former Legislator

Lee E. Fisher
1990-1991 Commissioner
of Revenue

Millett Keller
1991 Commissioner
of Administration

Darrel J. Rexwinkel
1991-1994 Commissioner
of Revenue

Nancy Bear Usera
1991-1994 Commissioner
of Administration

Oral Freeman
1991-1995
Former Legislator*


Ralph C. Seekins
1991-1995
Business Executive


Laraine L. Derr
1994 Commissioner
of Revenue


Robert Storer
1994-1995 APFC
Executive Director 2000-2004


Jerry Covey
1994-1995 Commissioner
of Education


William L. Hensley
1995-1997
Commissioner of Commerce


Melphine Evans
1995-2001
Business Executive


Clark S. Gruening
1995-2003
Attorney/Former Legislator*


Eric E. Wohlforth
1995-2006
Attorney*


Jim Simpson
1997-2002 Former Fairbanks
North Star Borough Mayor


Mark Boyer
1997-1999 Commissioner
of Administration


John T. Shively
1999-2000 Commissioner
of Natural Resources


Bruce Bothelo
2000-2002
Attorney General

*Served as Chair


Janie Leask
2002-2003
Business Executive


Greg Renkes
2003-2005
Attorney General


Steve Frank
2003-present Businessman/
Former Legislator*


Bill Hudson
2003-2007
Former Legislator


Scott Nordstrand
2005
Acting Attorney General


David Marquez
2005-2006
Attorney General


Bill Corbus
2002-2006 Commissioner
of Revenue


Carl F. Brady Jr.
1991-1995, 2004-present
Business Executive*


Bill Moran
2006-present
Banker


Patrick Galvin
2006-present Commissioner
of Revenue


Emil Notti
1985-1986, 2007-present
Commissioner of Commerce,
Community and Economic Development


Nancy Blunck
2007-present
Certified Financial Planner

Chapter 5

Why the Fund is Important to Alaska's Future

Alaska's Permanent Fund: Alaska's Future

The Permanent Fund has become a major financial force within the State of Alaska. In most of the years since its inception, the Fund has been the second largest producer of state revenues after the oil industry. And in some years, realized net income from the Permanent Fund has surpassed state oil revenues.

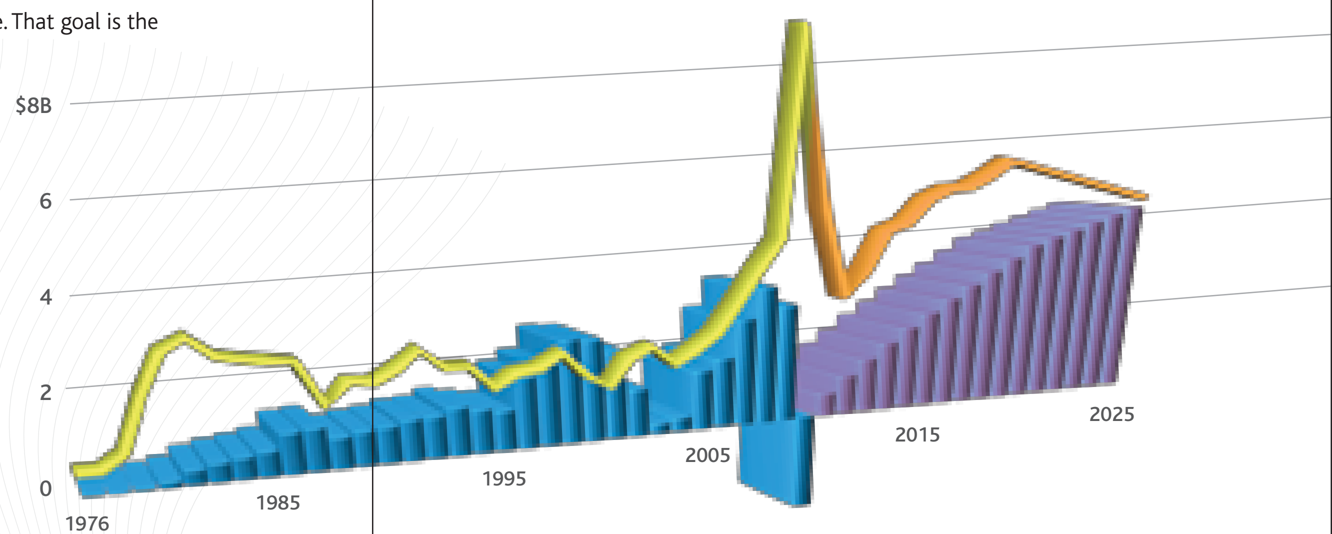
Thanks to a strong state constitution, Alaska gained control over many of its resources. But dependence on a non-renewable resource such as oil inevitably leads to a post-boom bust unless a way is found to generate renewable wealth from a non-renewable resource. That goal is the foundation of the Permanent Fund.

FOCUSING ON THE LONG TERM

The relationship between Permanent Fund statutory net income and General Fund unrestricted mineral revenue (in billions)

- General Fund unrestricted mineral revenue
- Projected General Fund unrestricted mineral revenue
- Permanent Fund statutory net income
- Projected Permanent Fund statutory net income

Updated at **apfc.org**



What Lies Ahead

Prudhoe Bay on Alaska's North Slope is the largest oil field in North America, and one of the largest in the world. But it hit peak production in 1988, and since then has been in decline. Alaska also has significant natural gas reserves, which hold great promise and may provide revenues for many years following the construction of a natural gas pipeline. But oil and gas are non-renewable resources and one day they will be gone. When that day arrives, the Fund will still be here.

For this reason, it is clear that the creation of the Permanent Fund represents perhaps Alaska's most important step toward real and long-lasting economic diversification and stability. As time goes on, it may be the size of the Fund more than any other single factor, which will determine the state's level of prosperity.

Glossary

Absolute return strategies – An array of investment strategies designed to produce returns uncorrelated with market performance and independent of traditional benchmark indices.

Alternative asset – Typically, investments that are not traditional asset classes found in most investment plans. APFC considers alternative investments to be assets other than common stocks, bonds and real estate.

Asset – anything owned that has cash value such as stocks, bonds or real estate.

Asset allocation – The distribution of investments among different types of assets.

Bond – A money-raising mechanism in which the bond "issuer" — a corporation, government or government agency — borrows money usually at a preset interest rate for a preset period of time.

Dedicated funds – Capital set aside for a specific purpose or purposes.

Diversification – "Don't put your eggs in one basket," is the principle of investment diversity. Diversification reduces risk by putting assets in several categories of investments.

Equities – Another name for stocks. Represents a share of ownership in public companies.

Equity real estate – A type of investment in real property in which the investor has an ownership position.

Fixed income – Interest-bearing investments such as government and corporate bonds which mature at specific times, repaying principal plus interest.

General Fund – Alaska's "checking account." The General Fund contains money the state receives and distributes by appropriation.

Income – The return in money from an investment. Can be derived from interest, dividends, real estate cash flow, capital gains and losses or appreciation and depreciation of investment market values.

Inflation – An increase in the price of goods and services, as happens when spending increases relative to the supply of goods on the market.

Inflation proofing – Sufficient monies are appropriated to the Fund's principal from the Fund's earnings to fully offset the effects of inflation on the principal balance.

Infrastructure – Properties or facilities that have been traditionally operated by governments as public assets, such as toll roads or airports.

Investment – The purchase of some form of security with the expectation of achieving some relative gain.

Lease bonus – A one-time amount paid by a private company competing for the right to lease a section of public land for development.

Net income – The amount of earnings that remain after deducting operating expenses.

Permanent – Fixed, changeless, lasting or intended to last indefinitely without change. Stable, enduring, abiding.

Portfolio – Collection of stocks, bonds or other investments held by an individual or institutional investor.

Private equity – An investment in a privately held, non-publicly traded company.

Prudent investor rule – A standard of judgment and care applied to people who make investments. Under this rule, the investor is to use the same judgment and care that an institutional investor of ordinary prudence, discretion and intelligence would use in managing large investments.

Purchasing power – The value of money in terms of what it can buy at one time compared with another time.

Rate of return – Profit from an investment, expressed as a percentage of the amount invested.

Real rate of return – Total investment rate of return adjusted for the rate of inflation.

Realized earnings – Income from various cash flows, such as stock dividends, bond interest, real estate rental cash flow, or net profit or loss from the sale of an investment.

Renewable resource – A natural resource such as timber or fish that may be replenished or restored while being consumed.

Return – In typical use, the amount, value or benefit returned from some investment outlay.

Risk – The possibility, which can be measured, of losing value or not gaining value.

Royalty – Payment to the holder or owner for the right to use property such as a patent, copyrighted material or natural resources.

Security – Any investment instrument such as a bond, common stock, deed of trust on property or any evidence of indebtedness or equity.

Statutory net income – The Permanent Fund's net income as defined in law. It includes only realized earnings less various adjustments, not unrealized earnings.

Stock – Another name for equities. Represents a share of ownership in public companies.

Trustee – A person charged with managing assets in the interest of beneficiaries, such as the residents of Alaska.

Unrealized earnings – Current market value of an asset not yet sold minus its original cost.

An Alaskan's Guide to the Permanent Fund

Alaska Permanent Fund Corporation
12th Guide Edition, July 2009

For up-to-date information on the Alaska Permanent Fund Corporation, including daily Fund value, top stories, internships, current financials and a list of assets, visit **www.apfc.org**. On the site, you can sign up to receive top stories via e-mail or request hard copies of APFC publications, such as Trustee Papers and annual reports.

Permanent Fund Dividend Division

For information about the Alaska Permanent Fund Dividend program, visit the State of Alaska Department of Revenue's Permanent Fund Dividend Division's Web site at **www.pfd.state.ak.us** or contact the Dividend Division office nearest to your location:

- **Anchorage** (907) 269-0370
- **Juneau** (907) 465-2326
- **Fairbanks** (907) 451-2820
- **Other Alaska Locations** (800) 733-8813

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