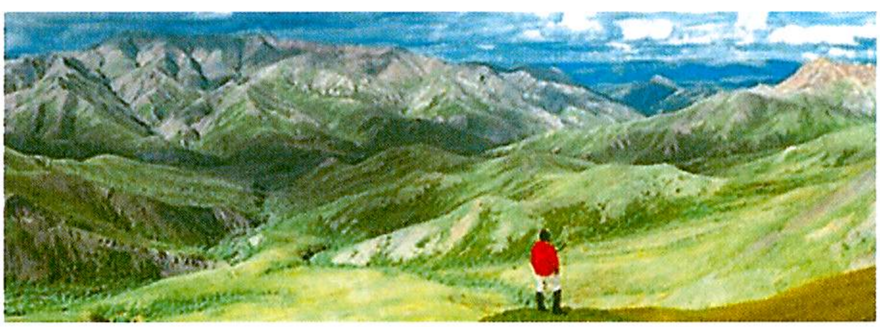
Special Report

Alaska Permanent Capital Management

Sitka Permanent Fund

ALASKA PERMANENT CAPITAL MANAGEMENT
Registered Investment Adviser



SITKA PERMANENT FUND

Historical Market Value

Inception to December 31, 2016

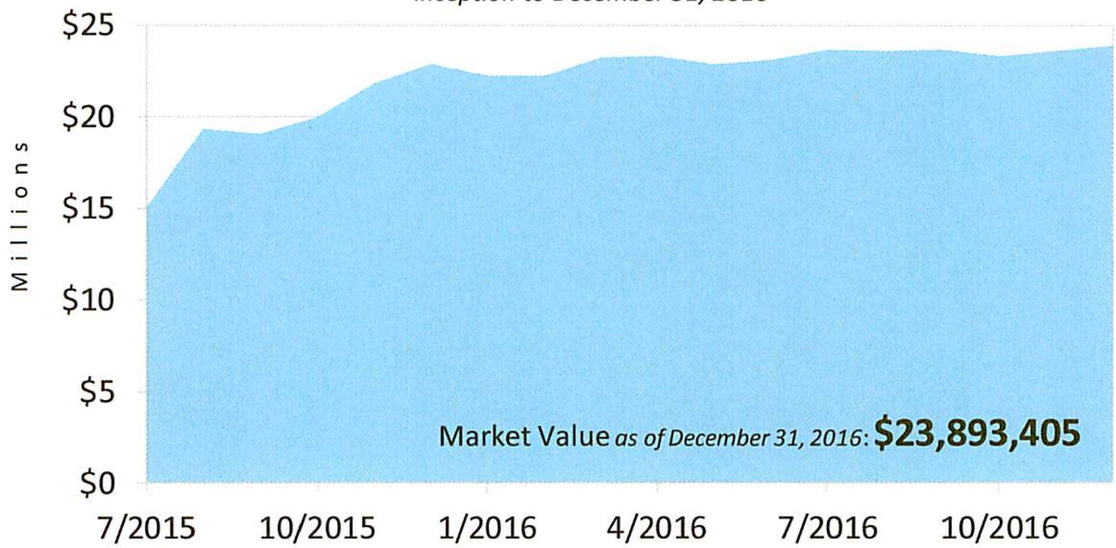
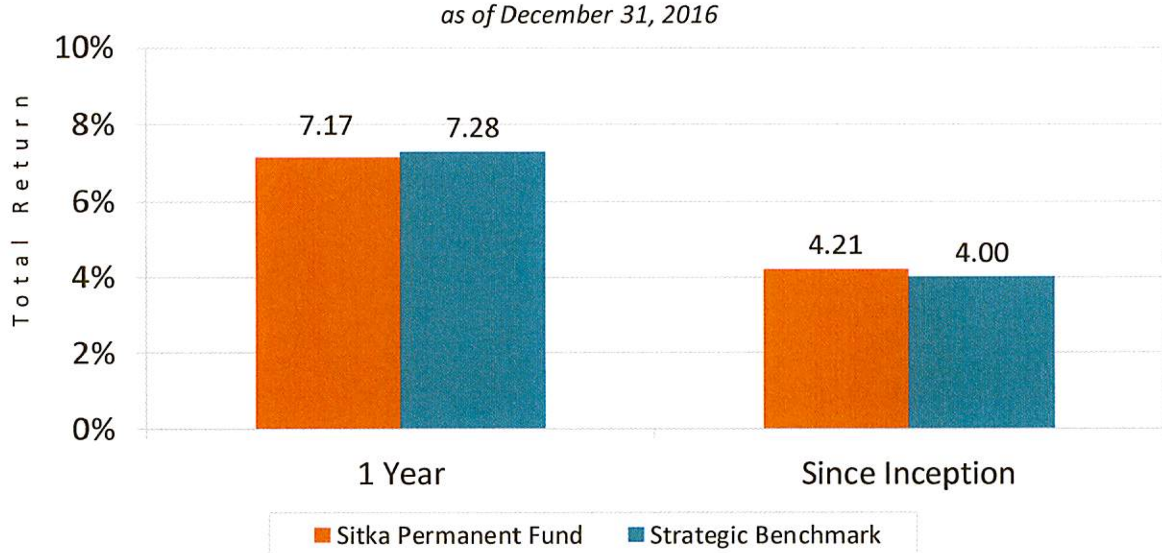


Chart shows month-end portfolio market value from July 2015 to December 2016.

Account Performance

as of December 31, 2016



Performance is gross of fees. Portfolio inception performance begins on 6/30/2015. Strategic benchmark is a blended return of the account's target allocation.

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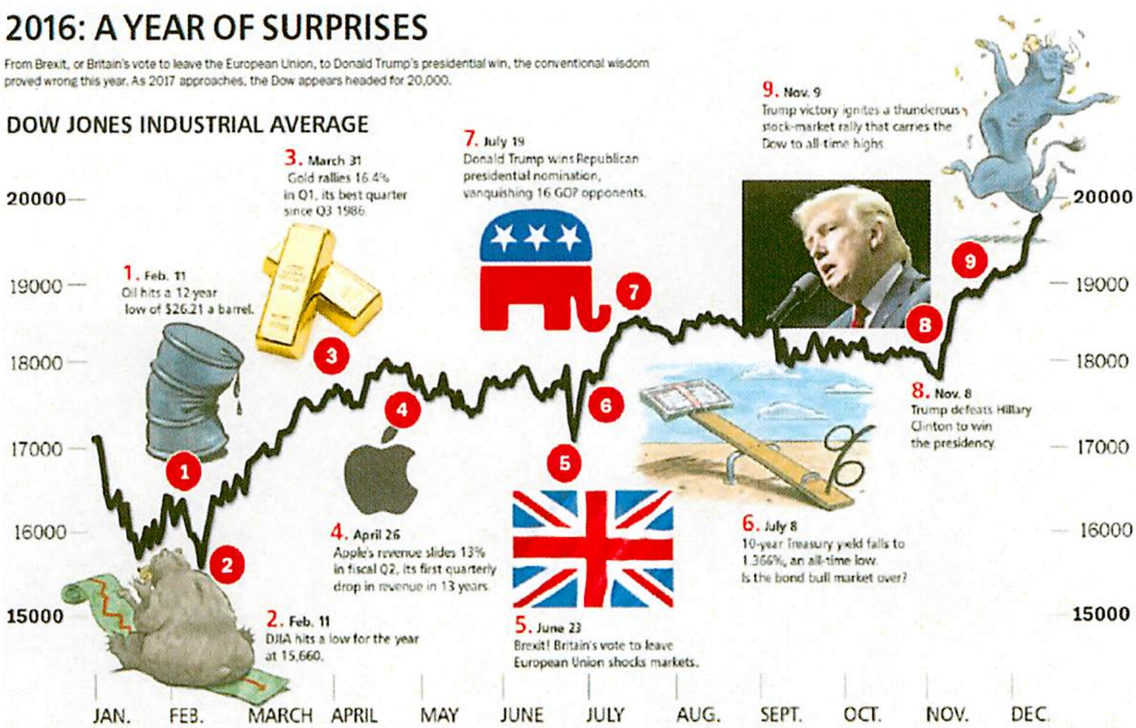
2016 MARKET SUMMARY

- **Equity markets began 2016** in turmoil, as the **falling price of oil**, concerns over **China**, and expectations for **tightening by the Federal Reserve** all weighed on stocks. The S&P 500 recorded its worst two week start to a year ever.
- The **British vote to leave the European Union** in June caused short lived volatility in the stock market, but many long term questions remain. While the U.K. has not yet formally initiated the exit process, the ongoing **negotiations will be important to watch in 2017.**
- **After the presidential election, U.S. equities rallied strongly** on the belief that an increase in **fiscal stimulus through tax cuts and infrastructure spending** would reignite growth in the world's largest economy. While emerging markets outperformed for much of the year, they sold off on the news due to a **strengthening dollar and concerns over global trade**.
- After reaching an **all time low of 1.37% in June, the yield on the ten year Treasury** increased post-election as anticipated growth **drove up inflation expectations** as well.

2016: A YEAR OF SURPRISES

From Brexit, or Britain's vote to leave the European Union, to Donald Trump's presidential win, the conventional wisdom proved wrong this year. As 2017 approaches, the Dow appears headed for 20,000.

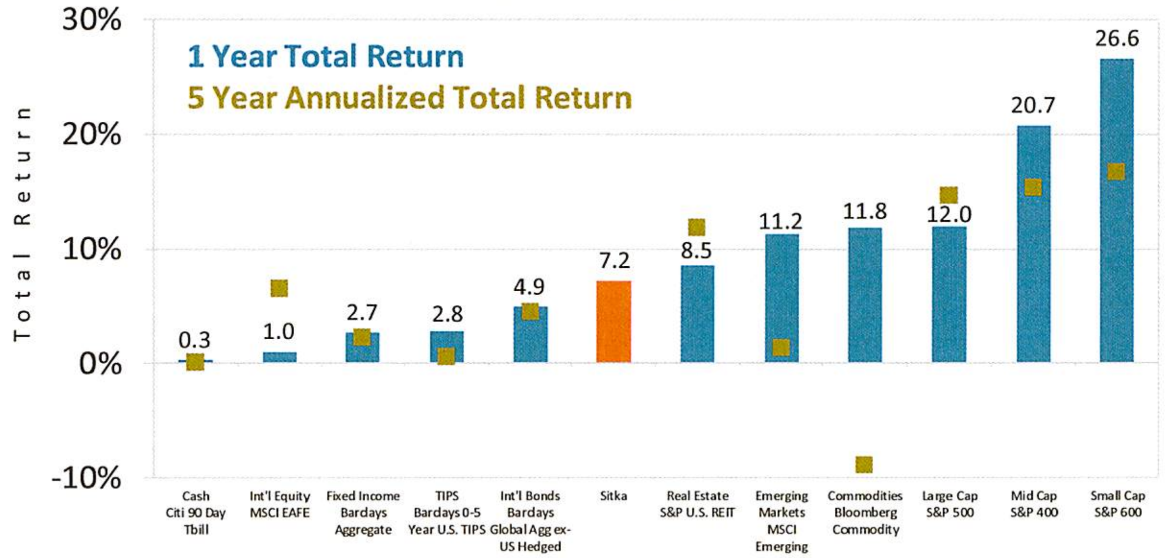


Source: Thomson Reuters

SITKA PERMANENT FUND

Asset Class Performance

Calendar Year 2016



Asset class performance is represented by the stated index return. Account performance is gross of fees.

Asset Allocation

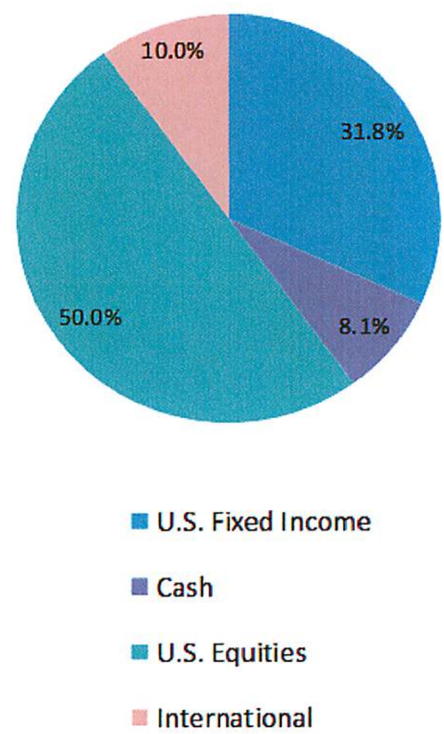
as of December 31, 2016

Asset Class	% Assets	Strategic Benchmark	Range	Market Value
Fixed Income	**40.0%**	**40%**		**$9,548,496**
U.S. Fixed Income	31.8%	35	25-45%	$7,604,935
Cash	8.1%	5	0-25	$1,943,561
Equities	**60.0%**	**60%**		**$14,344,909**
U.S. Equities	50.0%	50	40-60%	$11,948,288
International	10.0%	10	0-15	$2,396,621
Total				**$23,893,405**

2017 OUTLOOK

Portfolio Distribution

as of December 31, 2016



- The **Federal Reserve** is in the process of **reducing the level of support** it provides to the economy. Markets are now pricing in support through **fiscal policy** in the form of **tax cuts and infrastructure spending**.
- Anticipated corporate tax cuts **and the recent commodities rally has increased optimism** for a resurgence in corporate profits. **Successful implementation of expected polices is key** to sustaining recent gains.
- **U.S. mid and small cap stocks** will benefit from anticipated **tax cuts** and a focus on U.S. production while large cap stocks face headwinds from a strong dollar. A **modest overweight to U.S. equities** is warranted and can be funded with **TIPS**, which **look rich** given current inflation forecasts.
- APCM expects **two increases in rates from the Federal Reserve** in 2017. This will likely continue to drive short yields higher and makes **holding some additional cash** attractive **relative to int'l bonds**.
- **Inflation could cause** the Fed to increase rates faster than expected leading to **increased volatility in both stocks and bonds**. Additionally, increased cash should provide some stability given the **larger range of possible outcomes** that has emerged as a result of recent political/market events.
- While a **cyclical bounce** is possible with **fiscal stimulus**, longer term debt and demographic headwinds remain. Protectionism and **anti-trade policies would be a negative.**

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