ALASKA PERMANENT FUND CORPORATION

ALASKA PERMANENT FUND CORPORATION
Established 1980

1987 Annual Report

A Public Trust

Investing For Alaska's Future

ORGANIZATION

BOARD OF TRUSTEES

STAFF

Executive Director
David A. Rose

Chief Investment Officer
William L. Means

Comptroller
Peter A. Bushre

Investment Officers
Richard E. Alexander
Robert D. Storer

Research & Liaison Officer
Jim Kelly

Office Manager
Alison Farnan

Accountants
Drusilla Westall
Ellen Phipps
Charlie Sparks

Senior Secretary
Becky Mitchell

Secretary/Receptionist
Vicki Soboleff

OFFICERS

Fiscal 1987

Through January 27, 1987:
Clyde M. Sherwood, Chairman
Hugh Malone, Vice-Chairman
David A. Rose, Secretary and Treasurer

After February 10, 1987:
Byron I. Mallott, Chairman
Oral Freeman, Vice-Chairman
David A. Rose, Secretary and Treasurer

Fiscal 1988

Byron I. Mallott, Chairman
Oral Freeman, Vice-Chairman
David A. Rose, Secretary and Treasurer

TABLE OF CONTENTS

Alaska Permanent Fund Corporation
801 W. 10th Street, Suite 302, Juneau, Alaska
Mailing Address: P.O. Box 4-1000, Juneau, Alaska 99802
Telephones: Juneau (907) 465-2047 Anchorage (907) 277-1496
Telecopy: Juneau (907) 586-2057 Anchorage (907) 276-1691

CHAIRMAN'S MESSAGE

Ten Years of Success

Nineteen eighty-seven marks the tenth anniversary of the Alaska Permanent Fund. What began on February 28, 1977 with an initial deposit to principal of $734,000 has grown to total $7,863,856,000 in contributed equity as of June 30, 1987.

Fueled by ten years' receipts of dedicated oil revenues, five years of full inflation-proofing, three special legislative appropriations, and by consistently increasing annual earnings, the Permanent Fund now provides significant structural support for Alaska's economy.

In its first decade, the Permanent Fund has grown larger than any endowment fund or private foundation in the United States. It is larger than any union pension trust. If the Alaska Permanent Fund were a Fortune 500 company, it would rank fifteenth in terms of net income — smaller only than the very largest corporations in America. In Alaska, the Permanent Fund is the largest producer of state income after the petroleum industry.

This success is due, primarily, to the people of Alaska who have repeatedly demonstrated staunch and substantial support for their Permanent Fund. In an effort to build up the size of the Permanent Fund so that it can make a meaningful contribution to the state's needs in the future, Alaskans have consistently chosen to favor their best long-term interests over other short-term considerations.

As a result, and aided by a conservative investment strategy ably executed by Fund managers during a period of generally favorable financial markets, the Permanent Fund has gotten off to an impressive start:

* Of the $26 billion in oil revenues received by the State of Alaska since Prudhoe Bay began production, 22% has been deposited in the Permanent Fund and has been saved and invested, not spent.

* That money, through prudent investment, has generated earnings at a relatively high rate. For the ten-year period ending June 30, 1987, the Fund's realized rate of return (cash only) has averaged 12.1% per year. Given a 6.8% average annual rate of inflation during that period, the Fund has earned on average, each year, a realized real rate of return (after inflation) of 5.3%.

* Total net income produced by the Permanent Fund since its inception has reached $4.3 billion, of which 53% has been saved and added to principal, and 12% has been saved and remains in the Fund's earnings reserve account — still available for future inflation-proofing, dividends, or any other use the people of Alaska may decide upon.

* Most of the remaining 35% of the Fund's total net income — $1.3 billion to be exact — has been paid out as dividends over the last six years. Since this direct distribution program began in 1982, the Fund's contributions to dividends have increased, on average, 41% per year.

Also impressive has been the remarkably efficient performance of the Fund's management organization, the Alaska Permanent Fund Corporation. Entrusted with full responsibility for the Fund's day-to-day operations, the Corporation is one of the most cost effective of its kind anywhere in the nation. In fiscal 1987, for example, for the second consecutive year, the

A TRIBUTE

With deep respect and admiration, this report is dedicated to Clyde M. Sherwood, member of the board of trustees, Alaska Permanent Fund Corporation, from August 1983 through January 1987. Clyde was the chairman of the board when he passed away. Beyond his dedication to the Permanent Fund, Clyde served for many years in Alaska as a businessman and as a civic leader, and his many friends across the 49th state have appreciated the contributions he made to state and local organizations. He was a wonderful and caring man. He is missed and loved.

CLYDE M. SHERWOOD
1925 - 1987

Corporation earned over $1 billion in net income with operating costs of roughly $5 million. That means that for every $100.00 of income produced, $99.50 was profit. That is a truly commendable achievement, and the trustees believe special thanks are due to the staff of the Corporation, particularly the executive director.

Special thanks are also due to the five Alaska State Legislatures which have consistently nurtured the Permanent Fund since its creation, to the three governors who have steadfastly supported it, and to the 19 Alaskan men and women who have honestly and competently served as trustees. Together, these individuals have helped guide the Permanent Fund during its critical formative years, and have transformed what was once only a good idea into a substantial and significant institution — one that is well positioned to serve Alaskans now and in the future.

Indeed, the strength and impact of the Alaska Permanent Fund is felt in ways we cannot measure or quantify. Respected financial writers and columnists have lauded the Fund. Students of fiscal and economic policy look to the Permanent Fund as a case study in wise wealth management. National rating services have cited its importance in affirming Alaska's "AA" bond rating. There is also no question that the economic recession in Alaska during the past two years would have been deeper and more sustained without the presence of the Permanent Fund as an actual and potential source of revenue, and as a visible symbol of the long-term fundamental strength of the Alaskan economy.

The Permanent Fund has been successful, but it is only an initial success — just a beginning. If this great public trust is to succeed over the long term, Alaskans must continue to support it, know what is happening with it and to it, and guard what is good about it with never-ending vigilance. With a strong Permanent Fund, Alaska's future will be filled with opportunity.

Byron I. Mallott
Chairman, Board of Trustees

The Permanent Fund Belongs to the People of Alaska

The Alaska Permanent Fund is a savings account, restricted as to usage, which belongs to all the people of Alaska. It was created by public referendum in 1976 when the voters, by a margin of 75,588 to 38,518, changed Article IX of the state Constitution by amending Section 7 (Dedicated Funds) and adding a new Section 15:

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.

The Fund is established as an inviolate trust. This means the principal of the Fund is to be invested in perpetuity. This can only be changed by a majority vote of the people. The beneficiaries of the trust are all present and future generations of Alaskans.

To manage the investments of the Permanent Fund, the legislature in 1980 created the Alaska Permanent Fund Corporation as a public corporation, distinct from state government. It was the intent of the legislature to establish a management system for the Fund which would be protected from political influences but, at the same time, be responsive to changes in state policy and accountable to the people through their elected officials.

To ensure insulation from the political process — but not isolation — the Corporation is subject to the provisions of Alaska Statute 37.13. This chapter of state law spells out a number of requirements for the Permanent Fund and its management, but stipulates that corporate policy is to be formulated independently by a board of trustees.

The board of trustees has six members. Four of the trustees are chosen from the private sector and must have recognized competence and wide experience in finance, investments or other business management-related fields. These members are appointed to four-year terms by the governor. The other members are the commissioner of the Department of Revenue, and one cabinet officer of the governor's choice.

The trustees, except for the two cabinet members, serve as citizen volunteers. They are not paid salaries, though they do receive an honorarium of $400 for each day spent at a meeting of the board or at a public meeting as a representative of the board.

The trustees delegate responsibility for the day-to-day operations of the Corporation to an executive director and a small, 11-person staff. Additionally, equity investment firms, real estate advisors, custodial banks, performance analysts and independent accountants assist the Corporation on a contractual basis.

During fiscal 1987, there were numerous changes to the board of trustees:

* Byron I. Mallott, chief executive officer for a Juneau-based Native corporation, was reappointed to serve his second four-year term. He is now the senior member of the board.

* Mary Nordale completed two years of service on the board and then resigned in conjunction with tendering her resignation as Commissioner of Revenue. Her position was filled by Milt Barker as acting commissioner until Hugh Malone, a public

member when he was first appointed to the board in January 1985, became the new Commissioner of Revenue in Governor Cowper's Administration. Mr. Malone now serves on the board by virtue of that position.

* Marc Langland, an Anchorage banker, was appointed to fill the public member position vacated by Mr. Malone.

* Arnold G. Espe, a former Anchorage banker who served more than four years on the board and was chairman in 1984-85, moved out-of-state and resigned his seat.

* Oral Freeman, a Ketchikan businessman and former legislator, was appointed to fill the public member position vacated by Mr. Espe.

* Emil Notti, who served nearly a year and a half as the cabinet member of Governor Sheffield's choice, resigned his seat prior to the change in administrations.

* John Kelsey, a Valdez businessman, was appointed to serve the remainder of Clyde Sherwood's term and subsequently was reappointed to a four-year term.

* Grace Schaible, the Attorney General, was appointed by Governor Cowper to serve on the board as the cabinet member of his choice.

Mr. Sherwood and Mr. Malone were originally elected as chairman and vice-chairman for fiscal 1987. Upon Mr. Sherwood's death and Mr. Malone's move from public member to Commissioner of Revenue, the board held a special election on February 10, 1987, and Mr. Mallott and Mr. Freeman were elected to serve as chairman and vice-chairman for the remainder of fiscal 1987. The incumbents were re-elected on July 13, 1987 to serve in fiscal 1988 as well.

David A. Rose, executive director of the Alaska Permanent Fund Corporation, has served as secretary and treasurer continuously since December 1982.

Members of the Board of Trustees Alaska Permanent Fund Corporation

Position	Original Appointment	Succeeded By		
Public Member	Elmer Rasmuson* 7/80 — 7/82	Byron I. Mallott* 8/82 — 7/90		
Public Member	George Rogers* 7/80 — 7/83	Clyde Sherwood* 8/83 — 1/87	John Kelsey 3/87 — 7/91	
Public Member (Originally Cabinet Official)	Robert Ward 7/80 — 9/82	Arnold G. Espe* 9/82 — 11/86	Oral Freeman 12/86 — 7/89	
Public Member	Peter McDowell 7/80 — 12/82	Steve Cowper* 1/83 — 1/85	Hugh Malone 1/85 — 12/86	Marc Langland 1/87 — 7/88
Mandated Commissioner of Revenue	Thomas Williams 7/80 — 12/82	Robert D. Heath 1/83 — 6/84	Mary Nordale 9/84 — 9/86	Hugh Malone 12/86 — Present
Mandated Cabinet Official	Wilson Condon 7/80 — 12/82	Norman Gorsuch 1/83 — 7/85	Emil Notti 7/85 — 11/86	Grace Schaible 2/87 — Present

* Served as chairman.

Significant Events in the History of the Alaska Permanent Fund

1959 On January 3, Alaska became the 49th state, and the state Constitution, approved by the people of Alaska in a public vote three years earlier, became law.

1969 On September 10, the state received $900 million from the Prudhoe Bay bonus lease sale. Total unrestricted General Fund revenues for the previous fiscal year had been $112 million. The population of Alaska was 295,000.

1970 The first legislation was proposed for a "permanent fund."

1974 Construction began on the Trans Alaska Pipeline.

1975 The first Permanent Fund bill passed the legislature, but was vetoed by Governor Hammond as unconstitutional.

1976 Voters, by a two to one margin, approved the constitutional amendment establishing the Permanent Fund.

1977 On February 28, the Permanent Fund received its first deposit of dedicated oil revenues: $734,000. Oil began flowing from Prudhoe Bay to Valdez when the Trans Alaska Pipeline was completed after thirty-nine months of construction. Public debate began about whether the Permanent Fund should be managed as a public trust or as an economic development bank. The debate lasted four years.

1980 The legislature: (1) created the Alaska Permanent Fund Corporation as a public trust; (2) approved a $900 million special appropriation to the Permanent Fund; (3) passed a bill which increased the Permanent Fund's share of mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state from oil fields leased after 1979 to 50%; and (4) approved the first version of the Permanent Fund dividend program; it was later ruled unconstitutional by the U.S. Supreme Court. The billionth barrel of oil passed through the Trans Alaska Pipeline.

1981 The legislature approved the second special appropriation to the Permanent Fund — this time for $1.8 billion.

1982 A constitutionally-acceptable Permanent Fund dividend program was enacted, and $1,000 checks were distributed directly to all the residents of the state. (All of these first-time dividends were funded with surplus General Fund revenue.) At the request of the trustees, inflation-proofing was adopted by the legislature to help protect the principal of the Permanent Fund. The Fund's approved investment list was expanded to include domestic common stocks and equity real estate.

1983 On July 6, the Permanent Fund made its first investment in the stock market. On that date, the Standard & Poor's 500 Stock Index closed at 168.48. In October, the Fund made its first equity real estate investment.

1984 The assets of the Permanent Fund reached $5 billion. Net income from the Fund reached $500 million.

1985 The trustees adopted a major public information program and completed an instructional television video for high school students about the Permanent Fund entitled, "For All of the Future."

1986 The legislature approved the third special appropriation to the Permanent Fund which transferred $1.26 billion of the Fund's undistributed income to principal. The five billionth barrel of oil passed through the Trans Alaska Pipeline. The Permanent Fund's annual net income exceeded $1 billion for the first time.

1987 The Permanent Fund realized the highest inflation-adjusted rate of return in its history: 11.5%. On June 30, 1987, the S&P 500 closed at 304.00. Permanent Fund dividends were paid to all Alaskan residents for the sixth consecutive year. The people of Alaska celebrated the Permanent Fund's tenth anniversary.

FUND OBJECTIVES

Conserve, Protect and Produce Wealth To Benefit Present and Future Alaskans

Alaska Statute 37.13.020 sets out three goals for the Alaska Permanent Fund Corporation:

(1) Save a portion of the wealth created by development of the state's non-renewable natural resources to benefit all generations of Alaskans.

The state receives non-renewable natural resource revenues from many sources — corporate income tax, severance tax, property tax, federal shared revenue, royalties, lease bonuses, and rents. A portion of that is dedicated to the Permanent Fund.

Although the Permanent Fund receives no tax revenues, it automatically receives 25% of all other oil revenues (50% from oil fields leased after 1979). Since the inception of the Permanent Fund, this constitutionally-dedicated portion has equaled 11% of all state oil revenues. The percentage was doubled by the two special appropriations to the Permanent Fund from surplus General Fund revenues, authorized in 1980 and 1981.

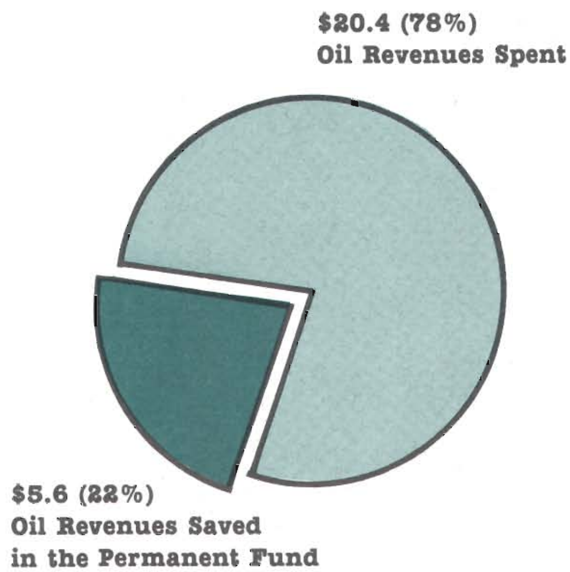
As a result of this extraordinary fiscal prudence, Alaska has managed to save 22% of the $26 billion the state has earned from production at Prudhoe Bay, and has transformed it into a long-term source of wealth and economic diversification for both present and future generations of Alaskans.

(2) Protect savings from loss of value.

Since inception, all contributions to principal have been retained in the Permanent Fund. There has been no loss of principal. In addition, a portion of annual net income has been added to principal each year since 1982 to protect the Fund from loss of value.

To determine the amount of net income to reinvest each year, the trustees multiply the principal balance at the end of each year by the percentage change in the prior calendar year average of the U.S. consumer price index for all urban consumers (CPI-U). This inflation-proofs the savings.

STATE OIL REVENUES
1987 — 1978
(in billions)



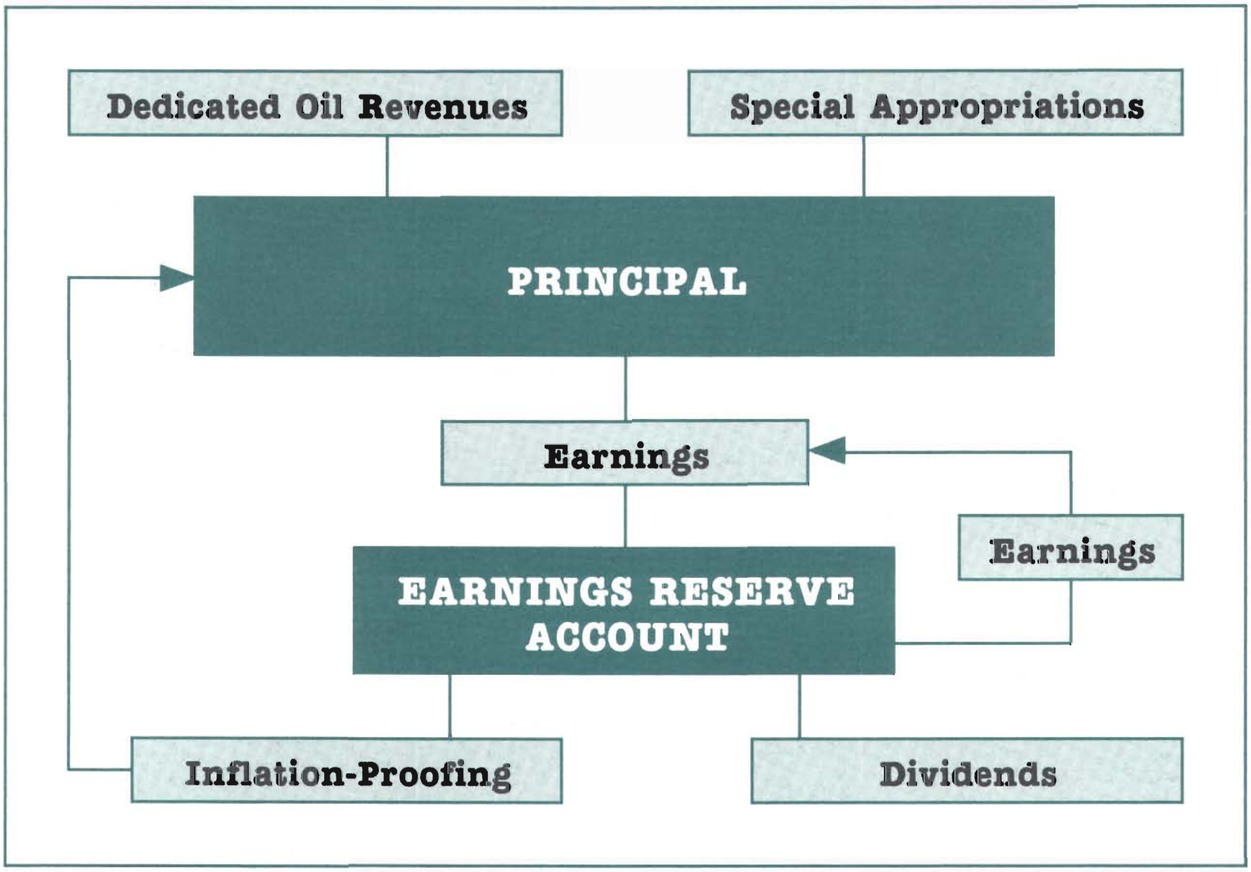
(3) Invest savings to produce income for purposes designated by law.

In addition to saving money and keeping it safe, the Corporation has a third mandate: produce income for uses provided by law. In this regard, the trustees attempt to maximize total return on the Fund's investment, but their primary concern is maintaining safety of principal.

Notwithstanding the cautious investment approach required by law, the Permanent Fund has experienced ten consecutive years of earnings growth, and since inception has produced $4.3 billion in net income.

The greatest source of Fund income has been the interest paid on the fixed-income portfolio. The next largest contribution has come from realized capital gains, particularly those taken during the 1986 and 1987 fiscal years. Following in importance have been the dividends paid on common stocks and real estate pools, other real estate income and fees on loaned securities.

How the Alaska Permanent Fund Works



The Permanent Fund is made up of two parts: principal and income. Principal is the main body, or corpus, of the trust. Income is the money earned from the investment of the principal and the reinvestment of the earnings retained by the Fund.

The principal of the Fund comes from three sources: (1) oil revenues deposited by constitutional dedication; (2) income of the Fund which has been transferred to principal to inflation-proof the Fund; and (3) additional funds deposited by special legislative appropriation.

As the chart on the next page indicates, 87% of the Permanent Fund's principal growth to date has come from the special appropriations and the dedicated oil revenues. This is changing, however.

As state oil revenues decline, so do the oil revenues dedicated to the Permanent Fund. In fact, this may already have occurred. Oil revenues dedicated to the Permanent Fund may have peaked four years ago, in fiscal 1983.

Thus, the future growth of the principal of the Permanent Fund likely will depend most heavily on the contributions made by inflation-proofing.

All income from the Permanent Fund shall be deposited in the General Fund unless otherwise provided by law.

According to these instructions from the 1976 constitutional amendment, all Fund income was to be deposited in the General Fund until such time as the legislature authorized another use for it. For the first four years, the legislature did not authorize any other use, and the income went directly and solely to the General Fund. (Through fiscal 1983, the legislature continued to allocate a portion of Fund income to the General Fund. In total, $228 million of Permanent Fund income was transferred to the General Fund.)

In 1980, lawmakers authorized the first new use of Fund income: the payment of Permanent Fund dividends. However, because this first version of the dividend program tied the amount of the dividend to the length of residency, it was ruled unconstitutional and was never implemented.

In 1982, the legislature enacted a plan for disposing of all Fund income which, with a couple of minor changes, is still in place today.

First, the 1982 legislature adopted a new version of the dividend program, and initiated it with a special $1000 per capita payment. Since then, $1.3 billion of Fund income has been distributed through the annual dividend distributions.

Then, the legislature directed that a portion of Fund income should be added automatically to principal at the end of each fiscal year in "an amount sufficient to offset the effect of inflation." To date, $982 million of Fund income has been used for this purpose.

Lastly, the 1982 legislature directed that any income remaining after the payment of dividends and inflation-proofing be transferred to an undistributed income account in the Permanent Fund. The trustees designated this account a reserve for future inflation impact and dividend payments. This undistributed income account grew during each of the next four years as the Fund experienced a sustained period of relatively high earnings with relatively low inflation. By the end of fiscal 1986, the account amounted to $1.26 billion.

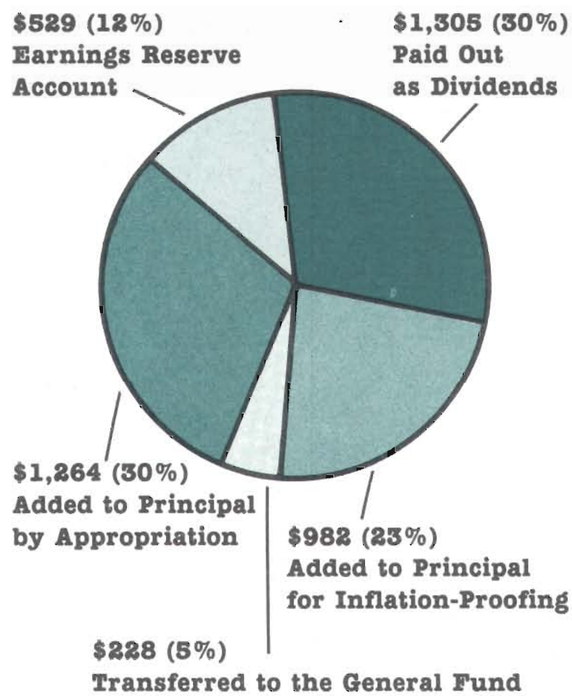
Rather than use this money for any other purpose, the 1986 legislature appropriated the entire balance to the principal of the Fund, effective July 1, 1986. The 1986 legislature also renamed this account the earnings reserve account.

Like the four years before it, fiscal 1987 proved to be a period of relatively high earnings and relatively low inflation, and once again the Fund's reserve account was filled with earnings beyond what was required for the payment of dividends and inflation-proofing.

On June 30, 1987, the Fund's earnings reserve account amounted to $529 million. The money in this account remains in the Permanent Fund, but is available for appropriation by the legislature.

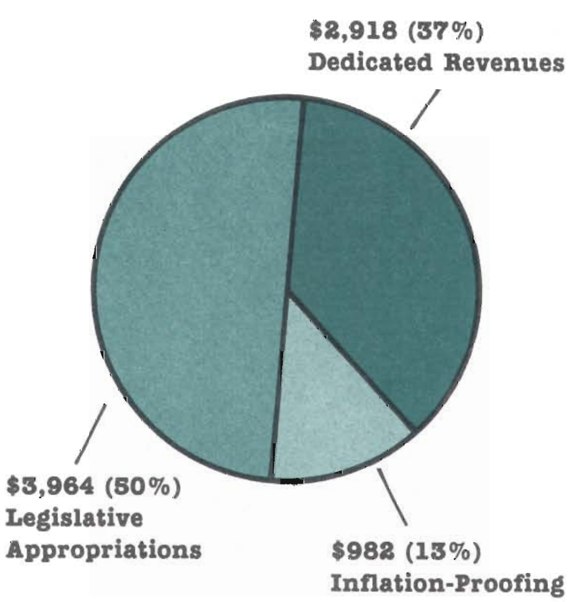
USE OF FUNDS

Distribution of Earnings 1987 — 1978
Total Net Earnings: $4.3 Billion
(in millions)



SOURCE OF FUNDS

Contributions to Principal Since Inception
Total at June 30, 1987: $7.86 Billion
(in millions)



Inflation-Proofing Is Important To the Permanent Fund

In fiscal 1987, it took $1.89 to purchase the same goods and services that cost only $1.00 in 1977. Conversely, $1.00 saved in 1977 would have purchased, in 1987, 53 cents worth of the same goods and services.

That has been the effect of inflation on the first dollar ever saved in the Permanent Fund, and that is why protection against inflation is important.

Inflation protection for the Permanent Fund is provided in Alaska Statute 37.13.145. Popularly known as inflation-proofing, this provision of law was first passed by the legislature in 1982 to assist the trustees in their efforts to maintain the real value of the Fund over the long term.

Inflation-proofing protects the Fund by requiring the automatic reinvestment of income each year in an amount sufficient to completely offset the effect of inflation on the principal of the Fund during that year. The income may come from current year earnings or, if earnings are insufficient, from the earnings reserve account.

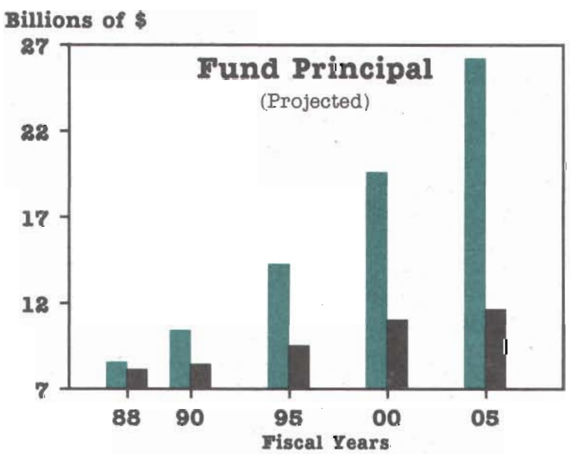
Considering again the example in the first paragraph, if inflation-proofing had been in effect since the inception of the Fund, 89 cents of income would have been added over the years to that original $1.00 of principal, so that in 1987, the nominal value of the principal would have increased to $1.89, but the real value would have remained $1.00, rather than 53 cents.

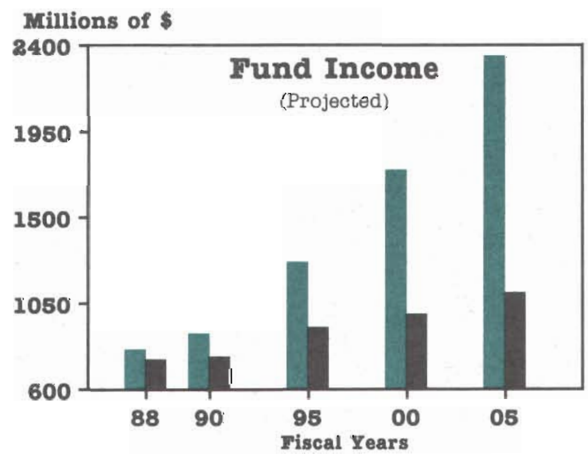
That is what inflation-proofing does: it maintains the real value — the purchasing power — of all the dollars which have been saved in the Permanent Fund.

The graphs below depict the importance of inflation-proofing. With inflation-proofing, the Fund in 2005 is projected to total more than $25 billion, with annual earnings that year in excess of $2.3 billion. Without inflation-proofing, the Fund's principal would reach only $12 billion and net income would total just $1 billion.

Thus, in nominal dollars, the Permanent Fund would grow only half as much in the next 18 years if Alaskans were to end inflation-proofing. In real dollars, adjusted for the rising cost of living, the Permanent Fund actually would be worth less in 2005 than it is today.

INFLATION-PROOFING VS. NO INFLATION-PROOFING





Assumptions:

1988 Inflation rate:	4.5%
1989 Inflation rate:	5.0%
1990-05 Average inflation:	6.0%
1988-05 Average rate of return:	9.0%

Legend:

- With inflation-proofing
- Without inflation-proofing

Inflation's Impact on Private Foundations

Maintaining the real value of a large savings account over long periods of time is not a new problem or one unique to the Permanent Fund. Foundations — funds of private wealth established for charitable purposes — have had to confront this problem as well. How successful have foundations been at keeping pace with inflation?

Not very, according to "America's Wealthy and the Future of Foundations," a 1987 study by Yale University and the Council on Foundations which addresses the economic history of large foundations. The study reveals that:

* There are 22,000 independent foundations in the United States today of which 3,500 have over $1 million in their endowments. These 3,500 foundations hold over $53 billion in assets and distribute more than $3 billion annually to a variety of non-profit causes.

* The real (inflation-adjusted) value of these foundation assets has shown no growth from 1969 to 1983. For this period of time, foundations as a class did not add enough new money to principal or reinvest a sufficient amount of net income to increase the purchasing power of their endowments.

* In addition, of the 64 largest private foundations in 1960, only 17 (one in four) were larger in real dollar terms in 1982 than they had been in 1960. Of the remaining 47 foundations, 5 were terminated, 9 declined in nominal dollars, and 33 grew but failed to keep pace with inflation.

On Inflation-Proofing

First chairman of the trustees, Elmer Rasmuson: "Inflation is like a thief in the night. It steals from you silently and nobody knows what is being done. We were urged by everyone to be sure that we put back enough money for inflation-proofing . . . . As a result of that, the first board took a strong position on inflation-proofing."

Current chairman, Byron Mallott: "The case has been strongly made for inflation-proofing as a significant policy, and in that regard, I have not seen any wavering on the part of the trustees. In fact, there's a strong consensus that it is a key to meeting the board's fiduciary responsibilities."

Former trustee, Tom Williams: "One of the things that may be overlooked a little bit in terms of inflation-proofing is its relationship with the Fund's long-term goal of a 3% real rate of return. All the different assumptions one might make about inflation will not hide the fact that if the Fund's long-term goal is achieved, the Fund will be producing a 3% real income that will be available for distribution . . . . You must also realize, despite the $1.26 billion special appropriation made last year — if inflation were to go to 10% and we didn't inflation-proof, most of that deposit would evaporate. It doesn't show up on any ledgers or anything like that, but it's gone just as surely as if it had been spent."

INFLATION-PROOFING AMOUNTS

Fiscal Year	Inflation Rate	Income Added To Principal	As a Percent of Annual Net Income
1987	1.92%	$148,142,000	14%
1986	3.57	216,376,000	21
1985	4.26	234,570,000	36
1984	3.22	150,935,000	29
1983	6.10	231,192,000	49

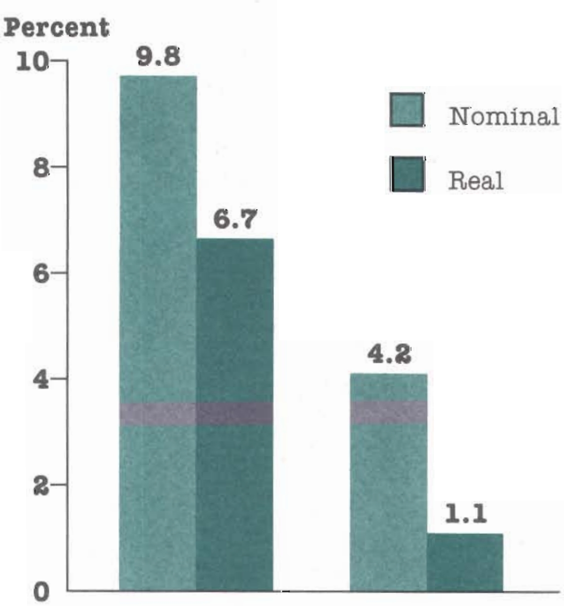
INVESTMENT POLICY

Trustees Attempt to Earn Long-Term 3% Realized Real Rate of Return

The trustees have established as an earnings goal for the Permanent Fund a realized (cash only), real (after inflation) 3% rate of return. This annualized (each year on average) goal is to be achieved over the long term, recognizing that there will be years when the Fund will do better and years when the Fund will do worse.

The goal is "long-term" oriented because the Permanent Fund is long-term oriented. The trustees base their investment decisions on what they perceive to be the best long-term interests of the Fund's beneficiaries, not on short-term gain. This strategy does not always produce maximum income, but it does follow the mandate of state law which requires Fund managers to avoid high levels of risk and to give top priority to maintaining safety of principal.

STOCKS AND BONDS
60 Years of Historical Performance



Average Annual Rates of Return
1985 — 1926

The trustees chose "3%" as the target rate of return based on an analysis of 60 years of historical returns for stocks and bonds. An average annual 3% real rate of return would be a good performance for any fund, particularly one as conservative as the Permanent Fund in which no more than 50% of its assets can be invested in higher risk (but potentially higher return) securities like common stock.

The trustees measure the "real" rate of return because it would be wrong to believe, for example, that a 10% return during a period of 15% inflation is as valuable as a 10% return during a period of 2% inflation. The real value of money is what you can buy with it, not its face value. Any increase or decrease in that value can be measured only after subtracting the effects of inflation.

The trustees target the "realized" rate of return rather than the total (cash and appreciation) return because state law requires the Fund to compute earnings in accordance with generally accepted accounting principles, specifically excluding any unrealized gains or losses. However, as permitted by generally accepted accounting principles, an exception is made for equity real estate.

To accomplish their earnings goal, the trustees regularly review the risk and reward characteristics of the Fund's three major investment types — bonds, stocks and real estate. After analyzing both the historic and the current performance of these investments, they set an annual asset allocation.

In fiscal 1987, the trustees set the following asset allocation target:

Bonds:	73.5% — 84.0%
Stocks:	13.0% — 20.0%
Real estate:	3.0% — 6.5%

Within these ranges, the Fund's investments may vary depending on changing market conditions.

Conservative Strategy Pays Off: Fund's Performance Better Than Average

The Permanent Fund's investments have been quite successful on a risk-adjusted basis. In fact, for the three-year period ending December 31, 1986, no SEI-tracked public fund investing in both stocks and bonds realized a higher rate of return for the amount of risk taken than the Permanent Fund.

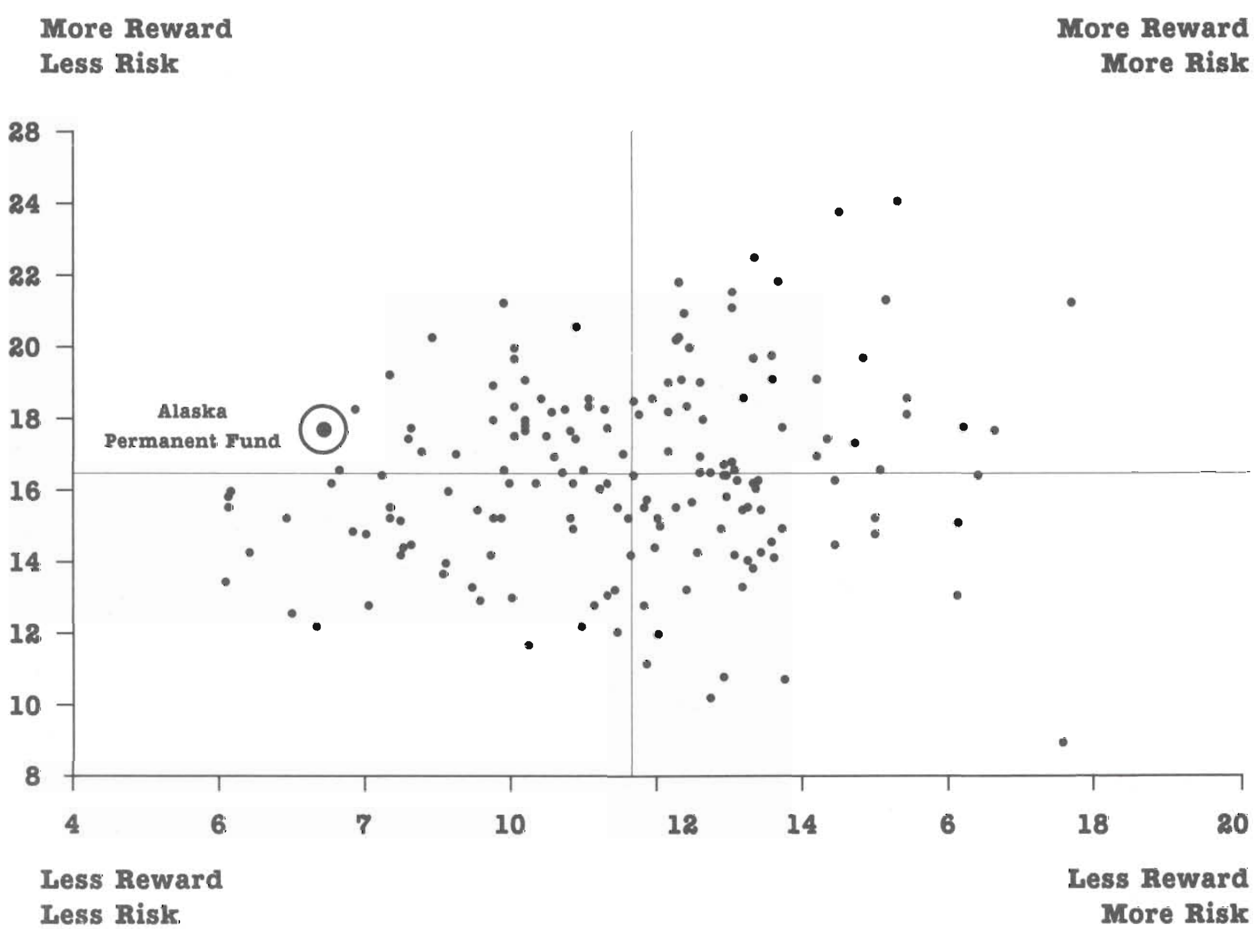
These were the main findings of an independent analysis of the investment performance of the Permanent Fund presented to the trustees at their April board meeting by SEI Funds Evaluation Services. SEI tracks the performance of over 5,000 funds.

On the chart, the horizontal axis shows risk (defined as variability of return). Risk increases from left to right. The average risk taken by all these funds is represented by the vertical line just to the left of the number 12 on the horizontal axis.

The vertical axis shows reward (defined as rate of return). Reward increases from the bottom to the top. The average rate of return for all these funds, including unrealized gains and losses, was a little more than 16% as represented by the horizontal line just above the number 16 on the vertical axis.

The upper left quartile of the chart contains those funds, including the Permanent Fund, which earned higher than average returns for less than average risk.

PERFORMANCE ANALYSIS
Public Funds Investing in Stocks and Bonds
December 31, 1986 — January 1, 1984



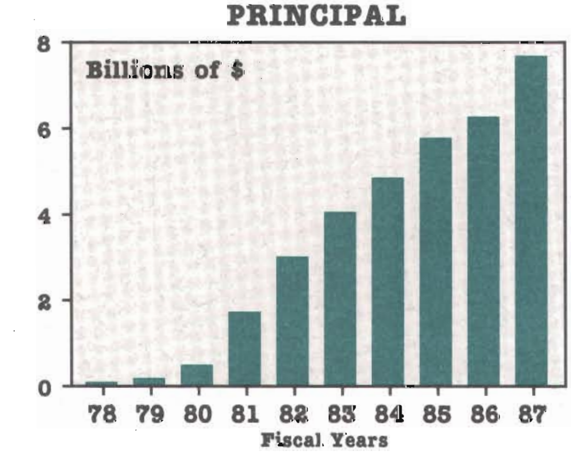
TEN YEAR REVIEW OF PERFORMANCE

Summary of Financial Data for Fiscal Years 1987 — 1978

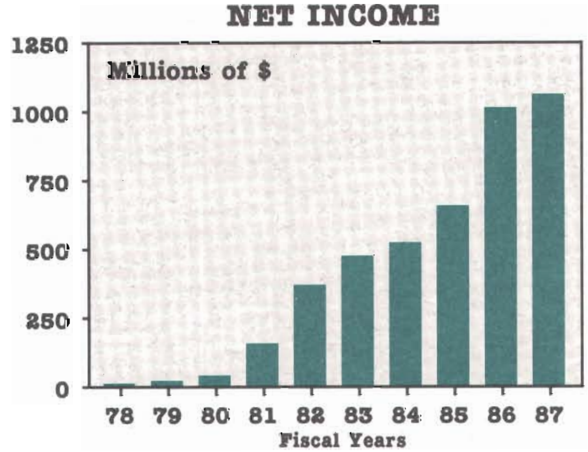
(dollars in millions)

Fiscal Year	Principal	Net Income	Total Fund Realized Gains	Total Fund Unrealized Gains (Losses)	Market Value of Bonds as % of Cost Value	Market Value of Stocks as % of Cost Value	Nominal Realized Rates of Return	Real Realized Rates of Return	Inflation Rate CPI-U
1987	$7,863.9	$1,068.5	$351.5	$551.1	102%	140%	13.37%	11.45%	1.92%
1986	6,280.8	1,021.0	323.2	970.9	109	133	14.36	10.79	3.57
1985	5,740.9	657.8	14.0	377.6	105	112	11.61	7.35	4.26
1984	4,838.3	529.5	2.1	(337.4)	94	93	10.89	7.67	3.22
1983	4,021.2	471.1		37.0	101	n/a	12.76	6.66	6.10
1982	2,969.0	368.4		36.1	101	n/a	15.10	4.73	10.37
1981	1,768.5	149.9		(52.1)	97	n/a	16.00	2.48	13.52
1980	483.2	32.4		0	100	n/a	11.29	.03	11.26
1979	138.5	8.0		(1.6)	99	n/a	8.24	.58	7.66
1978	54.4	1.8		(2.1)	96	n/a	7.53	1.08	6.45
Totals / Averages:		**$4,308.4**	**$690.8**				**12.11%**	**5.28%**	**6.83%**

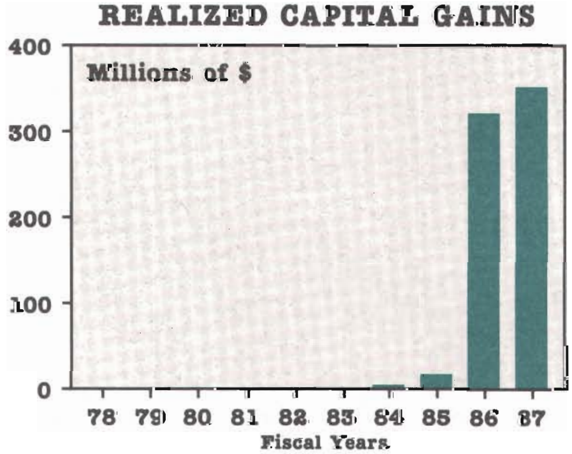
PRINCIPAL



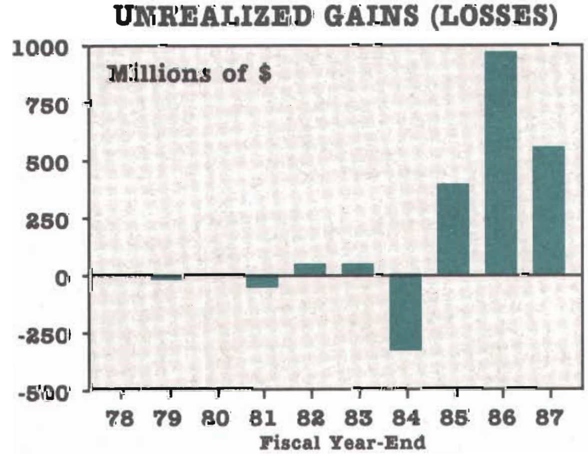
NET INCOME



REALIZED CAPITAL GAINS

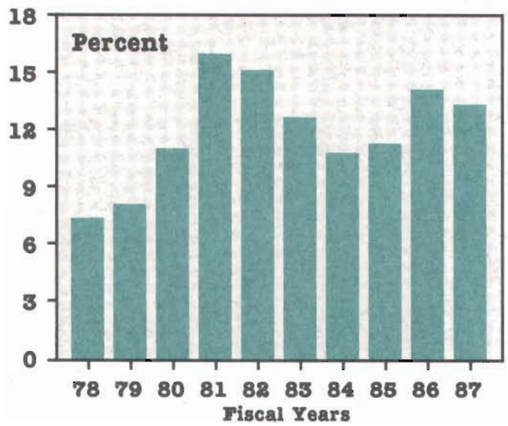


UNREALIZED GAINS (LOSSES)

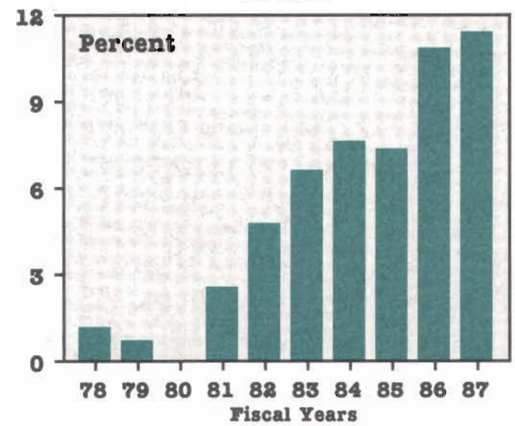


Realized Rates of Return

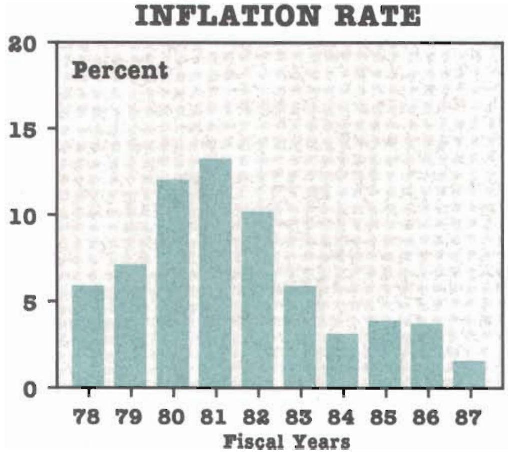
NOMINAL



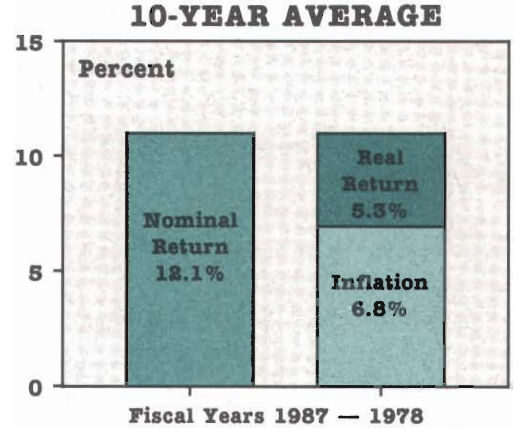
REAL



INFLATION RATE



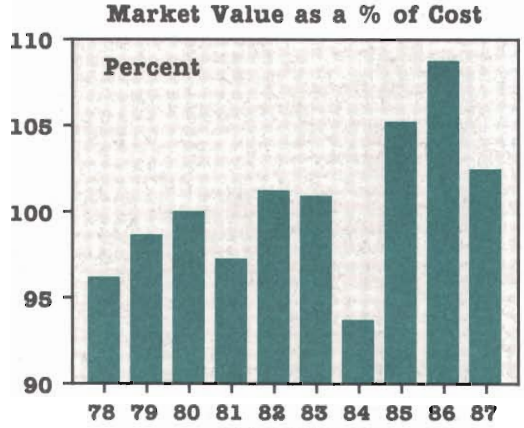
10-YEAR AVERAGE



Realized rates of return show performance solely on the basis of cash income and do not include unrealized gains or losses (see page 19). ''Nominal'' means before adjusting for the rate of inflation. ''Real'' means after subtracting the rate of inflation. The ''10-year average'' nominal return is thus a combination of the average inflation rate and the average real return for the period. The Fund's 10-year average real return of 5.3% has exceeded the trustees' long-term goal of 3%.

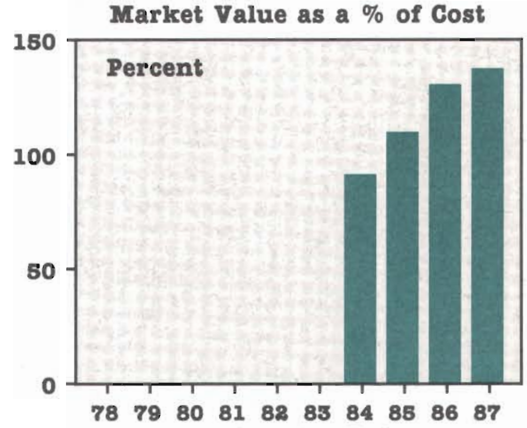
BOND PORTFOLIO

Market Value as a % of Cost



STOCK PORTFOLIO

Market Value as a % of Cost



1987 Was a Record Year for the Permanent Fund

A host of new records were set during the 12-month period ending June 30, 1987:

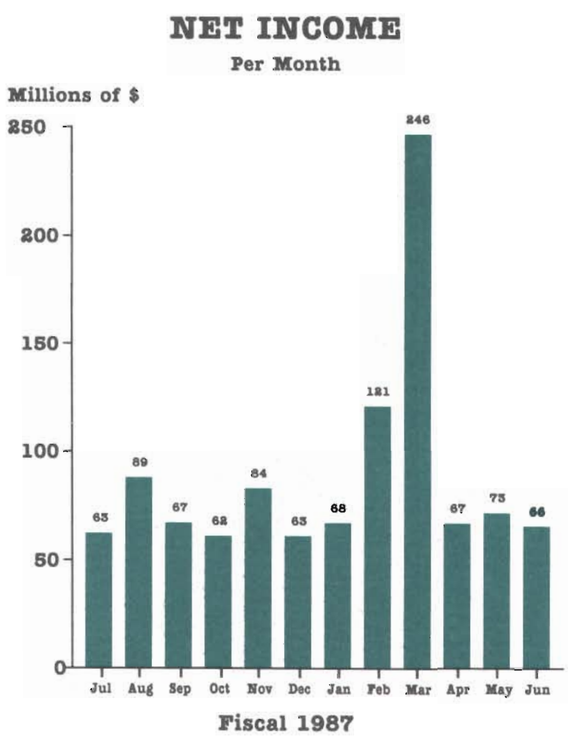
* Bolstered by the bullish performance of the domestic stock market, particularly during the second half of the fiscal year, the Fund earned in excess of $1 billion in annual income for the second consecutive year. The total amount of net income was the greatest ever — $1,068,542,000.

* Nearly one-third of this year's net income was due to unusually large realized capital gains. For the year, the Fund realized $351,494,000 in capital gains — the most ever.

* The Fund's realized rate of return for fiscal 1987, after adjusting for inflation, was 11.5% — the highest in the Fund's history.

* The amount of fiscal 1987 earnings paid out for the dividend program was the largest ever — $390,983,000.

* The 1.9% change in the calendar year average of the United States consumer price index for all urban consumers (CPI-U) was the lowest in the Fund's history.



* The amount of money deposited in the principal of the Fund on the first day of the fiscal year was the greatest one-day deposit ever — $1,264,385,000.

During fiscal 1987, the contributed equity of the Permanent Fund grew 25%, from $6.3 billion on June 30, 1986 to $7.9 billion on June 30, 1987.

Fund Income Paid to Dividends Increased in 1987

Prior to fiscal 1987, Permanent Fund income available for distribution was defined by Alaska Statute 37.13.140 as the "average net income of the Corporation for the last five fiscal years." According to the dividend formula outlined in AS 43.23, one-half of that amount is to be paid out for dividends.

Effective July 1, 1986, however, AS 37.13.140 was amended, and the "average net income of the Corporation for the last five fiscal years" was increased to "21% of the net income of the Corporation for the last five fiscal years." Thus, the percentage of income paid out for dividends was increased.

Dividends are figured on the basis of income received over a five-year period in order to reduce the effects of volatility in the financial markets. As a result, dividend recipients do not enjoy the full and immediate benefit of large increases in annual Fund income — but neither do they suffer the full and immediate consequences of large declines.

To date, the Fund has only enjoyed large increases, but prudence and a sense of history would indicate that someday there will be declines as well. The current system provides a measure of stability for that day, and it increases the likelihood that annual dividend payments will steadily grow as the Fund itself steadily grows.

Bond Portfolio Earned a Realized Return of 9.2%

For the period ending June 30, 1987, the bond portfolio (all managed fixed-income securities) of the Permanent Fund earned a realized rate of return of 9.2%, computed at market value. The yield at cost on the managed fixed-income portfolio for fiscal 1987 was 10.35%. The bond portfolio includes more than three-quarters of the Permanent Fund's total assets.

The bond portfolio is the Fund's most conservative investment, and consists primarily of obligations of the U.S. government.

At June 30, 1987, the weighted average life of the bond portfolio was 8 years, 6 months, and the weighted average yield to maturity was 9.5%. This compares to 7 years, 6 months for the weighted average life and 10% for the weighted average yield at the end of fiscal 1986.

The composition of the bond portfolio at June 30 was as follows:

Length to Maturity	*1987*	*1986*
0 — 2 years	23%	22%
2 — 5 years	20%	23%
5 — 10 years	39%	40%
10 years +	18%	15%

BOND PORTFOLIO HISTORICAL PERFORMANCE

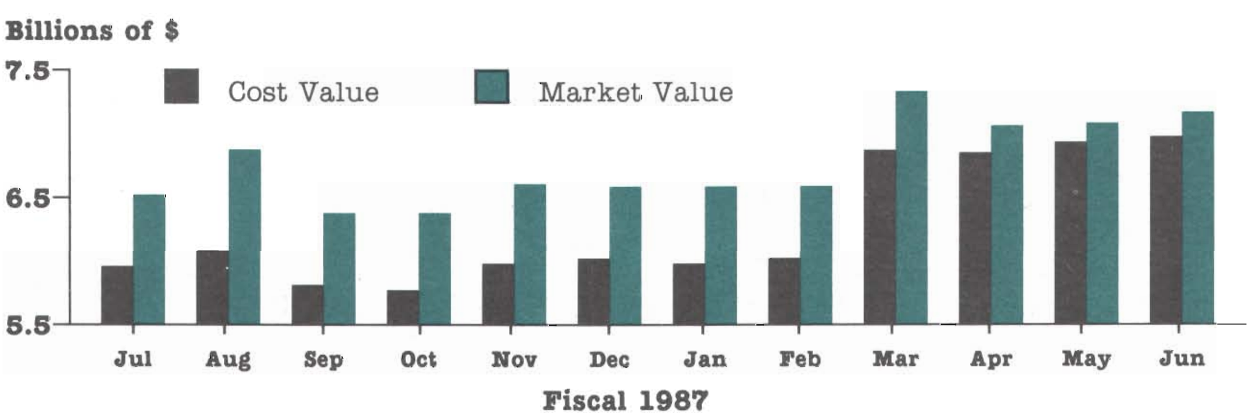
Fiscal Year	**Realized Return**	**Total Return**
1987	9.2%	4.0%
1986	10.5	21.0
1985	12.0	25.7
1984	12.3	4.3
1983	13.6	14.6
1982	12.8	14.4
5-year:	11.5	13.6
3-year:	10.6	16.5

Returns are computed based upon market value. The period returns are annualized.

The cost value of the managed fixed-income portfolio increased 16.4% during fiscal 1987, from \$6.1 billion on June 30, 1986 to \$7.1 billion on June 30, 1987.

The market value increased 9.1% during fiscal 1987, from \$6.6 billion on June 30, 1986 to \$7.2 billion on June 30, 1987.

THE VALUE OF THE BOND PORTFOLIO



The cost value refers to the price paid by the Corporation upon purchase (adjusted for amortization or accretion). The market value refers to the price the Corporation would receive upon sale on a particular date. When the market value of an asset increases and the Corporation sells that asset, there has been a "realized gain." The Corporation took \$23 million in realized gains from the sale of bonds during fiscal 1987, and that was included as part of net income. When the market value of an asset increases and the Corporation does not sell that asset, it is an "unrealized gain." As of June 30, 1987, the unrealized gains totaled \$166 million.

Stock Portfolio Earned a Total Return of 22.2%

For the period ending June 30, 1987, the stock portfolio of the Permanent Fund earned a total return of 22.2%.

The investment strategy for the Permanent Fund stock portfolio divides equity investments between two types of management: passive and active. The passive investment is managed by Bankers Trust Company. The active management is divided among five different equity managers: (1) Lehman Management Company; (2) Citicorp Investment Management; (3) Rosenberg Capital; (4) Invesco Capital Management; and (5) Eaton/Vance.

Invesco and Citicorp became active managers for the Corporation this fiscal year, receiving their first funds in September 1986. The other managers have been associated with the Corporation since the trustees initiated the Fund's stock investment program in 1983.

In fiscal 1987, $199 million was disbursed to the Corporation's equity managers as follows:

Bankers Trust	$60 million
Citicorp	54 million
Invesco	54 million
Lehman	11 million
Rosenberg	10 million
Eaton/Vance	10 million

The basic rules for Permanent Fund investments are: (1) no more than 5% of the voting stock of any corporation may be acquired or held; (2) stocks, except for bank and insurance company stocks, must be listed at the date of purchase on an exchange registered with the Securities and Exchange Commission; and (3) only the stock of corporations incorporated in the U.S. may be acquired or held.

The purchase of options on any security or on margin, or purchases in the commodities futures markets, or purchases of futures contracts for any purpose other than hedging, are prohibited.

The trustees' current investment policy requires that investments in equities comprise from 13% — 20% of the total assets of the Fund at market value; the exact percentage varies depending on market conditions. On June 30, 1987, the actual percentage was 13.5%.

Equity Strategy Changed in 1987

At a special teleconference meeting held on February 24, 1987, the trustees decided to implement a major change in the Fund's equity investment strategy.

Historically, the long-term strategy for the Permanent Fund stock portfolio divided equity investments between two types of management: two-thirds passive and one-third active. The idea was to parallel the market's performance with two-thirds of the Fund's stock investments (passive management), and to strive for superior performance with the remaining one-third of the investments (active management).

After reviewing current market conditions, however, the trustees concluded that while the long-term "buy and hold" strategy of passive management is well-suited for a rising market, in a declining market active management can do more to protect a portfolio from losing value.

Concerned about an eventual market correction of significant proportions, they decided that it would be prudent to decrease the percentage of the portfolio under passive management. Regardless of how much higher the stock market would ultimately go, the trustees reasoned, caution seemed to dictate that holdings in common stock be pared back and profits taken in an orderly, disciplined manner.

Consequently, they instructed staff to realign the passive/active mix from 2/3 — 1/3 to 1/2 — 1/2. This realignment was accomplished by selling off a portion of the passively-managed index fund. Between February 26 and March 13, the Fund sold 14.5 million shares of stock worth $713 million, and in the process realized a capital gain of $221 million.

STATUS OF EQUITY INVESTMENTS

At June 30, 1987

(in millions)

Equity Managers	Cost	Market	Unrealized Gain
Bankers Trust	$428	$ 653	$225
Rosenberg Capital	133	190	56
Lehman Management	149	174	25
Eaton/Vance	94	131	37
Invesco	44	53	10
Citicorp	51	59	8
Totals:	**$899**	**$1,260**	**$361**

PERFORMANCE OF EQUITY MANAGERS

Equity Managers	Rate of Return Fiscal 1987	Annualized Return Since Inception
Rosenberg Capital	26.8%	23.5%
Lehman Management	25.2	23.0
Invesco	24.5 (9 months)	24.5
Bankers Trust	23.4	21.8
Citicorp	22.1 (9 months)	22.1
Eaton/Vance	9.3	13.7
Standard & Poor's 500 Stock Index	25.2	22.3
Stock Portfolio Average:	**22.2%**	**20.7%**

The rate of return is a time-weighted total return which includes dividends and capital gains and losses, both realized and unrealized. Invesco and Citicorp began investing for the Fund in September 1986, the other managers in July 1983.

25 LARGEST HOLDINGS IN THE STOCK PORTFOLIO

(in millions)

IBM	$57	McDonald's Corporation	$10
Exxon Corporation	26	Atlantic Richfield	10
General Electric	26	Sears, Roebuck & Company	10
3M	16	Coca-Cola Company	9
Squibb Corporation	15	AT&T	9
Hewlett-Packard	13	Johnson & Johnson	8
Merck & Company	13	General Motors	8
Emerson Electric	13	Ford Motor Company	8
Mobil Corporation	12	Newmont Mining	7
PepsiCo	11	Phillip Morris Companies	7
American Express	11	Chubb Corporation	7
E.I. du Pont	10	Digital Equipment	7
American International Group	10		

Note: Market value as of June 30, 1987

Equity Real Estate Portfolio Earned 12.3% Total Return

The total return for Permanent Fund equity real estate investments for fiscal 1987, as computed by the Corporation's real estate consultant, Pension Realty Advisors of San Francisco, California, was 12.3%. The realized return for the same period equaled 7.5%.

The Fund disbursed $109 million for equity real estate investments in fiscal 1987, compared to $84 million in fiscal 1986.

Investments funded as of June 30, 1987 totaled $313 million at cost, or $341 million at market value, plus undistributed earnings (see Note No. 6, page 41). This Permanent Fund investment of $313 million has purchased a 14% combined interest in 230 properties nationwide which are valued at more than $2.9 billion.

The first equity real estate investment was made in October of 1983. Since then, the Fund's equity real estate portfolio has earned an annualized total return of 14.4%, of which 7.5% has been in income and 6.9% has been in appreciation.

There are two types of assets in the equity real estate portfolio: (1) real estate pools, and (2) joint ventures with other institutional investors.

Real Estate Pools — These pools consist of the investment contributions of many institutional investors. They are sponsored by professional real estate investment managers with demonstrated experience in the acquisition and management of real estate assets on behalf of institutional investors. The sponsors of the funds maintain investment discretion of the assets.

Joint Ventures — These assets take the form of limited or general partnerships and involve either property ownership or participating mortgages. A participating mortgage provides a fixed rate of return, a share in the lease profits, and a share in the appreciated value of the property.

Diversification of the equity real estate portfolio at June 30, 1987 was as follows:

By Property Location:

East	41%	South	23%
West	19	Midwest	17

By Property Type:

Retail	52%	Office	33%
Industrial	11	Residential	4

By Investment Type:

Joint Ventures	76%
Real Estate Pools	24

By Investment Advisor:

Heitman	30%
Lehndorff & Babson	16
CPI	15
Kennedy	10
JMB	8
CIGNA	7
Aetna	6
Boston Co.	5
Equitable	3

EQUITY REAL ESTATE PORTFOLIO HISTORICAL PERFORMANCE

Fiscal Year	Total Return	Realized Return
1987	12.3%	7.5%
1986	15.6	8.1
1985	20.4	9.1
1984	7.9	7.9

1987 INVESTMENTS

Tysons Corner Shoppng Center	$28,190,000
Harman International Business Campus	23,685,000
The Club Apartments	12,348,000
One City Center Office Building	8,014,000
1000 Parkwood Office Building	4,664,000
Arboretum Lakes	11,477,000
Endowment & Foundation — JMB III	5,000,000
MN-TX Business Center	743,000
McKinley Mall	15,085,000

Rules for Investing in Equity Real Estate

Equity real estate is defined as "any investment in real property, or security interest in real property, the return on which is significantly dependent upon the property's net income or change in value. Included in this definition are 100% fee ownership of property, joint venture interests, participating first mortgages or ground leases, and equity real estate investment trusts or partnerships which are not publicly traded."

The investment strategy for the equity real estate portfolio is structured to maintain safety of principal and maximize total return. Funds are invested only in income-producing properties (real estate improved by completed and substantially-rented buildings) located in the United States. The objective is to seek a 6% rate of return, after inflation and over the long term.

Even though consideration is given to total return (income plus appreciation), each investment is expected to generate income over the anticipated asset holding period at a rate which matches or exceeds the expected rate of inflation. In addition, total return expectations are assessed using alternative inflation rate assumptions as well as various financial, operating and leasing scenarios.

To be considered for investment by the Permanent Fund, potential properties: (1) must have a high probability of providing continuous cash flow; (2) must offer minimal income volatility; and (3) must be subject to development of reliable projections of future earnings. As in all Permanent Fund investment decisions, the equity real estate decisions must be guided by the prudent investor standard embracing the process typically used by experts in the areas of investment acquisition, management and disposition. All equity real estate investments have elements of risk. To minimize risks attributable to regional economic imbalances, property performance volatility, and management style, the equity real estate portfolio exhibits diversification by location, property type, investment type, and investment manager.

Individual investments may be pure equity or a combination of equity and debt, but at least 60% of the beneficial ownership interests must be held by other institutional investors.

Eligible co-investors must embrace investment objectives and goals which are substantially consistent with those of the Permanent Fund and may include: public employee retirement systems; corporate employee benefit funds; equity real estate commingled funds; insurance company general accounts; and instrumentalities of government.

EQUITY REAL ESTATE ADVISOR PERFORMANCE
Annualized Returns Since First Purchase
At June 30, 1987

Advisor	Date Funded	Net Investment	Realized Return	Total Return
Aetna Life & Casualty	11/13/85	$ 19,573,000	6.6%	16.3%
Cigna Investment	10/01/84	25,000,000	8.5	10.1
Boston Company	12/22/86	17,590,000	7.8	8.3
Equitable Life Assurance	04/02/84	8,062,000	8.6	14.3
Heitman Advisory	02/19/85	92,956,000	7.8	17.1
JMB Institutional	10/04/83	25,000,000	6.8	10.7
Lehndorff & Babson	01/30/85	53,847,000	6.1	12.2
CPI	08/15/84	40,450,000	7.0	19.6
Kennedy & Associates	12/17/86	35,165,000	10.0	10.4
Totals / Averages:		**$317,643,000**	**7.5%**	**14.4%**

56 Permanent Fund Bills in 1987 Legislature

Fifty-six Permanent Fund bills were introduced in the first session and first special session of the 15th Alaska State Legislature.

One bill directly affecting the Corporation became law:

House Bill No. 75: Chapter 95, Session Laws of Alaska (SLA) 1987. This bill contains the fiscal 1988 operating budget for the State of Alaska, and includes an appropriation of $5,400,200 for the Alaska Permanent Fund Corporation. Other items of interest in the bill:

$391 million: appropriated from the Permanent Fund to the dividend fund (an account of the General Fund) for the 1987 dividend distribution;

$11.5 million: appropriated from the dividend fund to the departments of Revenue and Health & Social Services for dividend program costs.

One bill affecting the dividend program became law:

House Bill No. 83: Chapter 57, SLA 1987. This bill changes the period of residency used to determine eligibility for the Permanent Fund dividend program; requires dividend check stubs to contain a statement disclosing the amount by which each individual dividend has been reduced to pay the costs of administering the dividend program, including the "hold harmless" provisions; requires that all persons entitled to dividends from prior years be paid first from the current year's dividend appropriation before that year's per capita dividend amount is computed; and establishes that all future unexpended and unobligated dividend appropriations automatically will lapse into the dividend fund on June 30 of each year.

One bill passed both bodies of the legislature but was vetoed by the governor:

Senate Bill No. 227. This bill would have allowed state agencies owed money by dividend applicants to execute claims against those applicants' dividend checks without going through judicial proceedings. It was vetoed for cost reasons.

Perhaps the most controversial Permanent Fund bill this year was **Senate Bill No. 157.** This bill passed both the House and the Senate during the regular session but in different versions, and no compromise was reached.

SB 157, in the version that passed the Senate early in March, would have appropriated up to $154 million from the earnings reserve account in the Permanent Fund to the General Fund to balance the fiscal 1987 state budget. On the 118th day of the 120-day session, the Senate asked the House to return SB 157 to the Senate for recision, saying that "the emergency justification which was considered some time ago for SB 157 is no longer justified." Further, the Senate stated its position on the use of Permanent Fund earnings: "The people of Alaska are the owners and stockholders in the Permanent Fund. Before its earnings are spent they must have a say in how those earnings are to be disposed of."

The House responded by passing their own version of the bill. It would have appropriated $516 million from the earnings reserve account in the Permanent Fund to the budget reserve fund in the General Fund — but with a couple of conditions. First, the money was to remain in the Permanent Fund until such time as it was actually needed to pay state bills during fiscal 1988; and second, any amounts not transferred by the end of the year would lapse back into the Permanent Fund.

In the special session, the governor requested a bill, which was a variation on the House version of SB 157, to ensure that money from the earnings reserve account would be available to cover any potential deficit in fiscal 1988 spending. That bill also did not pass.

Four Permanent Fund bills passed only the House:

House Bill No. 113. This bill would reappropriate from the dividend fund to the General Fund about $24 million in unexpended prior year dividend appropriations. It reached Senate Finance.

House Bill No. 160. This bill would establish a Commission on the Future of the Permanent Fund to provide for public testimony on the use that should be made of the income of the Permanent Fund. It reached Senate State Affairs.

House Bill No. 35. This bill would prohibit certain assignments of the right to receive a Permanent Fund dividend. It reached Senate State Affairs.

House Bill No. 57. This was the only bill to pass the House which would have added another check-off to the dividend application. If enacted, it would allow applicants to make voluntary contributions of $25, $50, $100, $250, or the entire amount of the dividend to the Alaska Children's Trust Fund. It reached Senate Rules.

Seven Permanent Fund bills passed only the Senate. Of these, one was similar to HB 57, but without a dividend check-off, and four others would have added dividend check-offs for various organizations. The remaining bills were:

Senate Joint Resolution No. 40. This proposed constitutional amendment would ask the voters to approve, for a period of five years, the so-called "40-30-30 plan" for the use of Permanent Fund earnings. In essence, this proposal would:

— add all the Fund's net capital gains to principal, then allocate 40 percent of the remaining annual earnings to dividends, 30 percent to inflation-proofing; and 30 percent to a budget reserve fund;

— establish a new spending limit; and

— create a new budget reserve fund.

In addition, the proposal would permanently change Article IX, Section 15 of the Constitution by adding language to ensure that the Permanent Fund is established " . . . as a trust on behalf of all the residents of the state and its principal shall be invested in accordance with the prudent investor rule. . . ." SJR 40 reached House State Affairs.

Senate Bill No. 56. This bill would enact the Senate's annuity program to replace the current longevity bonus program. It reached House State Affairs.

Though no other Permanent Fund bills passed either the House or the Senate, there was significant action on several:

House Bill No. 217 and Senate Bill No. 218. These identical bills would authorize foreign investments for the Permanent Fund. HB 217 passed House State Affairs and Judiciary, and reached House Finance. SB 218 passed the Senate International Trade Committee, and reached Senate Finance.

House Bill No. 207. This bill would amend AS 37.13 to provide that all Permanent Fund net capital gains be added to principal at the end of each fiscal year. The bill passed State Affairs and Judiciary, and at session's end remained in the House Finance Committee.

House Bill No. 246. After six successful House floor amendments, this all-purpose dividend check-off bill would have allowed voluntary contributions of $10 to various organizations: political parties, Arctic Winter Games, Alaska Public Broadcasting Commission, Alaska State Council on the Arts, community schools programs, United Way, World Eskimo-Indian Olympics, Alaska Volunteer Health Agencies, Inc., Alaskans for Litter Prevention and Recycling, Boys' Clubs and Girls' Clubs of Alaska, Alaska Head Injury Support Group, Iditarod Trail Committee, Kuskokwim 300, Yukon Quest Dog Sled Race, local dog mushers's associations and (fill in the blank). Finally, the House voted to return the bill to House Rules.

Senate Bill No. 307. This bill would appropriate the entire balance in the earnings reserve account in the Permanent Fund on July 1, 1987 to the principal of the Permanent Fund. It reached Senate Rules.

All bills introduced in the legislature's first session remain on the table for consideration in the second session.

Permanent Fund Dividends Boost State Economy

Each year, the Permanent Fund makes a major contribution to Alaska's economy by distributing directly to all the residents of the state hundreds of millions of dollars in Permanent Fund dividends.

In the fall of 1986, for example, $303 million of Fund earnings — minus administrative and other costs associated with the dividend program — were paid out to more than 530,000 Alaskans in the form of individual dividend checks totaling $556.26 per capita. On June 30, 1987, another $391 million of Fund earnings were set aside for the 1987 dividend distribution and related costs.

Over the past five years, the Permanent Fund dividend program has created thousands of in-state jobs and has added significantly to the disposable incomes of many Alaskan families. Since 1982, this use of Permanent Fund earnings has put $1.3 billion directly into the state economy.

With great economic efficiency and unparalleled equal treatment, the dividend program produces the most positive macroeconomic impact, dollar for dollar, of any type of government expenditure.

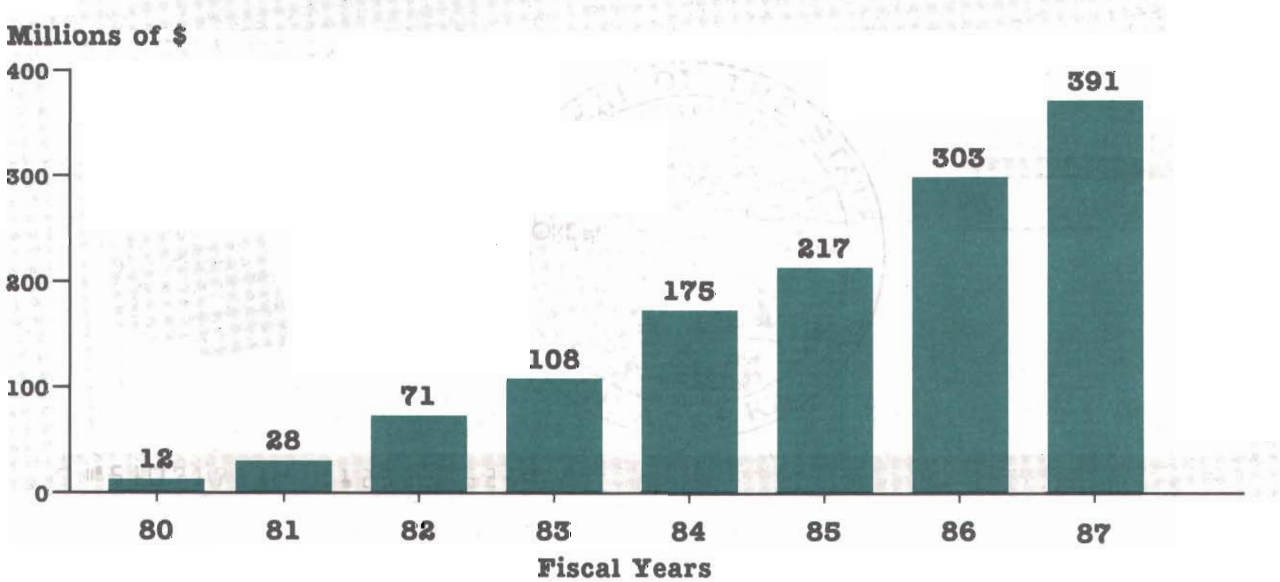
In addition, this program has grown so large that Permanent Fund dividends have become a significant structural component of the state's annual economy — Permanent Fund dividends are now the fifth largest primary industry in Alaska. Only oil, military and other federal spending, fishing and tourism generate more new money to expand the state's economy each year; dividends make a larger economic contribution than timber, minerals or coal.

The dividend program is not administered by the Corporation. It is administered by the Department of Revenue under Alaska Statute 43.23. The Corporation's responsibility is simply to transfer the money required for the dividend distribution to the dividend fund in September of each year, in response to an annual legislative appropriation.

The amounts of per capita dividends in earlier years were:

$ 556.26	1986
404.00	1985
331.29	1984
386.15	1983
1,000.00	1982

FUND INCOME PAID OUT FOR DIVIDENDS



Fund Makes Investments In Alaska

Not only does the Permanent Fund boost Alaska's economy by distributing a significant portion of its income as dividends, it also provides economic benefits through the in-state investment of some of its principal. As of June 30, 1987, almost $400 million, or 5%, of the principal of the Permanent Fund was committed to investments in Alaska, and nearly $224 million had been disbursed and was outstanding.

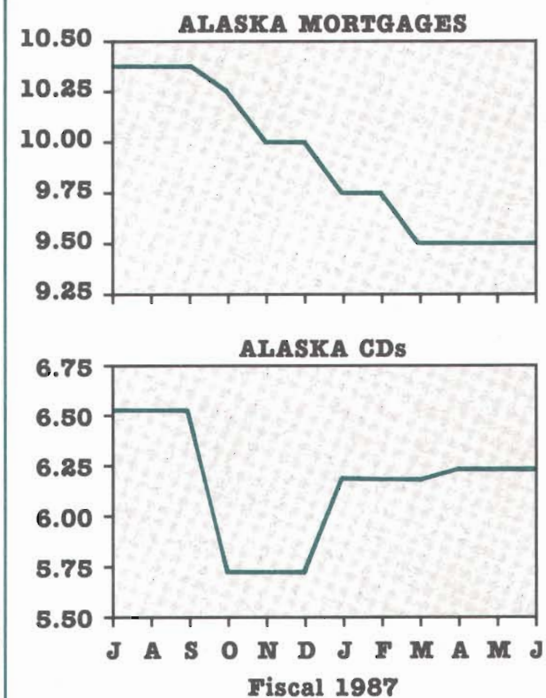
Alaska Certificates of Deposit. This investment program, which was initiated in March of 1984, is intended to assist economic development in the State of Alaska. Funds are made available to Alaskan financial institutions at market rates of return and with minimal risk on an open and continuous basis. It was temporarily suspended in late January of this year, and resumed again in June.

The suspension occurred due to concern about the quality of the program's underlying collateral. Given the tremendous decline in the value of Alaska real estate during the last two years, the trustees felt a fiduciary responsibility to conduct an in-depth review and audit to ensure that these investments of the Permanent Fund were still safe. Although the audit confirmed that the Fund was still fully protected, the trustees incorporated a few additional safeguards into the program. Including the changes, the program works as follows:

The Permanent Fund purchases certificates of deposit issued by Alaskan banks for three-year terms at an interest rate equal to the 90-day U.S. Treasury bill rate, plus 75 basis points, adjusted quarterly. All CDs must be at least 102% collateralized, and no more than half of the collateral can be in the form of uninsured loans. Individual banks are prohibited from borrowing in excess of 100% of their capital.

Through this program, the Permanent Fund is participating indirectly in commercial development in Alaska. These Fund assets have helped provide capital for local development, but with Fund exposure only to the bank risk, not the project risk. Lending rates for the year varied from 5.7% to 6.5%. At year-end, $183 million had been disbursed and was outstanding.

Fund Interest Rates



Alaska Residential Mortgages. The trustees have allocated $80 million for investment in Alaskan residential mortgages (owner-occupied, one-to-four units). These are offered at market rates, adjusted once each year, for a term not to exceed 30 years. There is a 6% cap on the adjustable rate over the life of the loan.

During fiscal 1987, at rates ranging from 9.5% to 10.375%, only 11 loans were closed, amounting to $3.1 million. As of June 30, 1987, the Fund's home mortgage portfolio consisted of 256 loans totaling just under $42 million. There were 14 properties worth a total of $2 million which were over 60 days delinquent (a delinquency rate of 4.7%). Real estate owned included 23 properties worth $2.9 million.

Alaska Equity Real Estate. Though no investments have been made to date in properties in Alaska, the Permanent Fund can and will invest in Alaska real estate whenever the risk level and expected yield are comparable to alternate investments.

Public Information and Accountability: A High Priority for the Trustees

The Permanent Fund is a public trust which belongs, collectively, to all Alaskans. Since everyone in Alaska is a beneficiary, the trustees have a responsibility to be accountable to everyone throughout the state. As difficult as this is, the trustees take this responsibility very seriously.

Consequently, the trustees have designed a public information and accountability program to provide the greatest amount of information about the Fund to the largest number of people in the most cost-effective manner. Every effort is made to ensure that the Alaskan public understands the history of the Fund, how it works, how it's doing, and its role in the future.

With billions of dollars of public money at stake, there are significant dangers that the wealth may somehow be dissipated — by poor investments, improper management, or premature withdrawals to spend the public's savings on special interests. The best insurance against such risks is an informed constituency. In fact, in the view of the trustees, a well-informed public is essential to the long-term viability of the Permanent Fund.

Elements of the Corporation's public information program include:

Monthly Financial Statements. These reports are the cornerstone of the print communications effort. They convey all the current financial information in a timely manner, and each month include an educational narrative which highlights a different aspect of Fund operations. The financials are mailed to all Alaskan news outlets and everyone who requests them. At year-end, the mailing list totaled about 800 persons and organizations.

Open Meetings. It is the policy of the trustees to conduct all meetings of the Alaska Permanent Fund Corporation as open meetings. Meetings are advertised in advance, and the general public is encouraged to attend and participate at each meeting. The trustees met twelve times in fiscal 1987. Summary minutes of all meetings are on file in the Corporation's Juneau office.

Speakers Bureau. In fiscal 1987, trustees and staff formally spoke to 55 civic groups and organizations around the state as part of an organized effort to reach out to Alaskans from all walks of life.

Instructional Television Program. This 25-minute educational video production and accompanying 120-page teacher's guide is designed to provide Alaska's secondary school students with basic information about their Permanent Fund.

Produced in 1985 and entitled "For All of the Future," the program is set in a dramatic format. Junior and senior high school teachers who are interested in using this program should contact the Corporation's Juneau office.

Permanent Fund Dividend Brochure. Included in the envelope which contains each recipient's dividend check is a simple, easy-to-understand brochure providing basic information about the Alaska Permanent Fund. The brochure is produced by the Corporation and distributed with the cooperation of the state Department of Revenue — the agency which administers the dividend program.

The Corporation also distributes: (1) annual reports; (2) brochures describing the Fund's Alaskan home mortgage program; (3) financial projections which detail current expectations of future Permanent Fund revenues, earnings, and balances; and (4) research papers on various topics of concern to the Corporation.

Finally, and as required by law, the Corporation published its fiscal 1986 annual financial statements in newspapers in each judicial district, and included descriptive material about the Permanent Fund in the biennial election pamphlet mailed to each registered voter in the last statewide election.

Expect a Gradual Resurgence of Inflationary Pressures

Long-term interest rates have been trending higher in response to increased fears of inflation arising from higher oil and commodity prices. Expanding economic activity has also heightened concerns regarding upward pressure on interest rates. While the trend in inflation is very likely upward, any near-term strength of the dollar will temporarily mitigate such pressure.

While we may experience periods of relative interest rate stability over the balance of the calendar year, the outlook for 1988 is not encouraging. There is reason to believe that the era of disinflation is coming to an end. The unprecedented growth in money and credit during this decade will begin having an impact. The impact is likely to go beyond the financial markets and begin to affect the prices of goods, services, and labor. During 1988, there may well be a quickening in the growth of wages, emerging bottlenecks in several product markets, and prospects of higher federal excise taxes.

A tightening labor market propelling wages higher, tighter import restrictions (protectionism), and low productivity growth will likely be significant factors in the growth of inflation in 1988 as will increases in industrial commodity prices. Capacity constraints in the primary processing industries are likely to transmit inflationary pressures to the rest of industry. Capacity measures may overstate capacity availability as it may well be impracticable to reopen many closed plants which are still being carried on the books. As a result of these factors, wage gains could be surprisingly strong in 1988.

Several factors have held import prices down prior to mid-1987. Foreign exporters, for one, were willing to suffer contraction of their profit margins in order to maintain market share. Domestic manufacturers have also had to face the fierce competition of imports from the newly industrialized countries of Asia. The currencies of these countries have not appreciated nearly as much against the dollar as have the Japanese yen, the German mark, and the Swiss franc. Also, up to mid-1987, domestic consumer durable demand and demand for capital goods had remained weak.

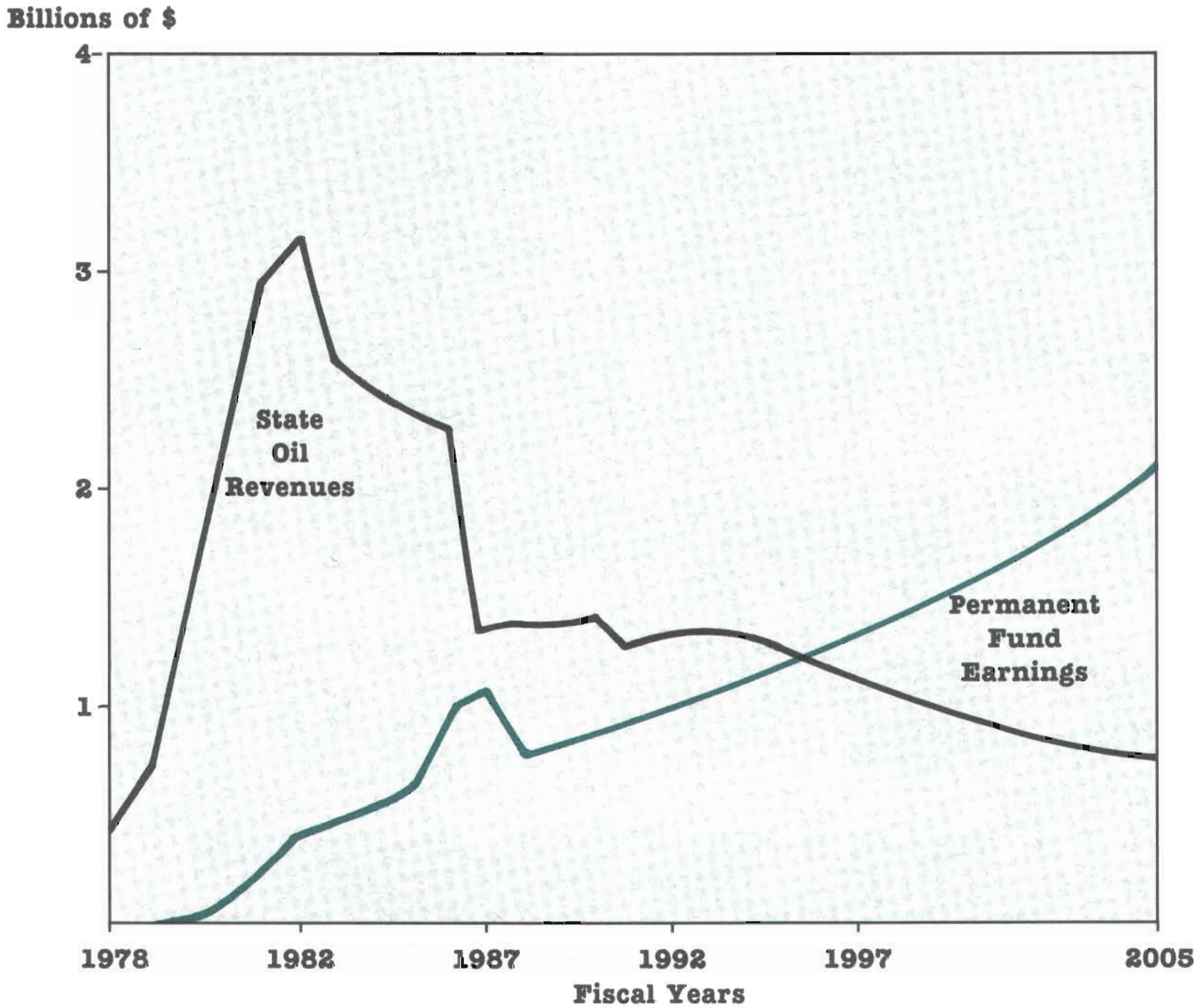
At least through 1988, there is likely to be a considerably greater pass-through of exchange rate moves into import prices. Increasingly, a number of analysts are projecting that significant periods of dollar weakness lie ahead. Both domestic and foreign bond investors are likely to feel increasingly frustrated as interest payments on foreign claims largely offset improvements in trade. Further declines in the dollar will lead to pressures on profit margins in Europe and Japan of such magnitude that price increases in dollar terms on foreign export items will become unavoidable. Also, domestic manufacturers will likely feel greater freedom to increase prices of their U.S. products as the Taiwanese and Korean currencies continue to appreciate. At the same time, rising economic activity and rising incomes in this country will likely lead to a larger appetite for imported goods.

After seven years of disinflation, the change to a more inflationary environment is not apt to be rapid or obvious. However, as 1988 progresses, the momentum of inflation may prove to be considerably greater than most anticipate. Inflation of 5 — 6% for 1988 would not be surprising, along with higher interest rates. Only the onslaught of a recession would lead to a substantially different scenario for interest rates. A recession in the U. S. would likely lead to a worldwide economic contraction as U.S. imports dropped precipitously, exacerbated by protectionist measures. The immediate impact would be for lower interest rates followed by a period of currency turmoil during the recovery phase.

TOTAL STATE OIL REVENUES VERSUS PERMANENT FUND EARNINGS

1978 — 2005

(Actual and Projected)



This graph depicts the relationship between the total oil revenues received each year by the state (net of constitutionally-dedicated contributions to the Permanent Fund) and the annual earnings of the Permanent Fund, from the inception of the Fund into the 21st century. The lines covering the period 1978 — 1987 reflect the actual numbers. For the years 1988 — 2005, the lines are projections based on forecasts by the state Department of Revenue and the Alaska Permanent Fund Corporation. According to these projections, Fund earnings will overtake oil revenues and become the number one producer of state income by 1995.

ALASKA PERMANENT FUND CORPORATION

Financial Statements
June 30, 1987 and 1986

REPORT OF INDEPENDENT ACCOUNTANTS

Ernst & Whinney

Suite 601
301 W. Northern Lights Boulevard
Anchorage, Alaska 99503

907/279-1411

Board of Trustees
Alaska Permanent Fund Corporation
Juneau, Alaska

We have examined the statements of assets, liabilities and fund equity of the Alaska Permanent Fund Corporation as of June 30, 1987 and 1986, and the related statements of revenues and expenses, changes in fund equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Alaska Permanent Fund Corporation at June 30, 1987 and 1986, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Anchorage, Alaska
August 7, 1987

STATEMENTS OF ASSETS, LIABILITIES AND FUND EQUITY

	June 30, 1987	June 30, 1986
ASSETS		
Cash and temporary investments - Note 3	**$ 162,921,000**	$ 172,270,000
Receivables and prepaid expenses - Note 4	**176,338,000**	143,887,000
Investments —		
Marketable debt securities - Note 5		
Short-term	**172,594,000**	353,772,000
Intermediate and long-term	**6,823,519,000**	5,592,957,000
Total debt securities	**6,996,113,000**	5,946,729,000
Real estate - Note 6		
Equity pools	**79,965,000**	67,509,000
Participating mortgages	**20,330,000**	8,000,000
Limited partnerships	**61,780,000**	46,411,000
General partnerships	**179,147,000**	102,385,000
Total real estate	**341,222,000**	224,305,000
Preferred and common stock - Note 7	**898,730,000**	1,179,718,000
Alaska residential mortgages - Note 8	**41,530,000**	48,440,000
Alaska certificates of deposit - Note 9	**182,725,000**	150,525,000
Total investments	**8,460,320,000**	7,549,717,000
Property and equipment at cost, less accumulated depreciation of $340,000 in 1987 and $194,000 in 1986	**337,000**	473,000
Total assets	**$8,799,916,000**	$7,866,347,000
LIABILITIES		
Accounts payable - Note 10	**$ 15,660,000**	$ 1,788,000
National petroleum reserve (Alaska) entitlement - Note 11		15,996,000
Income distributable to the State of Alaska - Note 12	**390,983,000**	303,425,000
Total liabilities	**406,643,000**	321,209,000
FUND EQUITY		
Contributed equity - Note 13	**7,863,856,000**	6,280,753,000
Earnings reserve - Note 14	**529,417,000**	1,264,385,000
Total fund equity	**8,393,273,000**	7,545,138,000
Total liabilities and fund equity	**$8,799,916,000**	$7,866,347,000

See notes to financial statements

STATEMENTS OF REVENUES AND EXPENSES

	Year Ended June 30, 1987	1986
REVENUES		
Investment income - Note 15		
Interest	**$ 644,970,000**	$ 633,562,000
Dividends	**49,821,000**	45,579,000
Fees on loaned securities	**3,333,000**	5,356,000
Other real estate income	**13,135,000**	8,267,000
Total investment income	**711,259,000**	692,764,000
Realized gains on the sale of —		
Marketable debt securities	**23,384,000**	279,624,000
Preferred and common stock	**328,110,000**	43,548,000
Total realized gains	**351,494,000**	323,172,000
Unrealized gains on real estate	**10,717,000**	9,544,000
Total revenues	**1,073,470,000**	1,025,480,000
EXPENSES		
Communications	**142,000**	127,000
Custody and safekeeping fees	**973,000**	943,000
Consulting fees - Note 16	**(82,000)**	378,000
Legal and audit - Note 16	**158,000**	117,000
Management fees	**2,192,000**	1,661,000
Miscellaneous expenses	**108,000**	73,000
Printing and advertising	**71,000**	85,000
Public information program	**33,000**	53,000
Rentals	**148,000**	139,000
Salaries and benefits	**875,000**	765,000
Travel	**123,000**	115,000
Annual leave	**41,000**	44,000
Depreciation	**146,000**	58,000
Total expenses	**4,928,000**	4,558,000
Net income	**$1,068,542,000**	$1,020,922,000

See notes to financial statements

STATEMENTS OF CHANGES IN FUND EQUITY

	Total Fund Equity	Contributed Equity (Note 13)	Earnings Reserve (Note 14)
Balance, June 30, 1985	**$6,504,206,000**	**$5,740,942,000**	**$ 763,264,000**
Dedicated State revenues	347,751,000	347,751,000	
Provision for NPRA entitlement - Note 11	(24,317,000)	(24,317,000)	
Net income from operations	1,020,922,000		1,020,922,000
Citizen contributions	1,000	1,000	
Provision for 1986 dividends - Note 12	(303,425,000)		(303,425,000)
Provision for 1986 inflation		216,376,000	(216,376,000)
Balance, June 30, 1986	**7,545,138,000**	**6,280,753,000**	**1,264,385,000**
Appropriations from the State		1,264,385,000	(1,264,385,000)
Dedicated State revenues	170,575,000	170,575,000	
Net income from operations	1,068,542,000		1,068,542,000
Citizen contributions	1,000	1,000	
Provision for 1987 dividends - Note 12	(390,983,000)		(390,983,000)
Provision for 1987 inflation		148,142,000	(148,142,000)
Balance, June 30, 1987	**$8,393,273,000**	**$7,863,856,000**	**$ 529,417,000**

See notes to financial statements

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended June 30, 1987	1986
FUNDS WERE PROVIDED BY		
Investment operations —		
Net income	$1,068,542,000	$1,020,922,000
Items not affecting funds —		
Amortization	(1,958,000)	(3,118,000)
Depreciation	146,000	58,000
Appreciation of real estate	(10,717,000)	(9,544,000)
Undistributed real estate cash flow	(1,635,000)	(1,429,000)
Total from operations	1,054,378,000	1,006,889,000
Net sales and maturities of investments —		
Marketable debt securities —		
Short-term	181,179,000	
Preferred and common stock	280,988,000	
Alaska residential mortgage repayments	6,909,000	
Total sales and maturities	469,076,000	
(Increase) decrease in receivables and prepaid expenses	(32,451,000)	44,705,000
Increase in accounts payable	13,872,000	416,000
Citizen contributions	1,000	1,000
Contributions from the State	170,575,000	347,751,000
Total funds provided	1,675,451,000	1,399,762,000
FUNDS WERE USED FOR		
Net purchases of investments —		
Marketable debt securities —		
Short-term		334,922,000
Intermediate and long-term	1,228,605,000	151,046,000
Equity pools	7,283,000	18,167,000
Participating mortgages	12,330,000	
Limited partnerships	11,506,000	20,276,000
General partnerships	73,445,000	45,239,000
Preferred and common stock		432,416,000
Alaska residential mortgages		454,000
Alaska bank certificates of deposit	32,200,000	43,025,000
Total investment purchases	1,365,369,000	1,045,718,000
Property and equipment purchases	10,000	173,000
Income distributions	303,425,000	217,274,000
Dedicated State revenues applied to NPRA entitlement	15,996,000	8,321,000
Total funds used	1,684,800,000	1,271,313,000
(Decrease) increase in cash and temporary investments	$ (9,349,000)	$ 128,449,000

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1987

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"). The principal of the Fund is to be invested in perpetuity. The State legislature created the Alaska Permanent Fund Corporation (the "Corporation"), a public corporation separate from the agencies of state government and governed by a board of trustees (the "Trustees") to manage the investments of the Fund. By statute (i) a portion of the annual earnings is transferred to the State for the payment of dividends to eligible residents of Alaska, and (ii) a portion of the annual earnings that is sufficient to offset the impact of inflation is transferred to the principal of the Fund. The balance is held by the Corporation in the earnings reserve account.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Depreciation: Furniture and equipment are depreciated on a straight-line basis over a three-year useful life. Other property is depreciated on a straight-line basis over a five-year useful life.

Dividend Appropriations: Current statutes require that one-half of twenty-one percent of the Corporation's net income for the last five fiscal years, excluding unrealized gains and losses, be made available for the payment of dividends each year. Prior year statutes required that one-half of a five-year moving average of the net income, excluding unrealized gains and losses, be made available for the payment of dividends each year.

Inflation Impact: The impact of inflation is measured by the change in the prior calendar year average of the United States consumer price index for all urban consumers applied against the balance of contributed equity at the end of the fiscal year.

Interest Income: Interest income is accrued monthly as earned, and is shown net of amortization of premiums and accretion of discounts on securities.

Investment Valuation: By resolution, the Trustees have adopted the following accounting policies for the valuation of investments:

Type	Basis
Marketable debt securities	Cost adjusted for amortization of premiums and accretion of discounts
Real estate	Market
Preferred and common stock	Lower of cost or market
Alaska residential mortgages	Cost
Alaska certificates of deposit	Cost

Real Estate: Real estate investments are carried at cost until independent appraisals are made. Carrying value is then adjusted to reflect market. Unrealized gains from appreciation are reported as revenue for the year in which they occur, but are excluded by statute from distributable income.

Realized Gains and Losses: Realized gains or losses on the sale of investments are determined on the transaction date by average cost for investments in preferred and common stock, and by specific identification for all other investments.

Securities Transactions: Security transactions in the current year are recorded on the date that securities are purchased or sold. Prior year security transactions were recorded on the date that the transactions settled.

Reclassification of Prior Year: Certain prior year balances have been reclassified to conform with a change in reporting format. The reclassification had no effect on previously reported earnings.

3. CASH AND TEMPORARY INVESTMENTS

All cash deposits and temporary investments bear interest at competitive rates and are summarized as follows at June 30:

	1987	1986
Operating account (A)	**$ 549,000**	$ 120,000
Cash management accounts (B)	**115,000**	374,000
Common stock treasury accounts (C)	**70,757,000**	53,876,000
Repurchase agreements (D)	**91,500,000**	117,900,000
Total cash and temporary investments	**$162,921,000**	$172,270,000

(A) Insured by the Federal Deposit Insurance Corporation (FDIC) to $100,000. Remaining balance uninsured and uncollateralized.

(B) Insured by FDIC	*$ 115,000*	*$ 295,000*
Uninsured and uncollateralized		*79,000*
Total cash management accounts	*$ 115,000*	*$ 374,000*

(C) Share ownership in managed funds. Collateralized by underlying securities held by bank in managers' names. Not assigned a specific risk category.

(D) Uninsured and unregistered. Underlying collateral securities generally comprised of debt obligations of the U.S. government and held by the counterparty bank.

4. RECEIVABLES AND PREPAID EXPENSES

Receivables and prepaid expenses at June 30 are summarized as follows:

	1987	1986
Accrued interest receivable	**$148,789,000**	$130,752,000
Dedicated State revenues receivable	**15,857,000**	7,696,000
Dividends receivable	**3,021,000**	4,397,000
Securities sold	**8,522,000**	
Security lending fees receivable	**44,000**	972,000
Other receivables and prepaid expenses	**105,000**	70,000
Total receivables and prepaid expenses	**$176,338,000**	$143,887,000

5. MARKETABLE DEBT SECURITIES

The Corporation is authorized by statute to invest in (i) commercial paper rated A-1 by Standard & Poor's or P-1 by Moody's, (ii) bankers acceptances drawn on and accepted by United States banks, each of which have a combined capital and surplus aggregating at least $200,000,000, (iii) certificates of deposit of financial institutions which may be readily sold in a secondary market at prices reflecting fair value, (iv) corporate bonds rated AA or better by Standard & Poor's or Moody's and (v) obligations of the United States Treasury, its agencies and instrumentalities. All marketable debt securities are held by custodian banks in the name of the Corporation.

Marketable debt securities at June 30 are summarized as follows:

1987	Amortized Cost	Market	Unrealized Gain (Loss)
Short-term —			
Commercial paper	$ 8,414,000	$ 8,414,000	
Bankers acceptances	14,508,000	14,508,000	
Treasury bills	149,672,000	149,801,000	$ 129,000
Total short-term	172,594,000	172,723,000	129,000
Intermediate and long-term —			
Treasury notes and bonds	6,310,192,000	6,509,418,000	199,226,000
GNMA pools	216,573,000	204,040,000	(12,533,000)
Corporate bonds	296,754,000	275,517,000	(21,237,000)
Total intermediate and long-term	6,823,519,000	6,988,975,000	165,456,000
	$6,996,113,000	$7,161,698,000	$165,585,000
1986			
Short-term —			
Commercial paper	$ 48,956,000	$ 48,956,000	
Certificates of deposit	250,000,000	250,000,000	
Bankers acceptances	54,816,000	54,816,000	
Total short-term	353,772,000	353,772,000	
Intermediate and long-term —			
Treasury notes and bonds	5,404,120,000	5,975,306,000	$571,186,000
Corporate bonds	188,837,000	180,635,000	(8,202,000)
Total intermediate and long-term	5,592,957,000	6,155,941,000	562,984,000
	$5,946,729,000	$6,509,713,000	$562,984,000

6. REAL ESTATE

The Corporation is authorized by statute to invest in real estate located in the United States and improved by substantially rented buildings. Investments may take the form of equity interests or debt obligations secured by a first lien on the real estate. By statute, the Corporation may hold up to forty percent of the beneficial ownership interest. All real estate investments are held by the Corporation in its own name.

Real estate investments are summarized as follows:

Equity Pools: Equity pools represent share ownership in managed funds. Earnings of the underlying properties do not pass to the shareholders until dividends are declared, and then only to the extent of the dividend declaration.

			June 30, 1987	June 30, 1986
CPI —				
DESCRIPTION:	186 Office/Retail Properties	Paid-in capital	$40,450,000	$38,167,000
LOCATION:	Nationwide	Appreciation	12,803,000	7,801,000
VALUE:	Market			
APPRAISAL:	December 31, 1986	Total CPI	53,253,000	45,968,000
JMB II —				
DESCRIPTION:	10 Office/Retail Properties	Paid-in capital	15,000,000	15,000,000
LOCATION:	Nationwide	Appreciation	1,712,000	1,541,000
VALUE:	Market			
APPRAISAL:	June 30, 1987	Total JMB II	16,712,000	16,541,000

		June 30, 1987	June 30, 1986
JMB III — DESCRIPTION: 1 Office Building, 2 Shopping Centers LOCATION: Nationwide VALUE: Cost APPRAISAL: At purchase	Paid-in capital	**$10,000,000**	$ 5,000,000
	Total JMB III	**10,000,000**	5,000,000
	Total equity pools	**$79,965,000**	$67,509,000

Participating Mortgages: Participating mortgages represent an investment in mortgage notes which convey certain rights of participation in the cash flow and appreciation of the properties. The properties also serve as collateral.

		June 30, 1987	June 30, 1986
Club Apartments — DESCRIPTION: Residential Apartments LOCATION: Atlanta, Memphis, & Nashville VALUE: Cost APPRAISAL: At purchase INTEREST: 8.75% Note STRUCTURE: 50% Cash Flow/Appreciation, 33.33% Share of Note	Principal balance	**$12,348,000**	
	Total Club Apartments	**12,348,000**	
Paragon Building — DESCRIPTION: Office Building LOCATION: Dallas, TX VALUE: Cost APPRAISAL: At purchase INTEREST: 10.5% Note STRUCTURE: 50% Cash Flow/Appreciation, 25% Share of Note	Principal balance	**7,982,000**	$8,000,000
	Total Paragon Building	**7,982,000**	8,000,000
	Total participating mortgages	**$20,330,000**	$8,000,000

Limited Partnerships: Limited partnerships represent investments in which the Corporation will participate in earnings and appreciation of the properties to the extent of its percentage of ownership. Liability for the debts and obligations of the partnerships is limited to the amount invested.

		June 30, 1987	June 30, 1986
ARA Building — DESCRIPTION: Office Building LOCATION: Philadelphia, PA VALUE: Market APPRAISAL: December 31, 1986 STRUCTURE: 31% Equity	Paid-in capital	**$20,305,000**	$20,276,000
	Undistributed earnings	**151,000**	75,000
	Appreciation	**2,789,000**	
	Total ARA Building	**23,245,000**	20,351,000
Arboretum Lakes — DESCRIPTION: Office Park LOCATION: Chicago, IL VALUE: Cost APPRAISAL: At purchase STRUCTURE: 40% Equity	Paid-in capital	**11,477,000**	
	Undistributed earnings	**89,000**	
	Total Arboretum Lakes	**11,566,000**	
CIGNA Fund S — DESCRIPTION: 14 Properties LOCATION: Nationwide VALUE: Market APPRAISAL: November 30, 1986 STRUCTURE: 16.859% Equity	Paid-in capital	**25,000,000**	25,000,000
	Undistributed earnings	**92,000**	70,000
	Appreciation	**1,877,000**	990,000
	Total CIGNA Fund S	**26,969,000**	26,060,000
	Total limited partnerships	**$61,780,000**	$46,411,000

General Partnerships: General partnerships represent investments in which the Corporation will participate in earnings and appreciation of properties to the extent of its percentage of ownership. Liability for the debts and obligations of the partnerships is unlimited.

During fiscal year 1987 two general partnerships, Villa Marina and Tri-County Center, refunded a portion of the Fund's original equity investment. The return of capital was a result of the partnerships' decision to incur debt financing.

		June 30, 1987	June 30, 1986
Atrium/45 Broadway —			
DESCRIPTION: Office Building	Paid-in capital	**$ 19,573,000**	$ 19,238,000
LOCATION: New York City	Undistributed earnings	**842,000**	1,291,000
VALUE: Market	Appreciation	**1,869,000**	
APPRAISAL: June 30, 1987			
STRUCTURE: 22% Equity	Total Atrium/45 Broadway	**22,284,000**	20,529,000
Harman International —			
DESCRIPTION: Business Campus	Paid-in capital	**23,685,000**	
LOCATION: Los Angeles, CA	Undistributed earnings	**76,000**	
VALUE: Cost			
APPRAISAL: At purchase			
STRUCTURE: 40% Equity	Total Harman International	**23,761,000**	
McKinley Mall —			
DESCRIPTION: Shopping Center	Paid-in capital	**15,085,000**	
LOCATION: Buffalo, NY	Undistributed earnings	**101,000**	
VALUE: Cost			
APPRAISAL: At purchase			
STRUCTURE: 21.3% Equity	Total McKinley Mall	**15,186,000**	
MN-TX Business Center —			
DESCRIPTION: 7 Office/Warehouse Buildings	Paid-in capital	**6,660,000**	5,917,000
LOCATION: Eden Prairie, MN	Undistributed earnings	**49,000**	23,000
VALUE: Cost			
APPRAISAL: At purchase			
STRUCTURE: 40% Equity	Total MN-TX Center	**6,709,000**	5,940,000
Oakwood Mall —			
DESCRIPTION: Shopping Center	Paid-in capital	**9,964,000**	9,950,000
LOCATION: Enid, OK	Undistributed earnings	**67,000**	67,000
VALUE: Cost			
APPRAISAL: At purchase			
STRUCTURE: 33 1/3% Equity	Total Oakwood Mall	**10,031,000**	10,017,000
One City Center —			
DESCRIPTION: Office Building	Paid-in capital	**8,014,000**	
LOCATION: Sacramento, CA	Undistributed earnings	**46,000**	
VALUE: Cost			
APPRAISAL: At purchase			
STRUCTURE: 40% Equity	Total One City Center	**8,060,000**	
1000 Parkwood —			
DESCRIPTION: Office Park	Paid-in capital	**4,664,000**	
LOCATION: Atlanta, GA	Undistributed earnings	**193,000**	
VALUE: Cost			
APPRAISAL: At purchase			
STRUCTURE: 38% Equity	Total 1000 Parkwood	**4,857,000**	
St. Louis Centre —			
DESCRIPTION: Shopping Center	Paid-in capital	**19,822,000**	19,788,000
LOCATION: St. Louis, MO	Undistributed earnings	**114,000**	117,000
VALUE: Cost			
APPRAISAL: At purchase			
STRUCTURE: 33.2% Equity	Total St. Louis Centre	**19,936,000**	19,905,000

		June 30, 1987	June 30, 1986
Tri-County Center —			
DESCRIPTION: Office/Industrial Properties	Paid-in capital	$ 3,196,000	$ 6,382,000
LOCATION: Cincinnati, OH	Undistributed earnings	8,000	40,000
VALUE: Cost			
APPRAISAL: At purchase			
STRUCTURE: 33 1/3% Equity	Total Tri-County Center	3,204,000	6,422,000
Tysons Corner —			
DESCRIPTION: Shopping Center	Paid-in capital	49,945,000	21,755,000
LOCATION: McLean, VA	Undistributed earnings	2,182,000	626,000
VALUE: Market	Appreciation	3,109,000	3,109,000
APPRAISAL: December 31, 1985			
STRUCTURE: 28% Equity	Total Tysons Corner	55,236,000	25,490,000
Villa Marina —			
DESCRIPTION: Shopping Center	Paid-in capital	9,871,000	14,004,000
LOCATION: Marina Del Rey, CA	Undistributed earnings	12,000	78,000
VALUE: Cost			
APPRAISAL: At purchase			
STRUCTURE: 34% Equity	Total Villa Marina	9,883,000	14,082,000
	Total general partnerships	$179,147,000	$102,385,000

Outstanding Commitments: At June 30, 1987, the Corporation had the following commitments outstanding for the purchase of additional real estate investments:

Aetna, Ltd. I	$20,000,000
Epic Center	11,400,000
JMB III	10,000,000
Owings Mills	25,000,000
Westwood Place	14,000,000
Total commitments	$80,400,000

7. PREFERRED AND COMMON STOCK

The Corporation is authorized by statute to invest in the preferred and common stock of United States corporations. All preferred and common stock investments are held by custodial banks in the name of the Corporation.

Preferred and common stock at June 30 is summarized as follows:

	1987	1986
Market	$1,260,118,000	$1,574,170,000
Cost	898,730,000	1,179,718,000
Unrealized gains	$ 361,388,000	$ 394,452,000

8. ALASKA RESIDENTIAL MORTGAGES

The Corporation is authorized by statute to invest in notes secured by insured mortgages granting a first lien on residential real estate. No insurance is required for residential loans with loan to value ratios that are less than seventy percent. All mortgage notes are held by the Corporation in its own name.

9. ALASKA CERTIFICATES OF DEPOSIT

The Corporation is authorized by statute to invest in certificates of deposit or the equivalent instruments of banks, savings and loan associations, mutual savings banks, and credit unions doing business in Alaska. These investments are fully collateralized by securities and mortgages which would qualify as investments of the Corporation. All certificates and collateral are held by a trustee bank in the name of the Corporation.

10. ACCOUNTS PAYABLE

Accounts payable at June 30 are summarized as follows:

	1987	1986
Vouchers payable	**$ 417,000**	$ 420,000
Accrued liabilities	**1,609,000**	1,368,000
Securities purchased	**13,634,000**	
Total accounts payable	**$15,660,000**	**$ 1,788,000**

11. NATIONAL PETROLEUM RESERVE (ALASKA) ENTITLEMENT

Under federal law, the State of Alaska receives one-half of federal mineral revenues generated by competitive oil and gas leasing in the National Petroleum Reserve — Alaska ("NPRA"). As a condition to the payments, the State must segregate the funds received and give priority to their use by the municipalities impacted by oil and gas development in the NPRA.

Prior to meeting the federal conditions, the State of Alaska deposited one-half of the NPRA mineral revenue sharing payments in the Fund. Legislation passed by the 1986 legislature provided (i) that the Corporation shall return these funds to the State and deposit them in the NPRA special revenue fund, and (ii) that one-half of all NPRA mineral revenue sharing payments received by the State shall lapse to the Fund at the end of each fiscal year, net of any funds granted to impacted municipalities.

Payment to the State of the Fund's share of the NPRA special revenue fund entitlement has been made by a partial withholding of dedicated State revenues. The withholdings made during the years ended June 30 were as follows:

	1987	1986
Beginning balance	**$ 15,996,000**	$24,317,000
Withheld	**(15,996,000)**	(8,321,000)
Ending balance	**$ -0-**	$15,996,000

12. INCOME DISTRIBUTABLE TO THE STATE OF ALASKA

Each year the Alaska State legislature appropriates a portion of the Corporation's net income for the payment of dividends to qualified residents of the State during that fiscal year. Payment of the balance due is made the following September.

13. CONTRIBUTED EQUITY

The principal balance of the Fund at June 30 is as follows:

	1987	1986
Dedicated State revenues	**$2,917,768,000**	$2,747,193,000
Appropriations from the State	**3,964,385,000**	2,700,000,000
Provision for inflation	**981,700,000**	833,558,000
Citizen contributions	**3,000**	2,000
Total contributed equity	**$7,863,856,000**	**$6,280,753,000**

14. EARNINGS RESERVE

By statute, the balance of Corporation net income remaining after the payment of dividends and the provision for inflation is held in an earnings reserve account. The Trustees have designated this balance by resolution as a provision for future inflation impact and dividend payments.

15. INVESTMENT INCOME BY SOURCE

	Year Ended June 30, 1987	Year Ended June 30, 1986
Interest		
Money market accounts	$ 3,606,000	$ 2,616,000
Repurchase agreements	5,052,000	6,495,000
Commercial paper	2,962,000	1,941,000
Bankers acceptances	1,685,000	1,204,000
Treasury bills	984,000	6,992,000
Treasury notes and bonds	578,114,000	590,382,000
GNMA pools	9,643,000	
Corporate bonds	23,251,000	4,847,000
Participating mortgages	788,000	703,000
Real estate partnerships	85,000	28,000
Alaska residential mortgages	4,315,000	5,816,000
State mineral leases	3,000	40,000
Certificates of deposit — Alaska	11,419,000	10,414,000
Other	3,063,000	2,084,000
Total interest	$644,970,000	$633,562,000
Dividends		
Preferred and common stock	$ 46,007,000	$ 42,539,000
Equity real estate pools	3,814,000	3,040,000
Total dividends	$ 49,821,000	$ 45,579,000
Fees on Loaned Securities		
Treasury notes and bonds	$ 2,483,000	$ 5,278,000
Preferred and common stock	850,000	78,000
Total fees on loaned securities	$ 3,333,000	$ 5,356,000
Other Real Estate Income		
Participating mortgages	$ 40,000	$ 7,000
Limited partnerships	4,007,000	2,546,000
General partnerships	9,056,000	5,268,000
Other	32,000	446,000
Total other real estate income	$ 13,135,000	$ 8,267,000

16. LEGAL AND CONSULTING FEES

Real estate legal and consulting fees previously expensed, which were directly related to the acquisition of certain real estate investments, were capitalized as part of the cost of those investments during the year ended June 30, 1987.

17. SUBSEQUENT EVENT

In fiscal year 1988, the Alaska Permanent Fund received $19,619,000 from the NPRA special revenue fund, discussed in Note 11. This payment represents the Fund's share of NPRA mineral revenue sharing monies lapsed at June 30, 1987, net of grants to impacted municipalities.