2/10/09 CALLAN ECONOMIC & MARKET OUTLOOK

<target><bill></bill><subject>2-10-09 CALLAN ECONOMIC and MARKET OUTLOOK</subject><comm>SFIN26</comm></target>

Alaska Senate Finance Committee
Market & Economic Review
2009 Capital Market Projections
APFC Performance

February 2009

Michael J. O'Leary CFA
Executive Vice President
Prepared 2-03-09

Fourth quarter overview

- Terrible market environment for all major asset classes
- Credit markets froze around the world
- Extraordinary governmental policy actions initiated quickly but not as rapidly as many had hoped
- Flight to quality resulted in sharp declines in short-term government rates and increases in “risk” premiums.
- Commodity prices fell sharply as expectations regarding the length and depth of economic slowdown mounted
- U.S. dollar strengthened significantly hurting profits for multinationals, unhedged international investors and returns on international investments for U.S. based investors.

Second Half of 2008: Startling

- Fannie Mae and Freddie Mac placed into conservatorship.
- Lehman Brothers declared bankruptcy.
- AIG rescued by government.
- Merrill Lynch sold to Bank of America.
- Morgan Stanley and Goldman Sachs convert to bank holding companies, vol placing themselves under the regulatory oversight of the Fed.
- Washington Mutual seized by regulators, assets sold to JP Morgan.
- $750 billion rescue plan passed.
- Money market funds "break the buck" for the first time.
- Oil drops by $100/barrel, commodity prices cool.
- Wachovia bought by Wells Fargo.
- U.S. and other sovereign governments make direct investments in banks.
- Nowhere to hide - virtually all asset classes except nominal Treasury bonds suffer steep declines.
- Housing market remains locked in a death spiral.
- Global economies follow the U.S. into deep recession.

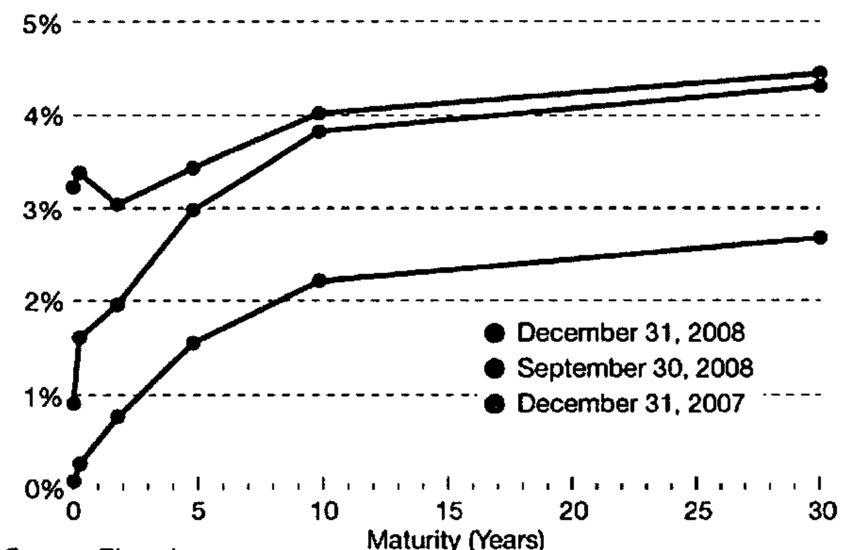
Exhibit 1: 2008 Timeline

Mar	16	J.P. Morgan acquires Bear Stearns
July	11	Oil rises past $147 per barrel
Sept	7	U.S. Government takes over Fannie Mae and Freddie Mac
	15-20	Lehman Brothers files for Chapter 11 bankruptcy protection; Merrill Lynch sells itself to Bank of America; Reserve Primary Fund breaks the buck; U.S. Government bails out AIG; U.S. Treasury Secretary Henry Paulson proposes $700 billion TARP program
	21	Goldman Sachs and Morgan Stanley convert to bank holding companies
	25	Washington Mutual seized by FDIC and sold to J.P. Morgan Chase
Oct	3	Bush signs modified TARP plan into law
	7	The U.S. Federal Reserve announces Commercial Paper Funding Facility
	12	European leaders announces a recapitalization plan for Europe's banks
	27	U.S. government announces recapitalization of major U.S. banks
Nov	4	United States elects Barack Obama
	10	Government of China announces $586 billion stimulus package
	23	U.S. government rescues Citigroup
	25	Fed announces a $500 billion program to buy the direct obligations of housing-related GSEs
Dec	15	Bernard Madoff fraud discovery
	16	Fed cuts target interest rate to between zero to 0.25%
	19	U.S. government sends $17.4 billion lifeline to U.S. automakers
	26	Oil dips below $35, down more than $112 from its July peak

Timeline from Principal Global Investors

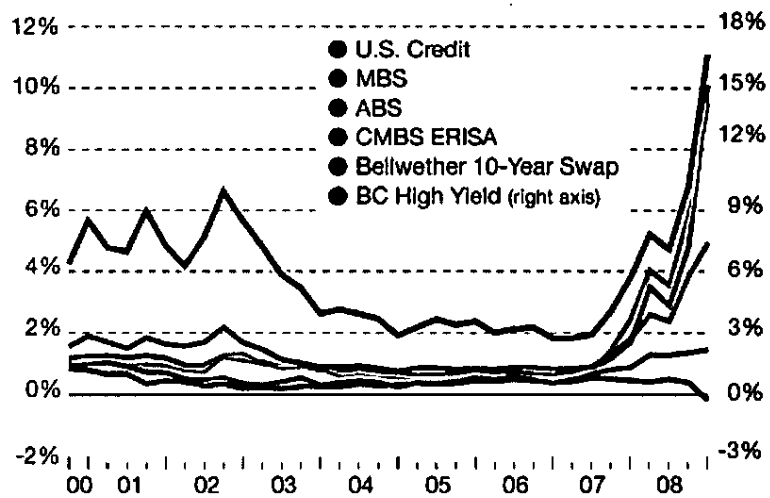
U.S. Fixed Income

U.S. Treasury Yield Curves



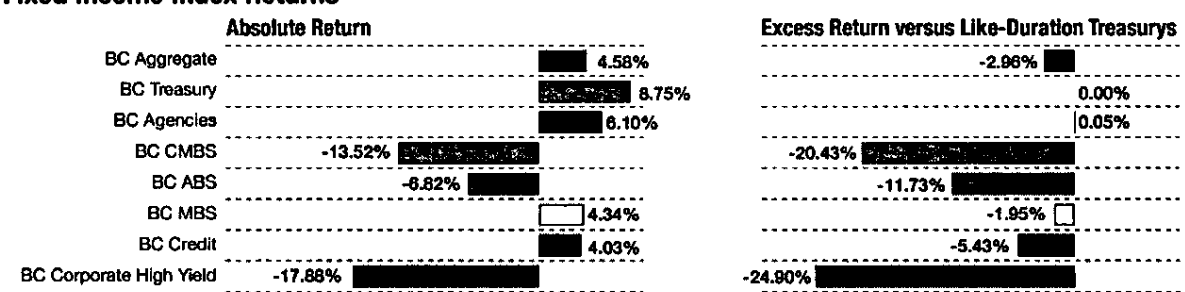
Source: Bloomberg

Effective Yield Over Treasurys



Source: Barclays Capital Inc.

Fixed Income Index Returns



Source: Barclays Capital Inc.

The Capital Markets

What a Difference One Year Can Make

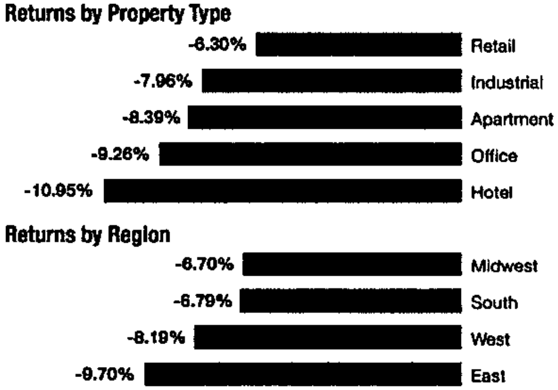
							Average Annual Return					
	2003	2004	2005	2006	2007	2008	Five Years 2003-07	Five Years 2004-08	Ten Years 1998-07	Ten Years 1999-08	Fifteen Years 1993-07	Fifteen Years 1994-08
Broad U.S. Stock Market												
Russell 3000	31.06	11.95	6.12	15.72	5.14	-37.31	13.63	-1.95	6.22	-0.80	10.49	6.36
S&P Super Composite 1500	29.59	11.78	5.66	15.34	5.47	-36.72	13.23	-1.89	6.35	-0.76	10.66	6.59
Large Cap U.S. Stocks												
Russell 1000	29.89	11.40	6.27	15.46	5.77	-37.60	13.43	-2.04	6.20	-1.09	10.58	6.47
S&P 500	28.80	10.88	4.91	15.79	5.49	-37.00	12.83	-2.19	5.91	-1.38	10.49	6.46
Small Cap U.S. Stocks												
Russell 2000	47.25	18.33	4.55	18.37	-1.57	-33.79	16.25	-0.93	7.08	3.02	10.10	5.89
S&P 600 Small Cap	38.79	22.65	7.68	15.11	-0.30	-31.07	16.04	0.88	9.03	5.18	11.78	7.80
Non-U.S. Stock Markets												
EAFE ($US)	38.59	20.25	13.54	26.34	11.17	-43.38	21.59	1.66	8.66	0.80	9.56	3.52
MSCI Emerging Markets	56.28	25.95	34.54	32.59	39.78	-53.18	37.46	8.02	14.53	9.31	12.16	2.73
Fixed Income Markets												
LB Aggregate	4.10	4.33	2.43	4.33	6.97	5.24	4.42	4.65	5.97	5.63	6.47	6.18
Citi Non-US Bonds	18.52	12.14	-9.21	6.95	11.45	10.11	7.54	5.97	6.30	5.59	6.79	6.47
Cash Market												
90-day T-bill	1.15	1.33	3.07	4.85	5	2.06	3.07	3.25	3.77	3.45	4.09	4.02
Inflation												
CPI-U*	1.88	3.26	3.42	2.54	4.08	0.09	3.03	2.67	2.67	2.51	2.64	2.47

* Annual CPI-U data are measured as year-over-year change.

- **Results for 2008 substantially reduce equity returns across all periods.**
- **Five-year returns through 2007 were very robust for equity, now they are negative. Ten-year results are weak as the tech bubble years continue roll out of the calculations. Fifteen-year results are now weak, and roughly on par with those of fixed income.**

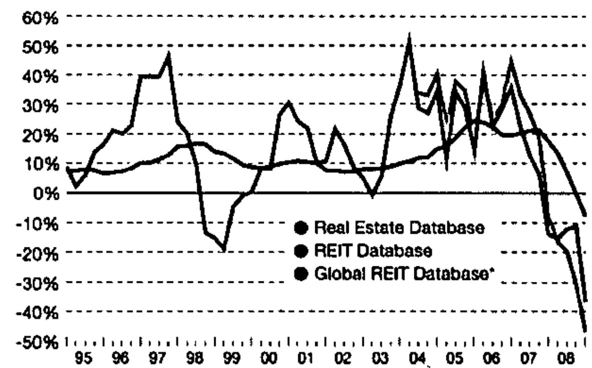
Real Estate

NCREIF Property Index



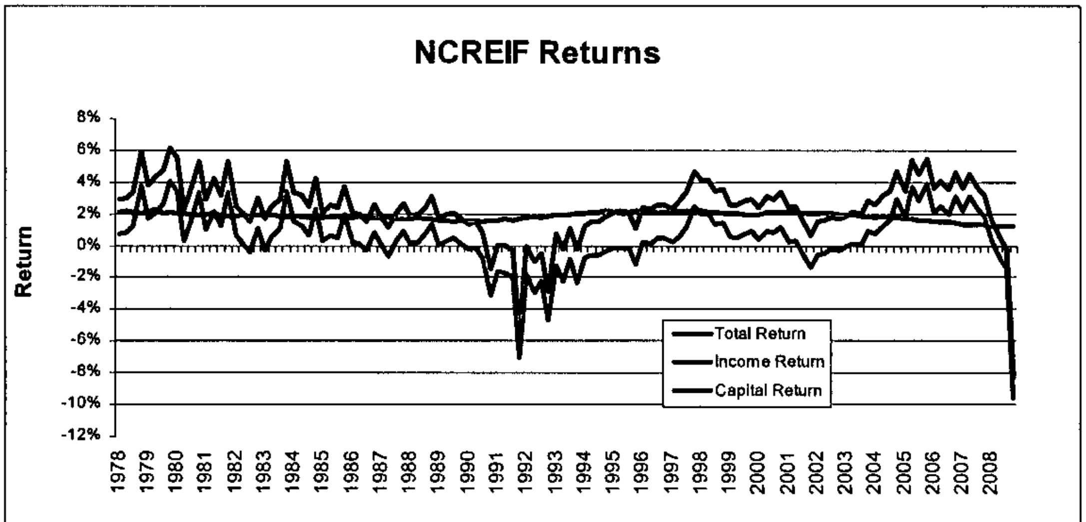
Source: NCREIF

Rolling One-Year Returns



*Global REIT returns from 2Q04

Source: Callan Associates Inc.



267

The Capital Markets

What a Difference One Year Can Make

	2003	2004	2005	2006	2007	2008	Average Annual Return: Five Years 2003-07	Five Years 2004-08	Ten Years 1998-07	Ten Years 1999-08	Fifteen Years 1993-07	Fifteen Years 1994-08
Broad U.S. Stock Market												
Russell 3000	31.06	11.95	6.12	15.72	5.14	-37.31	13.63	-1.95	6.22	-0.80	10.49	6.36
S&P Super Composite 1500	29.59	11.78	5.66	15.34	5.47	-36.72	13.23	-1.89	6.35	-0.76	10.66	6.59
Large Cap U.S. Stocks												
Russell 1000	29.89	11.40	6.27	15.46	5.77	-37.60	13.43	-2.04	6.20	-1.09	10.58	6.47
S&P 500	28.80	10.88	4.91	15.79	5.49	-37.00	12.83	-2.19	5.91	-1.38	10.49	6.46
Small Cap U.S. Stocks												
Russell 2000	47.25	18.33	4.55	18.37	-1.57	-33.79	16.25	-0.93	7.08	3.02	10.10	5.89
S&P 600 Small Cap	38.79	22.65	7.68	15.11	-0.30	-31.07	16.04	0.88	9.03	5.18	11.78	7.80
Non-U.S. Stock Markets												
EAFE ($US)	38.59	20.25	13.54	26.34	11.17	-43.38	21.59	1.66	8.66	0.80	9.56	3.52
MSCI Emerging Markets	56.28	25.95	34.54	32.59	39.78	-53.18	37.46	8.02	14.53	9.31	12.16	2.73
Fixed Income Markets												
LB Aggregate	4.10	4.33	2.43	4.33	6.97	5.24	4.42	4.65	5.97	5.63	6.47	6.18
Citi Non-US Bonds	18.52	12.14	-9.21	6.95	11.45	10.11	7.54	5.97	6.30	5.59	6.79	6.47
Cash Market												
90-day T-bill	1.15	1.33	3.07	4.85	5	2.06	3.07	3.25	3.77	3.45	4.09	4.02
Inflation												
CPI-U*	1.88	3.26	3.42	2.54	4.08	0.09	3.03	2.67	2.67	2.51	2.64	2.47

* Annual CPI-U data are measured as year-over-year change.

- **Results for 2008 substantially reduce equity returns across all periods.**
- **Five-year returns through 2007 were very robust for equity, now they are negative. Ten-year results are weak as the tech bubble years continue roll out of the calculations. Fifteen-year results are now weak, and roughly on par with those of fixed income.**

Second Half of 2008: Startling

- Fannie Mae and Freddie Mac placed into conservatorship.
- Lehman Brothers declared bankruptcy.
- AIG rescued by government.
- Merrill Lynch sold to Bank of America.
- Morgan Stanley and Goldman Sachs convert to bank holding companies, vol placing themselves under the regulatory oversight of the Fed.
- Washington Mutual seized by regulators, assets sold to JP Morgan.
- $750 billion rescue plan passed.
- Money market funds "break the buck" for the first time.
- Oil drops by $100/barrel, commodity prices cool.
- Wachovia bought by Wells Fargo.
- U.S. and other sovereign governments make direct investments in banks.
- Nowhere to hide - virtually all asset classes except nominal Treasury bonds suffer steep declines.
- Housing market remains locked in a death spiral.
- Global economies follow the U.S. into deep recession.

Exhibit 1: 2008 Timeline

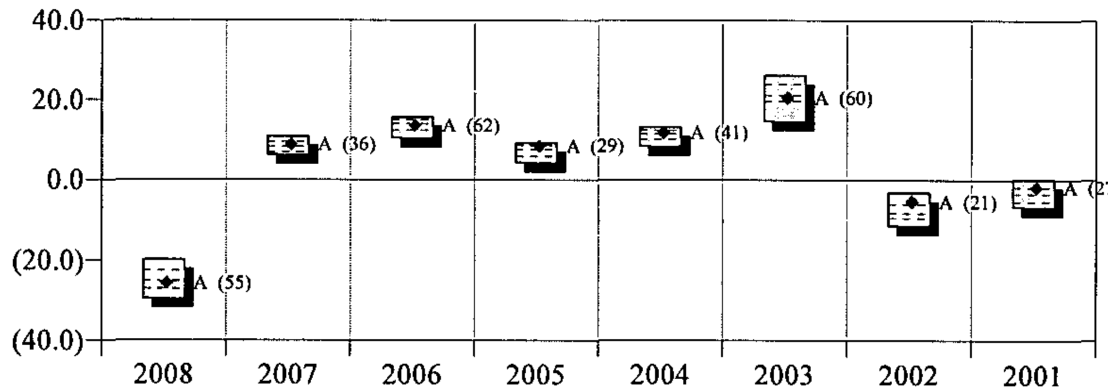
Mar	16	J.P. Morgan acquires Bear Stearns
July	11	Oil rises past $147 per barrel
Sept	7	U.S. Government takes over Fannie Mae and Freddie Mac
	15-20	Lehman Brothers files for Chapter 11 bankruptcy protection; Merrill Lynch sells itself to Bank of America; Reserve Primary Fund breaks the buck; U.S. Government bails out AIG; U.S. Treasury Secretary Henry Paulson proposes $700 billion TARP program
	21	Goldman Sachs and Morgan Stanley convert to bank holding companies
	25	Washington Mutual seized by FDIC and sold to J.P. Morgan Chase
Oct	3	Bush signs modified TARP plan into law
	7	The U.S. Federal Reserve announces Commercial Paper Funding Facility
	12	European leaders announces a recapitalization plan for Europe's banks
	27	U.S. government announces recapitalization of major U.S. banks
Nov	4	United States elects Barack Obama
	10	Government of China announces $586 billion stimulus package
	23	U.S. government rescues Citigroup
	25	Fed announces a $500 billion program to buy the direct obligations of housing-related GSEs
Dec	15	Bernard Madoff fraud discovery
	16	Fed cuts target interest rate to between zero to 0.25%
	19	U.S. government sends $17.4 billion lifeline to U.S. automakers
	26	Oil dips below $35, down more than $112 from its July peak

Timeline from Principal Global Investors

269

APFC Calendar Period Performance

Returns
for Calendar Years
8 Years Ended December 31, 2008
Group: CAI Public Fund Sponsor Database



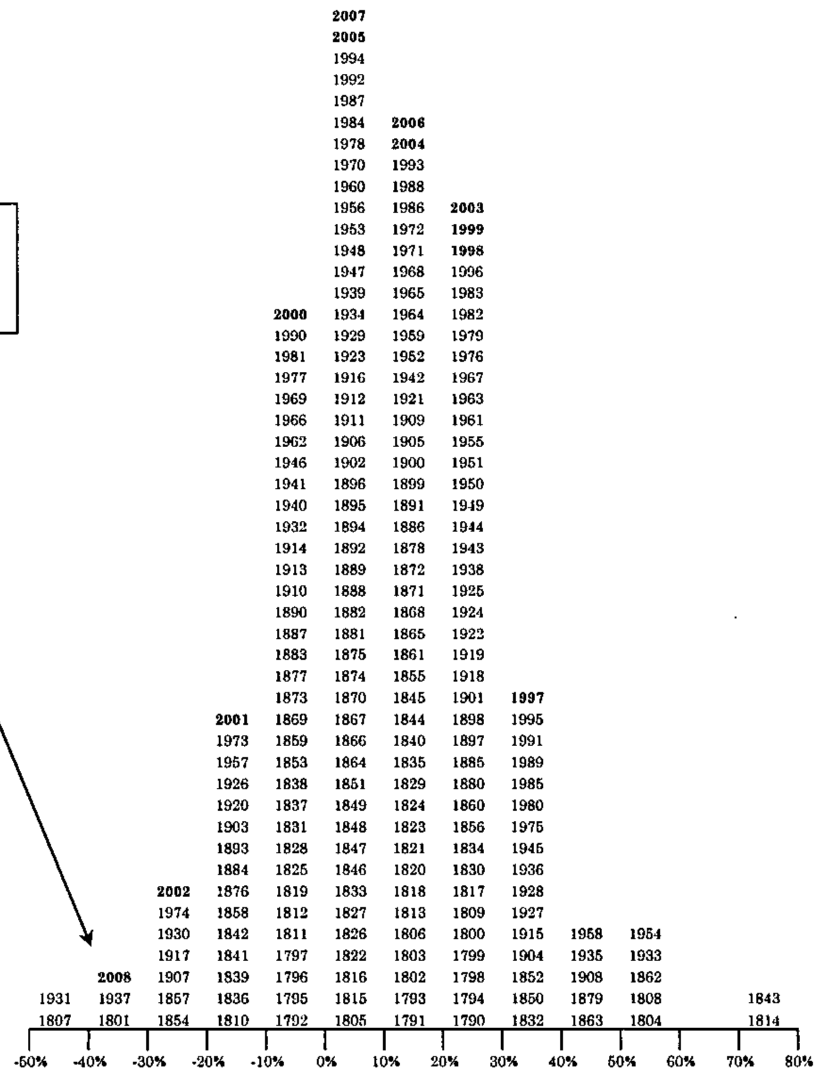
	2008	2007	2006	2005	2004	2003	2002	2001
10th Percentile	(19.84)	10.87	15.76	9.34	13.13	26.12	(3.07)	0.20
25th Percentile	(22.66)	9.57	15.05	8.61	12.31	23.99	(5.96)	(1.79)
Median	(25.27)	8.20	14.04	7.54	11.47	21.14	(8.26)	(3.46)
75th Percentile	(27.14)	6.86	12.29	5.86	10.17	19.68	(9.52)	(5.38)
90th Percentile	(29.71)	6.15	10.37	4.23	8.26	14.55	(11.46)	(6.67)
APFC ◆ A	(25.70)	8.90	13.63	8.46	11.83	20.59	(5.39)	(1.85)

Please note returns are preliminary. Background data for other public funds may be distorted owing to valuation policies regarding illiquid investments. APFC returns include current estimates for real estate (with 1 exception). Many others lag such returns by ¼ year.

Stock Market Returns by Calendar Year

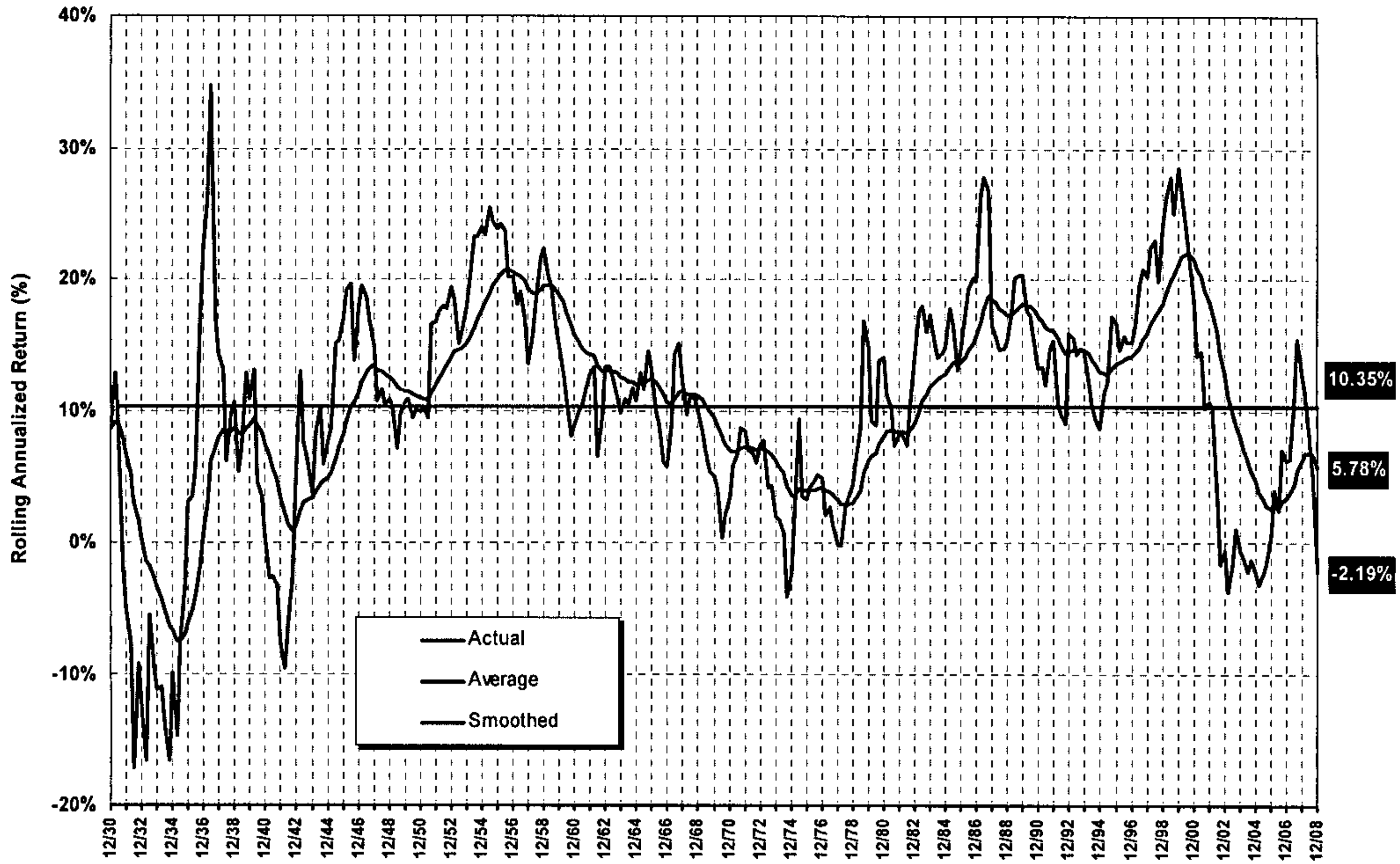
2008 Performance in Perspective - History of the U.S. Stock Market
218 Years of Returns

2008 return =
negative 37.0%



Rolling 5-Year Geometric Returns

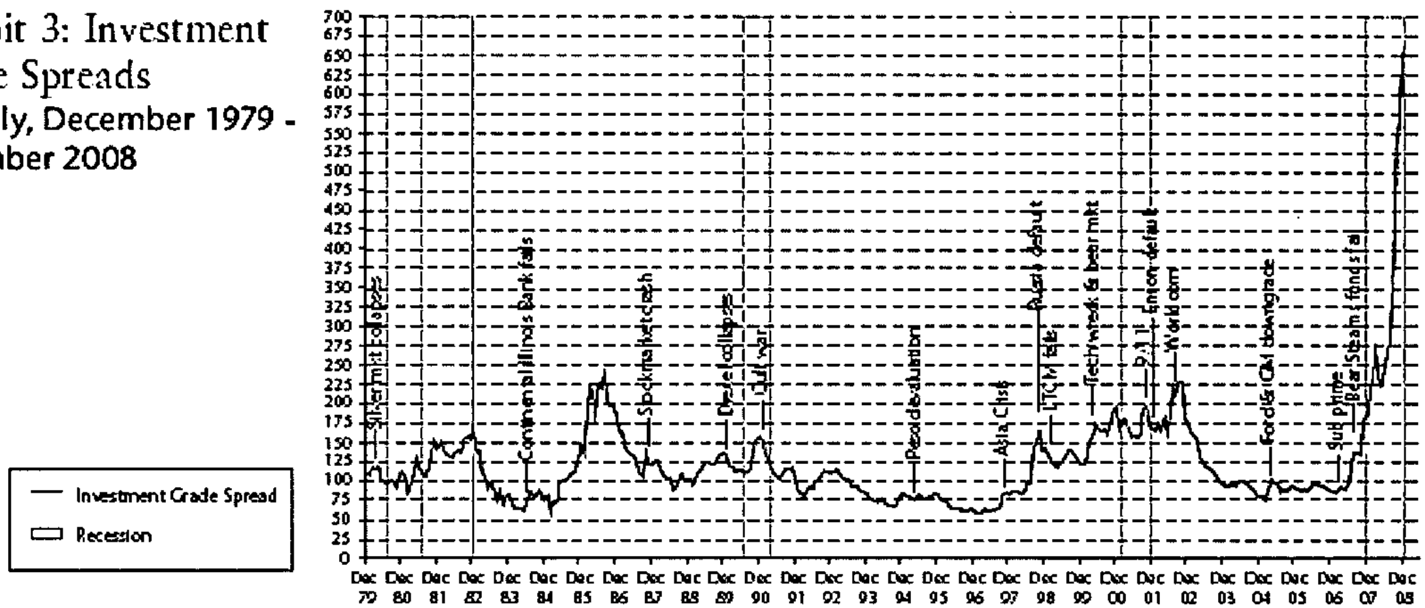
Rolling 5 Year Returns for S&P 500 (1926 to 2008)



272

Credit Spreads Exceed Historic Highs

Exhibit 3: Investment Grade Spreads
Monthly, December 1979 - December 2008



Sources: Barclays Capital, Merrill Lynch & Principal Global Investors

Investment Credit Spreads over Treasury Instruments

Potential Implications of Financial Crisis

- **Structure of U.S. financial system is changed permanently.**
  - End of traditional investment banks.
  - Consolidation of financial institutions into large, highly regulated commercial banks.
  - More government oversight and regulation.
  - Lower leverage and ultimately lower risk in financial system.
  - Tighter credit conditions for foreseeable future.
- **U.S deficit and overall federal debt will expand dramatically.**
  - Trillion dollar plus deficits likely in near term.
  - Risk of devaluation of U.S. dollar elevated.
  - Long-term risk of higher real interest rates and crowding out of private borrowing.
- **U.S. consumer is being forced to delever.**
  - Loss of wealth in housing and equities will change behavior.
  - Less spending and consumption.
  - Postponed retirements, second jobs, will expand labor force.
- **Financial markets become smaller and less efficient.**
  - Fewer market makers with smaller balance sheets.
  - Derivative markets shrink due to increased regulation and tighter risk controls.
  - Lower leverage from Wall Street firms suggests lower profitability and lower compensation, pushing human capital away from finance into other areas.

U.S. Economic Growth by Sector

(Annual percent change)

	2007 Share of GDP	2002	2003	2004	2005	2006	2007	2008	Direction of Change
Real GDP	100%	1.6	2.5	3.6	2.9	2.8	2.0	1.2	Contracting now
Consumption	72%	2.7	2.8	3.6	3.0	3.0	2.8	0.3	Contracting now
Residential Investment	4%	4.8	8.4	10.0	6.3	-7.1	-17.9	-21.0	Falling Sharply
Bus. Fixed Investment	12%	-9.2	1.0	5.8	7.2	7.5	4.9	1.9	Surge halted abruptly
Federal Government	7%	7.0	6.8	4.2	1.2	2.3	1.6	5.7	Surging higher
State & Local Govt.	11%	3.1	0.2	-0.2	-0.1	1.3	2.3	1.2	Tax revenue in jeopardy
Exports	12%	-2.3	1.3	9.7	7.0	9.1	8.4	6.4	Reversing course
Imports	17%	3.4	4.1	11.3	5.9	6.0	2.2	-3.1	Oil Prices

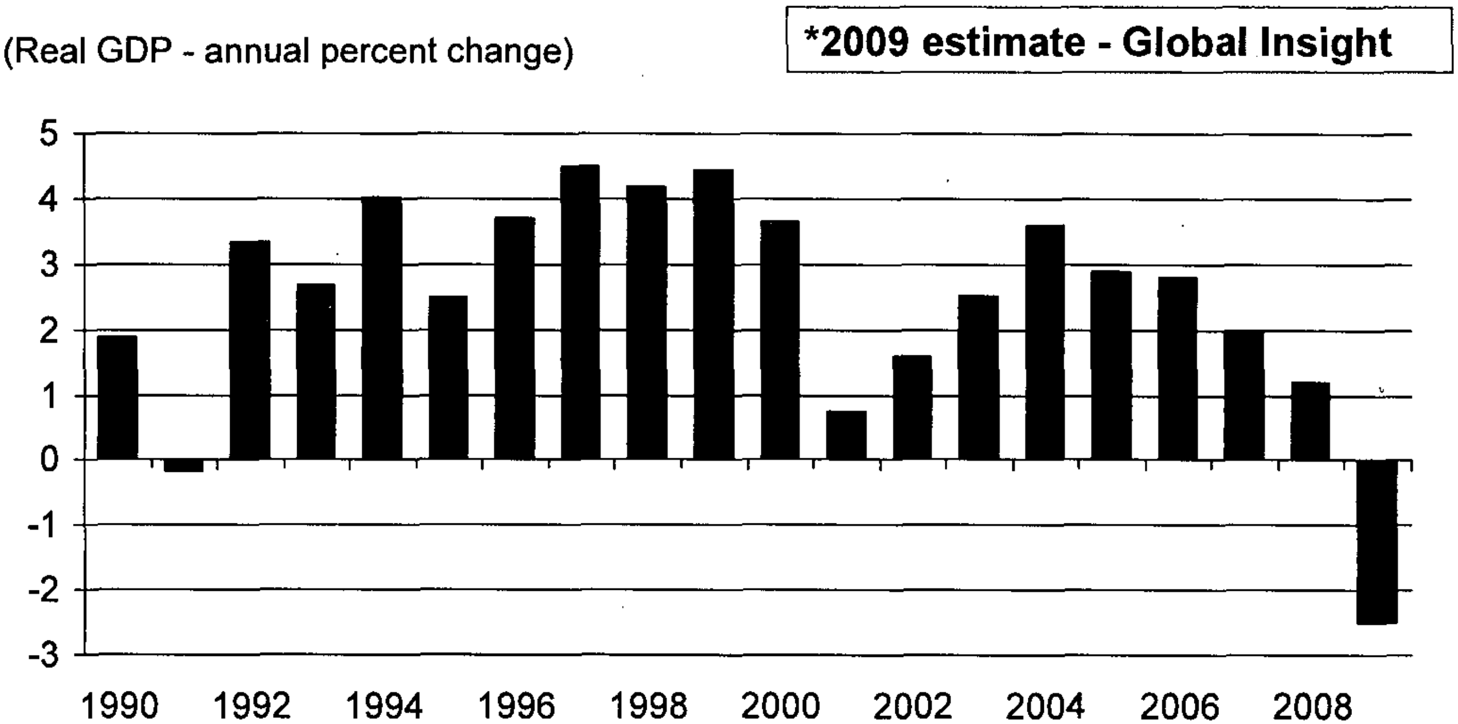
- **Housing downturn reduced GDP growth by over 1.0% each year in 2007 and 2008 through direct effect on construction alone.**
- **Note: Imports are a negative number in the calculation of GDP.**

Source: Global Insight

275

Hard Landing for the U.S. Economy

(Real GDP - annual percent change)



Source: Global Insight

The Current Economic Environment

Worst Recession in the Post-War Era?

- **Largest global housing and credit bubble in history has burst.**
- **Households, businesses and governments face tight (or no access to) credit and massive wealth destruction.**
- **The U.S. economy entered recession in December 2007.**
  - Better than expected growth in the first half of 2008 was an illusion conjured by trade and the stimulus package.
- **Housing has been in recession for three years, subtracting at least a percentage point from GDP growth in both 2007 and 2008.**
  - Offset by strength in non-residential construction and the closing of the trade gap – each added back half a point of growth in 2007.
  - Housing market has another bad year in front of it.
- **Consumer confidence is deep in recession territory.**
  - Job market has turned sour, piling on to the woes from the housing and stock markets.
- **Rest of the world is going into severe recession, undermining exports.**
- **Economy is in a free-fall right now – recession may be long and deep.**
- **Lower oil prices offer some cushion.**
- **Fed is doing all it can; major fiscal stimulus is coming.**
- **Sustained upturn may have to wait until the second half of 2009.**

The Current Economic Environment

Slow going until 2010.

- **Optimistic outlook: government intervention stabilizes credit markets, fiscal stimulus kick-starts rapid upswing. Beware of inflation lurking in the wings.**
- **Pessimistic scenario: vicious downward spiral between the economy and credit markets worsens. Specter of deflation looms.**
- **Most likely scenario: severest declines in GDP will be recorded in fourth quarter of 2008 and first quarter of 2009. GDP resumes modest growth in the second half of 2009, as credit markets slowly unthaw and confidence returns.**
- **Impact of policy will take time.**
  - Monetary policy impact is famously "long and variable".
  - Substantial fiscal policy has prospects for quicker success, but infrastructure spending will take years, not months, to show up.
- **Policy is not cheap: fiscal 2008 deficit beat the 2004 record; 2009 deficit will more than double.**
- **Economy will feel like it is in recession well into 2010, when unemployment will peak, potentially reaching 10%.**
- **Equity markets tend to begin recovering before recession ends. Experience after major bear markets since WWII suggests strong performance in the subsequent period.**

The Current Economic Environment

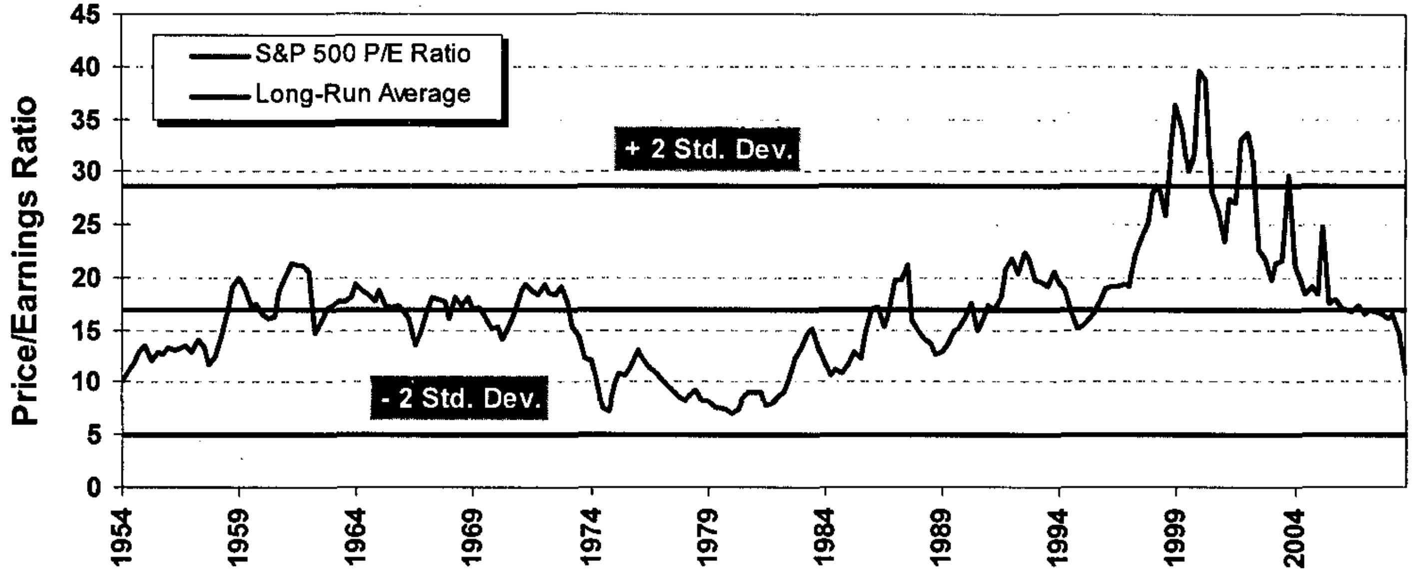
Slow going until 2010.

- **The Fed cut rates 500 basis points in response to the financial turmoil that began unfolding in 2007.**
  - The Federal Funds Rate is now down to 0.25%.
  - The Fed is focused on stabilizing the financial system and kick-starting the economy. Deflation is a real problem once again; future inflationary pressures of Fed and Treasury actions are less of a concern.
- **Callan's outlook:**
  - Inflation will be contained and low interest rates will persist.
  - Historic nominal return averages may be hard to achieve over the long run, but...
  - Stocks will likely lead the economic recovery, and could generate above-trend results coming off the bottom. The timing is unclear.
  - Solvency rather than liquidity is the real problem that must be worked through in the capital markets – liquidity is emotion, solvency is hard numbers.
  - The dollar will likely remain down as the Fed focuses on fighting a recession, but U.S. Treasuries will continue to be valued as the safest store of value in a time of uncertainty.
- **Biggest challenge facing investors – determining when we might hit bottom in the slowdown, and how the capital markets will respond.**

Equity Is More Reasonably Priced

Trailing P/E Dips Below Its Long Run Average

Price to Earnings Ratio for S&P 500 (1954 - 2008)



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

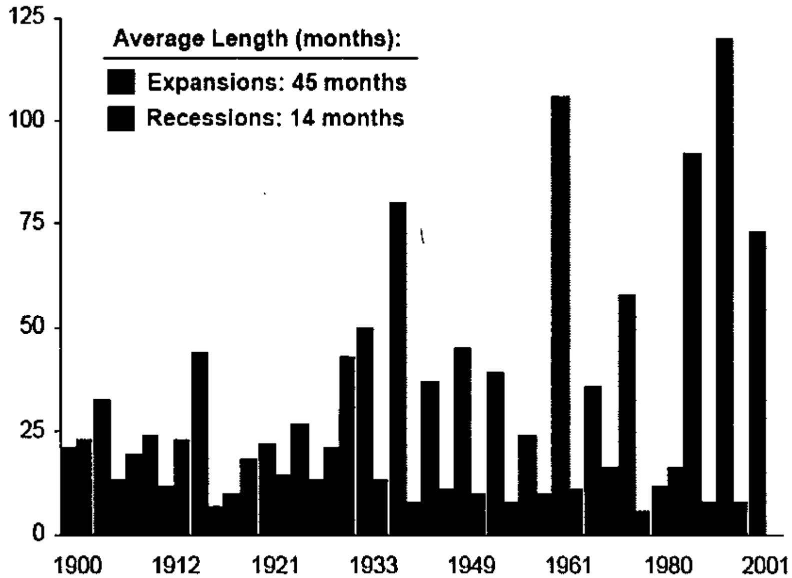
Past Recessions and Subsequent Market Performance

Economy

Economic Expansions and Recessions

Market Insight Series

Length of Economic Expansions and Recessions Since 1900



Recessions and Market Returns

Year	Length (months)	Return: During Recession	Return: 6-mo's After
1948	11	3.9%	12.2%
1953	10	18.3%	16.4%
1957	8	-7.6%	20.4%
1960	10	11.6%	9.0%
1969	11	-7.5%	20.6%
1973	16	-17.9%	1.1%
1980	6	8.1%	8.2%
1981	16	7.0%	18.8%
1990	8	3.4%	4.0%
2001	8	-4.7%	-4.5%
AVG	10	1.4%	10.6%

Source: NBER, Standard & Poor's, JPMorgan Asset Management.

(Left chart) Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). This data can be found at www.nber.org/cycles/ and reflects data through December 2007.

(Right chart) Data computed using the S&P 500 Index price return (does not include dividends). Dates used are based on NBER dates for the beginning and end of recession periods. Dates shown reflect the year in which each respective recession began. Returns are calculated based on the average monthly S&P 500 Index value as recessions do not begin or end on a specified day.

JPMorgan
Asset Management

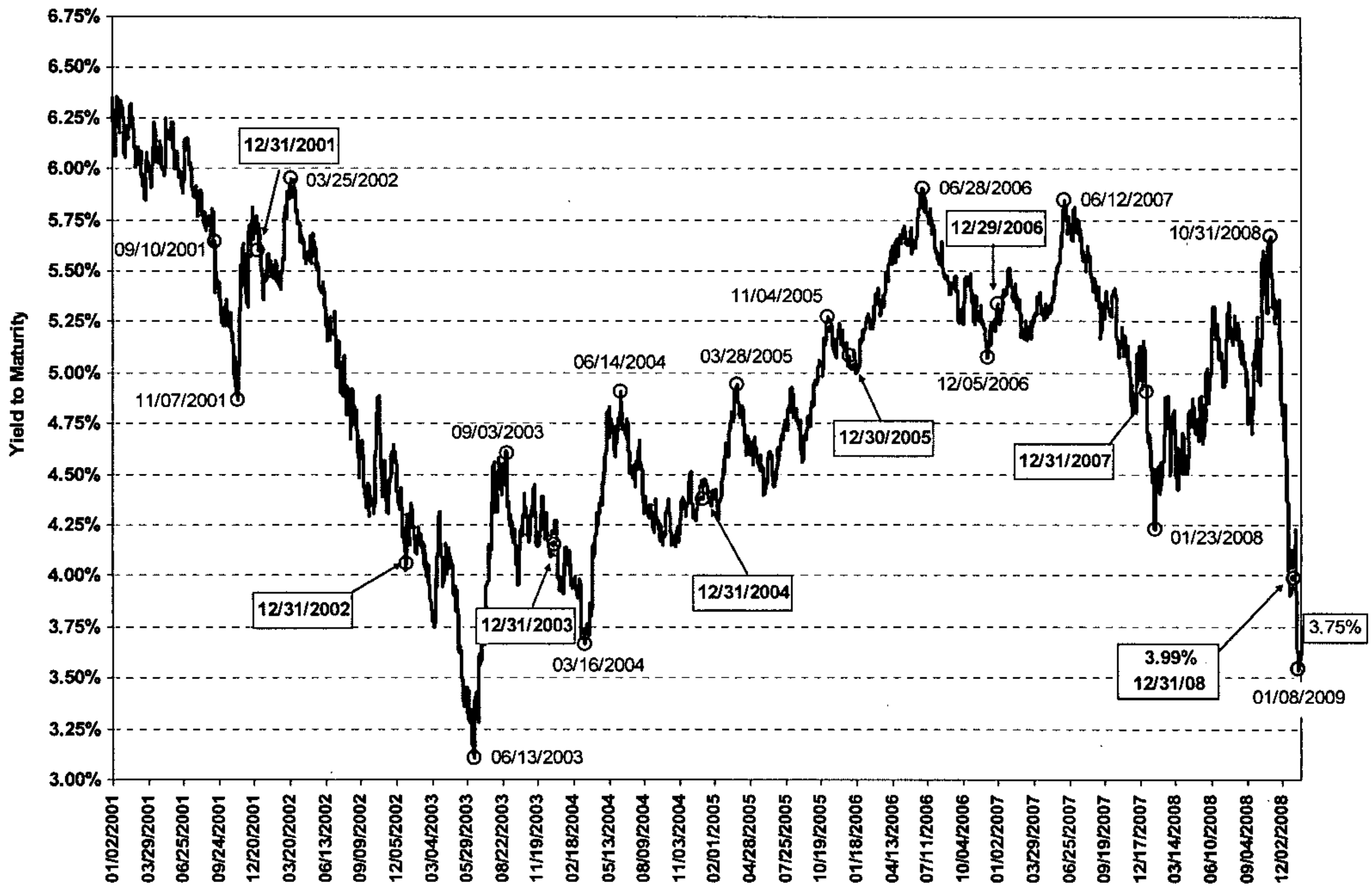
12

- **Reproduced from JP Morgan Guide to the Markets, December 31, 2008.**

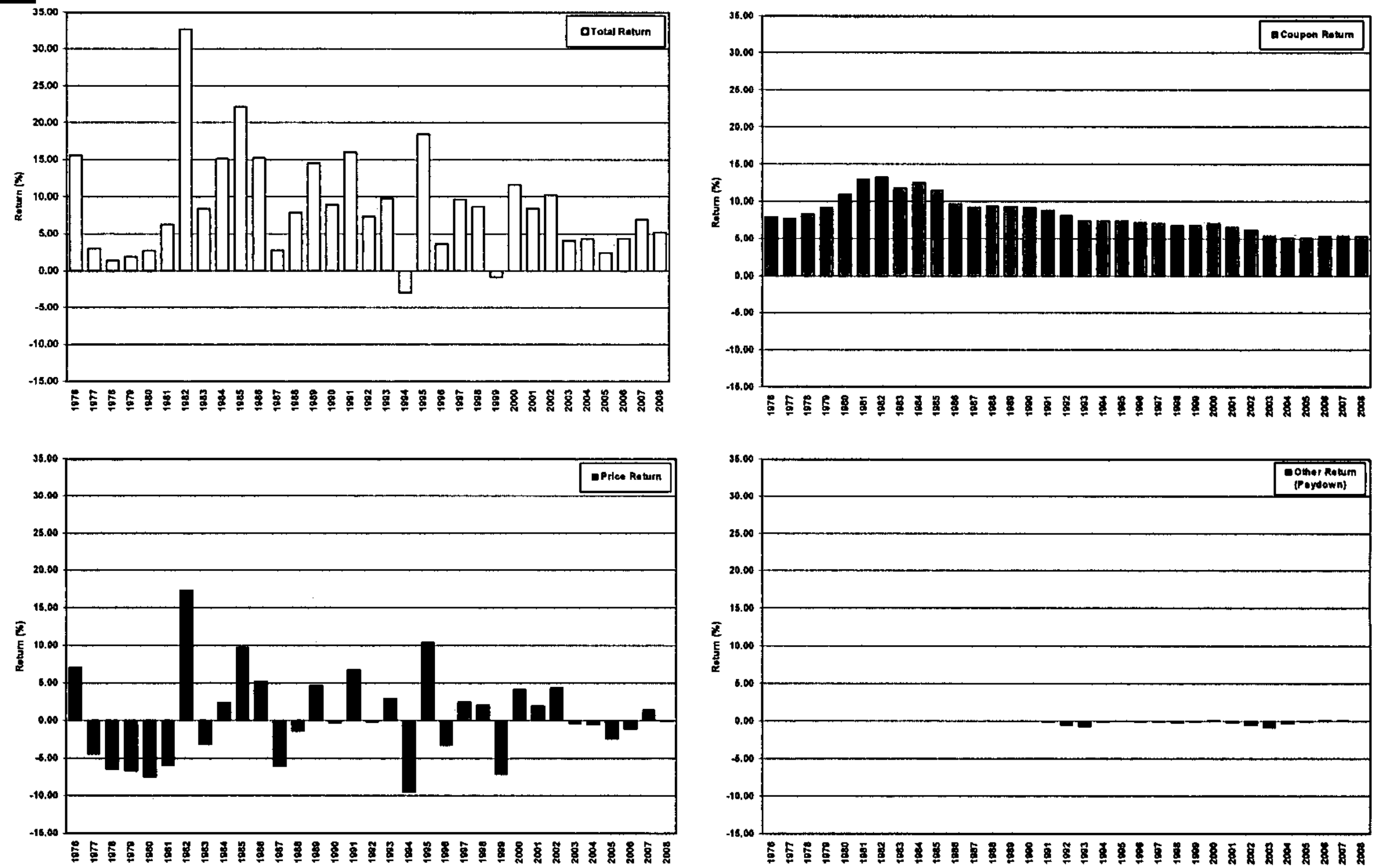
Current Yield is Exceptionally Low

Aggregate Masks Substantial Divergence in Sector Yields

Lehman Aggregate Index - Daily Yield to Worst from 1/1/01 to 1/16/09



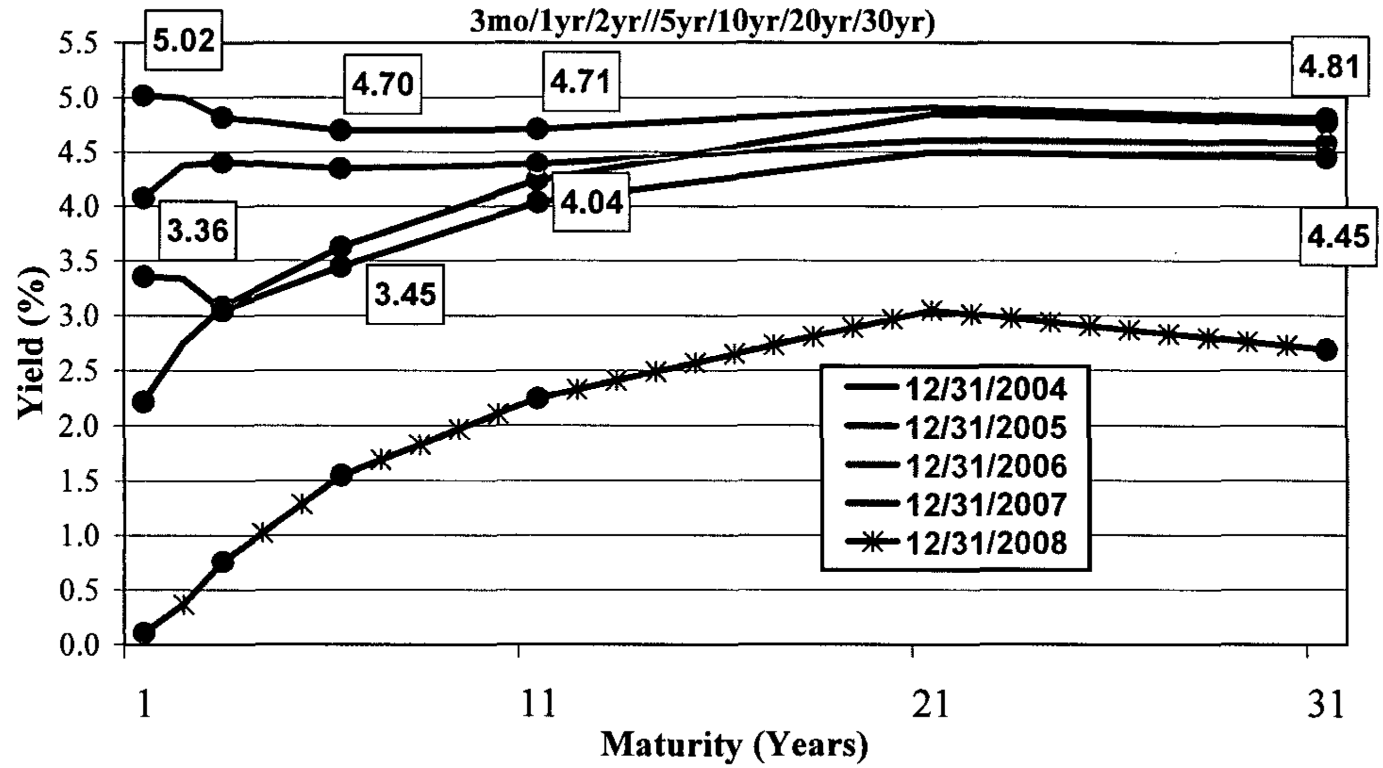
BC Aggregate Index - Annual Return Breakdown



Source: www.lehmanlive.com.

Does the Treasury Yield Curve Relate to Broad Market Opportunities?

U.S. Treasury Yield Curves
(Source: Federal Reserve Constant Maturity, 3mo/1yr/2yr//5yr/10yr/20yr/30yr)



Bond Market Opportunities

- We don't know when markets will react positively to the extraordinary governmental policy actions taken to restore liquidity to credit markets, but we are confident that they will.
- We believe that risk spreads (both credit and equity) have reached very attractive levels and patient investors will be handsomely rewarded from recent price levels.
- We do not expect credit spreads to return to the slim premiums of 2004 to early 2007.
- The extraordinarily low yield and duration on the Aggregate mask the extreme divergence between the component sectors of the index, and therefore the potential opportunities.
- Very large increase in specialized "distress" oriented fixed investing.

2009 Capital Market Expectations

- Major question - Did we go through a “game-changing” experience, or a somewhat extreme but within-the-bounds-of-expected bump in the long-term capital markets road?
- All asset classes repriced in the recent market dislocation. Value opportunities are emerging throughout the capital markets. General theme: this revaluation suggests better potential returns going forward, and a steeper capital market line.
- We held our inflation expectation at 2.75%. Inflation topped 5% in mid-2008 yet finished the year with a decline. A recession solved our inflation problem over the short term, and the reversal in oil prices played a large role. Inflation could easily resume, especially given the massive monetary and fiscal stimulus in the pipeline.
- Cash is projected to generate a slight positive real return (3.0%). We do not expect current low rates to persist over a five- to ten-year time horizon.

2009 Capital Market Expectations

- Bond returns held at 5.25%. Current measures of the broad market are very unusual. We expect Treasury rates to rise, but spreads will narrow and opportunities abound in the non-Treasury portion of the market.
- Project an upward sloping yield curve, with a risk premium for bonds over cash (2.25%).
- Building equity returns from long-term fundamentals gets us to about 9%: 3-4% real GDP growth, which means 5.75%-6.75% nominal earnings growth, 2% dividend yield, 0.5%-1.0% "buyback yield". Shorter term, these fundamentals may look weak, but equity looks cheap relative to longer-term valuations. Equity markets tend to perform well after substantial declines, and typically lead the economy out of recession. Broad U.S. equity expectations are increased 50 bps, from 9.0% to 9.5%. Non-U.S. equity returns are increased by a similar amount.
- Real estate return held at 7.6%; returns may not recover as quickly as liquid equity markets.
- Private equity return held at 12%, narrowing its premium over public equity markets.

287

National Assoc. of College & University Business Officers

NACUBO Study – Data as of 6/30/08
How are others with similar objectives invested?

Average Asset Class Allocation of Total Assets

Investment Pool Assets	Equity %	Fixed Income %	Real Estate %	Cash %	Hedge Funds %	Private Equity %	Venture Capital %	Natural Resources %	Other %
Greater Than $1 Billion	39.4	10.8	6.4	1.4	22.6	10.0	3.6	5.3	0.5
> $500 Million to ? $1 Billion	42.5	14.6	6.1	1.9	19.2	7.7	2.8	3.5	1.7
> $100 Million to ? $500 Million	50.4	16.5	4.1	2.5	16.4	4.3	1.2	3.0	1.7
> $50 Million to ? $100 Million	54.1	20.3	4.2	4.4	11.5	1.8	0.5	.19	1.4
> $25 Million to ? $50 Million	57.6	20.8	4.1	3.4	10.4	1.0	0.3	1.2	1.1
Less Than or Equal to $25 Million	55.9	27.1	2.2	8.1	3.3	0.6	0.3	0.4	2.1
Public	51.7	21.4	3.5	4.8	11.0	2.9	0.8	2.4	1.6
Private	52.0	18.1	4.4	3.4	13.8	3.5	1.2	2.2	1.5
Equal-weighted Average	51.9	19.2	4.1	3.9	12.9	3.3	1.1	2.2	1.5
Dollar-weighted Average	40.0	13.1	6.5	0.5	21.0	8.4	3.2	6.5	0.9

774 institutions provided investment pool asset class data in 2008. Table data are equal weighted unless otherwise noted. Natural resources include: Timber, Oil and Gas Partnerships, and Commodities.

2009 Capital Market Expectations

Return and Risk

Asset Class	Arithmetic Mean	5-Year Geometric Mean	10-Year Geometric Mean	Projected S.D.
Broad Domestic Equity	10.35	9.63	9.49	16.39
Large Cap	9.95	9.36	9.23	15.25
Small/Mid Cap	11.95	10.33	10.05	22.60
International Equity	10.60	9.47	9.26	19.30
Emerging Markets Equity	13.00	10.54	10.13	27.00
Global	10.28	9.63	9.49	15.85
Domestic Fixed	5.25	5.25	5.24	5.00
Non US Fixed	5.15	4.88	4.83	9.60
Real Estate/Infrastructure	8.55	7.75	7.61	16.10
Private Equity	17.25	12.38	11.59	37.00
Absolute Return	7.20	6.99	6.93	10.00
Cash Equivalents	3.00	3.03	3.03	0.80

Source: Callan Associates Inc.

2009 Capital Market Expectations

Correlation Coefficient Matrix

Key to Constructing Efficient Portfolios

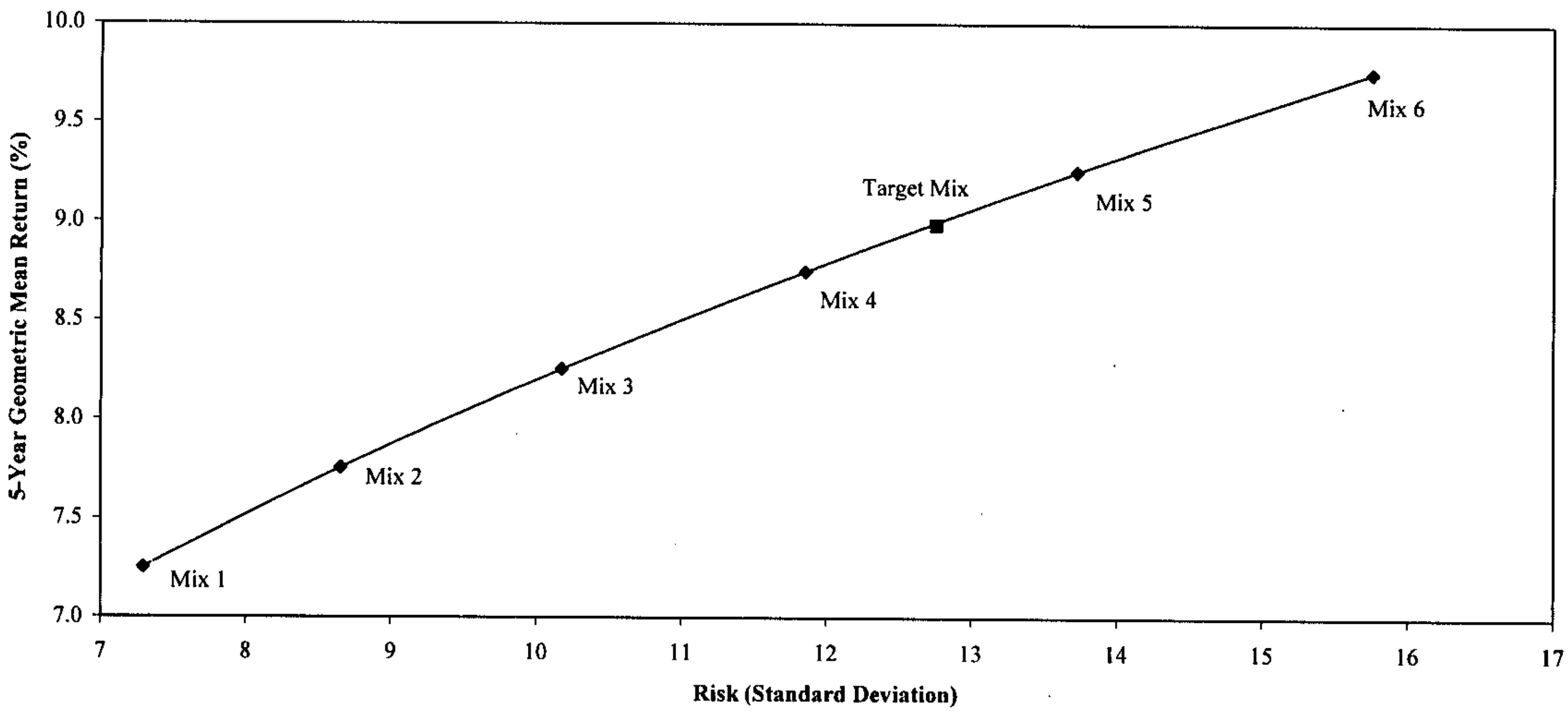
	Broad Domestic Equity	Large Cap	Small/ Mid Cap	Interna-tional Equity	Emerging Markets Equity	Global	Domestic Fixed	Non US Fixed	Real Estate/ Infra	Private Equity	Absolute Return	Cash Equiv-alents
Broad Domestic Equity	1.00	0.98	0.94	0.68	0.79	0.89	0.15	-0.04	0.54	0.92	0.56	-0.12
Large Cap	0.98	1.00	0.90	0.68	0.79	0.89	0.17	-0.02	0.54	0.91	0.56	-0.10
Small/Mid Cap	0.94	0.90	1.00	0.64	0.74	0.82	0.07	-0.06	0.51	0.87	0.51	-0.15
International Equity	0.68	0.68	0.64	1.00	0.75	0.94	0.14	0.18	0.51	0.85	0.60	-0.20
Emerging Markets Equity	0.79	0.79	0.74	0.75	1.00	0.84	0.05	0.05	0.53	0.85	0.53	-0.15
Global	0.89	0.89	0.82	0.94	0.84	1.00	0.17	0.10	0.57	0.96	0.63	-0.17
Domestic Fixed	0.15	0.17	0.07	0.14	0.05	0.17	1.00	0.43	0.15	-0.02	0.41	0.30
Non US Fixed	-0.04	-0.02	-0.06	0.18	0.05	0.10	0.43	1.00	0.05	0.02	0.24	0.10
Real Estate/Infrastructure	0.54	0.54	0.51	0.51	0.53	0.57	0.15	0.05	1.00	0.55	0.43	-0.06
Private Equity	0.92	0.91	0.87	0.85	0.85	0.96	-0.02	0.02	0.55	1.00	0.54	-0.10
Absolute Return	0.56	0.56	0.51	0.60	0.53	0.63	0.41	0.24	0.43	0.54	1.00	0.15
Cash Equivalents	-0.12	-0.10	-0.15	-0.20	-0.15	-0.17	0.30	0.10	-0.06	-0.10	0.15	1.00

Source: Callan Associates Inc.

Illustrative Efficient Mixes Using 2009 Projections

Portfolio Component	Target	Min	Max	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5	Mix 6
Large Cap	21	0	100	15	17	20	23	26	29
Small/Mid Cap	5	0	100	4	5	6	7	8	9
International Equity	8	0	100	3	4	5	6	7	9
Global	14	0	100	6	8	10	12	14	17
Emerging Markets Equity	5	0	100	1	2	3	3	4	4
Domestic Fixed	19	0	100	56	47	38	28	18	5
Non US Fixed	3	0	100	4	3	2	1	0	0
Real Estate/Infrastructure	13	0	100	6	7	7	8	9	10
Private Equity	6	0	100	2	3	4	6	7	8
Absolute Return	6	0	100	3	4	5	6	7	9
Cash Equivalents	0	0	100	0	0	0	0	0	0
Totals	100			100	100	100	100	100	100
Expected Return	9.35			7.27	7.83	8.41	9.02	9.68	10.38
5 Yr. Avg. Simulated Return	9.00			7.25	7.75	8.25	8.75	9.25	9.75
10 Yr. Avg. Simulated Return	8.91			7.22	7.71	8.19	8.67	9.15	9.62
Standard Deviation	12.82			7.30	8.65	10.17	11.85	13.72	15.75

Efficient Frontier Graph



Supplemental Material

293

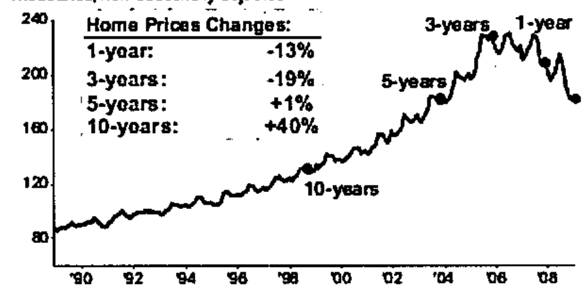
Housing Information

The Aftermath of the Housing Bubble

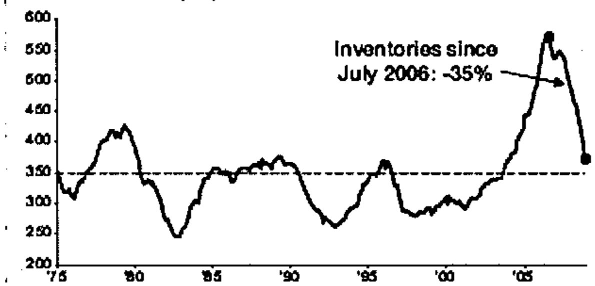
Market Insight Series

Economy

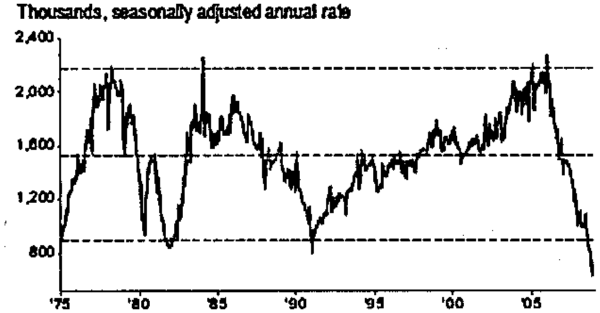
Median Home Prices
Thousands, non-seasonally adjusted



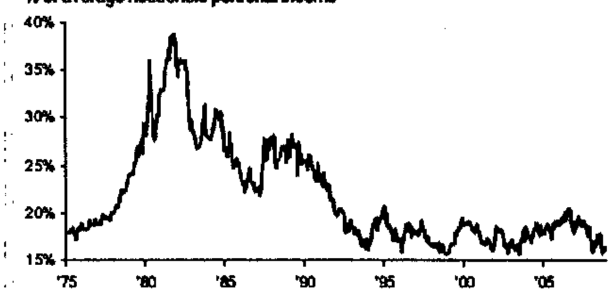
Unsold New Homes
Thousands, seasonally adjusted



Housing Starts
Thousands, seasonally adjusted annual rate



Mortgage Payment on Average New Home
% of average household personal income



Source: Census Bureau, FactSet, EcoWin, JPMorgan Asset Management.

Data reflects most recently available as of 12/31/08.

Home price based on median sales price of existing homes and are cumulative, not annualized. Existing-home sales include single-family, townhomes, condominiums and co-ops.

Source: (top chart) Census Bureau, FactSet, EcoWin, JPMorgan Asset Management.

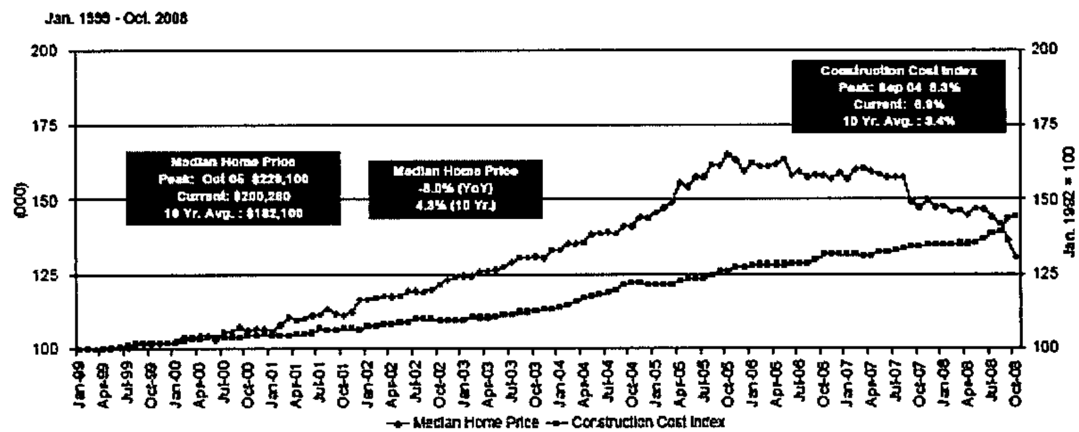
Source: (bottom chart) Census Bureau, Federal Reserve Board, BEA, JPMorgan Asset Management.

Data reflects most recently available as of 12/31/08.

JPMorgan
Asset Management

Home Prices

Exhibit 7
SF Median Home Prices



	1999-2008 Avg.	Oct-08	Oct-07	Oct-06	Oct-05	Oct-04	Oct-03	Oct-02	Oct-01	Oct-00	Oct-99
Median Home Price	$182,100	$200,260	$217,630	$222,670	$213,333	$189,890	$176,370	$163,000	$152,590	$144,500	$139,440
Median HP YoY %	4.3%	-8.0%	-2.3%	4.4%	12.3%	7.7%	7.5%	7.5%	5.3%	3.9%	4.1%
Construction Cost YoY %	3.4%	6.9%	3.7%	3.0%	3.3%	8.3%	2.3%	3.1%	2.7%	1.6%	2.8%

Median Home Price – Single Family detached units only – Seasonally adjusted – Based on NAR, Case Shiller data as compiled by Moody's Economy.com

Source: Moody's Economy.com and Engineering News-Record

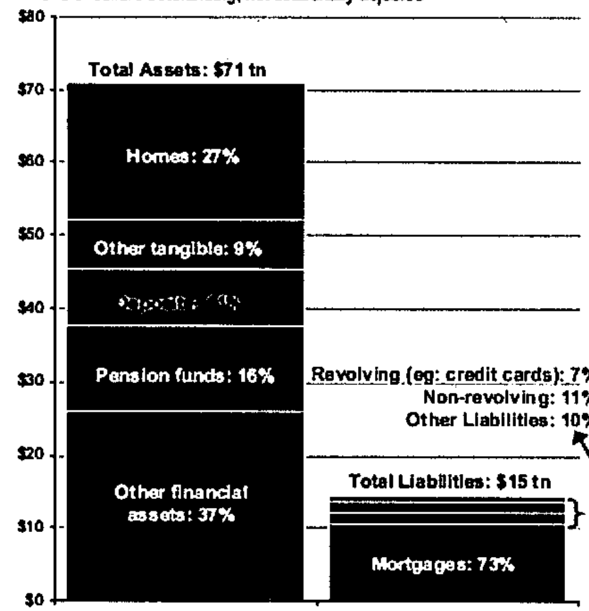
295

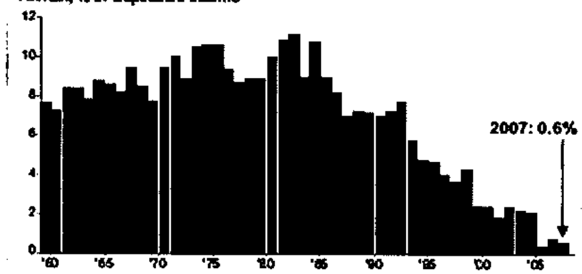
Consumer Balance Sheet

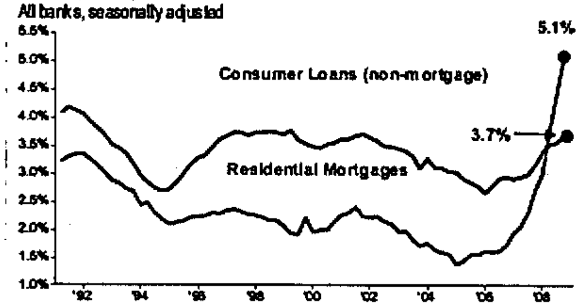
Economy

The U.S. Consumer

Market Insight Series







Source: (Left chart) JPMorgan Asset Management, Federal Reserve. Data includes households and nonprofit organizations. (Right charts) JPMorgan Asset Management, BEA, Federal Reserve.

Personal savings rate is calculated as personal savings (after-tax income – personal outlays) divided by after-tax income. Employer and employee contributions to retirement funds are included in after-tax income but not in personal outlays, and thus are implicitly included in personal savings.

Data are as of 3Q08.

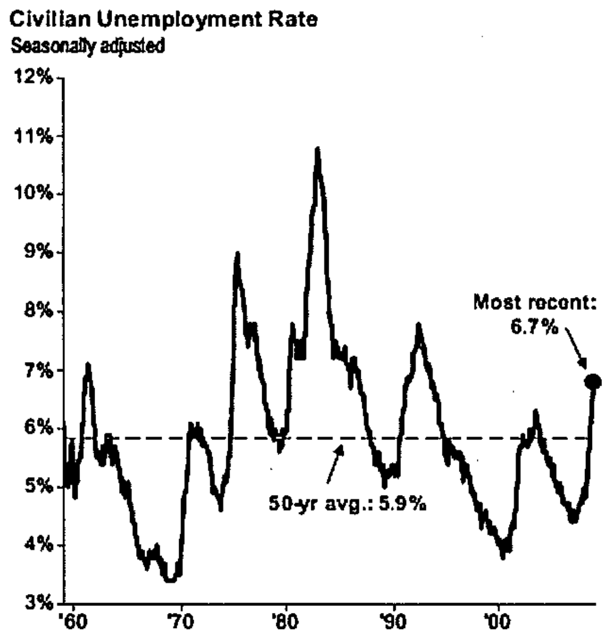
JPMorgan Asset Management

Unemployment & Employment Trends

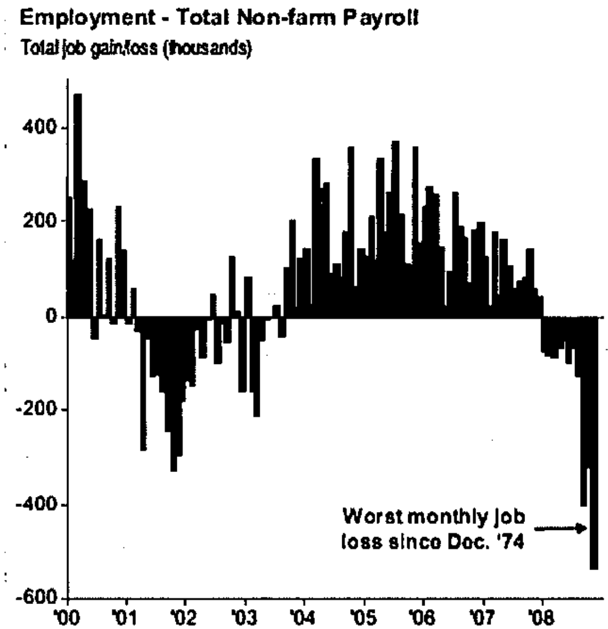
Economy

Employment

Market Insight Series



Source: BLS, JPMorgan Asset Management.
Data reflects most recently available as of 12/31/08.



Source: BLS, JPMorgan Asset Management.
Data reflects most recently available as of 12/31/08.

JPMorgan Asset Management

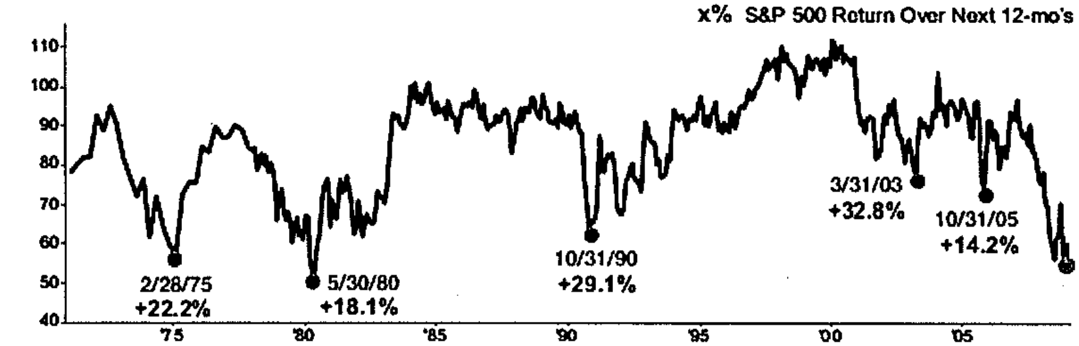
297

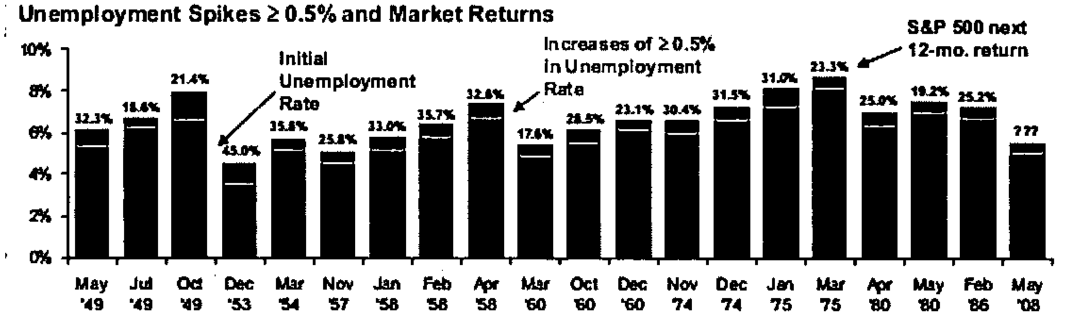
Consumer Sentiment

Economy

Lagging Economic Indicators

Market Insight Series





Source: Standard & Poor's, BLS, FactSet, University of Michigan, JPMorgan Asset Management.

Market return reflects S&P 500 Price Index return (not including dividends) for 12-month period following each low in consumer sentiment and unemployment spike, as indicated in chart. Returns are calculated using month-end values. The top chart does not imply that November 2008 is a new low in consumer sentiment.

JPMorgan Asset Management

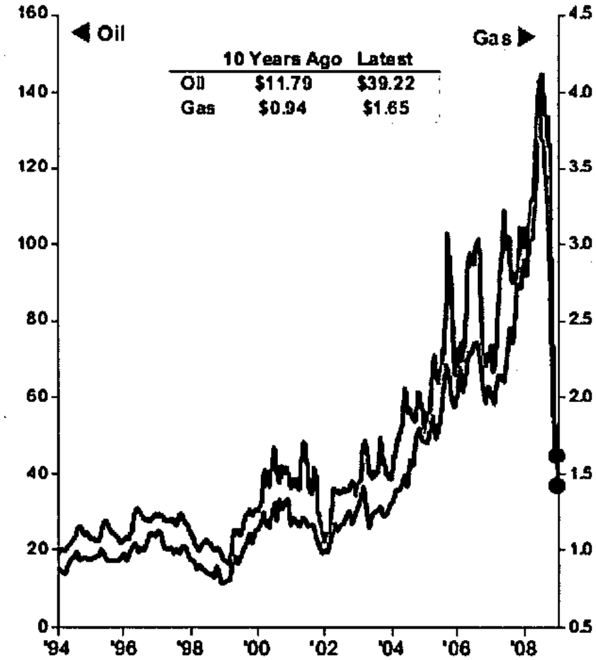
Oil Prices & Impact

Oil and the Economy

Market Insight Series

Economy

WTI Crude Oil & Retail Gasoline Prices

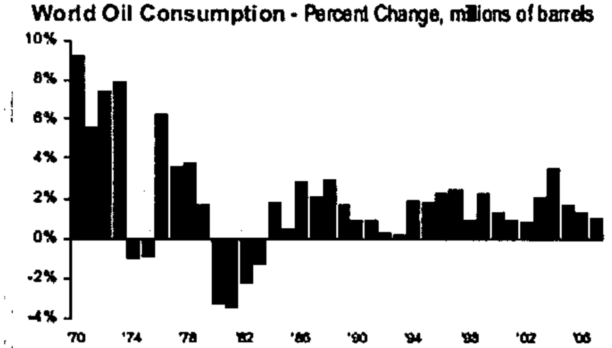


Source: EcoWin, U.S. Department of Energy, FactSet, JPMorgan Asset Management.
Data reflects most recently available as of 12/31/08.

Economic Drag of Oil Prices

U.S. Petroleum Imports as a % of GDP

World Oil Consumption - Percent Change, millions of barrels

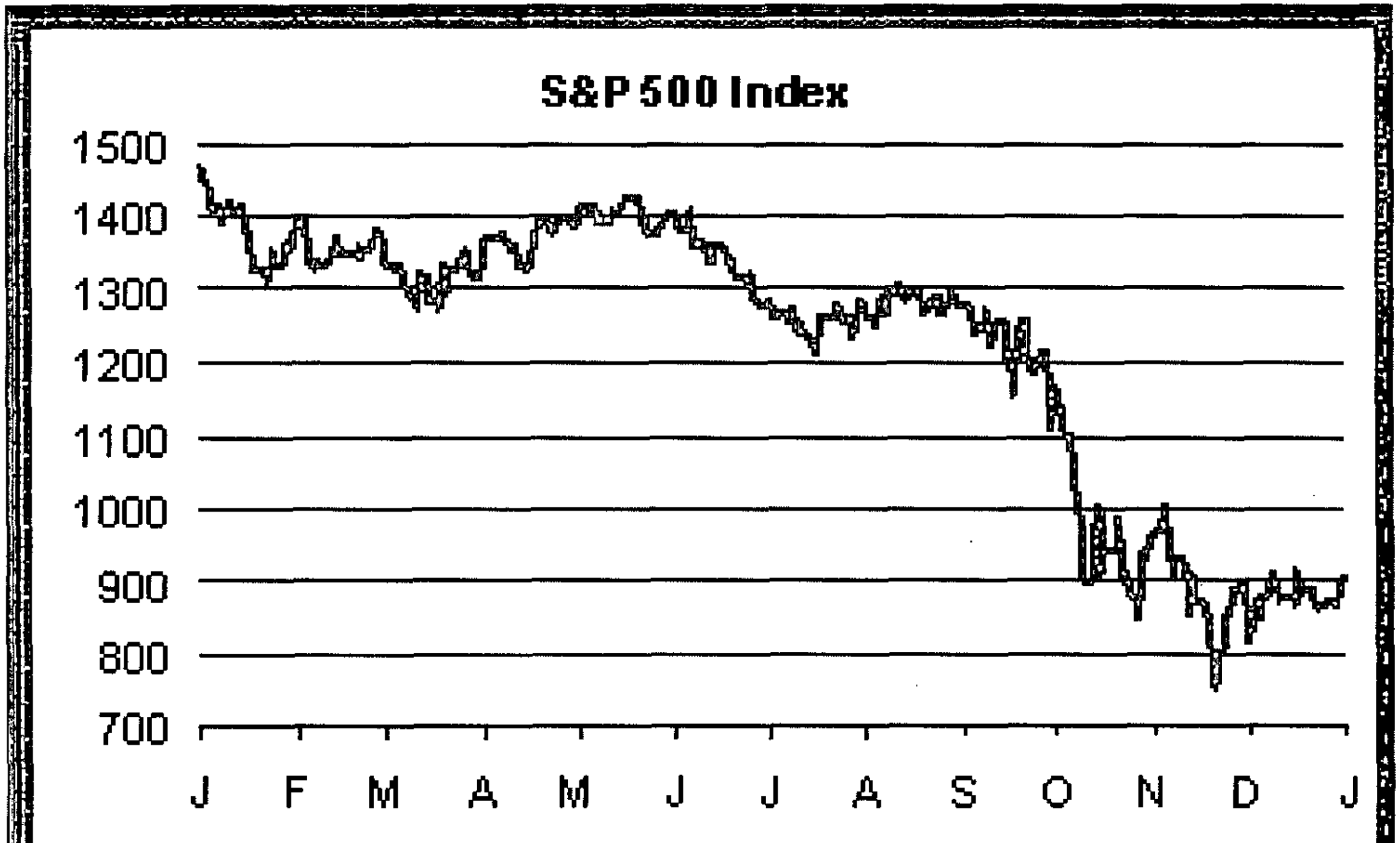


Source: Bureau of Economic Analysis, U.S. Department of Energy, JPMorgan Asset Management.

Data reflects most recently available as of 12/31/08.

JPMorgan Asset Management

S&P 500 2008



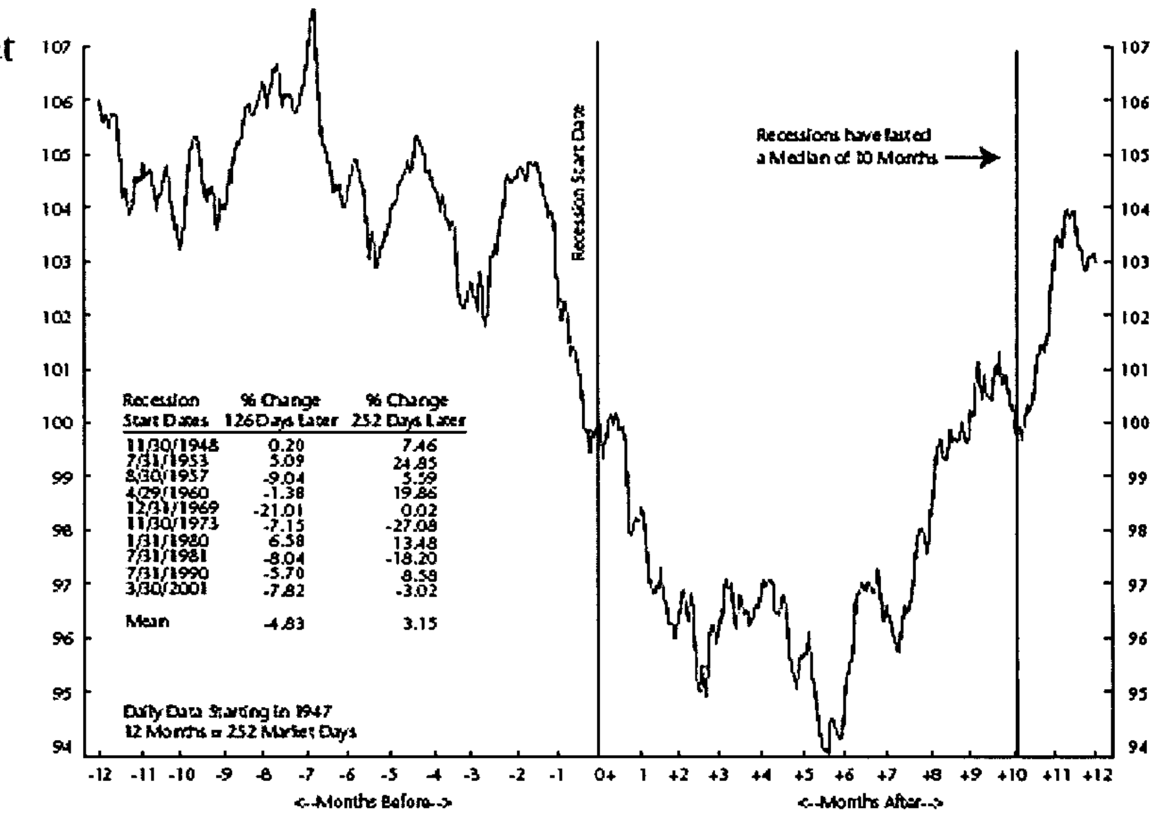
Source: Standard & Poor's

300

Performance during recessions

Exhibit 2: Stock Market Behavior during Post-War Recessions

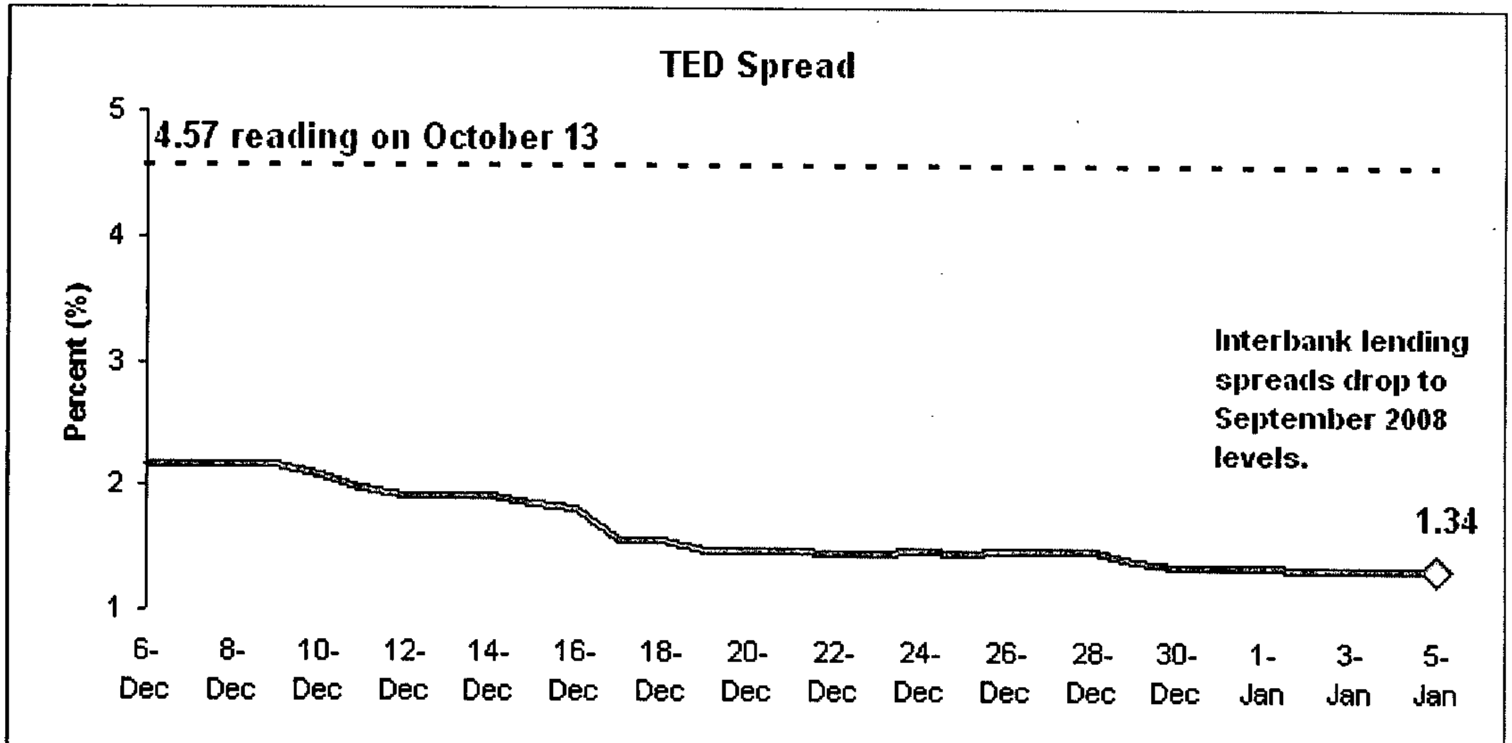
S&P 500 Around Post-War Recession Start



Source: Ned Davis Research, Inc.

301

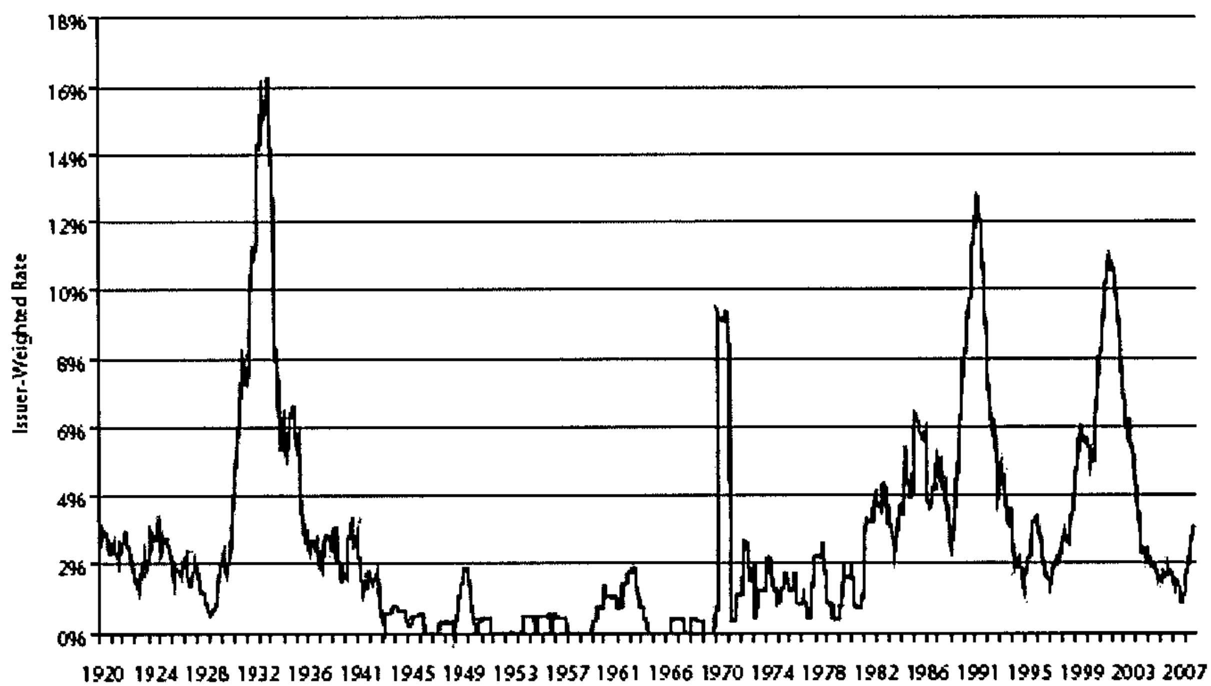
Ted Spread – Huge Improvement From Sept – Nov.



Source: Bloomberg

Long-term High Yield Default Experience

Exhibit 5: Moody's Speculative Grade Default Rates
Global Issuers
Monthly, April 1920 - November 2008



Source: Moody's Investors Service

Graph reproduced from Principal Global Investors Jan. 2009

303

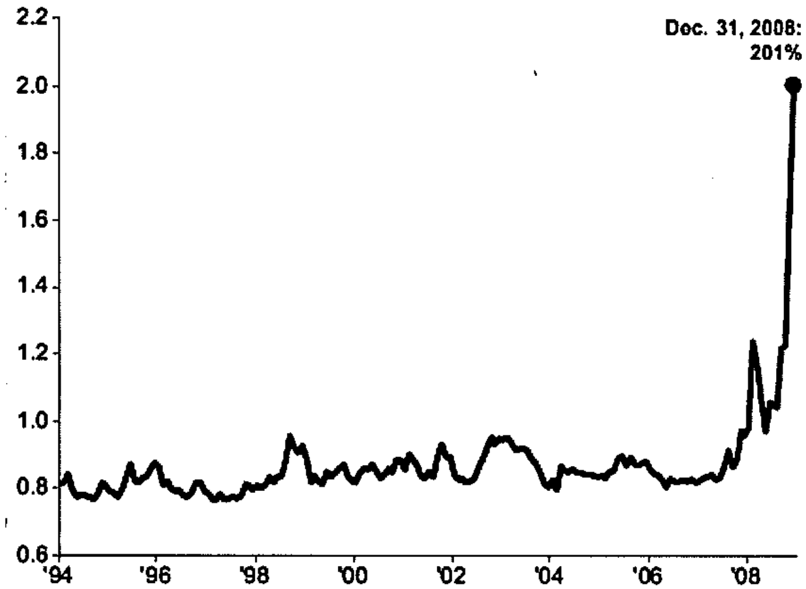
Tax Exempt Yields vs. Treasury

Municipal Bonds

Market Insight Series

Fixed Income

Ratio of Municipal Bond Index Yield to the 10-year Treasury Yield
In theory, the Municipal yield should equal the Treasury yield x (1- tax rate)



Source: FactSet, Barclays Capital Inc., JPMorgan Asset Management.

This above chart is shown for illustrative purposes only, and is shown using monthly data and a 3-month moving average. Interest Rate Sensitivity (right-hand chart) represents change in yield (bps) for the U.S. 10-year Treasury and the Barclays Capital Municipal Bond 10-Year as provided by FactSet. Data are as of 12/31/08.

Interest Rate Sensitivity: Change in yield (bps) of Treasuries vs. Muni's

Year	Treasury	Muni
1994	204	159
1995	-226	-140
1996	84	20
1997	-68	-53
1998	-109	-26
1999	179	100
2000	-133	-77
2001	-8	-4
2002	-121	-87
2003	43	-20
2004	-4	11
2005	18	34
2006	31	-3
2007	-68	2
2008	-178	60

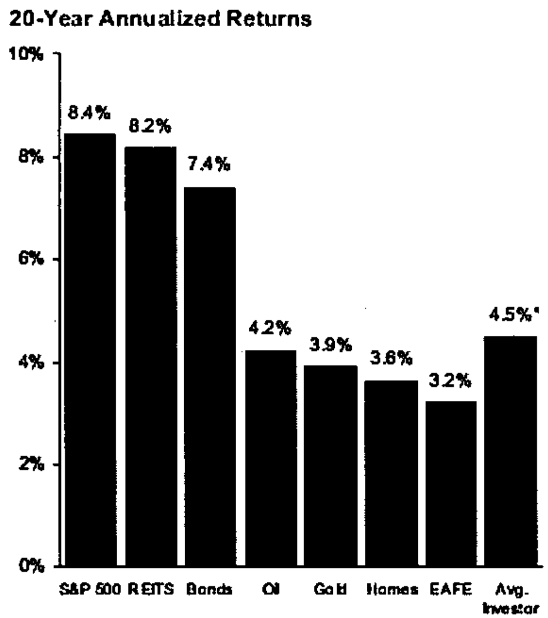
JPMorgan Asset Management

Market Background

Long-term Returns and Bear Market Cycles

Market Insight Series

Asset Class



Bear Market Cycles vs. Subsequent Bull Runs

Market Peak	Market Low	Bear Return	Length of Decline	Bull Run	Bull Run Length	Yrs to Reach Prev. Peak
5/29/46	5/19/47	-28.6%	12	257.6%	122	3.1 yrs
7/15/57	10/22/57	-20.7%	3	86.4%	50	0.9 yrs
12/12/61	6/26/62	-28.0%	6	79.8%	44	1.2 yrs
2/9/66	10/7/66	-22.2%	8	48.0%	26	0.6 yrs
11/29/68	5/26/70	-36.1%	18	74.2%	31	1.8 yrs
1/5/73	10/3/74	-48.4%	21	125.6%	74	5.8 yrs
11/28/80	8/12/82	-27.1%	20	228.8%	60	0.2 yrs
8/25/87	12/4/87	-33.5%	3	582.1%	148	1.6 yrs
3/24/00	10/9/02	-49.1%	31	101.5%	60**	4.6 yrs
Average:		-32.6%	14 mo's	176.0%	68 mo's	2.2 yrs

Source: Standard & Poor's, FTSE, MSCI Inc., Nymex, Barclays Capital Inc., NAR, EcoWin, JPMorgan Asset Management.

The above charts are shown for illustrative purposes only. Past returns are no guarantee of future results.

The indexes used are as follows (left chart): S&P 500 Index: Standard & Poor's 500 Index, REITS: NAREIT Equity Reits Index, EAFE: MSCI EAFE, Oil: West Texas Intermediate Index, Bonds: Barclays Capital U.S. Aggregate Index, Homes: Median Sales Price of Existing Single-family homes, Gold: USD/troy oz. All returns are annualized (and total return where applicable), and represent the 20-year period ending 12/31/07. Average equity investor return is based on an analysis by Dalbar, Inc. which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. *DALBAR returns are through 2007, next update due in 1Q09.

In the table to the right, a bear market is defined as a peak-to-trough decline in the S&P 500 Index (price only) of 20% or more. The bull run data reflect the market expansion from the bear market low to the subsequent market peak. All returns are S&P 500 Index returns, and do not include dividends.

**Most recent bull run is through market peak of 10/9/07.

JPMorgan Asset Management

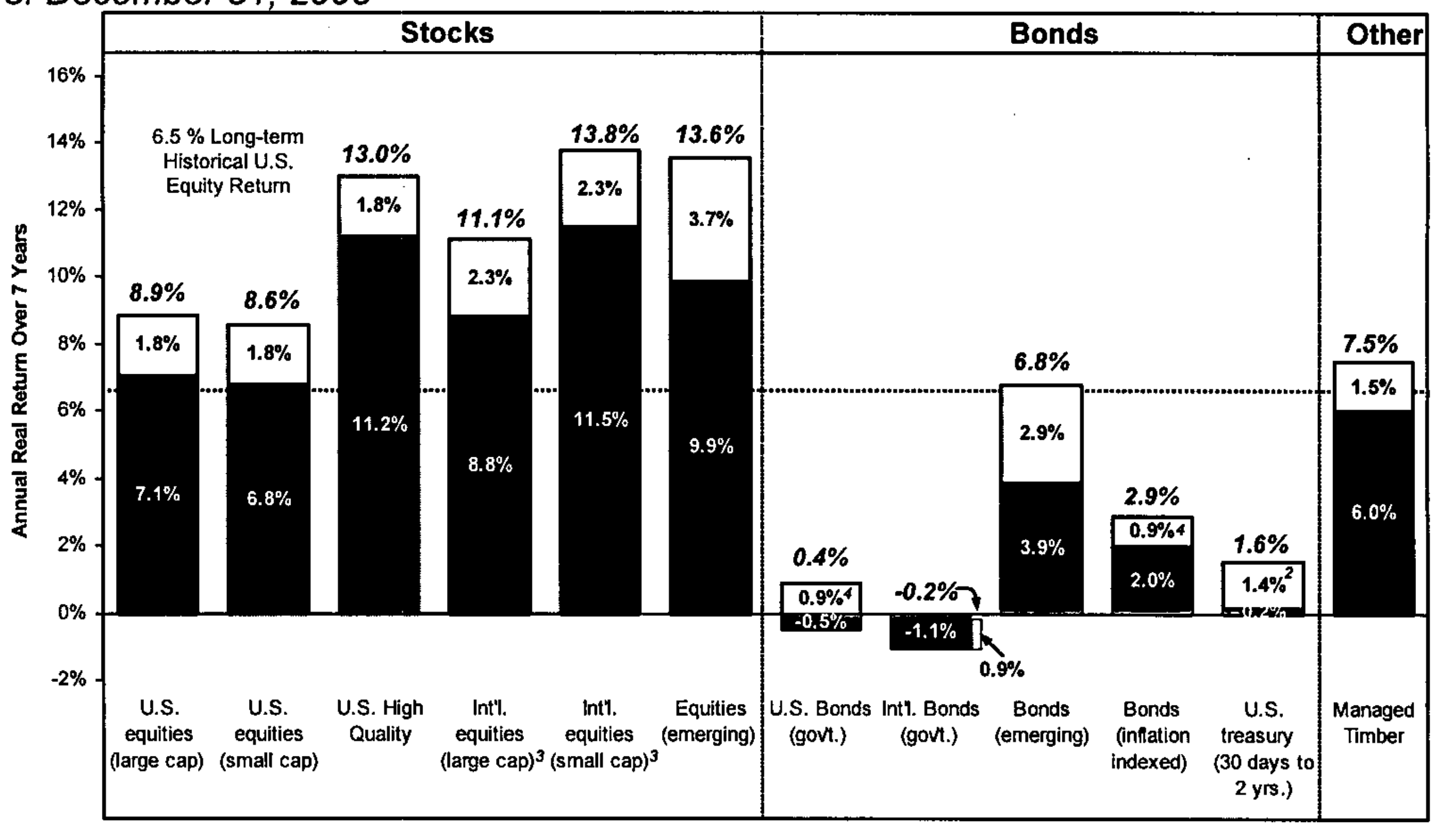
305

Projections from others - GMO

GMO 7-Year Asset Class Return Forecasts*

As of December 31, 2008

- Expected Value Added
- Real Return (Asset Class Index)



Estimated Range of 7-Year Annualized Returns	±6.5	±7.0	±6.0	±6.5	±7.0	±10.5	±4.0	±4.0	±8.5	±1.5	±1.5	±5.5

***The chart represents real return forecasts[1] for several asset classes and an estimate of value expected to be added from active management. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Actual results may differ materially from the forecasts above.**

[1] Long-term inflation assumption: 2.5% per year.
[2] Alpha transported from management of global equities.
[3] Return forecasts for international equities are ex-Japan.
[4] Alpha transported from management of global bonds.

Source: GMO

CAI

JP Morgan Asset Class Projections

Correlation Matrix

Group	Asset class	Expected arithmetic return[2]	Expected compound return[2]	Expected annualized volatility	U.S. Inflation	U.S. Cash	U.S. 10-yr Treasury	U.S. Aggregate	U.S. Long Duration Govt./Corp.	U.S. TIPS (nominal)	U.S. High Yield	WGBI hedged	WGBI unhedged	WGBI ex-U.S. hedged	WGBI ex-U.S. unhedged	Emerging Market Debt	Municipal
Fixed Income	U.S. Inflation	2.79%	2.75%	1.50%	1.000												
	U.S. Cash	4.00%	4.00%	0.50%	[illegible]	1.000											
	U.S. 10-yr Treasury	4.22%	4.40%	6.75%	-0.045	0.070	1.000										
	U.S. Aggregate	5.59%	5.59%	4.25%	-0.029	0.125	0.920	1.000									
	U.S. Long Duration Govt./Corp.	6.67%	6.25%	9.50%	-0.061	0.037	0.852	0.946	1.000								
	U.S. TIPS (nominal)	5.49%	5.27%	7.00%	0.199	0.065	0.747	0.815	0.824	1.000							
	U.S. High Yield	11.67%	11.40%	11.75%	0.097	-0.005	-0.044	0.256	0.366	0.305	1.000						
	WGBI hedged	4.30%	4.25%	3.25%	-0.150	0.319	0.831	0.824	0.771	0.610	-0.064	1.000					
	WGBI unhedged	4.35%	4.21%	8.00%	0.045	-0.103	0.659	0.671	0.553	0.534	0.018	0.580	1.000				
	WGBI ex-U.S. hedged	4.29%	4.25%	2.75%	-0.172	0.311	0.744	0.695	0.662	0.532	-0.060	0.941	0.590	1.000			
	WGBI ex-U.S. unhedged	4.18%	4.25%	9.50%	0.060	-0.130	0.559	0.526	0.443	0.501	0.091	0.185	0.971	0.421	1.000		
	Emerging Market Debt	10.04%	9.21%	13.25%	0.331	0.047	0.219	0.460	0.502	0.434	0.684	0.168	0.217	0.163	0.319	1.000	
	Municipal	4.35%	4.25%	4.50%	-0.085	0.062	0.719	0.800	0.770	0.633	0.201	0.568	0.902	0.576	0.421	0.333	1.000
Equity	U.S. Large Cap	10.36%	9.40%	17.50%	0.050	0.057	-0.277	-0.043	0.018	-0.087	0.631	-0.294	-0.069	-0.264	-0.026	0.547	-0.076
	U.S. Mid Cap	10.97%	9.25%	19.75%	0.033	0.043	-0.254	-0.013	0.092	0.082	0.700	-0.275	-0.035	-0.314	0.004	0.004	-0.022
	U.S. Small Cap	11.55%	9.25%	23.00%	-0.000	0.025	-0.274	-0.056	0.035	-0.020	0.635	-0.269	-0.076	-0.247	-0.040	0.542	-0.049
	U.S. Large Cap Growth	10.67%	8.15%	22.00%	0.025	0.033	-0.269	-0.078	0.007	-0.029	0.573	-0.307	-0.091	-0.290	-0.052	0.434	-0.088
	U.S. Large Cap Value	10.66%	9.25%	16.50%	0.010	0.070	-0.244	-0.037	0.038	0.044	0.615	-0.235	-0.032	-0.188	0.012	0.525	-0.047
	Europe ex-U.K. Large Cap	11.65%	9.90%	22.25%	0.021	0.037	-0.249	-0.031	0.054	0.036	0.623	-0.256	0.130	-0.229	0.133	0.549	-0.079
	Japan Large Cap	10.98%	9.00%	21.25%	0.379	-0.032	-0.090	0.044	0.088	0.168	0.445	-0.187	0.151	-0.206	0.397	0.452	0.001
	U.K. Large Cap	10.60%	9.18%	18.00%	0.066	0.039	-0.180	0.030	0.100	0.092	0.617	-0.222	0.137	-0.208	0.208	0.843	0.016
	EAFE unhedged	10.80%	9.25%	18.75%	0.081	-0.023	-0.214	0.011	0.098	0.090	0.659	-0.254	0.160	-0.239	0.253	0.603	-0.032
	EAFE hedged	10.63%	9.25%	17.50%	0.012	0.157	-0.393	-0.157	-0.049	-0.098	0.616	-0.363	-0.258	-0.306	-0.218	0.540	-0.168
	Emerging Market Equity	13.44%	10.25%	27.50%	0.042	0.014	-0.253	-0.029	0.067	0.064	0.671	-0.260	0.012	-0.231	0.053	0.638	-0.075
	Asia ex-Japan Equity	13.39%	10.25%	27.25%	-0.009	0.027	-0.241	-0.045	0.047	0.042	0.609	-0.232	-0.003	-0.198	0.036	0.545	-0.079
Alternatives	Private Equity	13.09%	10.05%	27.00%	0.033	-0.037	-0.250	-0.028	0.062	0.404	0.622	-0.229	-0.081	-0.287	-0.022	0.498	-0.010
	U.S. Direct Real Estate (unlevered)	7.60%	7.35%	8.75%	0.048	0.015	0.000	0.132	0.137	0.104	0.370	0.007	0.096	0.013	0.301	0.319	0.018
	U.S. Value Added Real Estate	9.27%	8.50%	13.00%	0.038	0.007	-0.050	0.050	0.477	0.499	0.261	-0.809	0.036	-0.028	0.046	0.227	0.039
	U.S. REITs	9.95%	8.09%	21.00%	0.095	0.008	0.004	0.173	0.225	0.283	0.547	-0.063	0.129	0.034	0.142	0.433	0.142
	Hedge Fund (non-directional)	6.82%	6.60%	8.25%	0.151	0.214	-0.033	0.249	0.314	0.381	0.667	-0.036	0.160	-0.054	0.167	0.590	0.171
	Hedge Fund - (directional)	8.75%	8.25%	10.50%	0.006	0.149	-0.229	0.023	0.109	0.083	0.668	-0.209	-0.005	-0.203	0.024	0.587	0.066
	Hedge Fund - (fund of funds)	8.13%	7.75%	9.50%	0.100	0.163	-0.327	0.079	0.159	0.170	0.662	-0.165	0.055	-0.175	0.076	0.546	0.069
	Commodities	10.44%	7.09%	26.25%	0.310	0.009	0.041	0.117	0.174	0.134	0.243	-0.016	0.192	-0.073	0.205	0.249	0.005

Asset class	U.S. Large Cap	U.S. Mid Cap	U.S. Small Cap	U.S. Large Cap Growth	U.S. Large Cap Value	Europe ex-U.K. Large Cap	Japan Large Cap	U.K. Large Cap	EAFE unhedged	EAFE hedged	Emerging Market Equity	Asia ex-Japan Equity	Private Equity	U.S. Direct Real Estate (unlevered)	U.S. Value Added Real Estate	U.S. REITs	Hedge Fund - (non-directional)	Hedge Fund - (directional)	Hedge Fund - (fund of funds)	Commodities
U.S. Large Cap	1.000																			
U.S. Mid Cap	0.908	1.000																		
U.S. Small Cap	0.765	0.906	1.000																	
U.S. Large Cap Growth	0.918	0.835	0.770	1.000																
U.S. Large Cap Value	0.885	0.839	0.644	0.616	1.000															
Europe ex-U.K. Large Cap	0.632	0.850	0.779	0.781	0.746	1.000														
Japan Large Cap	0.556	0.570	0.414	0.551	0.449	0.539	1.000													
U.K. Large Cap	0.833	0.804	0.618	0.732	0.810	0.894	0.884	1.000												
EAFE unhedged	0.851	0.867	0.761	0.798	0.771	0.915	0.735	0.907	1.000											
EAFE hedged	0.860	0.844	0.776	0.834	0.769	0.862	0.641	0.803	0.893	1.000										
Emerging Market Equity	0.762	0.801	0.795	0.739	0.673	0.792	0.616	0.744	0.808	0.821	1.000									
Asia ex-Japan Equity	0.731	0.740	0.673	0.698	0.647	0.718	0.600	0.750	0.719	0.765	0.953	1.000								
Private Equity	0.453	0.797	0.920	0.785	0.489	0.686	0.461	0.824	0.678	0.684	0.715	0.665	1.000							
U.S. Direct Real Estate (unlevered)	0.390	0.398	0.349	0.272	0.483	0.329	0.204	0.330	0.339	0.292	0.313	0.295	0.291	1.000						
U.S. Value Added Real Estate	0.250	0.292	0.272	0.205	0.296	0.243	0.453	0.242	0.249	0.224	0.232	0.216	0.215	0.700	1.000					
U.S. REITs	0.459	0.562	0.540	0.378	0.379	0.451	0.373	0.453	0.462	0.390	0.436	0.407	0.436	0.100	0.422	1.000				
Hedge Fund (non-directional)	0.525	0.653	0.604	0.535	0.477	0.612	0.323	0.464	0.679	0.582	0.720	0.670	0.646	0.295	0.206	0.427	1.000			
Hedge Fund - (directional)	0.737	0.860	0.899	0.764	0.602	0.774	0.546	0.695	0.866	0.709	0.826	0.772	0.172	0.282	0.208	0.311	0.811	1.000		
Hedge Fund - (fund of funds)	0.567	0.707	0.692	0.614	0.428	0.661	0.510	0.605	0.725	0.675	0.776	0.726	0.751	0.221	0.161	0.277	0.869	0.897	1.000	
Commodities	0.122	0.243	0.174	0.146	0.097	0.246	0.349	0.268	0.320	0.199	0.337	0.283	0.155	0.065	0.044	0.089	0.471	0.322	0.409	1.000

Source JP Morgan 11/30/08

307

Year-end Strategists Projections

Strategists' 2009 S&P 500 Price Targets

Firm	Strategist	2009 Price Target	Expected 2009 % Change
UBS	David Bianco	[illegible]	[illegible]
Deutsche Bank	Binky Chadha	1,140	26.2
Goldman Sachs	David Kostin	1,100	21.8
Strategas	Jason Trennert	1,100	21.8
JP Morgan	Thomas Lee	1,100	21.8
Credit Suisse	Andrew Garthwaite	1,050	16.2
Citi	Tobias Levkovich	1,000	10.7
HSBC	Kevin Gardiner	1,000	10.7
Morgan Stanley	Abhijit Chakrabortti	975	7.9
Merrill Lynch	Richard Bernstein	975	7.9
Barclays	Barry Knapp	874	-3.2
	Average	**1,056**	**16.9**

Alaska State Senate

Senate Finance Committee

Official Business

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

AGENDA

Tuesday, February 10, 2009 9:00 AM

Overview:
Economic and Capital Market Outlook & Permanent Fund Performance Review

Michael O'Leary, EVP, Callan Associates
Mike Burns, Executive Director, Alaska Permanent Fund Corporation

Questions:
Steve Frank, Chair, Alaska Permanent Fund Corporation Board (VIA TELE)
Jerry Burnett, Deputy Commissioner, Division of Treasury, DOR
Michael Barnhill, Assistant Attorney General, Department of Law

ALASKA PERMANENT FUND
FUND FINANCIAL HISTORY & PROJECTIONS
as of December 31, 2008

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

		Reserved Fund Balance - Principal								Unreserved Fund Balance								TOTAL FUND	
		FY-Begin		Dedicated [2]		FY-End	Unrealized Gain (Loss)		FY-End	Acct.	Statutory	Distributions of Statutory Net Income			Realized Earnings				
	FY	Contrib. Balance	Appro-priations [1]	State Revenues	Inflation Proofing	Balance Contributions	Net Change	FY-End Balance	Reserved Balance	Net Income [3]	Net Income [3]	Dividends	Inflation Proofing	Gen. Fund / Other [4]	Net Change	FY-End Balance	FY	FY-End Balance	
	77-00	0	7,039	6,731	6,244	20,014	3,529	3,529	23,543	25,080	23,433	9,806	6,244	274	2,972	2,972	77-00	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	(1,248)	1,136	02	23,525	
	03	21,884	354 [5]	398	352	22,988	601	1,106	24,094	963	355	691	352	0	(1,035)	100	03	24,194	
	04	22,988	(339) [5]	353	524	23,526	1,909	3,015	26,541	3,434	1,502	581	170 [5]	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 [4]	581	1,440	05	29,962	
	06	24,647	0	601	856	26,104	347	4,221	30,325	3,072	2,689	689	856	37	1,145	2,585	06	32,910	
	07	26,104	0	532	860	27,497	1,977	6,198	33,694	5,448	3,429	1,022	860	42	1,547	4,132	07	37,826	
	08	27,497	0	844	808	29,149	(4,434)	1,763	30,912	(1,463)	2,938	1,293	808	33	837	4,969	08	35,881	
10%	09	29,149	0	705	1,149	31,004	(7,706)	(5,943)	25,061	(8,293)	(586)	1,074	1,149	0	(2,809)	2,159	09	27,220	10%
25%	09	29,149	0	705	1,149	31,004	(7,036)	(5,273)	25,731	(7,537)	(500)	1,083	1,149	0	(2,732)	2,236	09	27,967	25%
Mid	09	29,149 [6]	0	705 [2]	1,149	31,004	(5,969)	(4,206)	26,798	(6,376) [6]	(407)	1,092	1,149	0	(2,649)	2,320	09	29,118	Mid
25%	09	29,149	0	705	1,149	31,004	(5,086)	(3,323)	27,681	(5,381)	(295)	1,104	1,149	0	(2,548)	2,421	09	30,101	25%
10%	09	29,149	0	705	1,149	31,004	(4,099)	(2,336)	28,667	(4,277)	(178)	1,116	1,149	0	(2,444)	2,525	09	31,193	10%
	10	31,004	0	724	873	32,600	899	(3,307)	29,293	2,283	1,363	927	873	21	(436)	1,884	10	31,177	
	11	32,600	0	659	915	34,174	961	(2,346)	31,828	2,444	1,462	896	915	21	(349)	1,535	11	33,363	
	12	34,174	0	639	957	35,771	1,027	(1,319)	34,452	2,617	1,568	779	957	21	(168)	1,367	12	35,819	
	13	35,771	0	630	1,001	37,401	1,102	(217)	37,185	2,811	1,688	596	1,001	21	91	1,458	13	38,642	
	14	37,401	0	619	1,046	39,065	1,188	971	40,037	3,035	1,826	830	1,046	21	(49)	1,408	14	41,445	
	15	39,065	0	591	1,091	40,747	1,273	2,245	42,991	3,257	1,963	893	1,091	21	(21)	1,388	15	44,379	
	16	40,747	0	618	1,138	42,503	1,363	3,608	46,110	3,492	2,107	961	1,138	21	9	1,397	16	47,507	
	17	42,503	0	620	1,186	44,308	1,458	5,066	49,374	3,740	2,261	1,034	1,186	21	41	1,438	17	50,812	
	18	44,308	0	620	1,236	46,164	1,559	6,625	52,789	4,003	2,423	1,111	1,236	21	76	1,514	18	54,303	
	19	46,164	0	674	1,288	48,126	1,667	8,292	56,418	4,284	2,596	1,192	1,288	21	116	1,630	19	58,047	
	Cumulative Totals Proj. for 2009-2019		0	7,099	11,878		6,528			25,591	18,850	10,311	11,878	212	(3,339)				

Assumptions:		Total Return -	Inflation=	Total Real Return		Statutory Return
10%	FY 2009	-5.08%	3.85%	-8.93%	10%	3.02%
25%	FY 2009	0.10%	3.85%	-3.75%	25%	3.61%
Mid	FY 2009	8.05%	3.85%	4.20%	Mid	4.25%
25%	FY 2009	14.87%	3.85%	11.02%	25%	5.02%
10%	FY 2009	22.43%	3.85%	18.58%	10%	5.82%
	FY 2010-2019 [7]	8.05%	2.75%	5.30%		5.00%

Income year-to-date as of December 31, 2008

FY09 Statutory net income		
Interest, dividends, real estate & other income	$	518.1
Realized gains (losses) on the sale of invested assets		(1,465.0)
Less operating exp / Legis. Appropriations		(36.7)
Less AK Capital Inc. Fund committed realized earnings		-
Statutory net income (loss)	$	(983.6)

FY09 Accounting (GAAP) net income		
Statutory net income (loss)	$	(983.6)
Unrealized gains (losses) on invested assets		(6,523.9)
AK Capital Income Fund committed realized earnings		-
Accounting (GAAP) net income (loss)	$	(7,507.5)

Notes related to financial history and projections FY1977 - FY2019

(1) Appropriations include special general fund, realized earnings, and other miscellaneous appropriation transfers into principal.

(2) Dedicated State Revenues in current and future fiscal years is based on the Fall 2008 Department of Revenue forecast.

(3) Accounting net income is based on United States Generally Accepted Accounting Principles (GAAP). Statutory net income is accounting net income, exlcuding any unrealized gains and losses on investments.

(4) FY05 and forward, Amerada Hess, et al. settlement earnings are transferred to Alaska Capital Income Fund per AS 37.13.145(d).

(5) FY03 Senate Bill 100 transferred $354 million from realized earnings to principal. FY04 Senate Bill 283 defined that appropriation as pre-FY04 inflation proofing, so it was moved from appropriations to inflation proofing, along with the balance of $170 necessary to fully inflation proof the Fund. $15 million in settlement earnings remained in appropriations per AS 37.13.145(d).

(6) Current year returns are based actuals through December plus 6 months of Callan capital market assumptions (2008). A range of possible returns illustrates potential outcomes across various market scenarios.

(7) Future returns are based on 2008 Callan capital market assumptions and median expected returns (the mid case). Actual results will vary.

PERFORMANCE SUMMARY (preliminary as of December 31, 2008)	Current Month	Last 3 Months	Fiscal Y-T-D	Calendar Y-T-D	Last 12 Months	Last 3 Years	Last 5 Years
Alaska CDs	0.07%	0.33%	0.80%	2.07%	2.07%	3.99%	3.32%
Domestic Fixed Income	3.85%	0.81%	-1.65%	-0.94%	-0.94%	3.34%	3.40%
Non-Domestic Fixed Income	5.16%	6.89%	3.70%	6.48%	6.48%	6.37%	5.41%
Domestic Equities	1.72%	-22.96%	-29.20%	-36.65%	-36.65%	-8.61%	-1.75%
Non-Domestic Equities	6.45%	-22.47%	-39.91%	-45.75%	-45.75%	-6.74%	2.13%
Global Equities	3.90%	-21.30%	-34.65%	-41.43%	-41.43%		
Real Estate	0.99%	-5.16%	-7.23%	-7.76%	-7.76%	5.80%	12.14%
Absolute Return	-0.93%	-8.92%	-17.62%	-18.61%	-18.61%	-0.15%	
Total Fund	2.80%	-12.16%	-20.22%	-24.67%	-24.67%	-2.31%	2.49%
Total Fund Benchmark Return	3.31%	-12.64%	-19.95%	-24.61%	-24.61%	-1.99%	2.53%

For more information see www.apfc.org

ALASKA PERMANENT FUND
FUND FINANCIAL HISTORY & PROJECTIONS
USER GUIDE

Reserved Fund Balance: The portion of the Fund that may not be spent. Contains all contributions into the Fund and all unrealized gains (losses) as of the date shown.

Fiscal Year (FY): The State of Alaska's fiscal year begins on July 1 of the previous calendar year and ends on June 30.

FY - Begin. Contrib. Balance: The sum of all historical contributions to the Fund's principal on the first day of the fiscal year. This includes constitutionally mandated mineral revenues, inflation proofing transfers from income and other appropriations to principal.

Appropriations: Legislative appropriations to principal for the fiscal year.

Dedicated State Revenues: Constitutionally and statutorily mandated mineral revenues for the fiscal year (currently 25% of the total mineral revenue received by the state).

Inflation Proofing: The inflation proofing transfer from realized earnings to principal for the fiscal year.

FY-End Balance Contributions: The sum of the first four columns at each June 30; fiscal year-end (sum of all dedicated state revenues, other appropriations into the Fund and all inflation proofing transfers).

Unrealized Gain (Loss) Net Change: The change in net unrealized gains (losses) over the previous fiscal year-end value.

Unrealized Gain (Loss) FY-End Balance: The balance of net unrealized gains (losses) on invested assets at the end of the fiscal year.

FY-End Reserved Balance: The sum of the FY-end balance of contributions and net unrealized gains (losses) at the end of the fiscal year. This value represents the protected assets at fiscal year-end.

Unreserved Fund Balance: Also referred to as realized earnings; this represents the portion of the Fund that may be appropriated (spent) by the Legislature.

Acct. Net Income: Income of the Fund as determined using Generally Accepted Accounting Principals, including net unrealized gains (losses).

Statutory Net Income: Income of the Fund as determined using Alaska State Statutes. Statutory net income is only the realized income of the Fund, (with minor adjustments) and is used in determining the annual dividend payment. Realized earnings consist primarily of interest, dividends, real estate income and net gains (losses) on the sale of invested assets. Realized income is reduced by the costs to manage the Fund assets, and other Fund related expenses.

Distributions of Statutory Net Income: The three columns below this heading represent all money appropriated (spent) by the Legislature from the Permanent Fund's earnings.

Dividends: The lump sum recorded for the annual Permanent Fund Dividend for the fiscal year and subsequently transferred to the Permanent Fund Dividend Division.

Inflation Proofing: The inflation proofing transfer made from realized earnings to principal for the fiscal year.

General Fund/Other: Earnings transferred to the State's General Fund and other incidental appropriations from the Fund.

Realized Earnings Net Change: The change in the realized earnings balance over the previous fiscal year-end value.

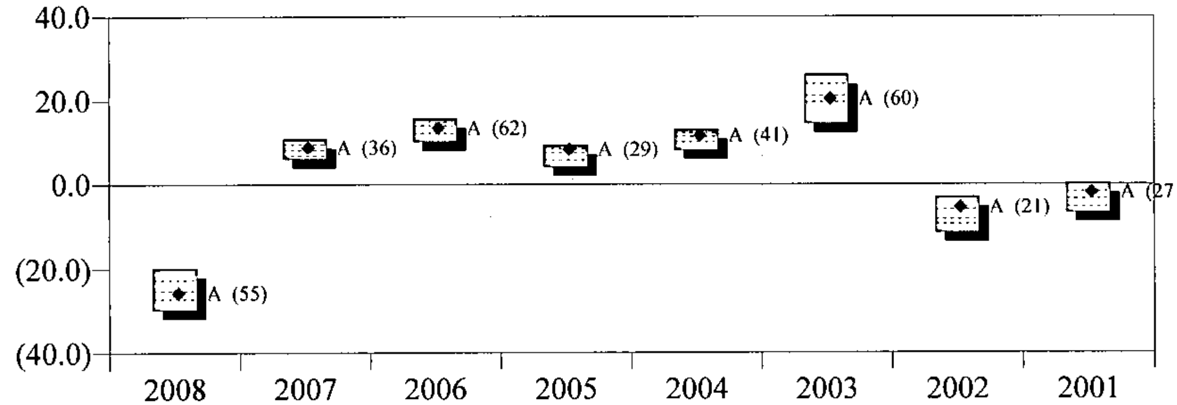
Realized Earnings FY-End Balance: The balance of realized earnings after accounting for fiscal year end distributions.

Total Fund FY-End Balance: The sum of the FY-End Reserved Fund Balance and the Realized Earnings FY-End Balance at the end of the fiscal year.

FY07 projections: The current fiscal year shows the possible realized and unrealized gains (losses) for the fiscal year based on the assumptions listed in the box to the bottom left of the projection table on the prior page. The median expectation is not the most likely, but rather the mid-point in the array of statistically likely outcomes. For more information see www.apfc.org or AS 37.13.140 and 37.13.145

APFC Preliminary Performance
Calendar Year Returns

Returns
for Calendar Years
8 Years Ended December 31, 2008
Group: CAI Public Fund Sponsor Database

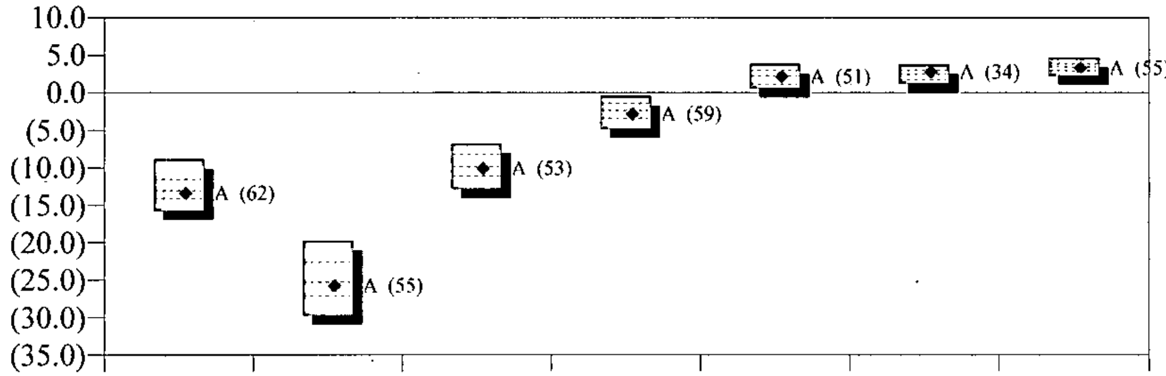


	2008	2007	2006	2005	2004	2003	2002	2001
10th Percentile	(19.84)	10.87	15.76	9.34	13.13	26.12	(3.07)	0.20
25th Percentile	(22.66)	9.57	15.05	8.61	12.31	23.99	(5.96)	(1.79)
Median	(25.27)	8.20	14.04	7.54	11.47	21.14	(8.26)	(3.46)
75th Percentile	(27.14)	6.86	12.29	5.86	10.17	19.68	(9.52)	(5.38)
90th Percentile	(29.71)	6.15	10.37	4.23	8.26	14.55	(11.46)	(6.67)
APFC ◆ A	(25.70)	8.90	13.63	8.46	11.83	20.59	(5.39)	(1.85)

Callan Associates - Feb 2009

Cumulative Returns
2008 Results Preliminary

Returns
for Periods Ended December 31, 2008
Group: CAI Public Fund Sponsor Database



	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 5 Years	Last 8 Years	Last 10 Years
10th Percentile	(8.85)	(19.84)	(6.81)	(0.47)	3.81	3.76	4.67
25th Percentile	(11.55)	(22.66)	(8.23)	(1.41)	3.00	3.03	3.90
Median	(13.08)	(25.27)	(9.86)	(2.33)	2.27	2.51	3.45
75th Percentile	(14.11)	(27.14)	(11.10)	(3.41)	1.14	1.74	2.92
90th Percentile	(15.74)	(29.71)	(12.81)	(4.77)	0.61	1.26	2.31
APFC ◆ A	(13.37)	(25.70)	(10.05)	(2.76)	2.20	2.82	3.37