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Economic & Capital Market Update

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Callan Associates Inc.
February 2006



Callan's Capital Market Projection Process

Economic Outlook Drives Our Projections

- Evaluate the current environment and economic outlook for the U.S. and other major industrial countries:
 - Business cycles, relative growth, inflation.
- Examine the relationships between the economy and asset class performance patterns.
- Examine recent and long-run trends in asset class performance.
- Apply market insight:
 - Consultant experience - Plan Sponsor, Manager Search, Specialty
 - Industry consensus
 - Client Policy Review Committee
-  Test the projections for reasonable results.

Capital Market Expectations as a Set

- Relationships between asset class assumptions are as important, or more important, than the individual asset class level of assumptions, with the following relationships being most important:
 - Inflation versus cash equivalents.
 - Fixed income returns versus inflation.
 - Stock returns versus bonds - the equity premium.
 - Large capitalization versus small capitalization equities.
 - U.S. equity versus international equity.
- These relationships will have a strong effect on the generation of efficient asset mixes using the optimizer.



The Capital Markets - Context

Wild Ride for Investors Over the Last Six Years

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	Average Ann Return		
							<u>Five Years 2001-05</u>	<u>Ten Years 1996-05</u>	<u>Fifteen Years 1991-05</u>
Russell 3000	-7.46	-11.46	-21.54	31.06	11.95	6.12	1.58	9.20	11.86
S&P Super Composite 1500	-6.98	-10.64	-21.31	29.59	11.78	5.66	1.48	9.47	11.97
Russell 1000	-7.79	-12.45	-21.65	29.89	11.40	6.27	1.07	9.29	11.85
S&P 500	-9.10	-11.88	-22.10	28.80	10.88	4.91	0.54	9.07	11.52
Russell 2000	-3.02	2.49	-20.48	47.25	18.33	4.55	8.22	9.26	13.04
S&P 600 Small Cap	11.80	6.54	-14.63	38.79	22.65	7.68	10.76	12.16	15.17
EAFE (\$US)	-14.17	-21.44	-15.94	38.59	20.25	13.54	4.55	5.84	7.00
LB Aggregate	11.63	8.43	10.26	4.10	4.33	2.43	5.87	6.16	7.26
SB Non-US Bonds	-2.63	-3.54	21.99	18.52	12.14	-9.21	7.27	4.42	6.94
90-day T-bill	6.18	4.42	1.78	1.15	1.33	3.07	2.34	3.84	4.06
CPI-U	3.39	1.55	2.38	1.88	3.26	3.42	2.49	2.51	2.61



Brief Overview

- Economy
 - Recovery
 - Consumer
 - Investment spending
 - Housing
 - Energy
 - Dollar
 - Inflation
- Capital Markets
 - Bonds
 - Stocks
 - Projections
 - Efficient Frontier



Consumer Spending: Slowdown or Retreat?

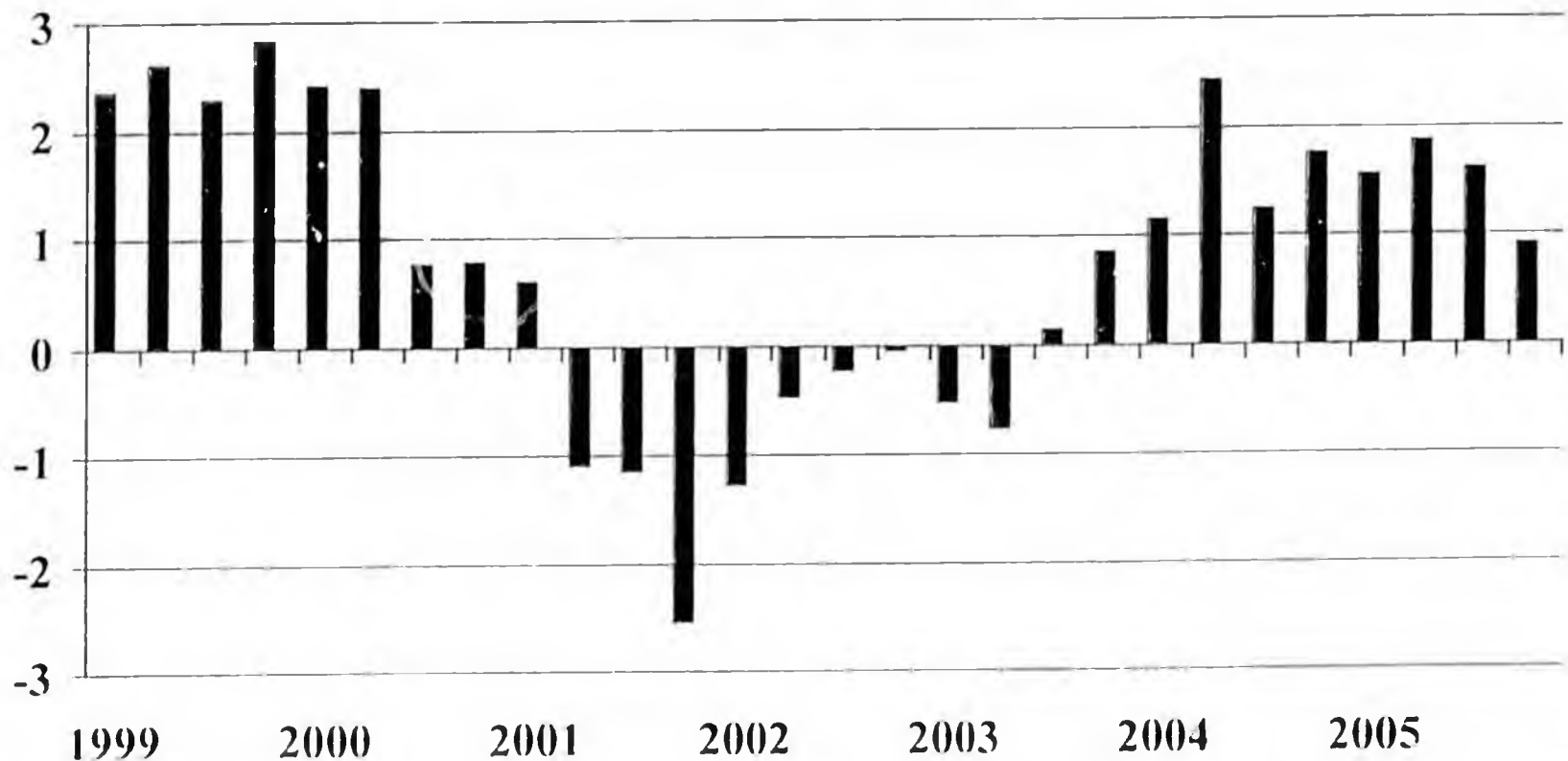
- Consumer spending carried the economy since 2000, fueled by low interest rates, tax cuts, and a housing boom.
- The housing boom triggered a “wealth effect” on confidence and spending, and encouraged the extraction of home equity.
- However:
 - Savings rate is low,
 - Tax cuts are over,
 - Interest rates are rising,
 - The housing market shows signs of cooling, and
 - Energy costs are substantially higher.
- Most observers expect the housing bubble to fizzle rather than pop.
- The bursting of the housing bubble has replaced deflation as the next disaster sure to strike.



2005 Best Year for Job Growth Since 2000

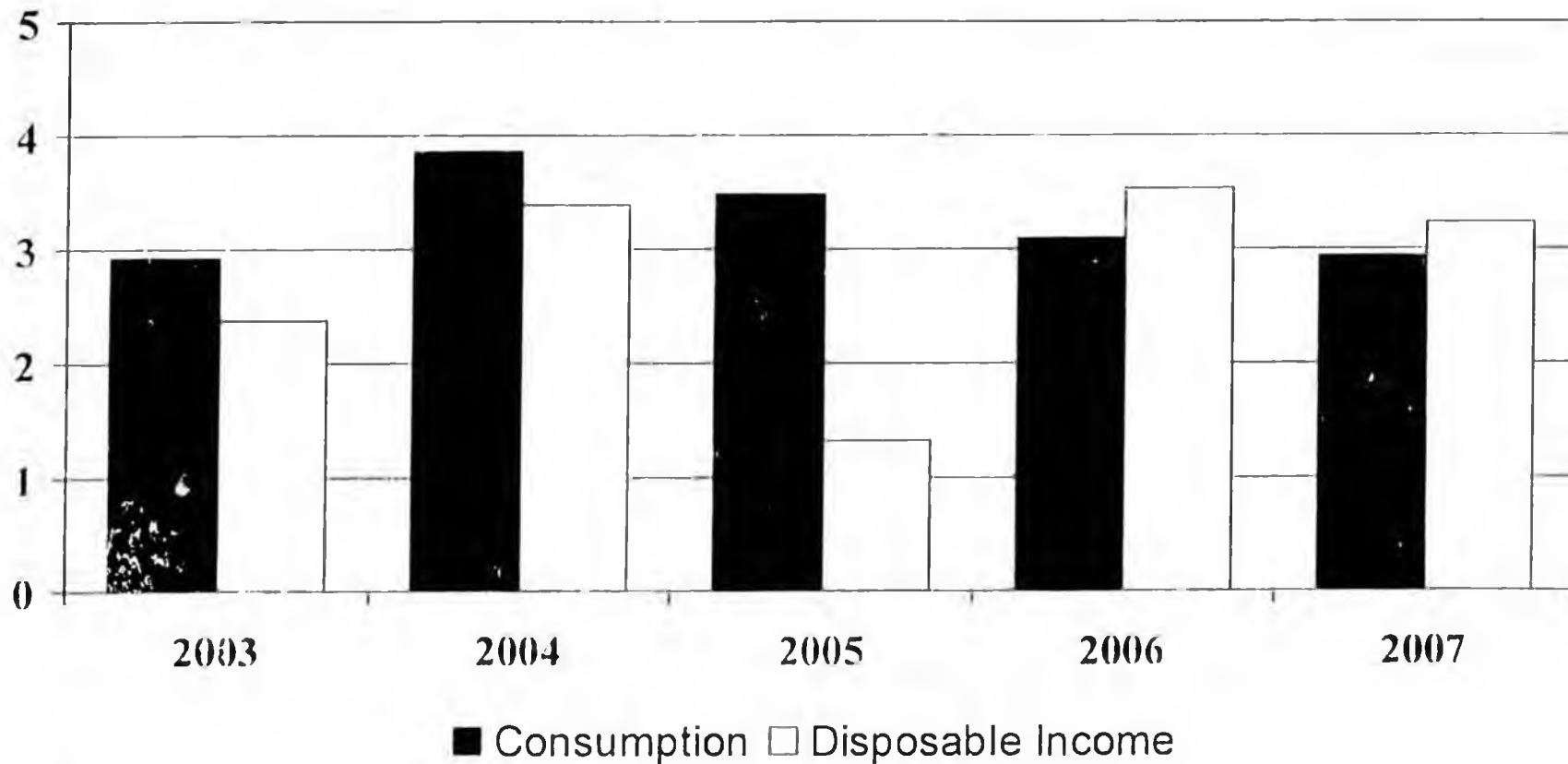
Employment finally surpassed the February 2001 peak in January 2005.

(Employment - percent change, annual rate)



Real Consumer Spending Has Outpaced Real Income Growth

(Percent Growth)

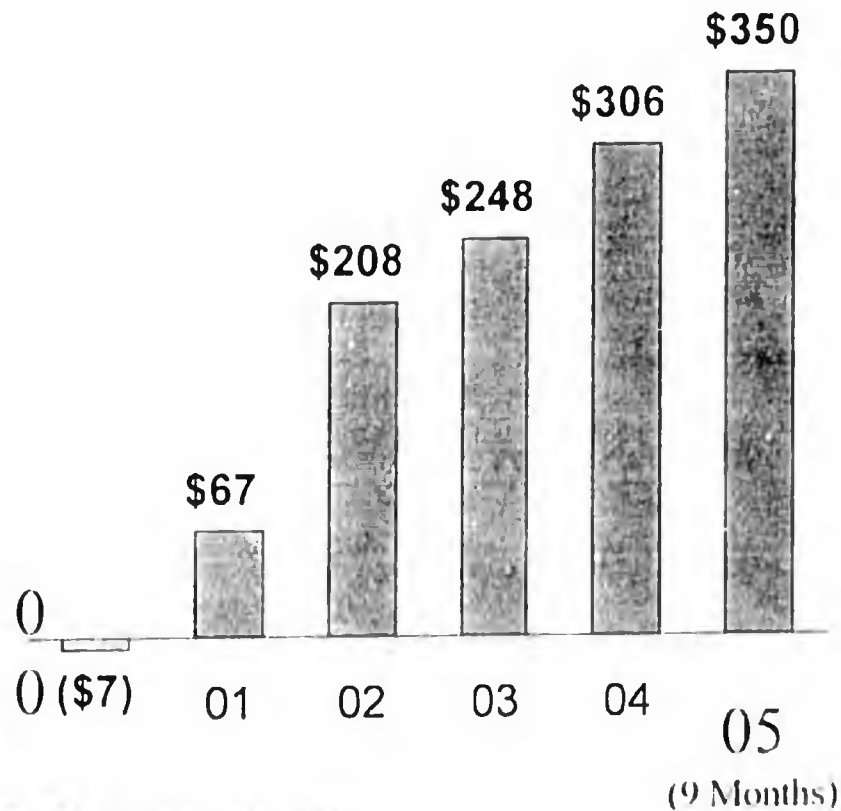


Source: Global Insight

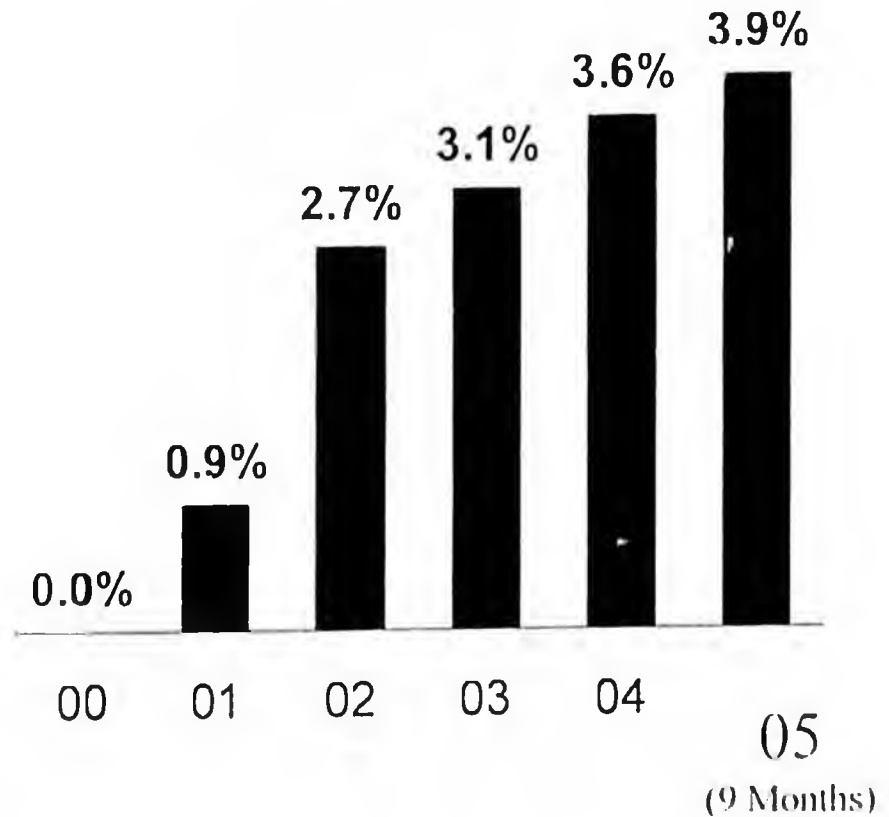
Cash Generated from Mortgages Stimulating Consumer Spending

source AllianceBernstein/CII 1/30/06

Mortgage Growth in Excess of
New Housing Investment
(\$ Billions)



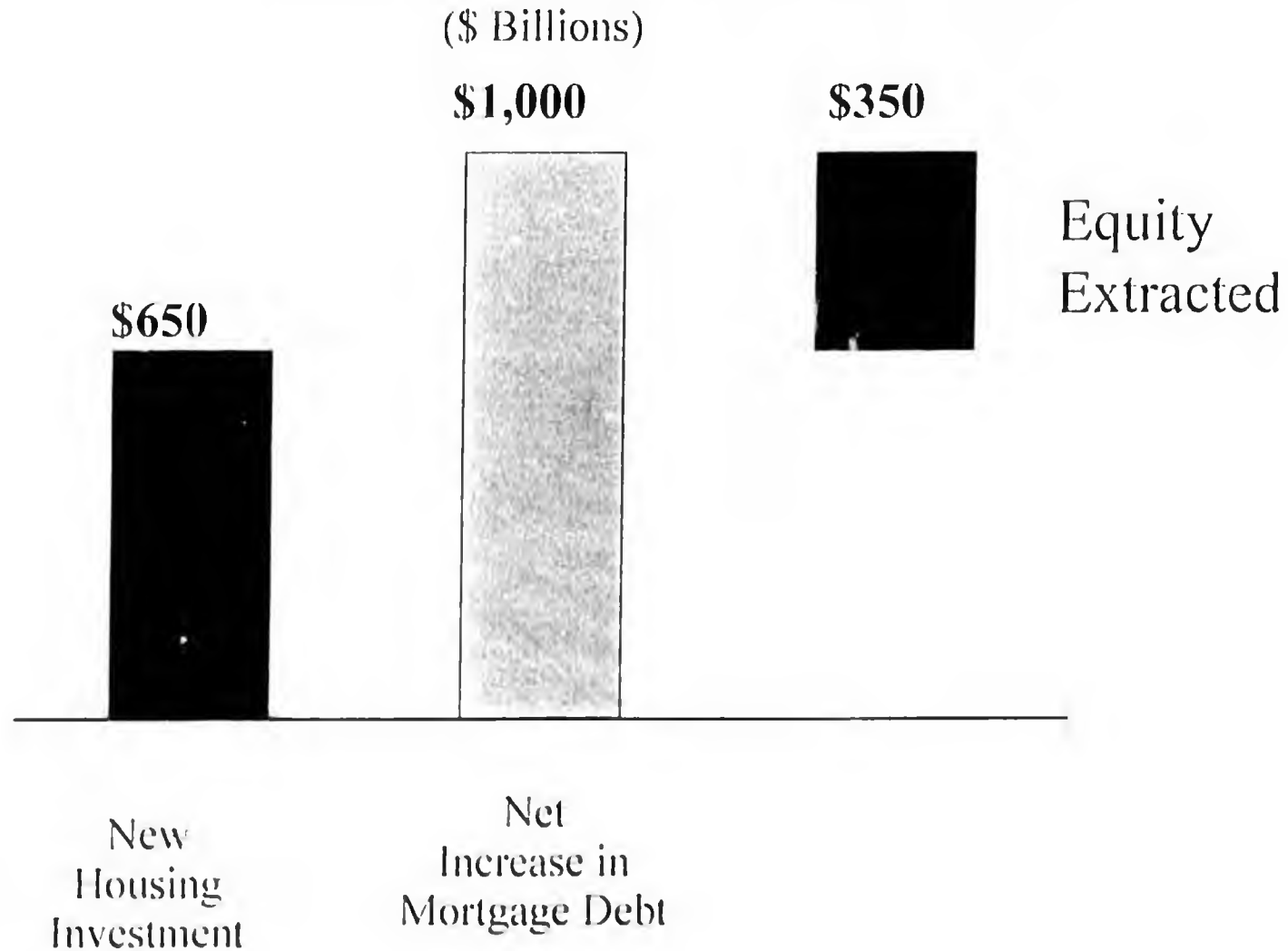
% of Personal Consumption
Expenditures



*2005 first half annualized
Source: Federal Reserve Board and AllianceBernstein estimates

Equity Extraction from Housing Was Huge in 2005

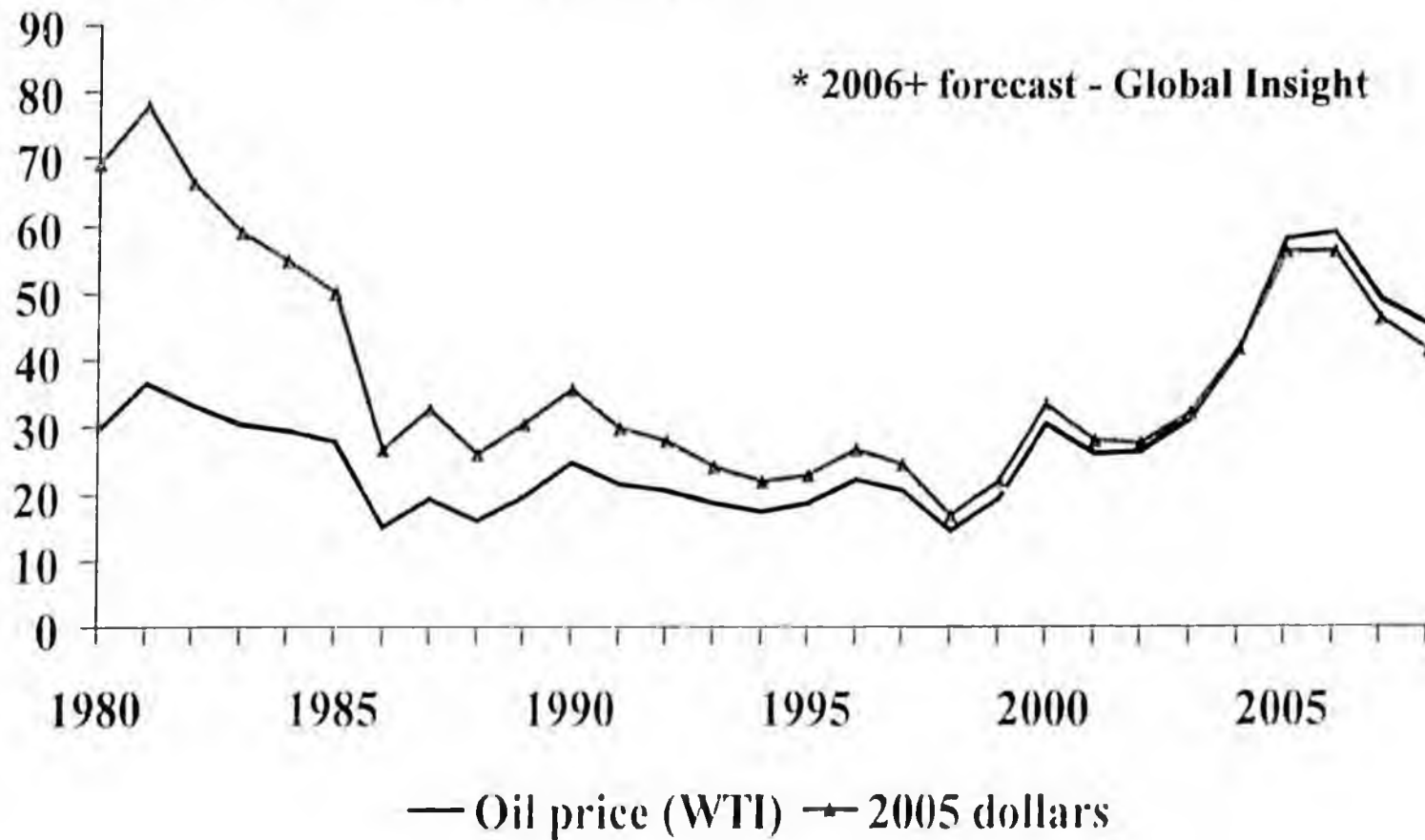
source: Alliance Bernstein/CII 1/31/06



Source: AllianceBernstein estimates

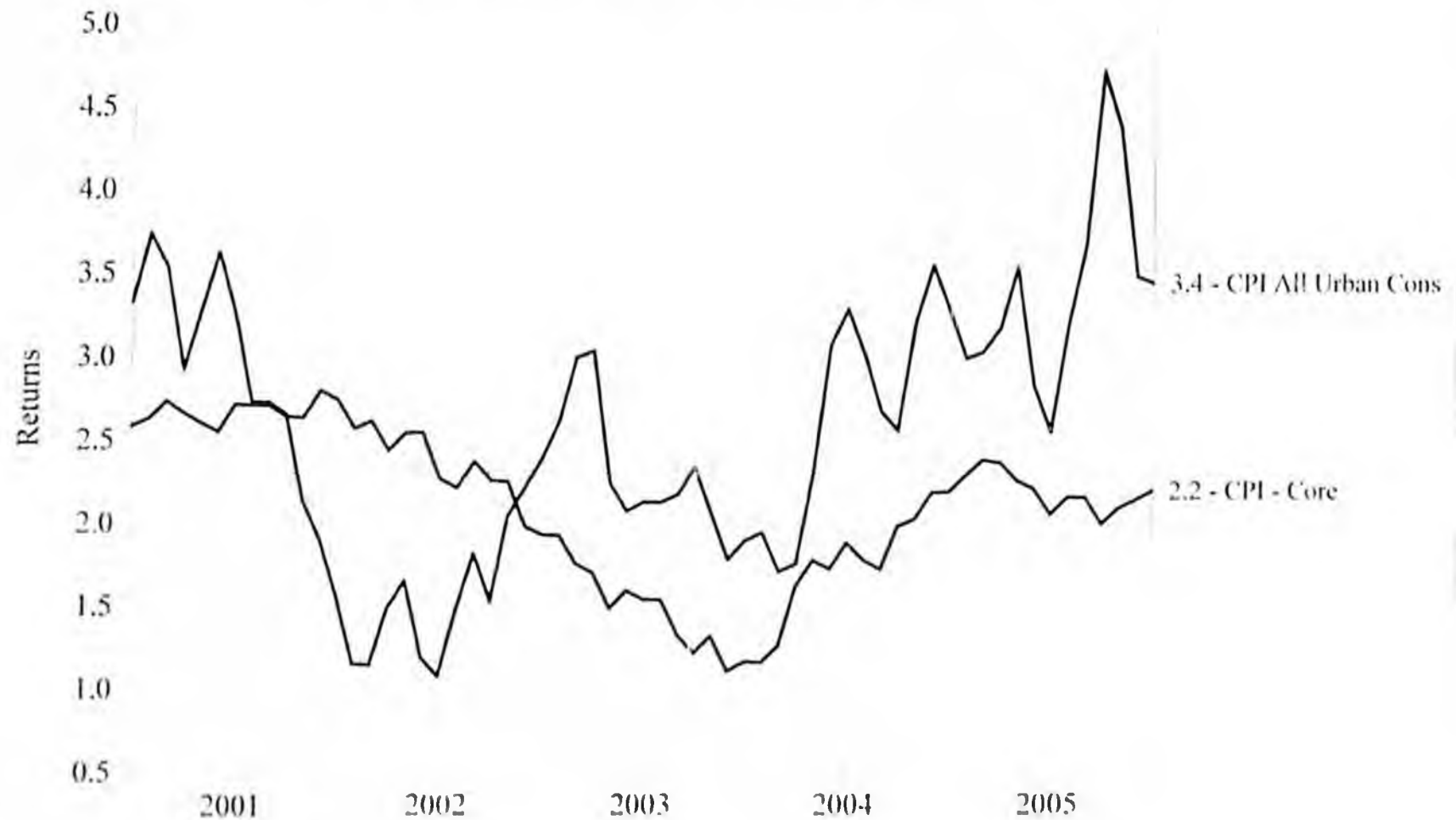
Oil Prices Are Hitting New Highs...

(\$/barrel, WTI and deflated by CPI)



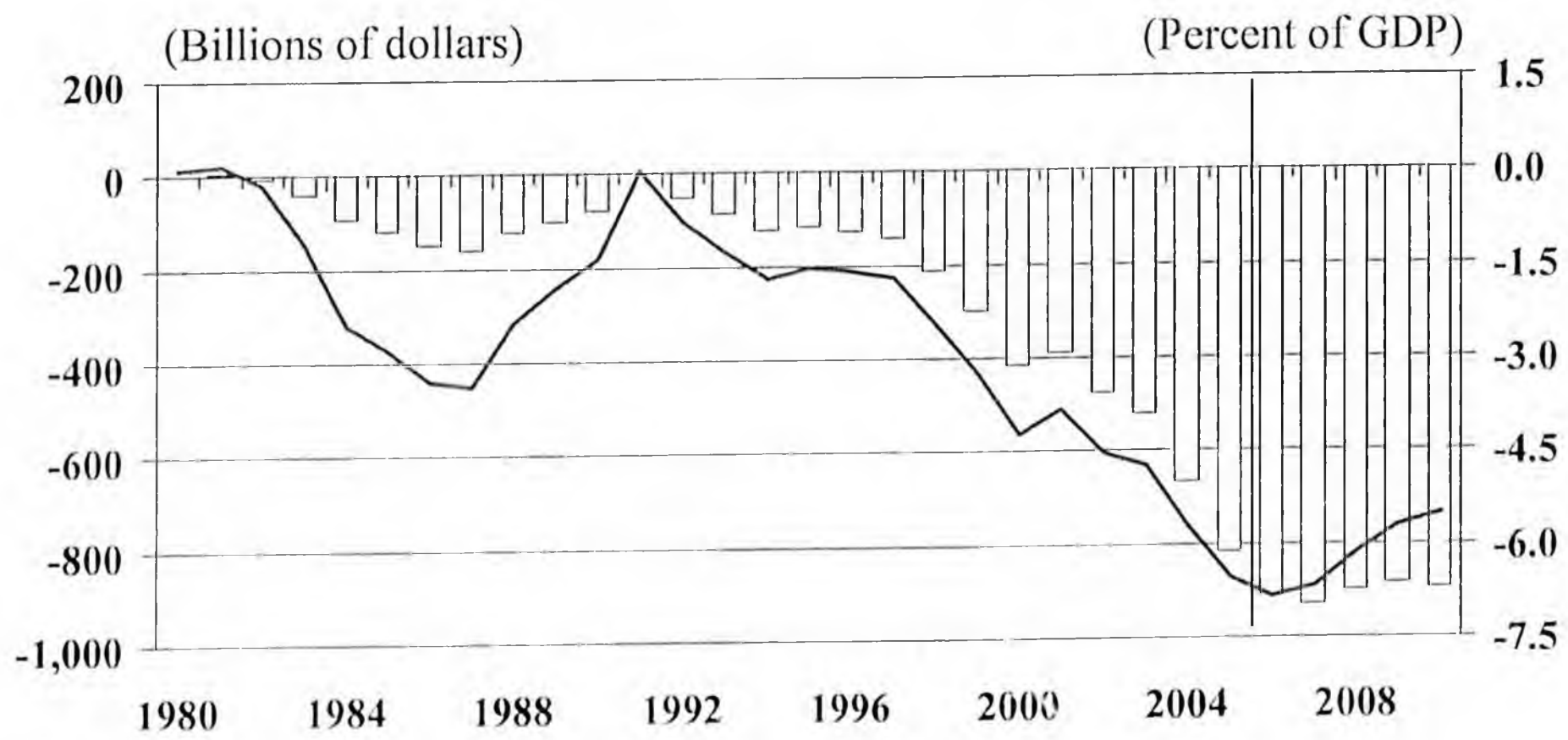
Inflation Has Ticked Up...

Year-Over-Year Change in Consumer Prices



The U.S. Current Account Deficit Heading to \$900 Billion in 2006

* 2006+ forecast - Global Insight

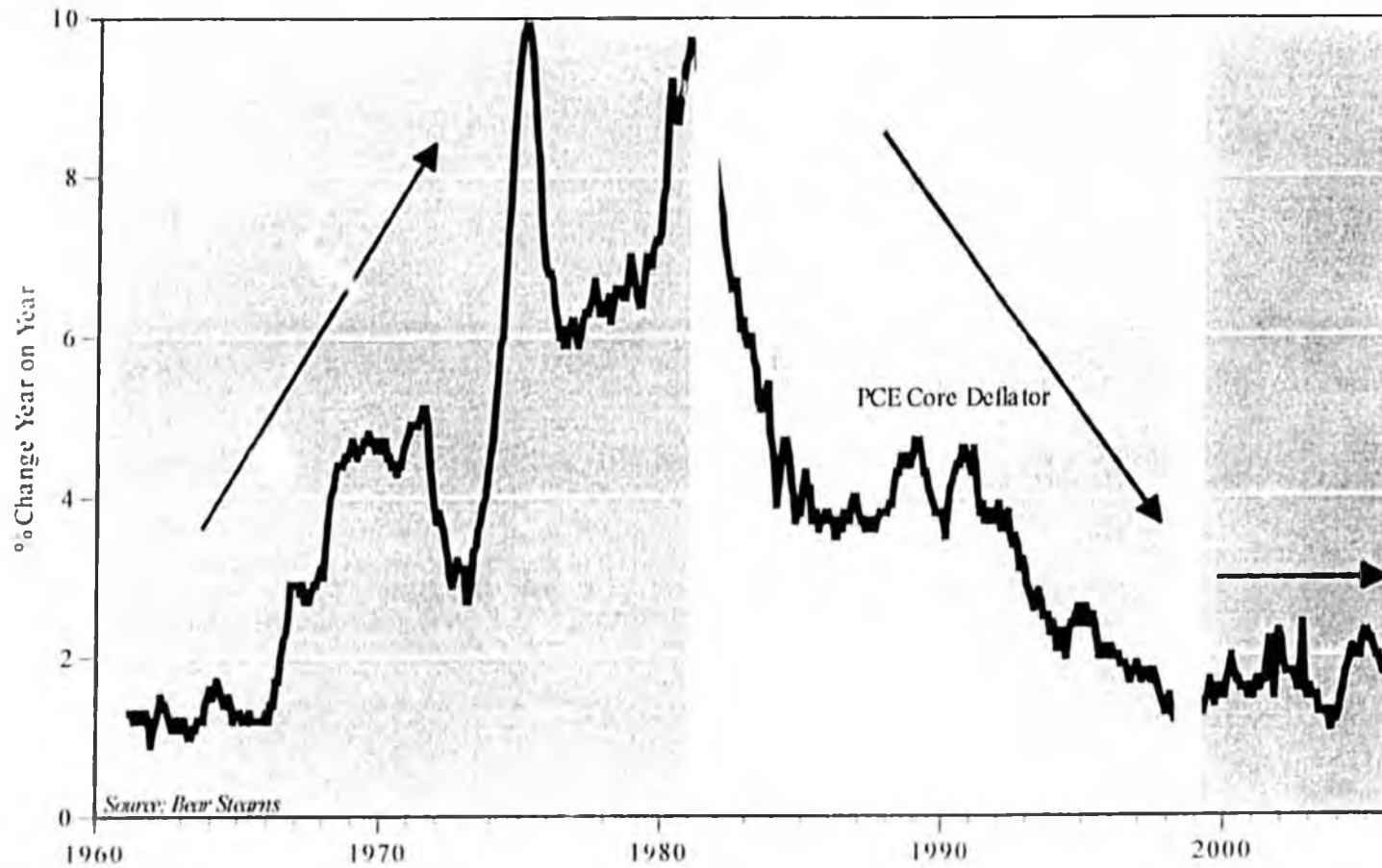


□ Current Account Deficit — Deficit as % of GDP



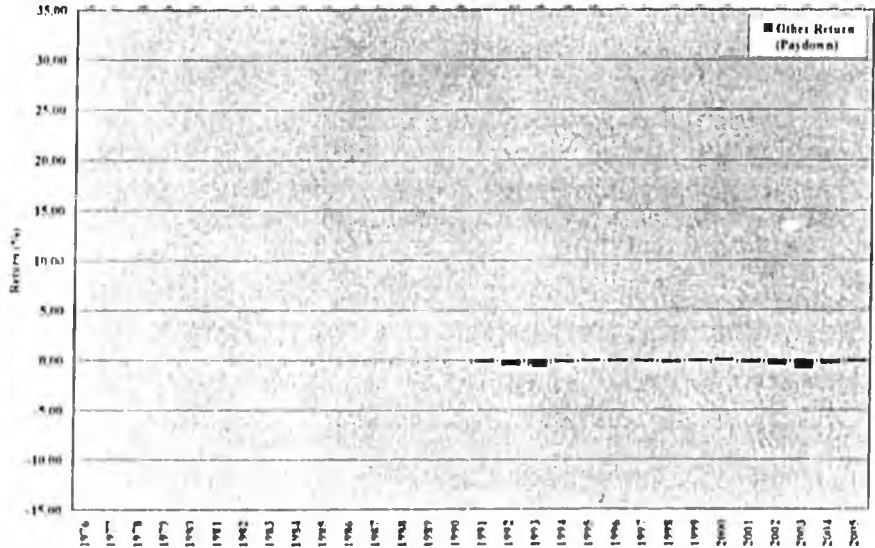
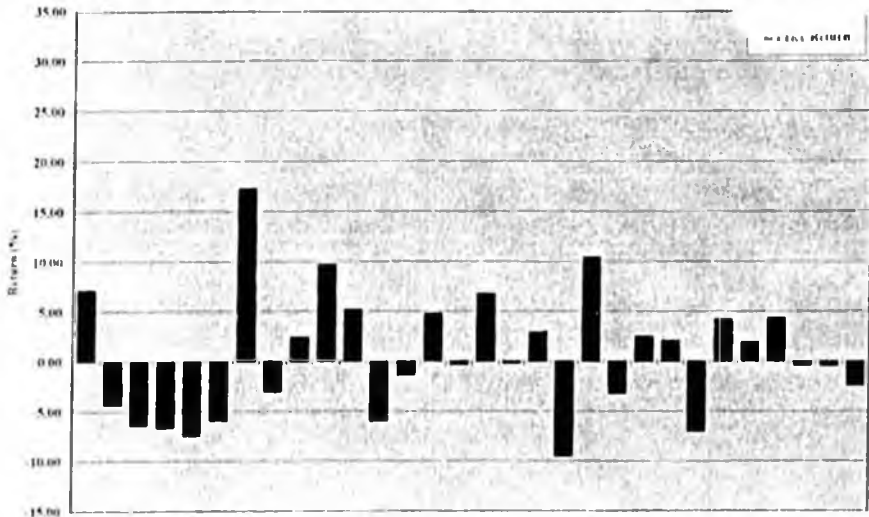
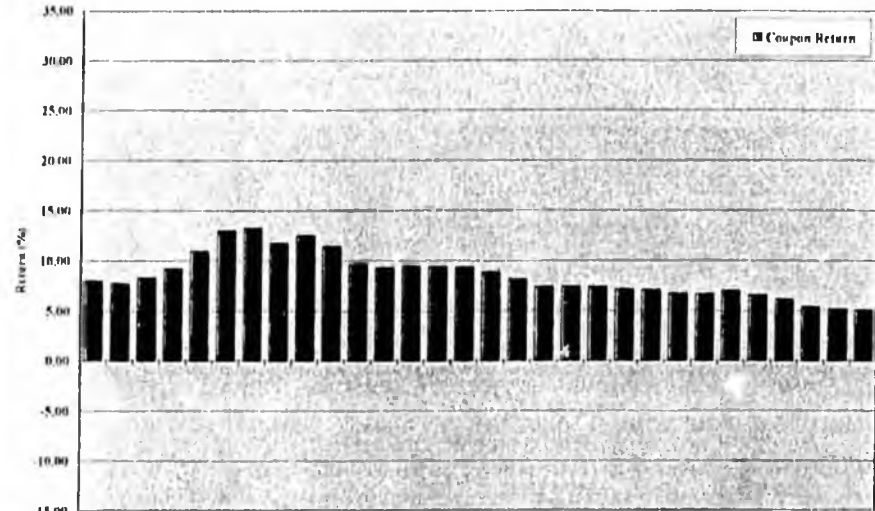
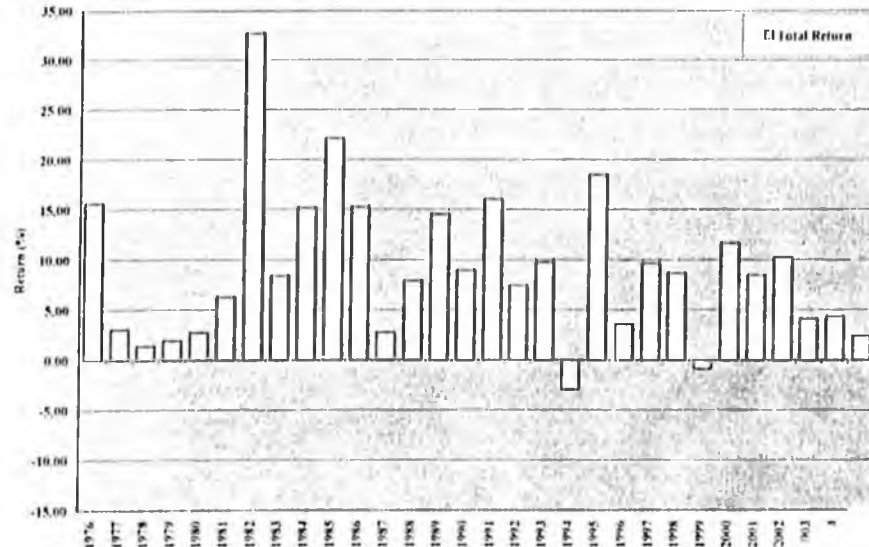
INFLATION HISTORY

Source Western Asset Management/CII 1/31/06



Composition of Bond Returns

LB Aggregate Index - Annual Return Breakdown



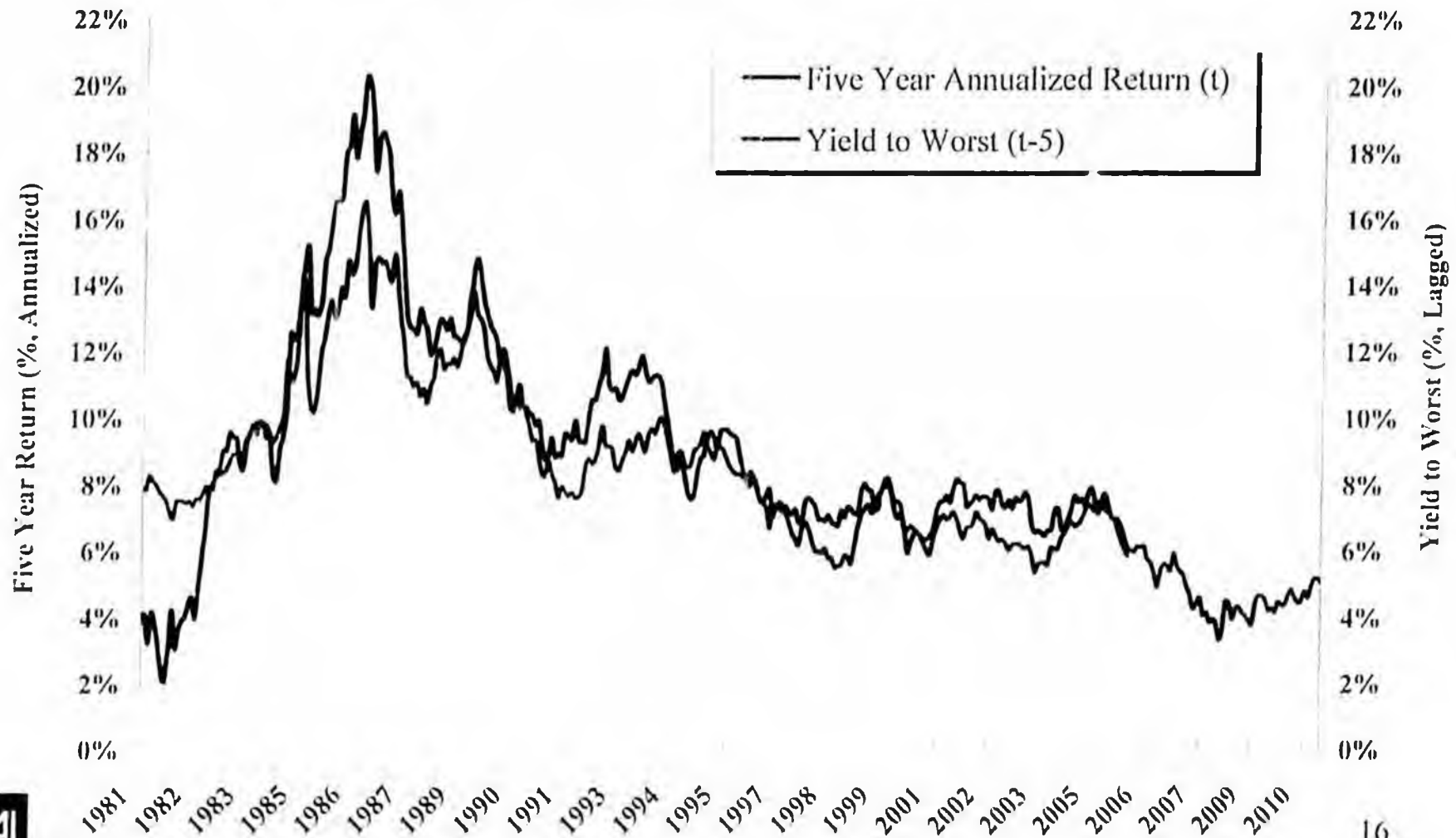
Source: www.lehmanlive.com.



Domestic Fixed Income

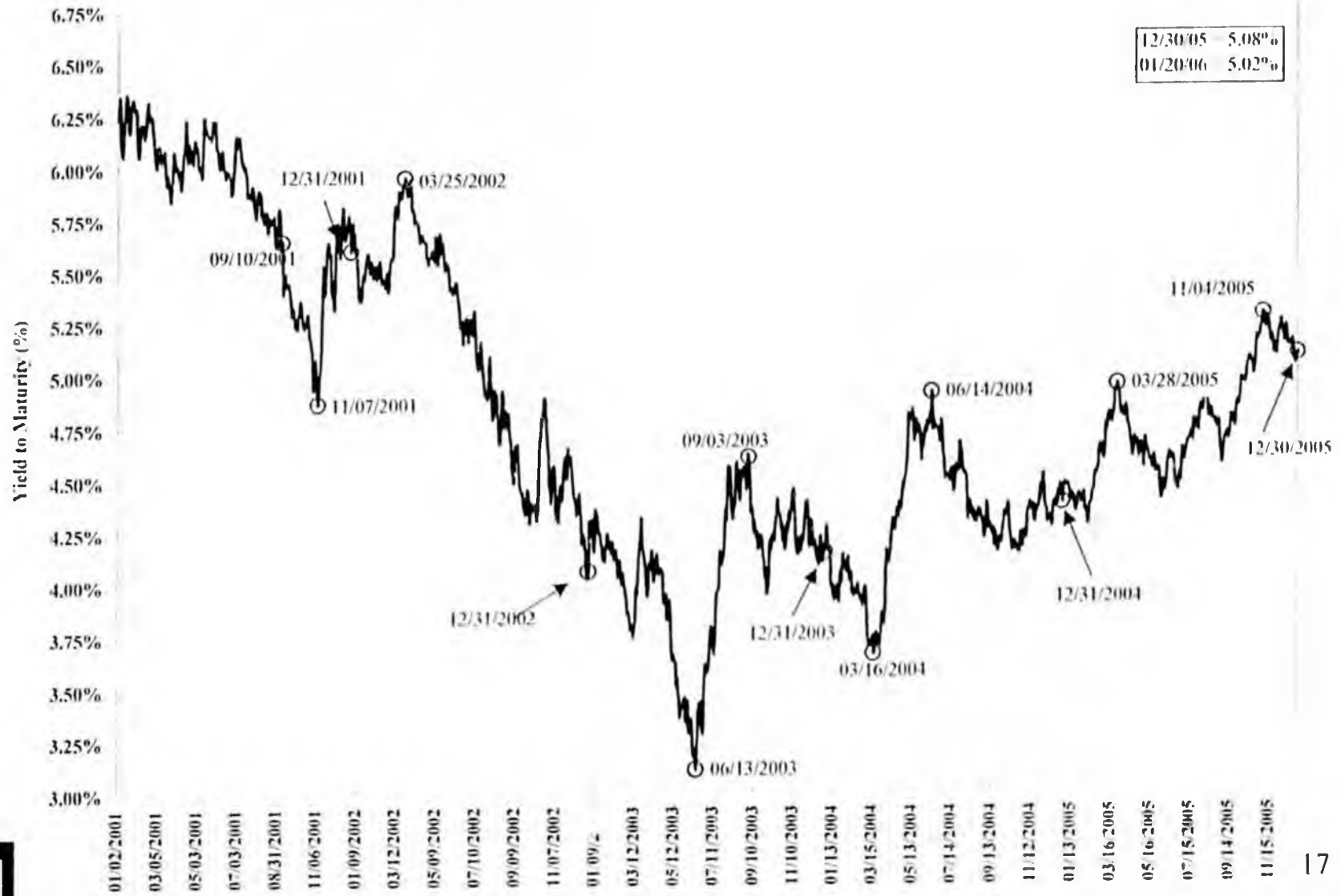
Current Yield Is A Strong Predictor of Returns

Lehman Aggregate Index 5 Year Returns vs. Lagged Yield to Worst



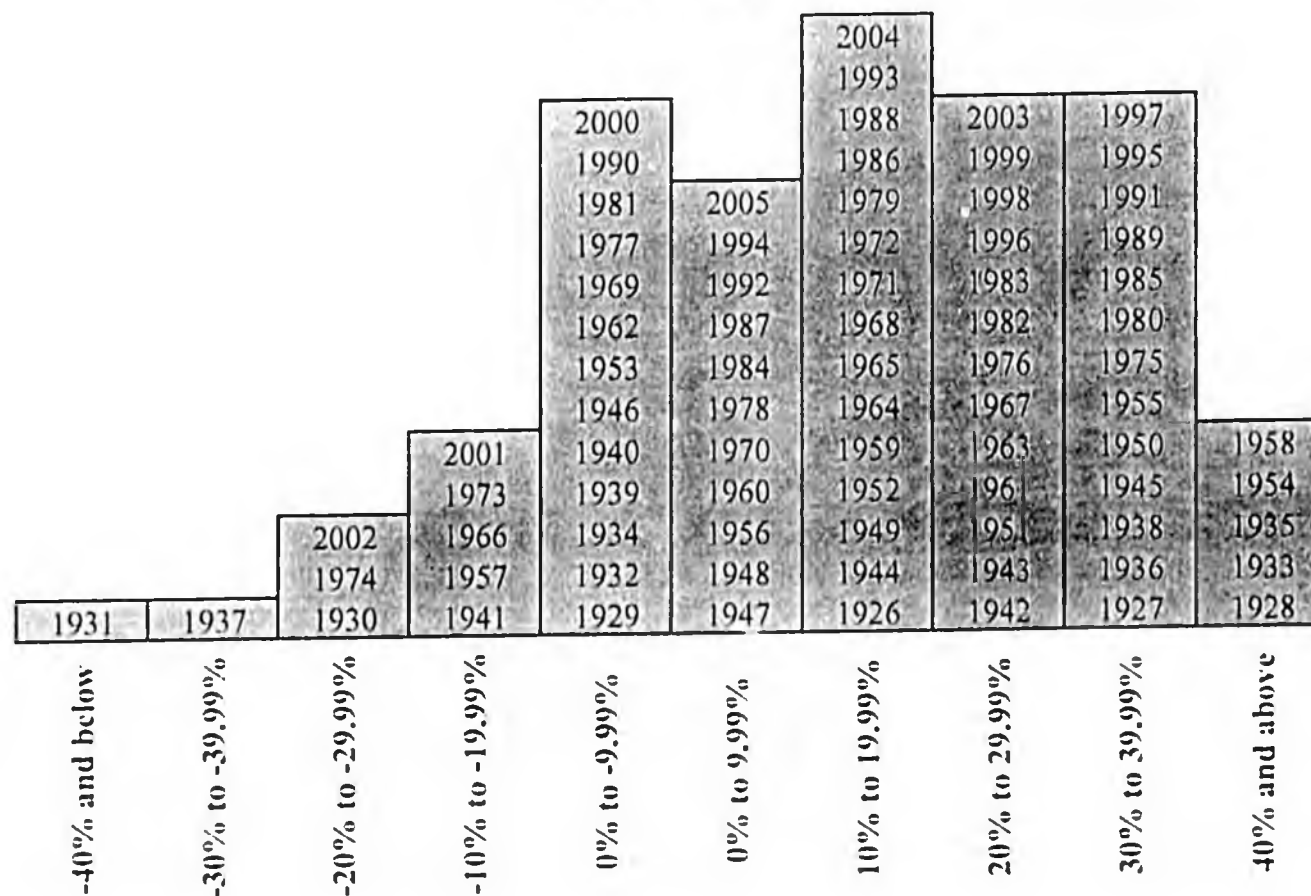
Domestic Fixed Income

Lehman Aggregate Index - Daily Yield to Worst from 1/1/01 to 12/31/06



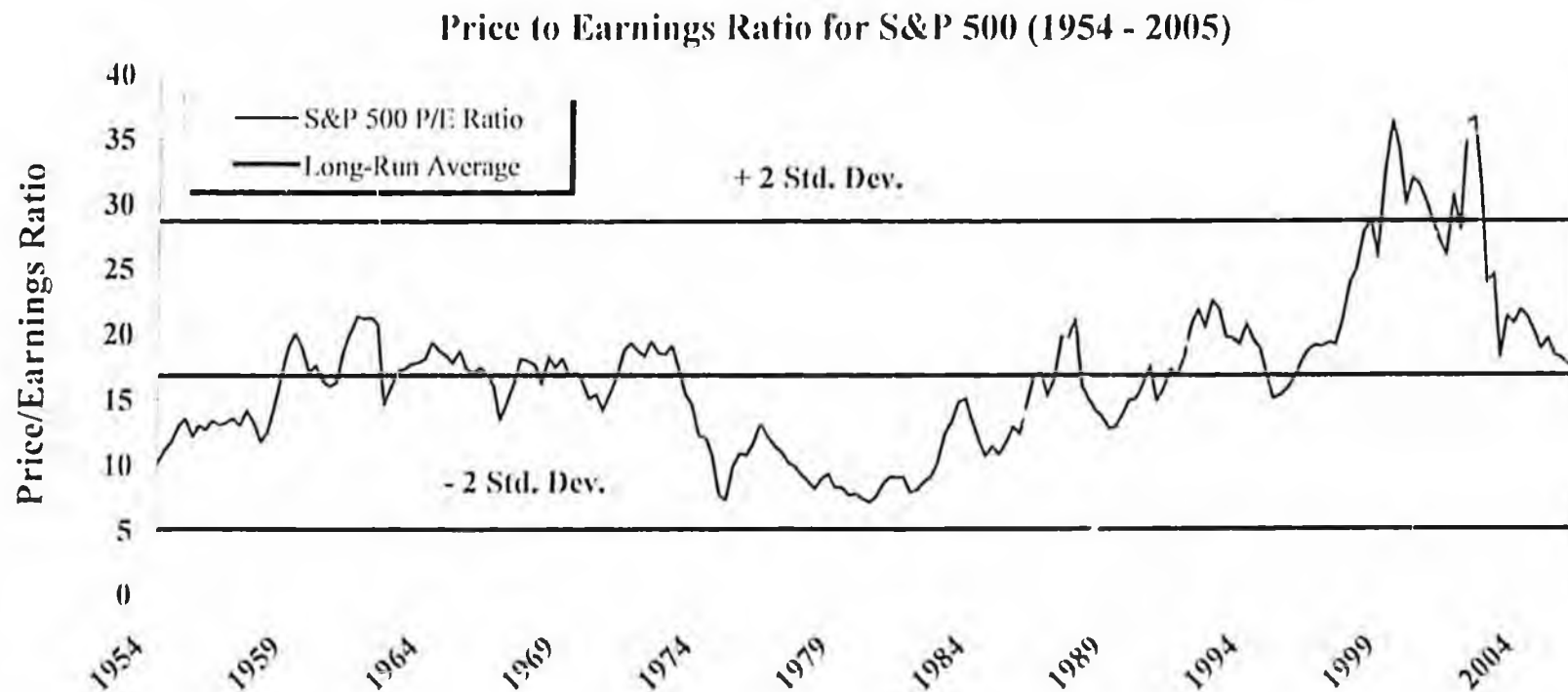
Annual Return Histogram for S&P 500

Distribution of S&P 500 Annual Returns
(1926-2005)



Equity Is Now More Reasonably Priced

Trailing P/E Approaching Long-Run Average

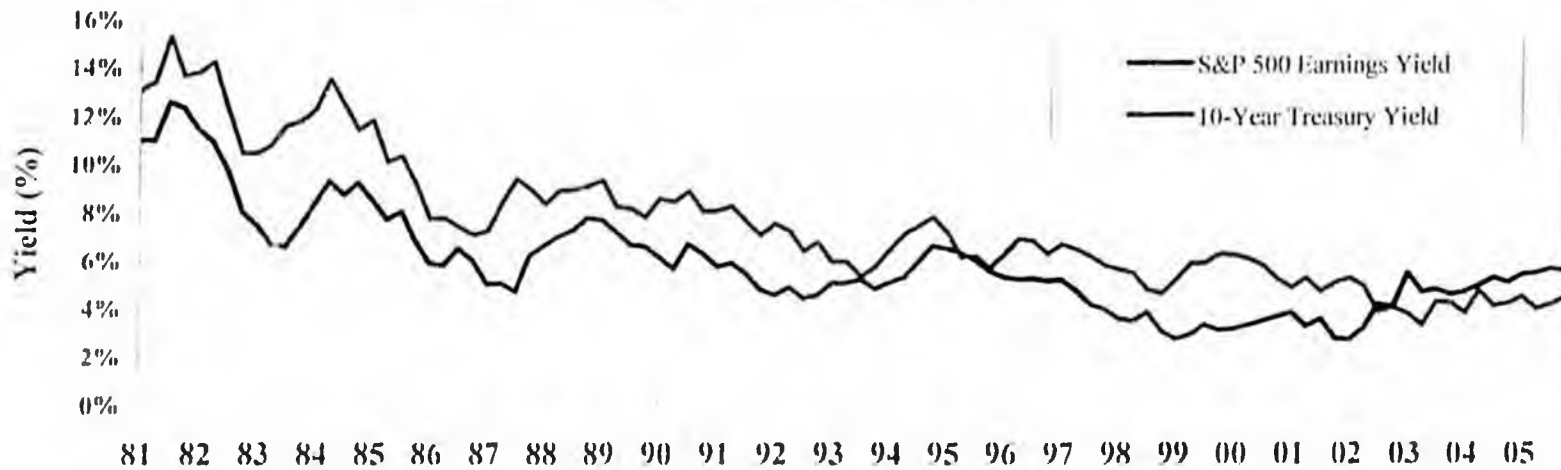


Trailing earnings as reported for the fiscal year; includes negative earnings from 1998 onward.



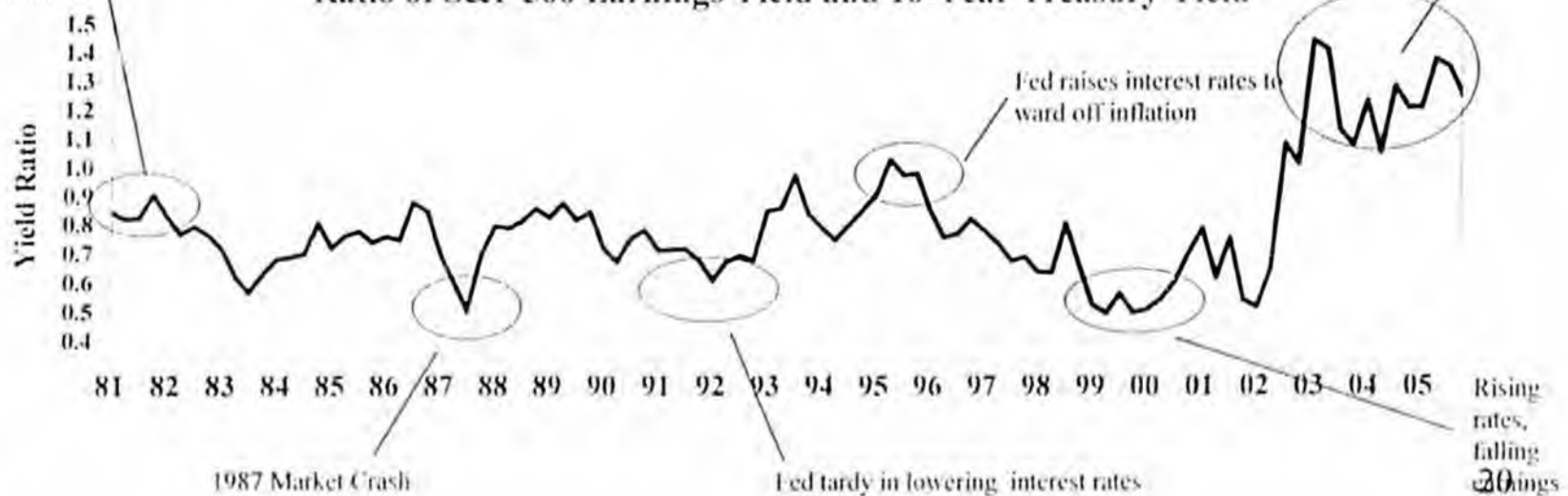
Domestic Equity vs. Bond Yields

S&P 500 Earnings Yield vs. 10-Year Treasury Yield



Peak of interest rates and inflation

Ratio of S&P 500 Earnings Yield and 10-Year Treasury Yield



2006 Capital Market Projections

- Modest changes from last year's projections. Not much has changed in the environment except that Fed executed policy exactly as expected.
- Inflation is nudged up to 2.75%, which implies moderation from current levels.
- Cash returns reflect higher short-term yields, a real return of 1.25%, and expectations that interest rates will peak in 2006.
- Bond returns are set at 5.0%:
 - Reflects current yield-to-worst, with no adjustment.
 - Project upward sloping yield curve (if only slightly so), with a very small risk premium for bonds over cash (1.0%).
- Equity returns built from fundamentals: 3-4% real GDP growth which means 5.5%-6.5% nominal earnings growth, 2% dividend yield, 0.5%-1% "buyback" yield.
- Real estate return held at 7.6%, reflecting income expectations as high as 8% but acknowledging rich levels of property valuations.
- Private equity return held at 12%, a 3% premium over public markets.
- Premium of international equity over domestic will continue to be narrowed, reflecting recent performance and relative valuations.

2006 Capital Market Projections

Summary of 5-Year Capital Market Projections (2006-2010)

Asset Class	Index	Projected Annual Return	Projected Standard Deviation (Risk)	Projected Yield	2005 Projections	
Equities						
Broad Domestic Equity	Russell 3000	9.00%	16.90	2.10	9.00%	16.90
Large Cap	S&P 500	8.85%	16.40	2.20	8.85%	16.40
Small/Mid Cap	Russell 2500	9.85%	22.70	1.20	9.85%	22.70
International Equity	MSCI EAFE	9.20%	20.10	2.20	9.25%	20.10
Emerging Markets Equity	MSCI EMF	9.80%	32.90	0.00	9.80%	33.00
Fixed Income						
Domestic Fixed	LB Aggregate	5.00%	4.50	5.00	4.75%	4.50
Defensive	LB Gov't 1-3 Year	4.25%	2.30	4.25	3.75%	2.30
TIPS	LB TIPS	4.65%	6.00	4.65	4.40%	6.00
High Yield	CSFB High Yield	6.75%	12.10	6.75	6.75%	12.10
Non US\$ Fixed	Citi Non-US Gov't	4.90%	9.60	4.65	4.65%	9.60
Other						
Real Estate	Callan Real Estate	7.60%	16.50	7.00	7.60%	16.50
Private Equity	VE Post Venture Cap	12.00%	34.00	0.00	12.00%	34.00
Absolute Return	Callan Hedge Fof	6.50%	10.20	0.00	6.50%	10.50
Cash Equivalents	90-Day T-Bill	4.00%	0.80	4.00	3.25%	0.80
Inflation	CPI-U	2.75%	1.40		2.60%	1.40

- Consider passively invested, broad markets at asset allocation level.
- Active/passive, capitalization and style decisions within the broad markets are made at the structural level.



APFC Current Policy With 2006-2010 Projections

Component	Portfolio						
	Max	Mix 1	Mix 2	Mix 3	APFC-11-05	Mix 4	Mix 5
Large Cap	100	13	21	27	29	34	40
Small/Mid Cap	100	4	5	6	6	8	9
International Equity	100	7	9	12	16	15	18
Emerging Markets Equity	100	1	1	2	2	2	3
Private Equity	4	2	4	4	4	4	4
Domestic Fixed	100	55	45	33	25	21	10
Non US Fixed	100	5	4	4	4	3	2
Real Estate	100	6	7	8	10	9	10
Absolute Return	4	4	4	4	4	4	4
Cash Equivalents	100	0	0	0	0	0	0
Totals		100	100	100	100	100	100
Expected Return		6.50	7.00	7.50	7.77	8.00	8.50
Standard Deviation		7.30	8.91	10.64	11.61	12.43	14.27
Sharpe Ratio		0.45	0.42	0.40	0.39	0.38	0.37

Note that private equity and absolute return have been constrained to 4% in each area. Also note that high yield bonds & commodities were not explicitly modeled.





ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS as of January 31, 2006

* Fiscal year end results for FY06 are trending to be greater than the mid case

Projections will extend ten years and are based on best available information (\$ in millions)

Reserved Fund Balance - Principal							Unreserved Fund Balance							TOTAL FUND (1) FY-End Balance			
FY	FY-Begin Contrib Balance	Appro- (1)	Dedicated State Revenues	Inflation Proofing	FY-End Balance: Contributions	Unrealized Gain (Loss) Net Change	FY-End Balance	FY-End Reserved Balance	Acct. Net Income (4)	Statutory Net Income (5)	Distributions of Statutory Net Income				Realized Earnings		
											Inflation Proofing	Gen. Fund / Other	Net Change	FY-End Balance	FY		
77-98	0	6,734	6,250	5,533	18,517	3,971	3,971	22,488	20,683	18,667	7,589	5,533	268	1,389	1,389	77-98	23,877
99	18,517	41	155	288	19,001	(430)	3,541	22,542	2,148	2,544	1,045	288	3	1,201	2,590	99	25,132
00	19,301	264	326	423	20,014	(12)	3,529	23,543	2,249	2,222	1,172	423	3	382	2,572	00	26,515
01	20,014	8	339	686	21,047	(2,146)	1,383	22,430	(924)	1,199	1,113	686	4	(588)	2,384	01	24,814
02	21,047	(23)	258	602	21,884	(878)	505	22,389	(617)	257	926	602	5	(1,245)	1,136	02	23,525
03	21,884	354	398	352	22,988	691	1,106	24,094	963	355	691	352	0	(1,035)	100	03	24,194
04	22,988	(33)	353	524	23,526	1,909	3,015	26,541	3,434	1,502	581	170	0	759	859	04	27,400
05	23,526	0	480	641	24,647	859	3,874	28,522	2,640	1,754	532	641	27	581	1,440	05	29,962
10% 06	24,647	0	579	855	26,081	(2,980)	894	26,975	(1,704)	1,299	538	855	18	(135)	1,306	06	28,281
25% 06	24,647	0	579	855	26,081	(1,750)	2,124	28,205	(183)	1,545	568	855	22	121	1,562	06	29,767
Mid 06	24,647	0	579	855	26,081	277	4,151	30,232	2,243	1,939	610	855	28	474	1,914	06	32,146
25% 06	24,647	0	579	855	26,081	1,749	5,623	31,704	4,178	2,395	658	855	34	882	2,323	06	34,027
10% 06	24,647	0	579	855	26,081	2,921	6,795	32,877	5,765	2,804	701	855	40	1,248	2,688	06	35,565
07	26,081	0	466	690	27,238	359	4,510	31,748	2,408	2,021	795	690	28	536	2,450	07	34,198
08	27,238	0	366	718	28,322	382	4,892	33,214	2,559	2,150	983	718	28	449	2,500	08	36,113
09	28,322	0	202	742	29,265	402	5,294	34,559	2,697	2,268	1,064	742	28	462	3,362	09	37,921
10	29,265	0	198	766	30,229	422	5,716	35,945	2,833	2,383	1,130	766	28	487	3,849	10	39,794
11	30,229	0	187	791	31,207	443	6,159	37,365	2,973	2,503	1,189	791	28	523	4,372	11	41,738
12	31,207	0	179	816	32,202	464	6,623	38,825	3,119	2,627	1,253	816	28	558	4,931	12	43,756
13	32,202	0	169	842	33,212	487	7,110	40,322	3,271	2,757	1,316	842	28	599	5,530	13	45,851
14	33,212	0	160	868	34,240	510	7,619	41,859	3,428	2,891	1,382	868	28	641	6,171	14	48,030
15	34,240	0	152	894	35,286	534	8,153	43,440	3,552	3,030	1,450	894	28	686	6,857	15	50,296
16	35,286	0	160	922	36,367	559	8,713	45,080	3,763	3,176	1,520	922	28	734	7,591	16	52,671
Cumulative Totals																	
Proj for 2006-2016										32,887	27,745	12,692	8,903	303	6,150		

Assumptions:	Total Return - Inflation	Total Real Return	Statutory Return
10% FY 2006	5.95%	3.3%	9.34%
25% FY 2006	0.46%	3.3%	3.85%
Mid FY 2006	7.60%	3.3%	4.21%
25% FY 2006	15.2%	3.3%	11.90%
10% FY 2006	21.71%	3.3%	18.32%
FY 2007-2016	7.61%	2.60%	5.01%

Notes to financial history and projections FY77 - FY16:

- (1) Appropriations include special general fund and earnings reserve appropriations to principal; royalty settlement earnings transferred to principal through FY04 per AS 37.13.145(d), and other miscellaneous appropriations to principal.
- (2) Represents a final adjustment to principal based on reconciliation of State of Alaska v. Amerasia Hess et al royalty case.
- (3) FY03 Senate Bill 100 transferred \$354 million from realized earnings account to principal.
- (4) Senate Bill 283 defines the FID as special appropriation of \$154 million for FID inflation proofing and appropriates the remaining \$170 million needed to fully inflation proof contributions and appropriations in FY04. An additional \$15 million in settlement earnings (earnings above inflation) is appropriated to principal per AS 37.13.145(d).
- (5) Statutory inflation proofing for FY04 is based on the inflation rate of 2.21% of \$574 million (\$354 million pre inflation proofing plus \$170 million FID appropriation).
- (6) Accounting net income is statutory net income plus the net change in unrealized gains (losses) and settlement earnings. Statutory net income is realized earnings less settlement earnings and is used to calculate the annual dividend transfer.
- (7) Total fund equals reserved fund balance plus the realized earnings balance.
- (8) Based on 2005 Callan capital market assumptions and a range of expected returns based on the probability of the return outcomes.
- (9) Based on 2005 Callan capital market assumptions and mid expected returns (the mid case). Actual results will vary from projections.
- (10) Am Hess settlement earnings transferred to Alaska Capital Income Fund on per Bill # 187 & SB # 46.

Income year-to-date as of January 31, 2006

FY06 Statutory net income	
Interest dividends real estate & other income	\$ 657.6
Realized gains on the sale of invested assets	978.6
Less operating exp / Legal appropriations	(32.4)
Less AK Capital Inc. Fund committed realized earnings	(21.8)
Statutory net income	\$ 1,582.2

FY06 GAAP (accounting) net income	
Statutory net income	\$ 1,582.2
Adjustment for unrealized gains (losses) on invested assets	1,422.1
AK Capital Income Fund committed realized earnings	21.8
GAAP (accounting) net income	\$ 3,026.1

PERFORMANCE SUMMARY

(preliminary as of January 31, 2006)	Current Month	Last 3 Months	Fiscal Y-T-D	Calendar Y-T-D	Last 12 Months	Last 3 Years	Last 5 Years
Alaska CDs	0.35%	0.98%	2.12%	0.35%	3.29%	2.12%	2.72%
Domestic Fixed Income	0.04%	1.36%	0.21%	0.04%	2.07%	3.84%	5.59%
Non-Domestic Fixed Income	0.97%	1.15%	-0.22%	0.97%	0.18%	6.65%	7.16%
Domestic Equities	3.90%	8.25%	11.60%	3.90%	13.99%	18.47%	2.24%
Non-Domestic Equities	6.78%	15.62%	24.02%	6.78%	26.40%	28.10%	6.75%
Real Estate	2.99%	6.08%	13.82%	2.99%	27.01%	22.82%	16.36%
Absolute Return	2.20%	5.58%	7.96%	2.20%	9.25%		
Total Fund	3.24%	7.31%	16.37%	3.24%	13.82%	15.27%	6.58%
Total Fund Return Benchmark	2.90%	6.76%	9.17%	2.90%	12.03%	14.92%	5.78%

15 AAC 137 is amended by adding new sections to read:

**ARTICLE 4. ALASKA PERMANENT FUND CORPORATION
OPERATIONAL ACTIVITIES**

Section

610. Confidential records

15 AAC 137.610. Confidential records. (a) The APFC may preserve the confidentiality of information that discloses the particulars of the business or the affairs of a private enterprise or investor if the executive director concludes that such disclosure would

(1) unfairly prejudice the ability of the APFC or its investment managers to invest and manage fund assets;

(2) reveal trade secrets or technical data reasonably held as confidential in the finance industry;

(3) reveal matters, the immediate knowledge of which would clearly have an adverse effect upon the finances of the APFC or the permanent fund, including information relating to pending transactions or investments under consideration; or

(4) violate provisions of applicable law.

(b) In taking action under this section to preserve confidentiality, the executive director may declare specific records of the APFC, or appropriate portions of specific records, including documents submitted to the APFC that were

prepared by others, to be confidential and exempt from the public disclosure provisions of AS 40.25.110 and AS 40.25.120 based on

- (1) express determination of the board;
- (2) guidelines of the board;
- (3) confidentiality provisions included in contracts; or
- (4) confidentiality provisions in requests for proposals or invitations

to bid.

(c) For purposes of AS 37.13.200 and this section, "private enterprise or investor" includes investment managers, advisors, consultants, counsel, issuers of securities, and borrowers. (Eff. ___/___/2005, Register ___)

Authority: AS 37.13.200 AS 37.13.206 AS 44.62.310(c)

ARTICLE 5. GENERAL PROVISIONS

Section

990. Definitions

15 AAC 137.990. Definitions. Unless the context indicates otherwise, in 15 AAC 137.610 – 15 AAC 137.990,

- (1) "APFC" means the Alaska Permanent Fund Corporation established under AS 37.13.040;
- (2) "executive director" means the executive director of the APFC;

Register ____, _____ 200__ REVENUE

(3) "permanent fund" has the meaning given "fund" in

AS 37.13.900. (Eff. __/__/2005, Register ____)

Authority: AS 37.13.200 AS 37.13.206

15 AAC 137 is amended by adding new sections to read:

**ARTICLE 3. ALASKA PERMANENT FUND CORPORATION
INVESTMENT ACTIVITIES**

Section

- 410. Purpose of 15 AAC 137.410 – 15 AAC 137.530
- 420. Permanent fund investments; institutional quality
- 430. Fixed-income investments
- 440. Publicly traded equity investments
- 450. Real estate investments
- 460. Alternative investments; other investment types and strategies
- 470. Interests in collective or commingled investment funds
- 480. Foreign currency transactions
- 490. Short-selling
- 500. Leverage
- 510. Lending of permanent fund-owned securities
- 520. Form of asset holdings
- 530. Investments not otherwise permitted

15 AAC 137.410. Purpose of 15 AAC 137.410 – 15 AAC 137.530. The purpose of 15 AAC 137.410 – 15 AAC 137.530 is to implement the authority granted the APFC Board of Trustees under AS 37.13.120(a) to specifically designate the income-producing investments eligible for permanent fund investments. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.420. Permanent fund investments; institutional quality.

All permanent fund investments must be of a quality considered acceptable by other prudent institutional investors, including endowments. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.430. Fixed-income investments. (a) The assets of the permanent fund may be invested in the following fixed-income investments:

- (1) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;
- (2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;
- (3) certificates of deposit and term deposits of United States domestic banks that are members of the Federal Deposit Insurance Corporation and that may be readily sold in a secondary market at prices reflecting fair value or that are fully secured at all times as to payment of principal and interest as described in (b) of this section;
- (4) certificates of deposit and term deposits of federally chartered savings and loan associations in Alaska that are fully secured at all times as to payments of principal and interest as described in (b) of this section;

(5) certificates of deposit and term deposits of mutual savings banks in Alaska that are fully secured at all times as to payments of principal and interest as described in (b) of this section;

(6) fixed-term certificates of indebtedness of federally insured credit unions in Alaska that are fully secured at all times as to payments of principal and interest as described in (b) of this section;

(7) debt instruments that have been issued by domestic entities and that are rated investment grade, or debt instruments of comparable quality issued by nondomestic entities;

(8) subject to (d) of this section, debt instruments that have been issued by domestic or nondomestic entities that are rated below investment grade or are unrated;

(9) short-term

(A) promissory notes that have been issued by domestic entities and that are rated investment grade; or

(B) promissory notes of comparable quality issued by nondomestic entities;

(10) subject to (d) of this section, short-term promissory notes that have been issued by domestic or nondomestic entities that are rated below investment grade or are unrated;

(11) bankers' acceptances drawn on and accepted by United States banks each of which has a combined capital and surplus aggregating at least \$200,000,000;

(12) repurchase agreements and reverse repurchase agreements, the securities underlying the agreements being any of the items listed in (1) - (6) of this subsection;

(13) the portions of business and industrial loans made under the Rural Development Act of 1972 that are guaranteed by the Farmers Home Administration;

(14) the guaranteed portion of Farmers Home Administration loans;

(15) certificates of deposit, term deposits, or bankers' acceptances, that are issued by a United States or nondomestic bank or trust company located outside of the United States and are denominated in United States or nondomestic currency if either

(A) those instruments may be readily sold in a secondary market at prices reflecting fair value; or

(B) the issuing bank or trust company has capital, surplus, and retained earnings at the date of issue equaling at least \$500,000,000;

(16) securities of nondomestic governments and nondomestic government agencies, the principal of, or interest on, which is payable in either United States dollars or nondomestic currencies;

(17) taxable or tax-exempt municipal or state debt instruments whether supported by revenues, general obligations, or guarantees;

(18) shares in a money market or short-term investment fund that has either collateral securities of a type authorized elsewhere in this section as acceptable collateral or securities of similar quality to those authorized elsewhere in this section as acceptable collateral;

(19) fixed-income derivatives, including forwards, futures, options, collateralized securities, structured notes, and swaps, including credit default swaps;

(20) debt instruments issued by an entity described in 15 AAC 137.450(a)(3).

(b) Except for investments made under (a)(15) of this section, certificates of deposit or the equivalent instruments that are not of a quality that may be readily sold in a secondary market at prices reflecting fair value must be secured by a pledge as collateral of

(1) investments authorized for the permanent fund under (a)(1), (2), or (4) of this section;

(2) obligations of the State of Alaska or instrumentalities of the state that are rated at least "A" by a major bond rating service and have a demonstrated secondary market; or

(3) letters of credit issued by an agency of or enterprise sponsored by the United States Government, including the Government National Mortgage

Association, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation.

(c) Investments or obligations pledged as collateral under (b) of this section must have value at least equal to the face value of the certificates of deposit being secured. The APFC may require substitution of collateral in order to ensure continued satisfaction of the requirements set out in (b) of this section.

(d) The aggregate value of investments made under (a)(8) and (10) of this section may not exceed 15 percent of the total value of the permanent fund. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.440. Publicly traded equity investments. The assets of the permanent fund may be invested in the following publicly traded equity investments:

(1) preferred and common stock and other equity interests in entities organized in the United States and elsewhere, including ordinary shares, convertible debt securities, initial public offerings (IPO's), exchange traded funds (ETF's), American depository receipt's (ADR's), American depository securities (ADS's), global depository securities (GDS's), and grantor trusts;

(2) equity derivatives, including forwards, futures, options, swaps, collateralized securities, and structured notes. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.450. Real estate investments. (a) The assets of the permanent fund may be invested in the following real estate investments:

(1) equity interests in, debt obligations secured by mortgages granting a lien on, and other structured investment forms to finance, real estate that is located in the United States, is professionally managed, and is

(A) improved by completed and substantially rented buildings;

(B) located within the market area of real property in which the permanent fund holds an existing interest and is acquired

(i) for the purpose of creating or adding to a portfolio of similar properties; or

(ii) to retain or service the needs of existing tenants; or

(C) timberland or other agricultural land;

(2) subject to (b) of this section, equity interests in, debt obligations secured by mortgages granting a lien on, and other structured investment forms to finance, real estate that is located outside the United States, so long as the property otherwise meets the requirements of (1)(A) or (B) of this subsection;

(3) subject to (c) of this section, equity interests in entities formed to develop for commercial purposes vacant or underdeveloped real estate located in the United States that, when completed and occupied, would meet the requirements of (1)(A) of this subsection;

(4) interests in a titleholding entity, real estate investment trust, real estate operating company, or other entity whose assets consist predominantly of

(A) property of a type in which the APFC is otherwise permitted to invest permanent fund assets under (1), (2), or (3) of this subsection; or

(B) interests in other entities in which the APFC is permitted to invest permanent fund assets under (4)(A) of this subsection.

(b) The aggregate value of investments made under (a)(2) of this section may not exceed five percent of the total value of the permanent fund.

(c) The aggregate value of investments made under (a)(3) of this section may not exceed five percent of the total value of the permanent fund. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 ACC 137.460. Alternative investments; other investment types and strategies. (a) The assets of the permanent fund may be invested in the following additional investment types and strategies:

(1) limited liability private equity investment entities and funds-of-funds whose investments and investment strategies include one or more of the following approaches:

(A) acquisitions, including buyouts, growth buyouts, platform add-ons, and industry consolidation;

(B) venture capital, including seed, early, middle, late, expansion, and diversified;

(C) debt, including mezzanine/subordinated debt, distressed debt, and venture leasing/debt;

(D) special situations, including industry-focused, turnaround, and diverse;

(E) other, including secondaries;

(2) co-investments with entities and funds of funds described in (1) of this subsection;

(3) limited liability hedge fund investment entities and funds-of-funds whose investments and investment strategies include one or more of the following approaches:

(A) relative value, including equity market neutral, fixed income arbitrage, and convertible arbitrage;

(B) event-driven, including merger arbitrage, distressed securities/discounted bank debt, and special situations;

(C) directional/tactical/opportunistic, including long-short equity, managed futures, and global macro;

(4) commodities and commodity-linked securities and derivatives, including forwards, futures, options, swaps, and structured notes;

(5) hybrid investments and strategies; these investments may include domestic, nondomestic, public and private market equity, or fixed income

securities, financial derivatives, and short positions in publicly traded domestic and international equity and fixed income securities;

(6) managed futures funds.

(b) An investment under (a) of this section may be made only

(1) through an investment manager under contract with the APFC with demonstrated skill and experience investing in the specific investment type or strategy authorized under (a); or

(2) on the recommendation and advice of an independent fiduciary retained by the APFC to evaluate a specific proposed investment or investment strategy. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.470. Interests in collective or commingled investment funds. The assets of the permanent fund may be invested in shares or other interests in collective and commingled investment funds that invest predominantly in investments otherwise permitted under 15 AAC 137.410 – 15 AAC 137.530. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.480. Foreign currency transactions. A manager of permanent fund assets may, with the prior approval of the executive director or the chief investment officer, utilize foreign exchange transactions. Such transactions

include currency forwards, futures, swaps, and options, as well as currency strategies, including hedging, cross-hedging, and long or short directional strategies. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.490. Short-selling. In addition to the specific authority for the use of short-selling strategies granted under 15 AAC 137.460, a manager of permanent fund assets may, with the prior approval of the executive director or the chief investment officer and consistent with the limitations on the use of leverage provided under 15 AAC 137.500, utilize short-selling as a part of the manager's overall investment strategy. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.500. Leverage. (a) A manager of permanent fund assets may, with the prior approval of the executive director or chief investment officer, utilize leverage as part of the investment strategy for the portfolio for which the manager is responsible, so long as the creditor's recourse on the leverage amount is

(1) not a general obligation of the permanent fund or the APFC; and

(2) is limited to either

(A) the permanent fund assets for which the manager acts as manager; or

(B) other specific assets of the permanent fund.

(b) A manager of permanent fund assets shall use leverage, if at all, in a prudent manner that is consistent with leverage applied by professional asset managers using similar investment strategies. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.510. Lending of permanent fund-owned securities.

Securities purchased by or otherwise held for the permanent fund may be loaned to securities dealers or financial institutions, provided the loan is collateralized by cash or securities having a market value of at least 102 percent of the market value of securities loaned (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.520. Form of asset holdings. Unless otherwise provided in 15 AAC 137.410 – 15 AAC 137.530, the APFC may invest permanent fund assets directly in the name of the permanent fund, through a limited liability entity, including a corporation, limited partnership, limited liability partnership, or limited liability company, or through a collective or commingled investment fund, including a fund-of-funds. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.530. Investments not otherwise permitted. (a) The permanent fund may hold assets not otherwise authorized under 15 AAC 137.410 – 15 AAC 137.520 that

(1) were held by the permanent fund before January 1, 2006;

(2) are distributed to the permanent fund as the result of a liquidation of other assets held by the fund; or

(3) are acquired by a manager of permanent fund assets because the assets are included in an investment index that is applied by the APFC to measure that manager's investment performance.

(b) The permanent fund may hold an asset described in (a) of this section so long as holding the asset satisfies the prudent-investor rule stated in AS 37.13.120(a).

(c) The APFC must liquidate, restructure, or otherwise bring into compliance a permanent fund investment that ceases to satisfy the prudent investor rule stated in AS 37.13.120(a) within six months after the asset first fails to satisfy that rule. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.990 is repealed and readopted to read:

15 AAC 137.990. Definitions. Unless the context requires otherwise, in

15 AAC 137.410 – 15 AAC 137.990

(1) "APFC" means the Alaska Permanent Fund Corporation established at AS 37.13.040;

(2) "chief investment officer" means the chief investment officer of the APFC;

(3) "co-investment" means a direct investment of permanent fund assets in an entity at the same time and on the same economic terms as an investment of permanent fund assets in that entity made through a private equity fund under 15 AAC 137.460(a)(1);

(4) "collective or commingled investment fund" means an entity whose purpose is to direct the collective investment of assets, including a common trust fund, a collective trust fund, a unit investment trust, an open-end or closed-end mutual fund, an open-end or closed-end registered investment company, or any other collective or commingled investment vehicle that is engaged primarily in the purchase and sale of securities or other assets;

(5) "commodities" means

(A) materials, such as gold, copper, silver, and petroleum;

(B) timber and other agricultural crops;

(C) foods;

(D) other natural resources; and

(E) products of the items identified in (A) - (D) of this

paragraph;

(6) "derivative" means an instrument whose value, usefulness, and marketability is dependent upon or derives from an underlying asset; classes of

derivatives include futures contracts, options, forward contracts, including currency forward contracts, swaps, and options on futures;

(7) "derivative based strategy" means an investment strategy used by investors that invest in markets typically dominated by derivative instruments;

(8) "executive director" means the executive director of the APFC;

(9) "hybrid investment or strategy" means a multi-part investment that may include hedge funds, arbitrage funds, derivative-based strategies, strategic block investment funds, or crossover funds where the underlying investments consist of both public and private investments, including both debt and equity instruments;

(10) "includes" or "including" has the same meaning given in AS 01.10.040;

(11) "investment grade" means a Standard & Poor's Corporation rating BBB or better, or Moody's Investors Service, Inc., rating of Baa or better, including a rating with a "+" or "-" designation or other variations that occur within these ratings, or a comparable rating by another nationally recognized rating organization or by a recognized rating service in the jurisdiction of the issuer;

(12) "leverage" means the use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment;

(13) "manager of permanent fund assets" means an individual, firm, or other entity that, either by contract or employment with the APFC, has

responsibility for the investment and management of a portion of the assets of the permanent fund;

(14) "permanent fund" has the meaning given "fund" in AS 37.13.900;

(15) "security" means an instrument that signifies an ownership position in a corporation or other private entity, a creditor relationship with a corporation, other private entity, or governmental body or entity, or rights to ownership such as those represented by an option, future or forward contract, subscription right, or subscription warrant; "security" includes

(A) stocks, bonds, convertible bonds, bills, notes, debentures, bankers acceptances, commercial paper, certificates of deposit, and shares of a real estate investment trust or real estate operating company;

(B) the types of securities identified under (A) of this paragraph purchased on a when issued basis; and

(C) combinations of the types of securities identified under (A) and (B) of this paragraph issued as a single instrument;

(16) "short-selling" means

(A) the selling of a security that the seller does not own; or

(B) any sale that is completed by the delivery of a security borrowed by the seller. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

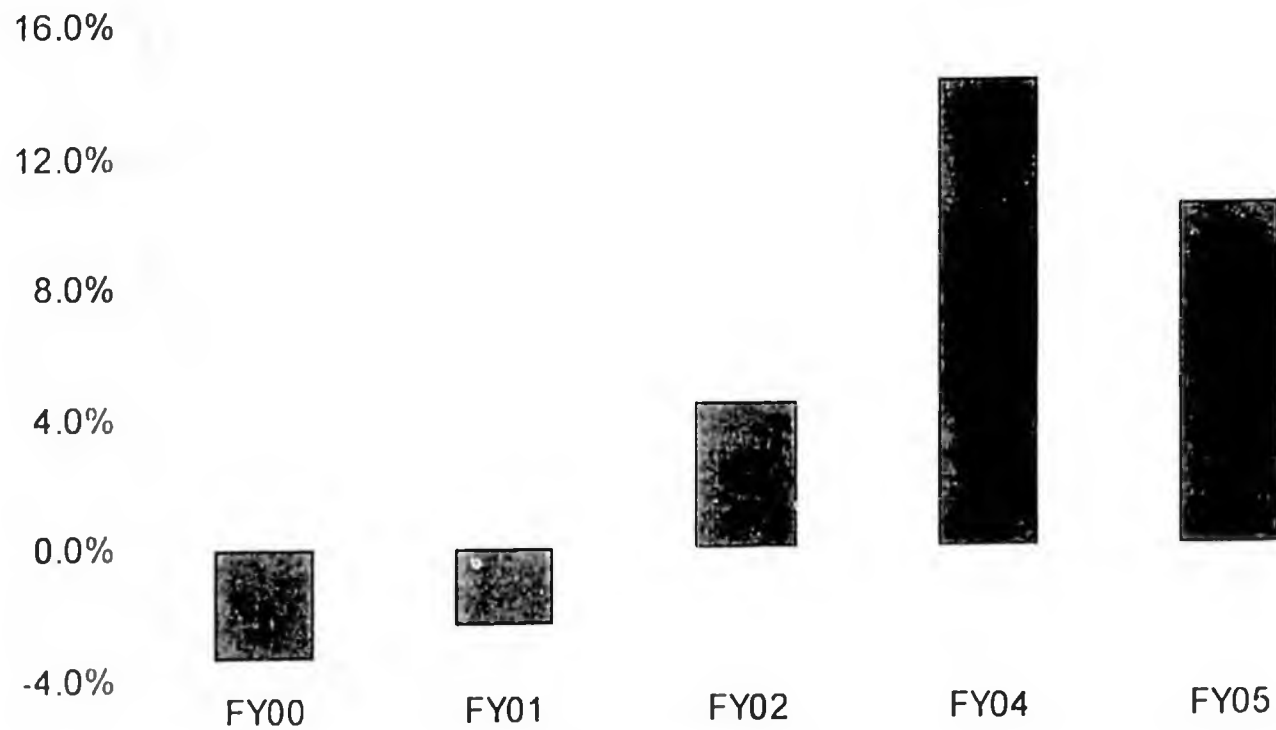
Alaska Permanent Fund

Fiscal 2005 summary

- Total fund return: 10.4%
- Real rate of return after inflation: 7.7%
- Fund balance on June 30 (after dividends):
29.96 billion
- Increase over FY04 ending balance: \$2.56
billion



Fund total return FY00 – FY05



FY 2006 performance as of December 31, 2005

- Total return: 6.7% (annualized 13.4%)
- Ending value on December 31: \$32.2
- Gain from FY05 ending balance: \$2.3 billion
- Realized income: \$1.3 billion



New regulatory authority: Investment regulations

- Staff worked with Callan Associates, Board advisors, outside managers and our legal counsel to draft new investment regulations.
- The determination of counsel was that the regulations would need to define the Prudent Investor Rule, and cover all possible investments, including those that the Trustees may not be considering at this time.
- This level of detail will prevent APFC from being out of compliance with our regulations.



New regulations:

Confidential records regulations

- APFC has been required by statute since 1980 to keep confidential information regarding the business or affairs of a private enterprise or investor.
- Counsel advised APFC to draft regulations that would make clear the determination process used in releasing or withholding information.
- No documents are confidential today that were not confidential a year ago.
- This statute primarily affects information relating to our real estate, private equity and absolute return investments.





ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS as of January 31, 2006

* Fiscal year end results for FY06 are trending to be greater than the mid case.

Projections will extend ten years and are based on best available information (\$ in millions)

Reserved Fund Balance - Principal										Unreserved Fund Balance						TOTAL FUND (m) FY-End Balance	
FY	FY-Begin Contrib. Balance	Appro- ⁽¹⁾ priations	Dedicated		FY-End Balance Contributions	Unrealized Gain (Loss)		FY-End Reserved Balance	Acct. Net Income ⁽¹⁾	Statutory Net Income ⁽²⁾	Distributions of Statutory Net Income			Realized Earnings			
			Slate Revenues	Inflation Proofing		Net Change	FY-End Balance				Inflation Proofing	Gen. Fund / Other	Net Change	FY-End Balance	FY		
77-98	0	6,734	6,250	5,533	18,517	3,971	3,971	22,488	20,883	18,667	7,589	5,533	268	1,389	1,389		77-98
99	18,517	41	155	288	19,001	(430)	3,541	22,542	2,148	2,544	1,045	288	3	1,201	2,590	99	25,132
00	19,001	264	326	423	20,014	(12)	3,529	23,543	2,249	2,222	1,172	423	3	382	2,72	00	26,515
01	20,014	8	339	685	21,047	(2,146)	1,383	22,430	(924)	1,199	1,113	686	4	(588)	2,384	01	24,814
02	21,047	(23) ⁽²⁾	258	602	21,884	(878)	505	22,389	(617)	257	926	602	5	(1,248)	1,136	02	23,525
03	21,884	354 ⁽³⁾	398	352	22,988	601	1,106	24,094	963	355	691	352	0	(1,035)	100	03	24,194
04	22,988	(339) ⁽⁴⁾	353	524 ⁽⁵⁾	23,526	1,909	3,015	26,541	3,434	1,502	581	170 ⁽⁶⁾	0	759	859	04	27,400
05	23,526	0	480	641	24,647	859	3,874	28,522	2,640	1,754	532	641	27 ⁽⁷⁾	581	1,440	05	29,962
10% 06	24,647	0	579	855	26,081	(2,980)	894	26,975	(1,704)	1,259	538	855	18	(135)	1,306	06	28,281
25% 06	24,647	0	579	855	26,081	(1,750)	2,124	28,205	(183)	1,545	568	855	22	121	1,562	06	29,767
Mid 06	24,647	0	579	855	26,081	277	4,151	30,232	2,243	1,939	610	855	28	474	1,914	06	32,146
25% 06	24,647	0	579	855	26,081	1,749	5,623	31,704	4,178	2,395	658	855	34	882	2,323	06	34,027
10% 06	24,647	0	579	855	26,081	2,921	6,795	32,877	5,765	2,804	701	855	40	1,248	2,688	06	35,565
07	26,081	0	466	690	27,238	359	4,510	31,748	2,408	2,021	795	690	28	536	2,450	07	34,198
08	27,238	0	366	718	28,322	382	4,892	33,214	2,559	2,150	983	718	28	449	2,900	08	36,113
09	28,322	0	202	742	29,265	402	5,294	34,559	2,697	2,268	1,064	742	28	462	3,362	09	37,921
10	29,265	0	198	766	30,229	422	5,716	35,945	2,833	2,383	1,130	766	28	487	3,849	10	39,794
11	30,229	0	187	791	31,207	443	6,159	37,365	2,973	2,503	1,189	791	28	523	4,372	11	41,738
12	31,207	0	179	816	32,202	464	6,623	38,825	3,119	2,627	1,253	816	28	558	4,931	12	43,756
13	32,202	0	169	842	33,212	487	7,110	40,322	3,271	2,757	1,316	842	28	599	5,530	13	45,851
14	33,212	0	160	868	34,240	510	7,619	41,859	3,428	2,891	1,382	868	28	641	6,171	14	48,030
15	34,240	0	152	894	35,286	534	8,153	43,440	3,592	3,030	1,450	894	28	686	6,857	15	50,296
16	35,286	0	160	922	36,367	559	8,713	45,050	3,763	3,176	1,520	922	28	734	7,591	16	52,671
Cumulative Totals																	
Proj. for 2006-2016																	
	0		2,817	8,903		4,838			32,887	27,745	12,692	8,903	303	6,150			

Assumptions:	Total Return - Inflation = Total Real Return	Statutory Return
10% FY 2006	-5.95% 3.39% -9.34%	10% 4.22%
25% FY 2006	-0.46% 3.39% -3.85%	25% 5.16%
Mid FY 2006 ⁽¹⁾	7.60% 3.39% 4.21%	Mid ⁽¹⁾ 6.50%
25% FY 2006	15.29% 3.39% 11.90%	25% 8.03%
10% FY 2006	21.71% 3.39% 18.32%	10% 9.49%
FY 2007-2016⁽¹⁾	7.61% 2.60% 5.01%	6.50%

Notes to financial history and projections FY77 - FY16:

⁽¹⁾ Appropriations include special general fund and earnings reserve appropriations to principal, royalty settlement earnings transferred to principal through FY04 per AS 37.13.145(d), and other miscellaneous appropriations to principal.

⁽²⁾ Represents a final adjustment to principal based on reconciliation of State of AK v. Amerada Hess et al royalty case.

⁽³⁾ FY03 Senate Bill 100 transferred \$354 million from realized earnings account to principal.

⁽⁴⁾ Senate Bill 283 defines the FY03 special appropriation of \$354 as pre FY04 inflation proofing and appropriates the remaining \$170 million needed to fully inflation proof contributions and appropriations in FY04. An additional \$15 million in settlement earnings (earnings above inflation) is appropriated to principal per AS 37.13.145(d).

⁽⁵⁾ Statutory inflation proofing for FY04 is based on the inflation rate of 2.28% or \$524 million (\$354 million pre inflation proofing plus \$170 million FY03 appropriation).

⁽⁶⁾ Accounting net income is statutory net income plus the net change in unrealized gains (losses) and settlement earnings. Statutory net income is realized earnings less settlement earnings and is used to calculate the annual dividend transfer.

⁽⁷⁾ Total Fund equals reserved fund balance plus the realized earnings balance.

⁽⁸⁾ Based on 2005 Callan capital market assumptions and a range of expected returns based on the probability of the return outcomes.

⁽⁹⁾ Based on 2005 Callan capital market assumptions and median expected returns (the mid case). Actual results will vary from projections.

⁽¹⁰⁾ Am Hess settlement earnings transferred to Alaska Capital Income Funds as per HB # 187 & SB # 46.

Income year-to-date as of January 31, 2006

FY06 Statutory net income	
Interest, dividends, real estate & other income	\$ 657.8
Realized gains on the sale of invested assets	978.6
Less operating exp / Legis. appropriations	(32.4)
Less AK Capital Inc. Fund committed realized earnings	(21.8)
Statutory net income	\$ 1,582.2

FY06 GAAP (accounting) net income	
Statutory net income	\$ 1,582.2
Adjustment for unrealized gains (losses) on invested assets	1,422.1
AK Capital Income Fund committed realized earnings	21.8
GAAP (accounting) net income	\$ 3,026.1

PERFORMANCE SUMMARY (preliminary as of January 31, 2006)	Current	Last 3	Fiscal	Calendar	Last 12	Last 3	Last 5
	Month	Months	Y-T-D	Y-T-D	Months	Years	Years
Alaska CDs	0.35%	0.98%	2.12%	0.35%	1.29%	2.12%	2.72%
Domestic Fixed Income	0.04%	1.36%	0.21%	0.04%	2.07%	3.84%	5.59%
Non-Domestic Fixed Income	0.97%	1.15%	-0.22%	0.97%	0.18%	6.65%	7.16%
Domestic Equities	3.90%	8.25%	11.60%	3.90%	13.99%	18.47%	2.24%
Non-Domestic Equities	6.78%	15.62%	24.02%	6.78%	26.40%	28.10%	6.75%
Real Estate	2.99%	6.08%	13.82%	2.99%	27.01%	22.82%	16.36%
Absolute Return	2.20%	5.58%	7.96%	2.20%	9.25%		
Total Fund	3.24%	7.31%	10.57%	3.24%	13.62%	15.27%	6.58%
Total Fund Return Benchmark	2.90%	6.76%	9.17%	2.90%	12.03%	14.92%	5.78%

15 AAC 137 is amended by adding new sections to read:

**ARTICLE 3. ALASKA PERMANENT FUND CORPORATION
INVESTMENT ACTIVITIES**

Section

- 410. Purpose of 15 AAC 137.410 – 15 AAC 137.530
- 420. Permanent fund investments; institutional quality
- 430. Fixed-income investments
- 440. Publicly traded equity investments
- 450. Real estate investments
- 460. Alternative investments; other investment types and strategies
- 470. Interests in collective or commingled investment funds
- 480. Foreign currency transactions
- 490. Short-selling
- 500. Leverage
- 510. Lending of permanent fund-owned securities
- 520. Form of asset holdings
- 530. Investments not otherwise permitted

15 AAC 137.410. Purpose of 15 AAC 137.410 – 15 AAC 137.530. The purpose of 15 AAC 137.410 – 15 AAC 137.530 is to implement the authority granted the APFC Board of Trustees under AS 37.13.120(a) to specifically designate the income-producing investments eligible for permanent fund investments. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.420. Permanent fund investments; institutional quality.

All permanent fund investments must be of a quality considered acceptable by other prudent institutional investors, including endowments. (Eff. 01/01/2006, Reg. ____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.430. Fixed-income investments. (a) The assets of the permanent fund may be invested in the following fixed-income investments:

- (1) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;
- (2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;
- (3) certificates of deposit and term deposits of United States domestic banks that are members of the Federal Deposit Insurance Corporation and that may be readily sold in a secondary market at prices reflecting fair value or that are fully secured at all times as to payment of principal and interest as described in (b) of this section;
- (4) certificates of deposit and term deposits of federally chartered savings and loan associations in Alaska that are fully secured at all times as to payments of principal and interest as described in (b) of this section;

(5) certificates of deposit and term deposits of mutual savings banks in Alaska that are fully secured at all times as to payments of principal and interest as described in (b) of this section:

(6) fixed-term certificates of indebtedness of federally insured credit unions in Alaska that are fully secured at all times as to payments of principal and interest as described in (b) of this section:

(7) debt instruments that have been issued by domestic entities and that are rated investment grade, or debt instruments of comparable quality issued by nondomestic entities:

(8) subject to (d) of this section, debt instruments that have been issued by domestic or nondomestic entities that are rated below investment grade or are unrated:

(9) short-term

(A) promissory notes that have been issued by domestic entities and that are rated investment grade; or

(B) promissory notes of comparable quality issued by nondomestic entities;

(10) subject to (d) of this section, short-term promissory notes that have been issued by domestic or nondomestic entities that are rated below investment grade or are unrated:

(11) bankers' acceptances drawn on and accepted by United States banks each of which has a combined capital and surplus aggregating at least \$200,000,000;

(12) repurchase agreements and reverse repurchase agreements, the securities underlying the agreements being any of the items listed in (1) - (6) of this subsection;

(13) the portions of business and industrial loans made under the Rural Development Act of 1972 that are guaranteed by the Farmers Home Administration;

(14) the guaranteed portion of Farmers Home Administration loans;

(15) certificates of deposit, term deposits, or bankers' acceptances, that are issued by a United States or nondomestic bank or trust company located outside of the United States and are denominated in United States or nondomestic currency if either

(A) those instruments may be readily sold in a secondary market at prices reflecting fair value; or

(B) the issuing bank or trust company has capital, surplus, and retained earnings at the date of issue equaling at least \$500,000,000;

(16) securities of nondomestic governments and nondomestic government agencies, the principal of, or interest on, which is payable in either United States dollars or nondomestic currencies;

(17) taxable or tax-exempt municipal or state debt instruments whether supported by revenues, general obligations, or guarantees;

(18) shares in a money market or short-term investment fund that has either collateral securities of a type authorized elsewhere in this section as acceptable collateral or securities of similar quality to those authorized elsewhere in this section as acceptable collateral;

(19) fixed-income derivatives, including forwards, futures, options, collateralized securities, structured notes, and swaps, including credit default swaps;

(20) debt instruments issued by an entity described in 15 AAC 137.450(a)(3).

(b) Except for investments made under (a)(15) of this section, certificates of deposit or the equivalent instruments that are not of a quality that may be readily sold in a secondary market at prices reflecting fair value must be secured by a pledge as collateral of

(1) investments authorized for the permanent fund under (a)(1), (2), or (4) of this section;

(2) obligations of the State of Alaska or instrumentalities of the state that are rated at least "A" by a major bond rating service and have a demonstrated secondary market; or

(3) letters of credit issued by an agency of or enterprise sponsored by the United States Government, including the Government National Mortgage

Association, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation.

(c) Investments or obligations pledged as collateral under (b) of this section must have value at least equal to the face value of the certificates of deposit being secured. The APFC may require substitution of collateral in order to ensure continued satisfaction of the requirements set out in (b) of this section.

(d) The aggregate value of investments made under (a)(8) and (10) of this section may not exceed 15 percent of the total value of the permanent fund. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.440. Publicly traded equity investments. The assets of the permanent fund may be invested in the following publicly traded equity investments:

(1) preferred and common stock and other equity interests in entities organized in the United States and elsewhere, including ordinary shares, convertible debt securities, initial public offerings (IPO's), exchange traded funds (ETF's), American depository receipts (ADR's), American depository securities (ADS's), global depository securities (GDS's), and grantor trusts;

(2) equity derivatives, including forwards, futures, options, swaps, collateralized securities, and structured notes. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.450. Real estate investments. (a) The assets of the permanent fund may be invested in the following real estate investments:

(1) equity interests in, debt obligations secured by mortgages granting a lien on, and other structured investment forms to finance, real estate that is located in the United States, is professionally managed, and is

(A) improved by completed and substantially rented buildings;

(B) located within the market area of real property in which the permanent fund holds an existing interest and is acquired

(i) for the purpose of creating or adding to a portfolio of similar properties; or

(ii) to retain or service the needs of existing tenants; or

(C) timberland or other agricultural land;

(2) subject to (b) of this section, equity interests in, debt obligations secured by mortgages granting a lien on, and other structured investment forms to finance, real estate that is located outside the United States, so long as the property otherwise meets the requirements of (1)(A) or (B) of this subsection;

(3) subject to (c) of this section, equity interests in entities formed to develop for commercial purposes vacant or underdeveloped real estate located in the United States that, when completed and occupied, would meet the requirements of (1)(A) of this subsection;

(4) interests in a titleholding entity, real estate investment trust, real estate operating company, or other entity whose assets consist predominantly of

(A) property of a type in which the APFC is otherwise permitted to invest permanent fund assets under (1), (2), or (3) of this subsection; or

(B) interests in other entities in which the APFC is permitted to invest permanent fund assets under (4)(A) of this subsection.

(b) The aggregate value of investments made under (a)(2) of this section may not exceed five percent of the total value of the permanent fund.

(c) The aggregate value of investments made under (a)(3) of this section may not exceed five percent of the total value of the permanent fund. (Eff.

01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 ACC 137.460. Alternative investments; other investment types and strategies. (a) The assets of the permanent fund may be invested in the following additional investment types and strategies:

(1) limited liability private equity investment entities and funds-of-funds whose investments and investment strategies include one or more of the following approaches:

(A) acquisitions, including buyouts, growth buyouts, platform add-ons, and industry consolidation;

(B) venture capital, including seed, early, middle, late, expansion, and diversified;

(C) debt, including mezzanine/subordinated debt, distressed debt, and venture leasing/debt;

(D) special situations, including industry-focused, turnaround, and diverse;

(E) other, including secondaries;

(2) co-investments with entities and funds of funds described in (1) of this subsection;

(3) limited liability hedge fund investment entities and funds-of-funds whose investments and investment strategies include one or more of the following approaches:

(A) relative value, including equity market neutral, fixed income arbitrage, and convertible arbitrage;

(B) event-driven, including merger arbitrage, distressed securities/discouned bank debt, and special situations;

(C) directional/tactical/opportunistic, including long-short equity, managed futures, and global macro;

(4) commodities and commodity-linked securities and derivatives, including forwards, futures, options, swaps, and structured notes;

(5) hybrid investments and strategies; these investments may include domestic, nondomestic, public and private market equity, or fixed income

securities, financial derivatives, and short positions in publicly traded domestic and international equity and fixed income securities;

(6) managed futures funds.

(b) An investment under (a) of this section may be made only

(1) through an investment manager under contract with the APFC with demonstrated skill and experience investing in the specific investment type or strategy authorized under (a); or

(2) on the recommendation and advice of an independent fiduciary retained by the APFC to evaluate a specific proposed investment or investment strategy. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.470. Interests in collective or commingled investment funds. The assets of the permanent fund may be invested in shares or other interests in collective and commingled investment funds that invest predominantly in investments otherwise permitted under 15 AAC 137.410 – 15 AAC 137.530.

(Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.480. Foreign currency transactions. A manager of permanent fund assets may, with the prior approval of the executive director or the chief investment officer, utilize foreign exchange transactions. Such transactions

include currency forwards, futures, swaps, and options, as well as currency strategies, including hedging, cross-hedging, and long or short directional strategies. (Eff. 01/01/2006, Reg. ____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.490. Short-selling. In addition to the specific authority for the use of short-selling strategies granted under 15 AAC 137.460, a manager of permanent fund assets may, with the prior approval of the executive director or the chief investment officer and consistent with the limitations on the use of leverage provided under 15 AAC 137.500, utilize short-selling as a part of the manager's overall investment strategy. (Eff. 01/01/2006, Reg. ____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.500. Leverage. (a) A manager of permanent fund assets may, with the prior approval of the executive director or chief investment officer, utilize leverage as part of the investment strategy for the portfolio for which the manager is responsible, so long as the creditor's recourse on the leverage amount is

(1) not a general obligation of the permanent fund or the APFC; and

(2) is limited to either

(A) the permanent fund assets for which the manager acts as manager; or

(B) other specific assets of the permanent fund.

(b) A manager of permanent fund assets shall use leverage, if at all, in a prudent manner that is consistent with leverage applied by professional asset managers using similar investment strategies. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.510. Lending of permanent fund-owned securities.

Securities purchased by or otherwise held for the permanent fund may be loaned to securities dealers or financial institutions, provided the loan is collateralized by cash or securities having a market value of at least 102 percent of the market value of securities loaned (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.520. Form of asset holdings. Unless otherwise provided in 15 AAC 137.410 – 15 AAC 137.530, the APFC may invest permanent fund assets directly in the name of the permanent fund, through a limited liability entity, including a corporation, limited partnership, limited liability partnership, or limited liability company, or through a collective or commingled investment fund, including a fund-of-funds. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.530. Investments not otherwise permitted. (a) The permanent fund may hold assets not otherwise authorized under 15 AAC 137.410

– 15 AAC 137.520 that

(1) were held by the permanent fund before January 1, 2006;

(2) are distributed to the permanent fund as the result of a liquidation of other assets held by the fund; or

(3) are acquired by a manager of permanent fund assets because the assets are included in an investment index that is applied by the APFC to measure that manager's investment performance.

(b) The permanent fund may hold an asset described in (a) of this section so long as holding the asset satisfies the prudent-investor rule stated in AS 37.13.120(a).

(c) The APFC must liquidate, restructure, or otherwise bring into compliance a permanent fund investment that ceases to satisfy the prudent investor rule stated in AS 37.13.120(a) within six months after the asset first fails to satisfy that rule. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.990 is repealed and readopted to read:

15 AAC 137.990. Definitions. Unless the context requires otherwise, in 15 AAC 137.410 - 15 AAC 137.990

(1) "APFC" means the Alaska Permanent Fund Corporation established at AS 37.13.040;

(2) "chief investment officer" means the chief investment officer of the APFC;

(3) "co-investment" means a direct investment of permanent fund assets in an entity at the same time and on the same economic terms as an investment of permanent fund assets in that entity made through a private equity fund under 15 AAC 137.460(a)(1);

(4) "collective or commingled investment fund" means an entity whose purpose is to direct the collective investment of assets, including a common trust fund, a collective trust fund, a unit investment trust, an open-end or closed-end mutual fund, an open-end or closed-end registered investment company, or any other collective or commingled investment vehicle that is engaged primarily in the purchase and sale of securities or other assets;

(5) "commodities" means

(A) materials, such as gold, copper, silver, and petroleum;

(B) timber and other agricultural crops;

(C) foods;

(D) other natural resources; and

(E) products of the items identified in (A) – (D) of this

paragraph;

(6) "derivative" means an instrument whose value, usefulness, and marketability is dependent upon or derives from an underlying asset; classes of

derivative, include futures contracts, options, forward contracts, including currency forward contracts, swaps, and options on futures;

(7) "derivative based strategy" means an investment strategy used by investors that invest in markets typically dominated by derivative instruments;

(8) "executive director" means the executive director of the APFC;

(9) "hybrid investment or strategy" means a multi-part investment that may include hedge funds, arbitrage funds, derivative-based strategies, strategic block investment funds, or crossover funds where the underlying investments consist of both public and private investments, including both debt and equity instruments;

(10) "includes" or "including" has the same meaning given in AS 01.10.040;

(11) "investment grade" means a Standard & Poor's Corporation rating BBB or better, or Moody's Investors Service, Inc., rating of Baa or better, including a rating with a "+" or "-" designation or other variations that occur within these ratings, or a comparable rating by another nationally recognized rating organization or by a recognized rating service in the jurisdiction of the issuer;

(12) "leverage" means the use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment;

(13) "manager of permanent fund assets" means an individual, firm, or other entity that, either by contract or employment with the APFC, has

responsibility for the investment and management of a portion of the assets of the permanent fund;

(14) "permanent fund" has the meaning given "fund" in AS 37.13.900;

(15) "security" means an instrument that signifies an ownership position in a corporation or other private entity, a creditor relationship with a corporation, other private entity, or governmental body or entity, or rights to ownership such as those represented by an option, future or forward contract, subscription right, or subscription warrant; "security" includes

(A) stocks, bonds, convertible bonds, bills, notes, debentures, bankers acceptances, commercial paper, certificates of deposit, and shares of a real estate investment trust or real estate operating company;

(B) the types of securities identified under (A) of this paragraph purchased on a when issued basis; and

(C) combinations of the types of securities identified under (A) and (B) of this paragraph issued as a single instrument;

(16) "short-selling" means

(A) the selling of a security that the seller does not own; or

(B) any sale that is completed by the delivery of a security borrowed by the seller. (Eff. 01/01/2006, Reg. _____)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137 is amended by adding new sections to read:

**ARTICLE 4. ALASKA PERMANENT FUND CORPORATION
OPERATIONAL ACTIVITIES**

Section

610. Confidential records

15 AAC 137.610. Confidential records. (a) The APFC may preserve the confidentiality of information that discloses the particulars of the business or the affairs of a private enterprise or investor if the executive director concludes that such disclosure would

(1) unfairly prejudice the ability of the APFC or its investment managers to invest and manage fund assets;

(2) reveal trade secrets or technical data reasonably held as confidential in the finance industry;

(3) reveal matters, the immediate knowledge of which would clearly have an adverse effect upon the finances of the APFC or the permanent fund, including information relating to pending transactions or investments under consideration; or

(4) violate provisions of applicable law.

(b) In taking action under this section to preserve confidentiality, the executive director may declare specific records of the APFC, or appropriate portions of specific records, including documents submitted to the APFC that were

prepared by others, to be confidential and exempt from the public disclosure provisions of AS 40.25.110 and AS 40.25.120 based on

- (1) express determination of the board;
- (2) guidelines of the board;
- (3) confidentiality provisions included in contracts; or
- (4) confidentiality provisions in requests for proposals or invitations

to bid.

(c) For purposes of AS 37.13.200 and this section, "private enterprise or investor" includes investment managers, advisors, consultants, counsel, issuers of securities, and borrowers. (Eff. ___/___/2005, Register ___)

Authority: AS 37.13.200 AS 37.13.206 AS 44.62.310(c)

ARTICLE 5. GENERAL PROVISIONS

Section

990. Definitions

15 AAC 137.990. Definitions. Unless the context indicates otherwise, in 15 AAC 137.610 – 15 AAC 137.990,

- (1) "APFC" means the Alaska Permanent Fund Corporation established under AS 37.13.040;
- (2) "executive director" means the executive director of the APFC;

Register ____, _____ 200__ REVENUE

(3) "permanent fund" has the meaning given "fund" in

AS 37.13.900. (Eff. __/__/2005, Register ____)

Authority: AS 37.13.200 AS 37.13.206

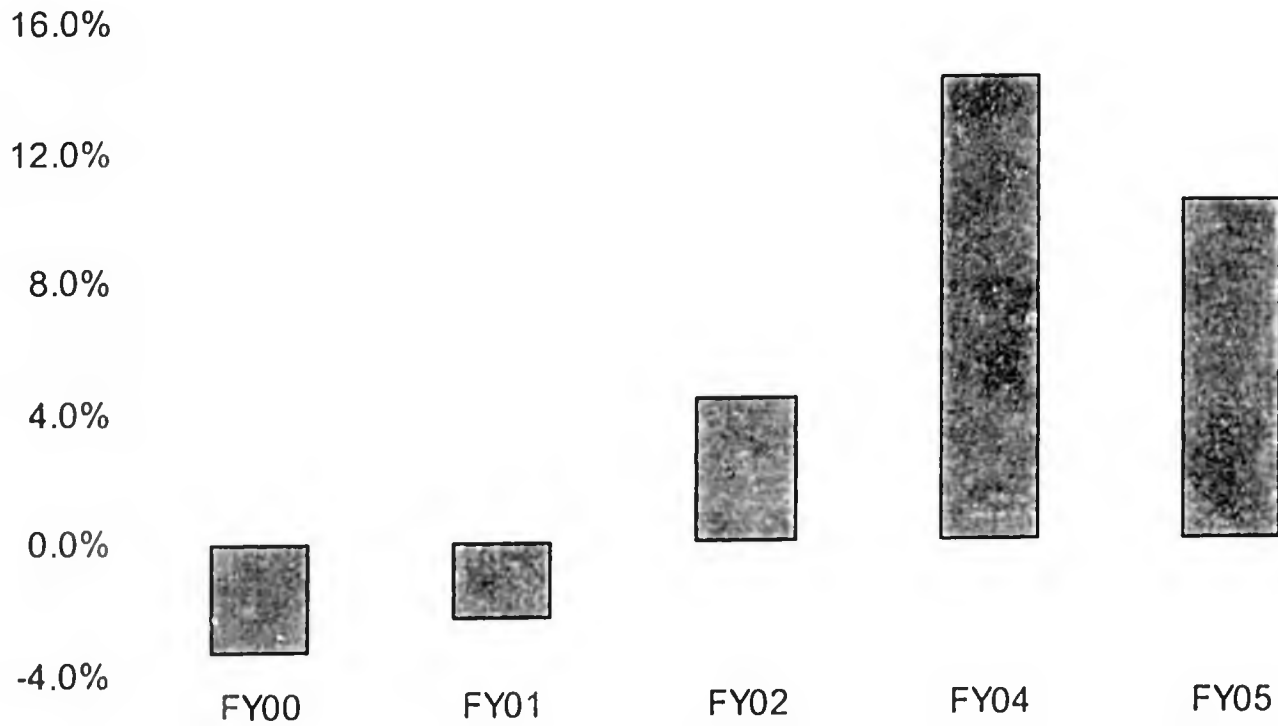
Alaska Permanent Fund

Fiscal 2005 summary

- Total fund return: 10.4%
- Real rate of return after inflation: 7.7%
- Fund balance on June 30 (after dividends):
29.96 billion
- Increase over FY04 ending balance: \$2.56
billion



Fund total return FY00 – FY05



FY 2006 performance as of December 31, 2005

- Total return: 6.7% (annualized 13.4%)
- Ending value on December 31: \$32.2
- Gain from FY05 ending balance: \$2.3 billion
- Realized income: \$1.3 billion



New regulatory authority: Investment regulations

- Staff worked with Callan Associates, Board advisors, outside managers and our legal counsel to draft new investment regulations.
- The determination of counsel was that the regulations would need to define the Prudent Investor Rule, and cover all possible investments, including those that the Trustees may not be considering at this time.
- This level of detail will prevent APFC from being out of compliance with our regulations.





New regulations:

Confidential records regulations

- APFC has been required by statute since 1980 to keep confidential information regarding the business or affairs of a private enterprise or investor.
- Counsel advised APFC to draft regulations that would make clear the determination process used in releasing or withholding information.
- No documents are confidential today that were not confidential a year ago.
- This statute primarily affects information relating to our real estate, private equity and absolute return investments.



Economic & Capital Market Update

Michael J. O'Leary CFA
Executive Vice President
Callan Associates Inc.
February 2006



Callan's Capital Market Projection Process

Economic Outlook Drives Our Projections

- Evaluate the current environment and economic outlook for the U.S. and other major industrial countries:
 - Business cycles, relative growth, inflation.
- Examine the relationships between the economy and asset class performance patterns.
- Examine recent and long-run trends in asset class performance.
- Apply market insight:
 - Consultant experience - Plan Sponsor, Manager Search, Specialty
 - Industry consensus
 - Client Policy Review Committee
- Test the projections for reasonable results.



Capital Market Expectations as a Set

- Relationships between asset class assumptions are as important, or more important, than the individual asset class level of assumptions, with the following relationships being most important:
 - Inflation versus cash equivalents.
 - Fixed income returns versus inflation.
 - Stock returns versus bonds - the equity premium.
 - Large capitalization versus small capitalization equities.
 - U.S. equity versus international equity.
- These relationships will have a strong effect on the generation of efficient asset mixes using the optimizer.

The Capital Markets - Context

Wild Ride for Investors Over the Last Six Years

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	Average Ann Return		
							<u>Five Years 2001-05</u>	<u>Ten Years 1996-05</u>	<u>Fifteen Years 1991-05</u>
Russell 3000	-7.46	-11.46	-21.54	31.06	11.95	6.12	1.58	9.20	11.86
S&P Super Composite 1500	-6.98	-10.64	-21.31	29.59	11.78	5.66	1.48	9.47	11.97
Russell 1000	-7.79	-12.45	-21.65	29.89	11.40	6.27	1.07	9.29	11.85
S&P 500	-9.10	-11.88	-22.10	28.80	10.88	4.91	0.54	9.07	11.52
Russell 2000	-3.02	2.49	-20.48	47.25	18.33	4.55	8.22	9.26	13.04
S&P 600 Small Cap	11.80	6.54	-14.63	38.79	22.65	7.68	10.76	12.16	15.17
EAFE (\$US)	-14.17	-21.44	-15.94	38.59	20.25	13.54	4.55	5.84	7.00
LB Aggregate	11.63	8.43	10.26	4.10	4.33	2.43	5.87	6.16	7.26
SB Non-US Bonds	-2.63	-3.54	21.99	18.52	12.14	-9.21	7.27	4.42	6.94
90-day T-bill	6.18	4.42	1.78	1.15	1.33	3.07	2.34	3.84	4.06
CPI-U	3.39	1.55	2.38	1.88	3.26	3.42	2.49	2.51	2.61



Brief Overview

- Economy
 - Recovery
 - Consumer
 - Investment spending
 - Housing
 - Energy
 - Dollar
 - Inflation
- Capital Markets
 - Bonds
 - Stocks
 - Projections
 - Efficient Frontier



Consumer Spending: Slowdown or Retreat?

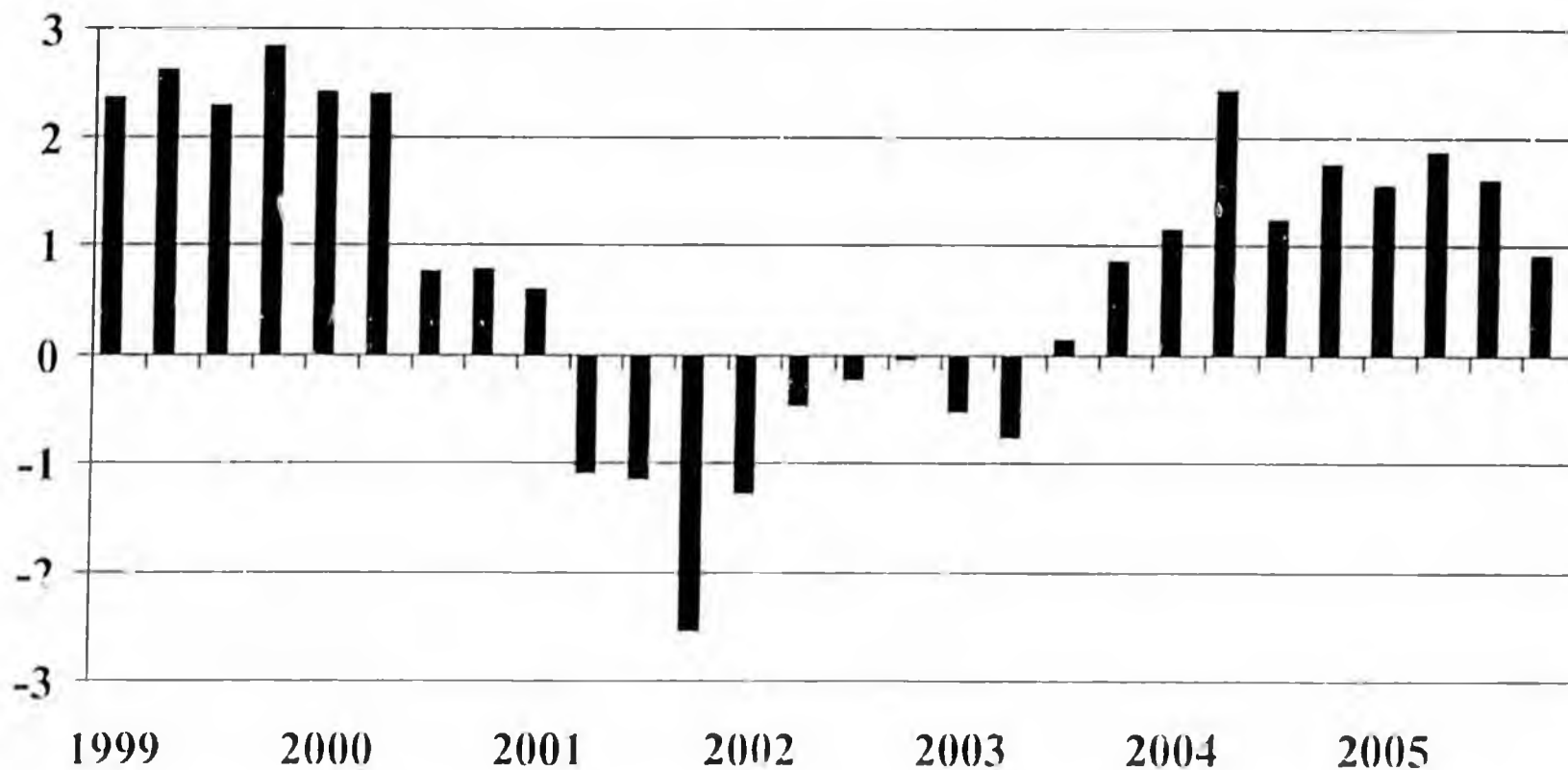
- Consumer spending carried the economy since 2000, fueled by low interest rates, tax cuts, and a housing boom.
- The housing boom triggered a “wealth effect” on confidence and spending, and encouraged the extraction of home equity.
- However:
 - Savings rate is low,
 - Tax cuts are over,
 - Interest rates are rising,
 - The housing market shows signs of cooling, and
 - Energy costs are substantially higher.
- Most observers expect the housing bubble to fizzle rather than pop.
- The bursting of the housing bubble has replaced deflation as the next disaster sure to strike.



2005 Best Year for Job Growth Since 2000

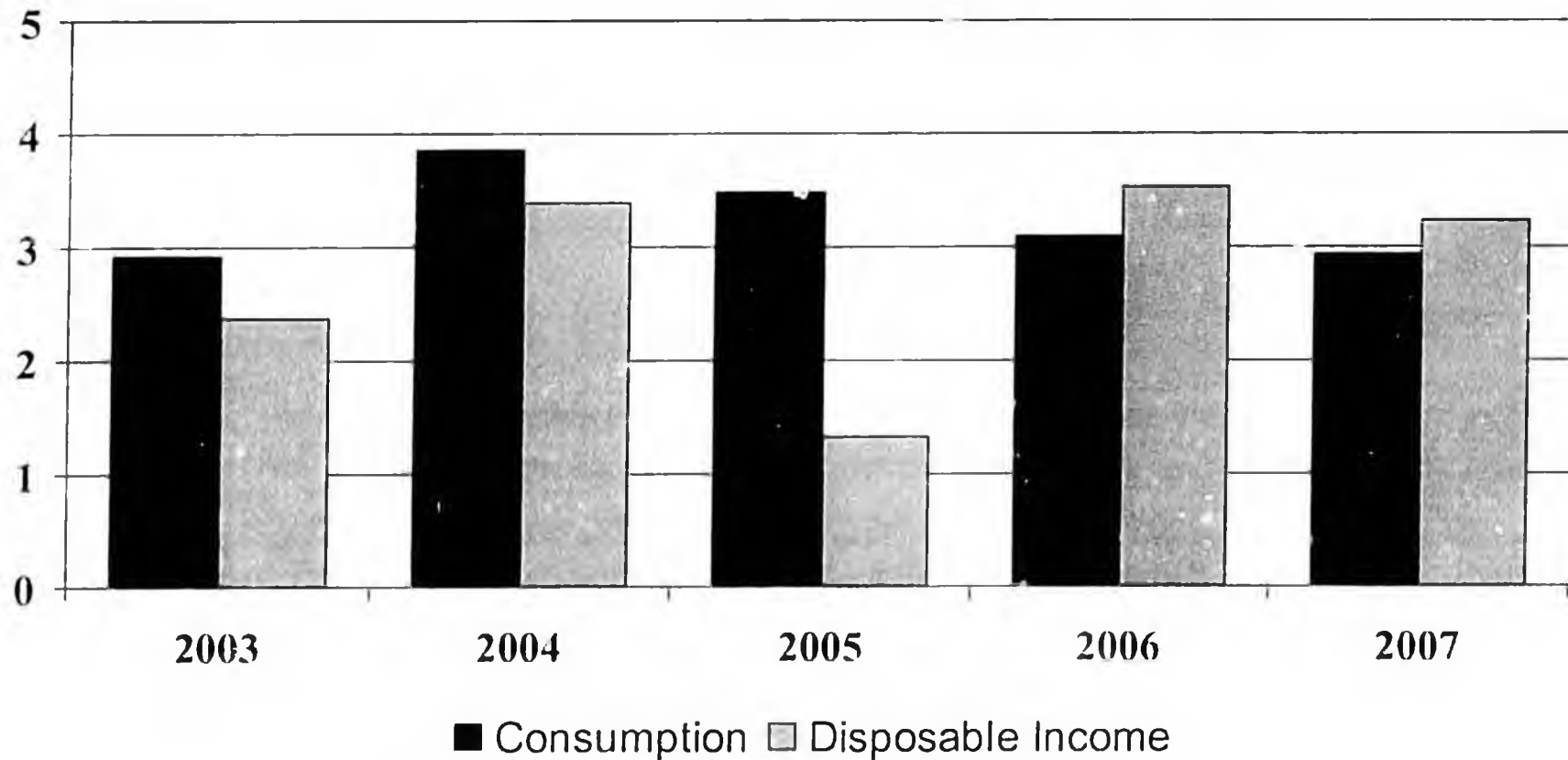
Employment finally surpassed the February 2001 peak in January 2005.

(Employment - percent change, annual rate)



Real Consumer Spending Has Outpaced Real Income Growth

(Percent Growth)



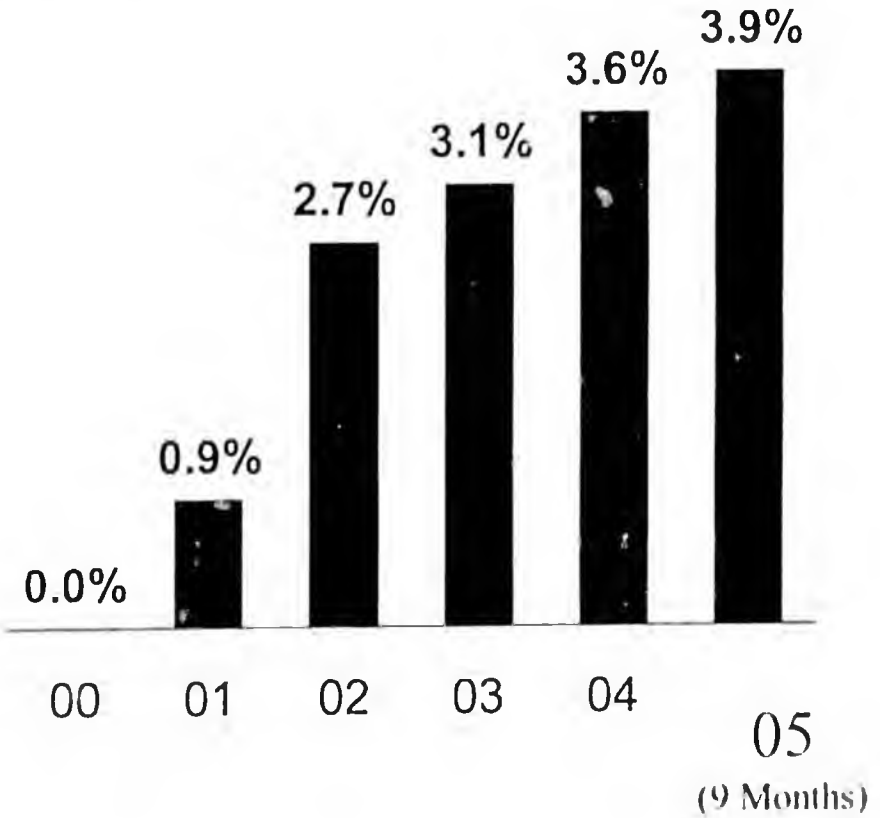
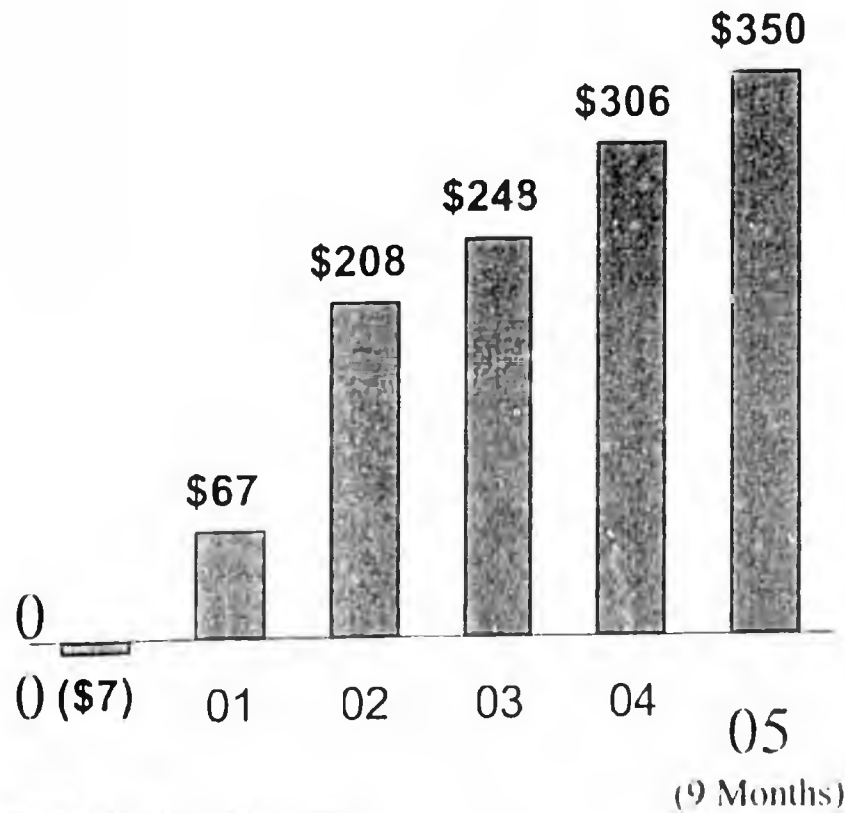
Source: Global Insight

Cash Generated from Mortgages Stimulating Consumer Spending

source AllianceBernstein/CII 1/30/06

Mortgage Growth in Excess of
New Housing Investment
(\$ Billions)

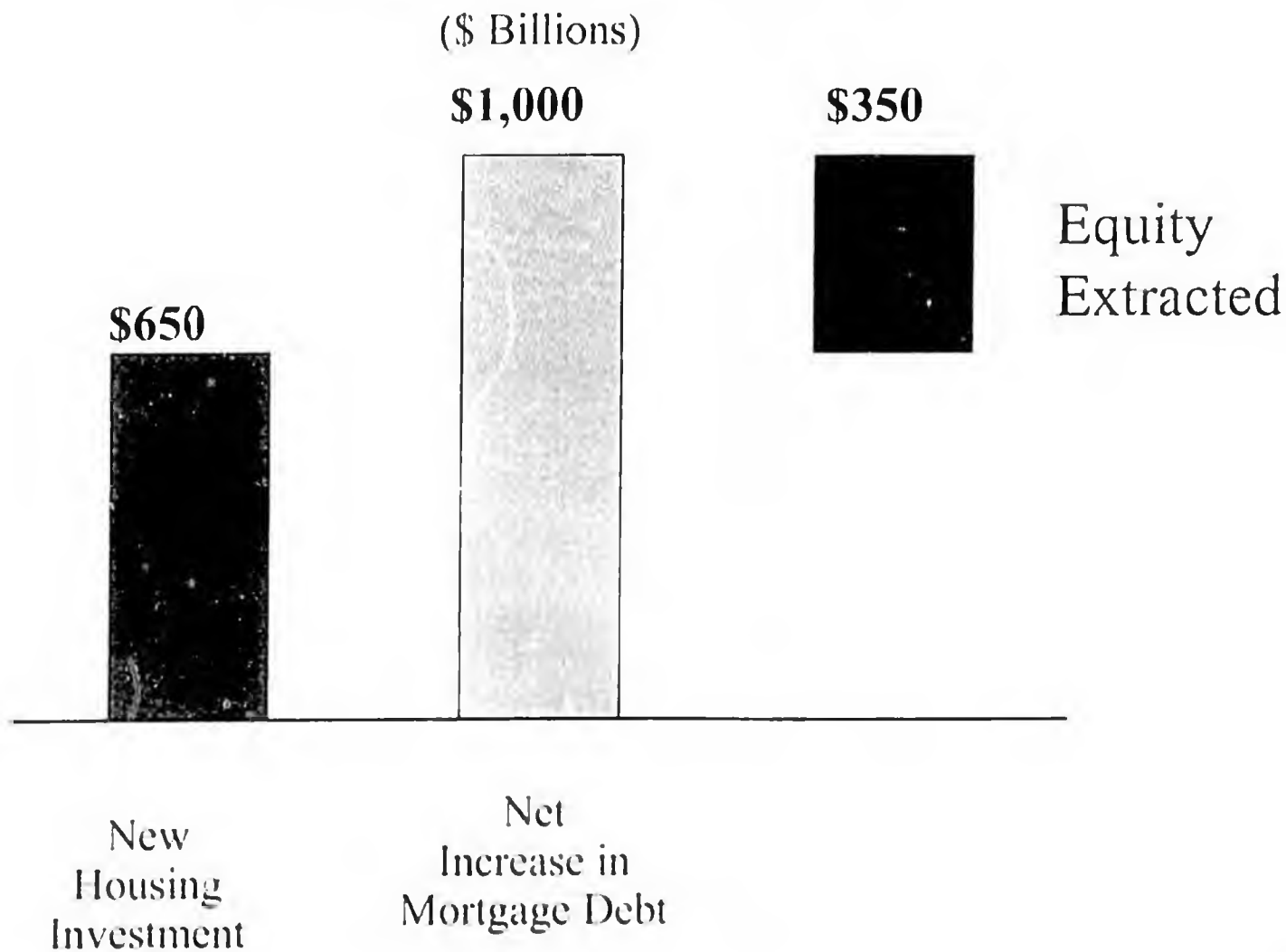
% of Personal Consumption
Expenditures



©2005 first half annualized
Source: Federal Reserve Board and AllianceBernstein estimates

Equity Extraction from Housing Was Huge in 2005

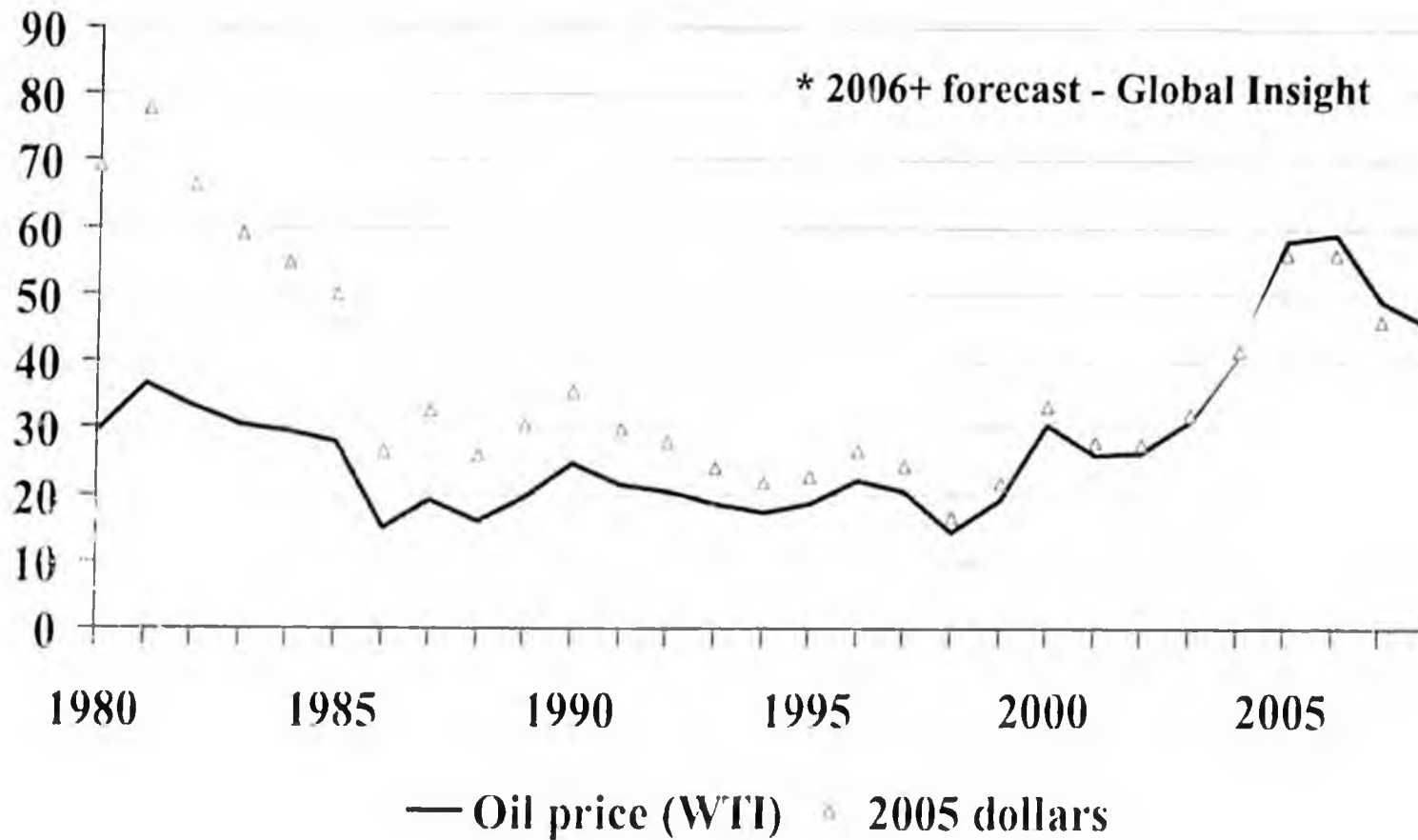
source: Alliance Bernstein/CII 1/31/06



Source: AllianceBernstein estimates

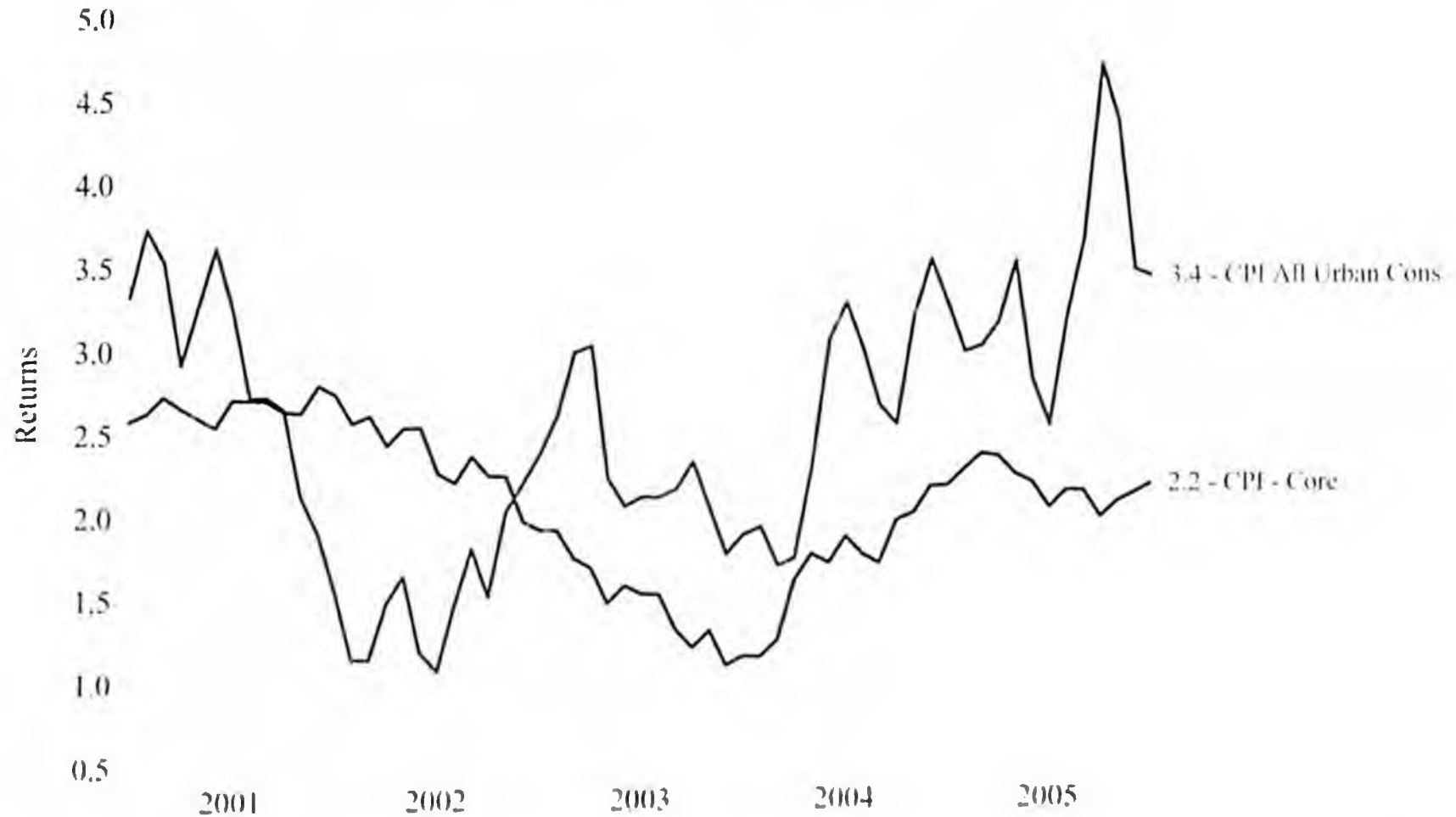
Oil Prices Are Hitting New Highs...

(\$/barrel, WTI and deflated by CPI)



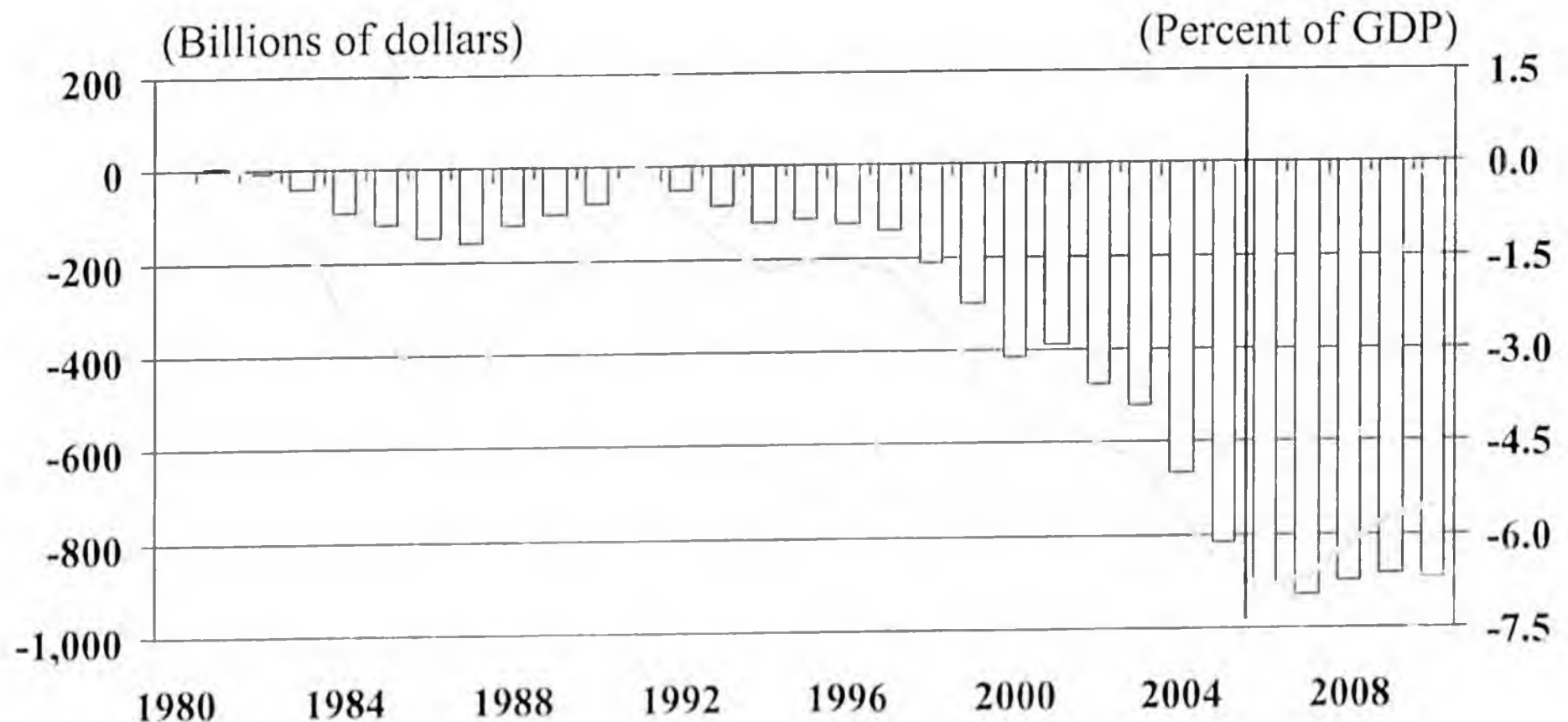
Inflation Has Ticked Up...

Year-Over-Year Change in Consumer Prices



The U.S. Current Account Deficit Heading to \$900 Billion in 2006

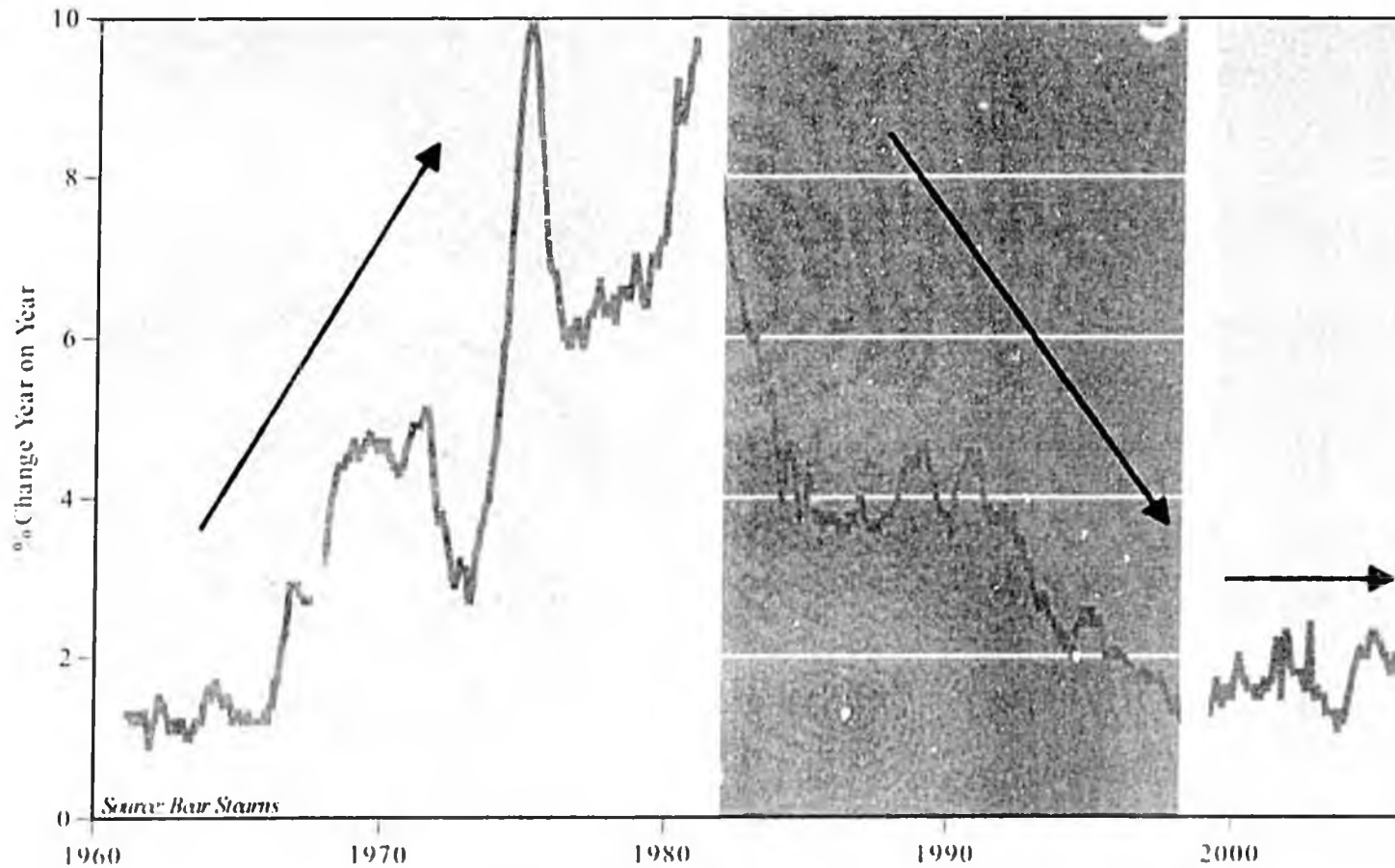
* 2006+ forecast - Global Insight



□ Current Account Deficit Deficit as % of GDP

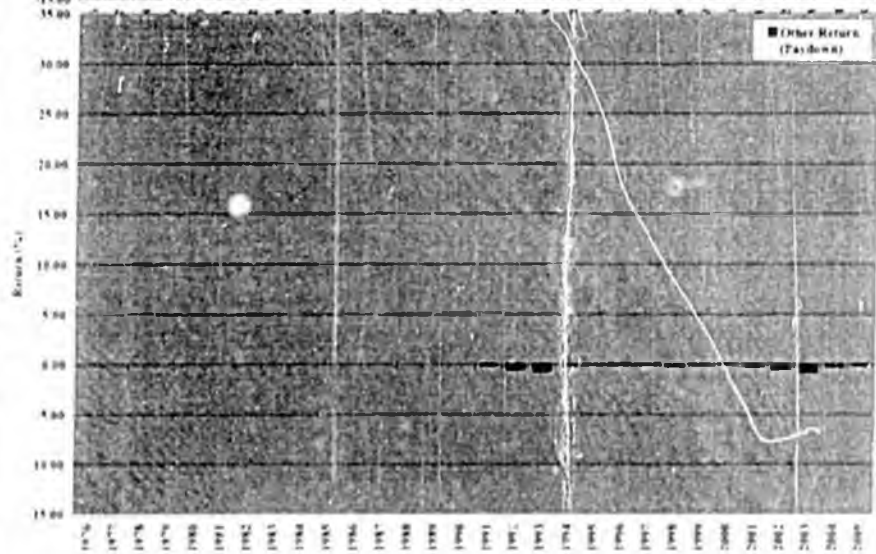
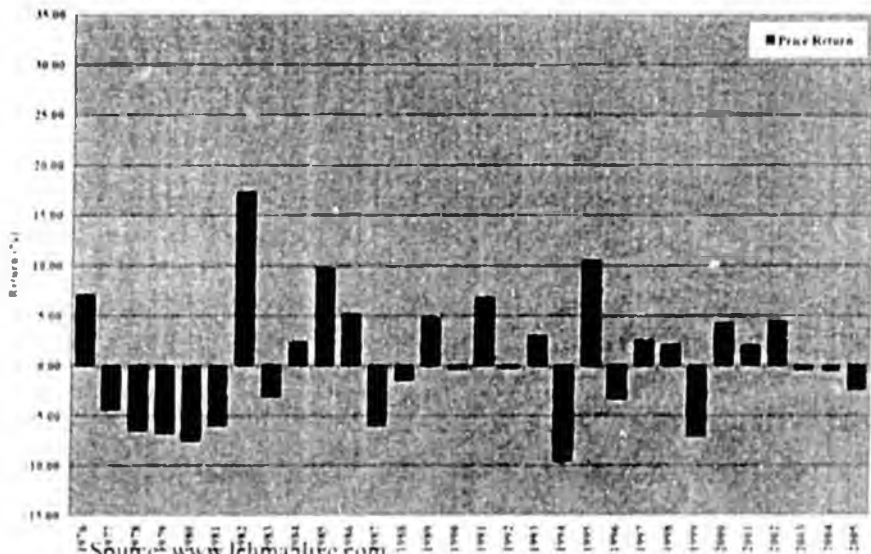
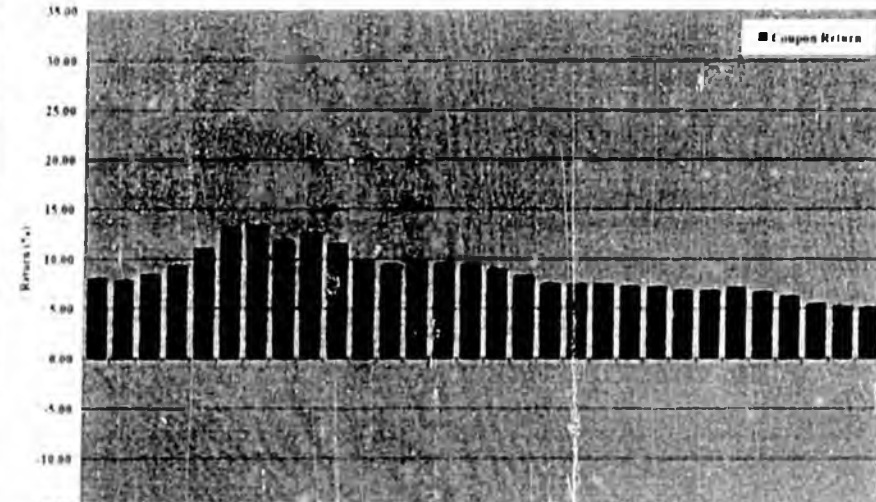
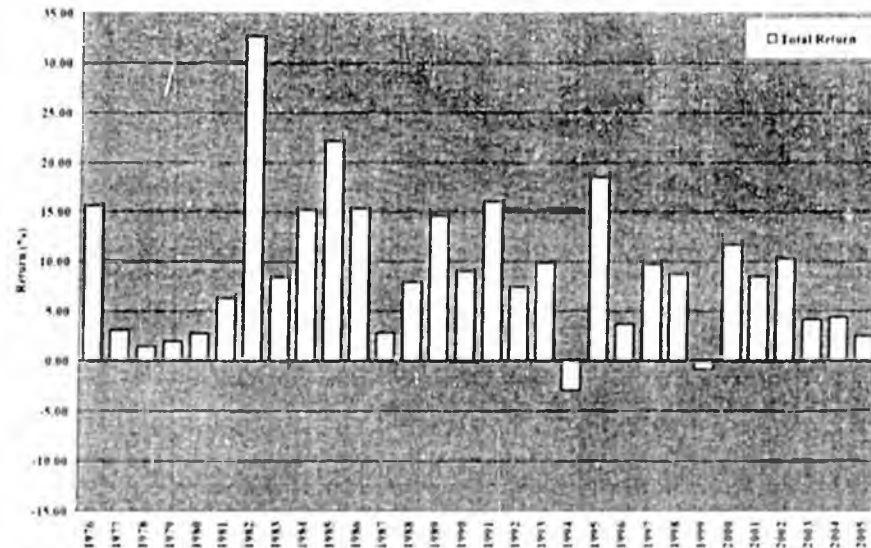
INFLATION HISTORY

Source Western Asset Management/CII 1/31/06



Composition of Bond Returns

I.B. Aggregate Index - Annual Return Breakdown



Source: www.lehmanlive.com



Domestic Fixed Income

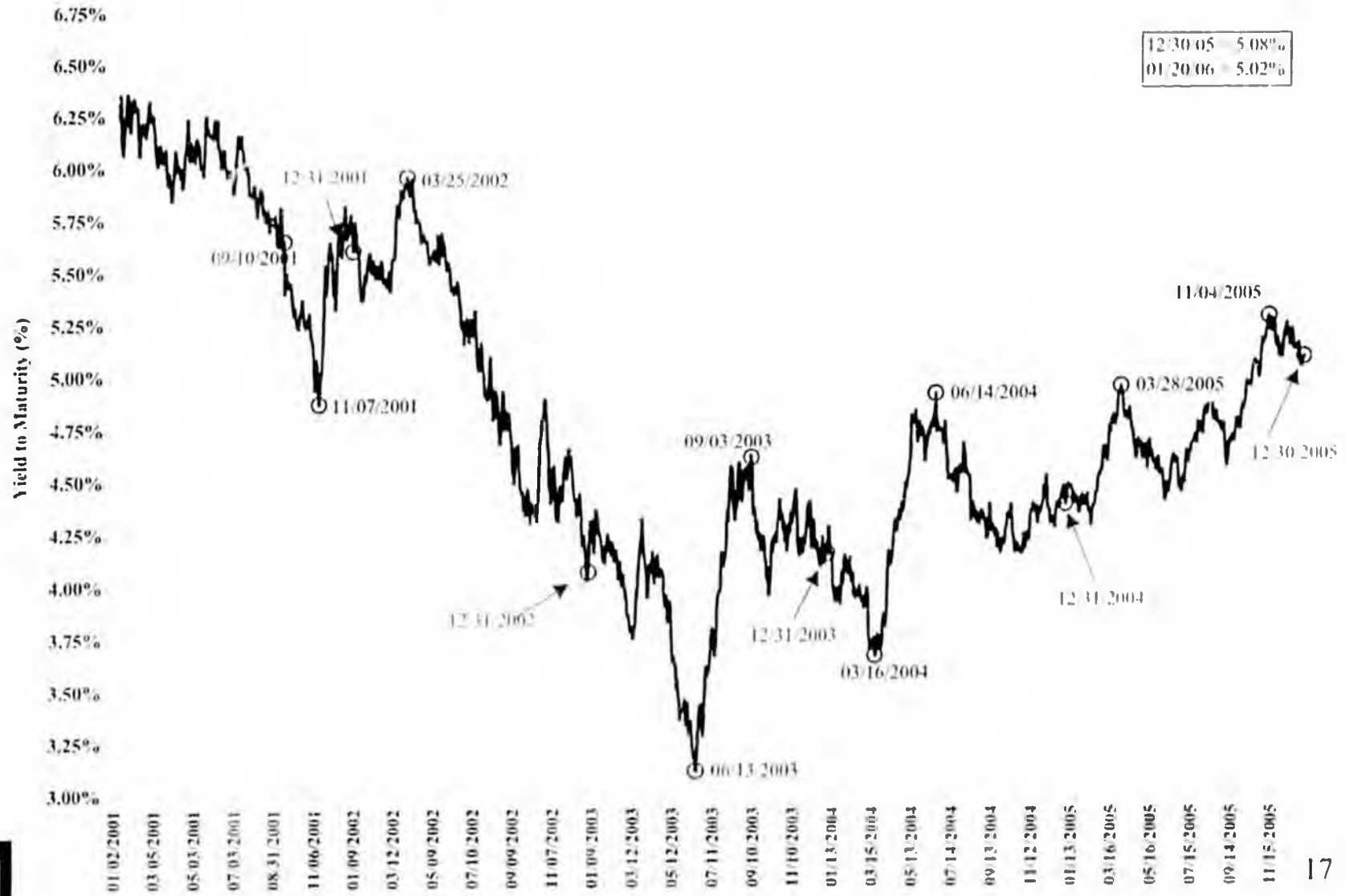
Current Yield Is A Strong Predictor of Returns

Lehman Aggregate Index 5 Year Returns vs. Lagged Yield to Worst



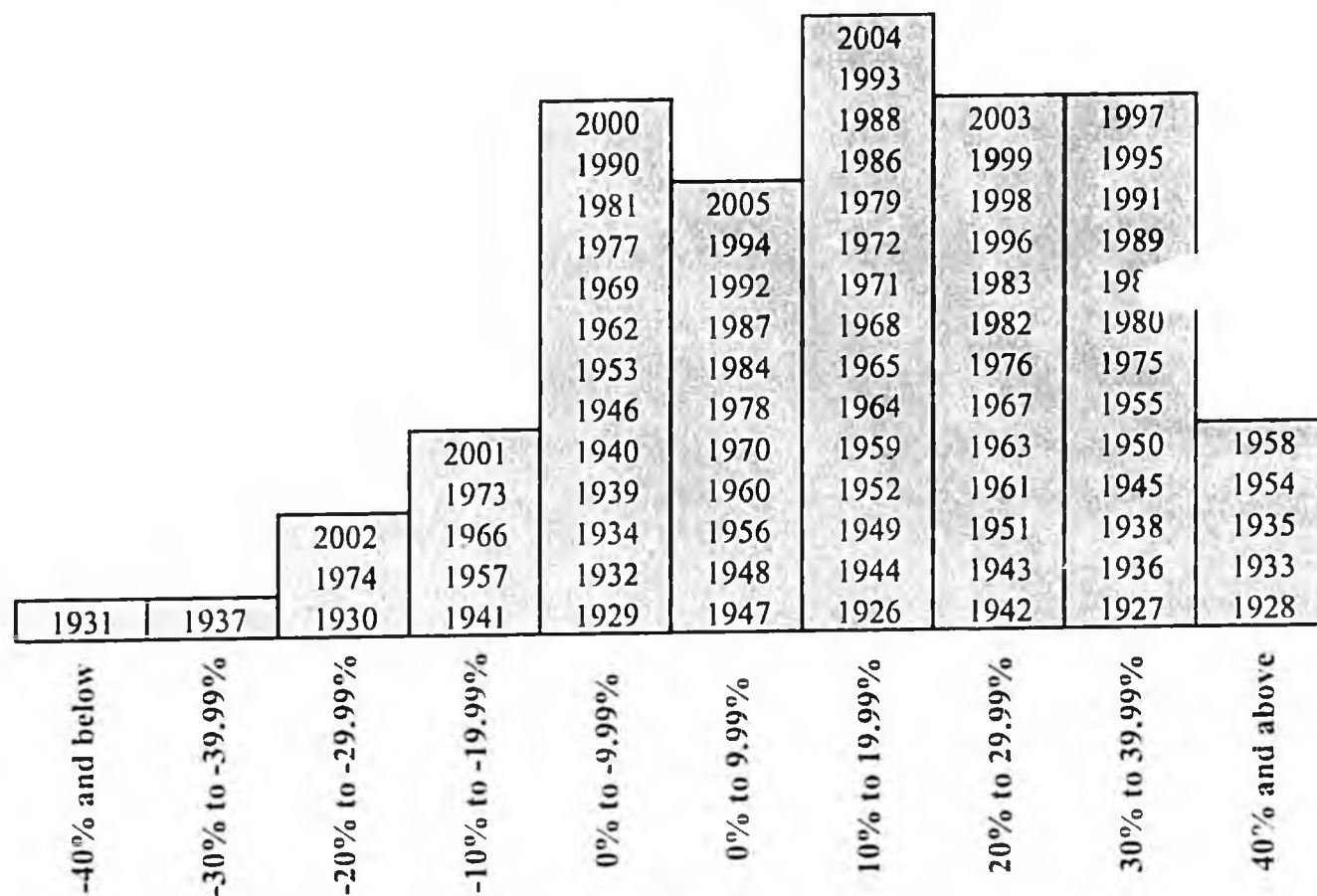
Domestic Fixed Income

Lehman Aggregate Index - Daily Yield to Worst from 1/1/01 to 12/31/06



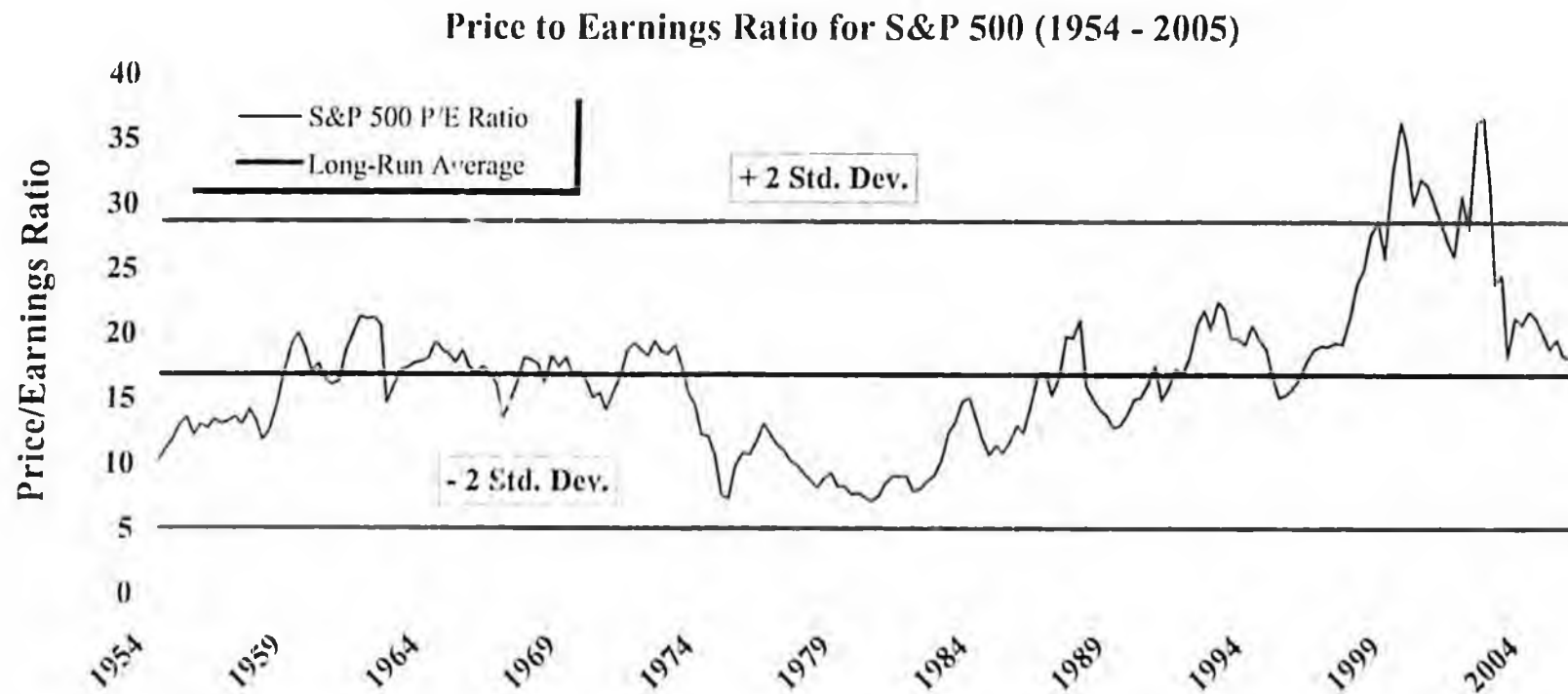
Annual Return Histogram for S&P 500

Distribution of S&P 500 Annual Returns
(1926-2005)



Equity Is Now More Reasonably Priced

Trailing P/E Approaching Long-Run Average

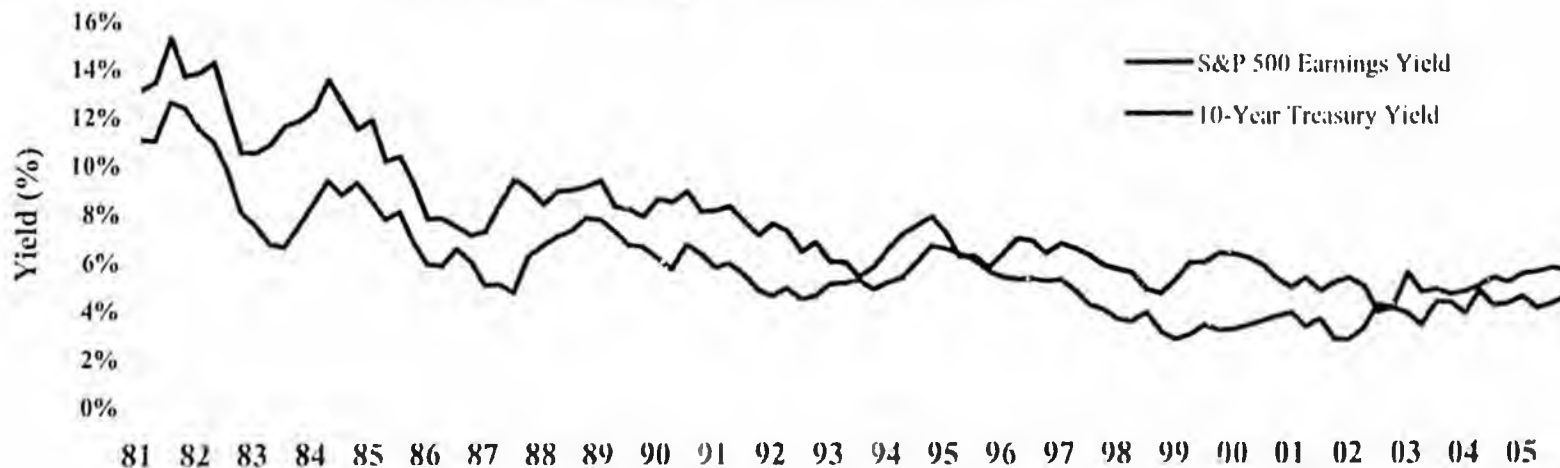


Trailing earnings as reported for the fiscal year; includes negative earnings from 1998 onward.



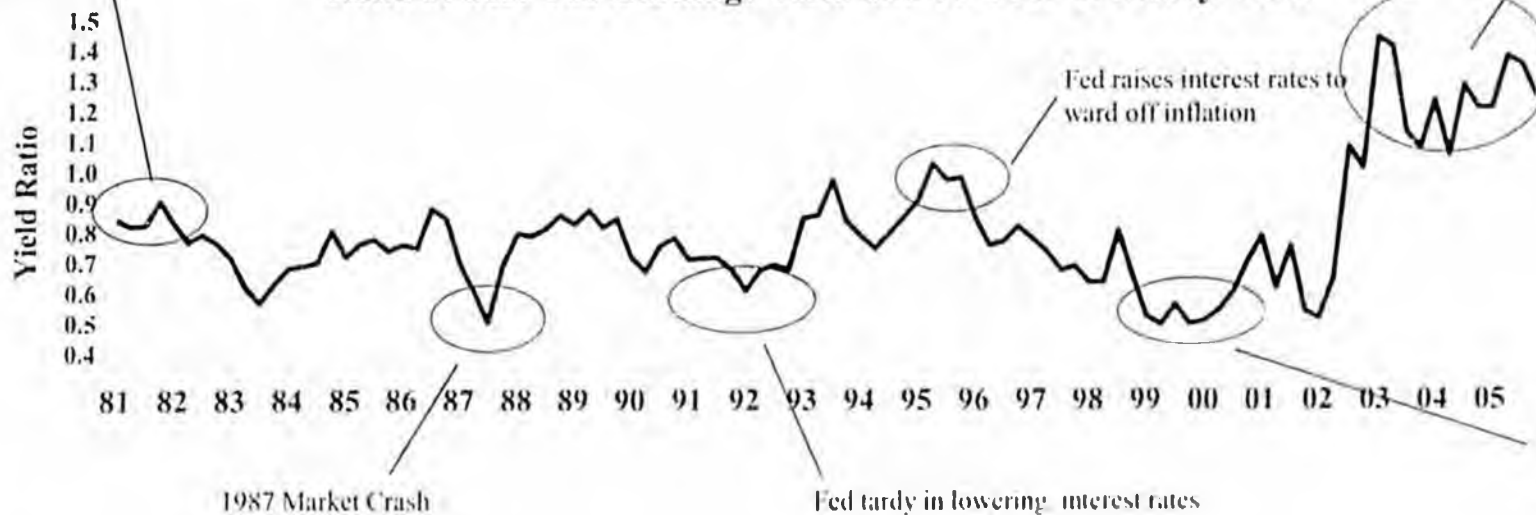
Domestic Equity vs. Bond Yields

S&P 500 Earnings Yield vs. 10-Year Treasury Yield



Peak of interest rates and inflation

Ratio of S&P 500 Earnings Yield and 10-Year Treasury Yield



2006 Capital Market Projections

- Modest changes from last year's projections. Not much has changed in the environment except that Fed executed policy exactly as expected.
- Inflation is nudged up to 2.75%, which implies moderation from current levels.
- Cash returns reflect higher short-term yields, a real return of 1.25%, and expectations that interest rates will peak in 2006.
- Bond returns are set at 5.0%:
 - Reflects current yield-to-worst, with no adjustment.
 - Project upward sloping yield curve (if only slightly so), with a very small risk premium for bonds over cash (1.0%).
- Equity returns built from fundamentals: 3-4% real GDP growth which means 5.5%-6.5% nominal earnings growth, 2% dividend yield, 0.5%-1% "buyback" yield.
- Real estate return held at 7.6%, reflecting income expectations as high as 8% but acknowledging rich levels of property valuations.
- Private equity return held at 12%, a 3% premium over public markets.
- Premium of international equity over domestic will continue to be narrowed, reflecting recent performance and relative valuations.

2006 Capital Market Projections

Summary of 5-Year Capital Market Projections (2006-2010)

Asset Class	Index	Projected Annual Return	Projected Standard Deviation (Risk)	Projected Yield	2005 Projections	
Equities						
Broad Domestic Equity	Russell 3000	9.00%	16.90	2.10	9.00%	16.90
Large Cap	S&P 500	8.85%	16.40	2.20	8.85%	16.40
Small/Mid Cap	Russell 2500	9.85%	22.70	1.20	9.85%	22.70
International Equity	MSCI EAFE	9.20%	20.10	2.20	9.25%	20.10
Emerging Markets Equity	MSCI EMF	9.80%	32.90	0.00	9.80%	33.00
Fixed Income						
Domestic Fixed	LB Aggregate	5.00%	4.50	5.00	4.75%	4.50
Defensive	LB Govt 1-3 Year	4.25%	2.30	4.25	3.75%	2.30
TIPS	LB TIPS	4.65%	6.00	4.65	4.40%	6.00
High Yield	CSFB High Yield	6.75%	12.10	6.75	6.75%	12.10
Non US\$ Fixed	Citi Non-US Govt	4.90%	9.60	4.65	4.65%	9.60
Other						
Real Estate	Callan Real Estate	7.60%	16.50	7.00	7.60%	16.50
Private Equity	VE Post Venture Cap	12.00%	34.00	0.00	12.00%	34.00
Absolute Return	Callan Hedge Fof	6.50%	10.20	0.00	6.50%	10.50
Cash Equivalents	90-Day T-Bill	4.00%	0.80	4.00	3.25%	0.80
Inflation	CPI-U	2.75%	1.40		2.60%	1.40

- Consider passively invested, broad markets at asset allocation level.
- Active/passive, capitalization and style decisions within the broad markets are made at the structural level.



APFC Current Policy With 2006-2010 Projections

Component	Portfolio						
	Max	Mix 1	Mix 2	Mix 3	APFC-11-05	Mix 4	Mix 5
Large Cap	100	16	21	27	29	34	40
Small/Mid Cap	100	4	5	6	6	8	9
International Equity	100	7	9	12	16	15	18
Emerging Markets Equity	100	1	1	2	2	2	3
Private Equity	4	2	4	4	4	4	4
Domestic Fixed	100	55	45	33	25	21	10
Non US Fixed	100	5	4	4	4	3	2
Real Estate	100	6	7	8	10	9	10
Absolute Return	4	4	4	4	4	4	4
Cash Equivalents	100	0	0	0	0	0	0
Totals		100	100	100	100	100	100
Expected Return		6.50	7.00	7.50	7.77	8.00	8.50
Standard Deviation		7.30	8.91	10.64	11.61	12.43	14.27
Sharpe Ratio		0.45	0.42	0.40	0.39	0.38	0.37

Note that private equity and absolute return have been constrained to 4% in each area. Also note that high yield bonds & commodities were not explicitly modeled.

