



**Annual Report of the
Southern Boundary Restoration and Enhancement Fund and the
Northern Boundary and Transboundary Rivers Restoration and Enhancement Fund
for the year 2015.**

Introduction

In June of 1999, the United States and Canada reached a comprehensive new agreement (the “1999 Agreement”) under the 1985 Pacific Salmon Treaty. Among other provisions, the 1999 Agreement established two bilateral funds: the Northern Boundary and Transboundary Rivers Restoration and Enhancement Fund (Northern Fund); and the Southern Boundary Restoration and Enhancement Fund (Southern Fund). The purpose of the two funds is to support activities in both countries that develop improved information for fishery resource management, rehabilitate and restore marine and freshwater habitat, and enhance wild stock production through low technology techniques. The United States agreed to capitalize the Northern and Southern Funds in the amounts of \$75 million U.S. and U.S. \$65 million respectively. Canada also contributed CAN \$500,000. The 1999 Agreement also established a Northern Fund Committee and a Southern Fund Committee, each comprised of three nationals from each country, to oversee investment of the Funds’ assets and make decisions about expenditures on projects. Only the earnings from investments can be spent on projects.

Committee Members

Northern Fund Committee

Canada:

Steve Gotch
Tom Protheroe
John McCulloch

United States:

Doug Mecum
Bill Auger
Charlie Swanton

Southern Fund Committee

Canada:

Andrew Thomson
Don Hall
Mike Griswold

United States:

Larry Peck
Peter Dygert
Joe Oatman

Executive Summary

- Total contributed capital (nominal) was U.S. \$140,065,000 (the equivalent of CDN \$209,796,000 using the exchange rate at the time the last installment was made). Actual fund asset value at December 31st, 2015 was U.S. \$193,520,000 or CDN \$267,831,000.
- In 2015, the US economy had a year of strong economic growth and labour improvement while most other nations, especially in Europe, Japan, Canada and the emerging markets, struggled with softening growth and declining inflation. The Fund's net return exceeded the benchmark mainly due to the outperformance of the international equity and global infrastructure managers versus their respective benchmarks.
- In 2015 the Southern Fund Committee supported a total of 20 projects for U.S. \$1.36 million and in addition provided U.S. \$800,000 to the Salish Sea Marine Survival Program.
- In 2015 the Northern Fund Committee supported a total of 64 projects for U.S. \$3.75 million.
- Responding to guidance provided by the Commission, U.S. \$1.1 million was contributed to support six very high priority chinook projects in 2015. The Northern Fund contributed U.S. \$604,000 and the Southern Fund contributed U.S. \$511,710.
- Combined project spending by the Northern and Southern Funds slightly exceeded U.S. \$7 million in 2015.
- Total Northern and Southern Fund project expenditures to date are U.S. \$60.9 million, in support of 883 projects. In addition, the Funds have contributed U.S. \$10 million to the Sentinel Stocks Program and U.S. 1.1 million to the very high priority chinook projects. The Southern Fund has contributed U.S. \$2.6 million to the Salish Sea Marine Survival Program. Further, the Funds have contributed to infrastructure improvements at the PSC Secretariat including SharePoint installation and deployment and website redevelopment.
- In November 2015, Northern and Southern Fund Committee members met jointly once. In addition in 2015, the Northern Fund Committee met three times in separate session and the Southern Fund Committee met separately on three occasions and made one field trip.
- In the Northern Fund U.S. section Mr. Charlie Swanton replaced Ms. Stefanie Moreland and in the Northern Fund Canadian section Mr. John McCulloch replaced Mr. Mel Kotyk.
- Fund staff provided administrative services for the Yukon River Panel's U.S. \$1.2 million Restoration and Enhancement Fund for a fifth year in 2015.

Investment Review

Strong global equity performance in the first quarter was aided by monetary policies that saw reduced interest rates in Canada and the Eurozone. The capacity to cut interest rates was aided by falling oil prices. However, a slowdown in U.S. growth added a new element of uncertainty. The U.S., which investors had relied upon to be the global growth engine, released some disappointing economic data, resulting in lower growth expectations. The total Fund's net returns exceeded the Benchmark return by +0.42% in U.S. dollars. The outperformance of the Infrastructure and International Equity managers versus their benchmark and underweighting bonds were the largest sources of value added.

Equity markets were buoyed early in the second quarter by central bank statements. The Federal Reserve ("Fed") stated that any interest rate rises would be gradual, with the first rate hike expected in late 2015. Also, the European Central Bank announced that quantitative easing would be ramped up before the summer trading lull. However, mounting concerns over Greece at the end of June resulted in a sharp selloff in equity markets when negotiations between Greece and its creditors broke down thus erasing the positive returns of April and May. However, over the quarter, the Total Fund's net return of +1.07% in U.S. dollar terms exceeded the Benchmark return by 70 basis points largely due to the outperformance of our International and Global equity managers.

Global equity markets were weak during the third quarter, with negative returns for equities in August and September prompted by worries over China. Japanese equities declined as their close trade ties with China weighed on the market. European equities were negative despite economic data from the region being relatively strong, but stock specific news from Volkswagen shook the market towards the end of the quarter. Emerging markets equities significantly underperformed affected both by weak Chinese demand for exports and their higher sensitivity to global risk appetites. The Canadian dollar weakened sharply during the quarter dragged down by a combination of sliding commodity prices, an interest rate cut by the Bank of Canada and weak economic data. Over the quarter, the Total Fund's net return of -7.08% in U.S. dollar terms trailed the Benchmark return of -6.72%. The underperformance was primarily due to poor performance by the International Equity, Global Equity and Real Estate managers versus their respective benchmarks.

After dismal third quarter, global equities rebounded somewhat in the fourth quarter in an environment where U.S. and European markets were supported by decent economic data and Japanese equities performed strongly helped by the Trans-Pacific Partnership agreement in October. But Chinese growth remained subdued and Emerging Markets lagged once more as weak Chinese trade data took its toll on investor sentiment. By style, growth outperformed value in the fourth quarter and indeed through 2015 as a whole. Fund returns are still preliminary at this time, but it would appear that the Fund slightly outperformed the index for the Quarter.

For the year as a whole, 2015 marked the eighth consecutive year of monetary policy easing and debt expansion among the world's major industrialized economies. Concerns over slowing Chinese economic growth, falling commodity and energy prices, lack of inflation, and competitive currency devaluations highlighted a year in which many equity markets posted their worst year since the 2008 credit crisis. With respect to economic and employment growth, the

U.S. posted strong headline numbers relative to its "Group of Eight" (G8) peers, but still below consensus expectations and softening heading into 2016.

The Pacific Salmon Commission Fund's net return exceeded the benchmark for the year mainly due to the outperformance of the international equity and global infrastructure managers versus their respective benchmarks. On an absolute return basis, U.S. real estate delivered the highest returns while Canadian bonds delivered the lowest returns.

Total contributed capital (nominal) was U.S. \$140,065,000 (the equivalent of CDN \$209,796,000 using the exchange rate at the time the last installment was made). Actual fund asset value at December 31st, 2015 was U.S. \$193,520,000 or CDN \$267,831,000.

Contributed capital and asset value of the individual Funds as of December 31st, 2015 stood as follows:

	Contributed Capital	Asset Value
Northern:	U.S. \$75,000,000 CDN \$112,388,000	U.S. \$105,429,000 CDN \$145,914,000
Southern:	U.S. \$65,000,000 CDN \$97,408,000	U.S. \$88,090,000 CDN \$121,917,000

Note #1:

In 2003 a rescission of 0.65% applied to the FY 2003 appropriations reduced the final contribution to the Northern Fund by U.S.\$162,500 and to the Southern Fund by U.S.\$97,500. Thus the actual Contributed Capital is:

Northern: U.S. \$74,837,500
 Southern: U.S. \$64,902,500

Note #2:

U.S. Dollar Exchange (noon) rate: per Royal Trust, December 31, 2015	1.3840	0.72254
U.S. Dollar Exchange (noon) rate: per Royal Trust, November 30, 2015	1.3333	0.75002
U.S. Dollar Exchange (noon) rate: per Royal Trust, December 31, 2014	1.1601	0.86199
U.S. Dollar Exchange (noon) rate: per Royal Trust, December 31, 2013	1.0636	0.94020

2015 Project Funding

The Southern Fund Committee funded 14 on-going multi-year projects in 2015 and 6 new projects directly responsive to specific priorities identified by the Pacific Salmon Commission's Fraser River and Southern Panels for \$1.36 million US in grant awards. In addition a second year amount of U.S. \$800,000 part of a U.S. \$5 million, five year commitment, was granted to the Salish Sea Marine Survival Program.

In June 2014 the Northern Fund Committee was able to issue a general Call for Proposals for projects in 2015 that responded to the Fund's full range of goals and objectives. Following the review and selection process, the Committee divided its use of available funding between support for 29 on-going multi-year projects funded by the Northern Fund in the year or years before 2015, and 35 new projects for a total of 64 new and on-going projects totaling U.S. \$3.75 million

In the twelve years between 2004 and 2015 the Northern Fund has granted U.S. \$32.9 million to 462 projects. Similarly, between 2004 and 2015 the Southern Fund has granted U.S. \$28.1 million to 421 projects. Total Fund project expenditures to date are U.S. \$61 million in support of 883 projects. In addition to this, the Sentinel Stocks Program has been funded in the amount of U.S. \$10 million; a further U.S. \$2.6 million was awarded to the Salish Sea Marine Survival Program; and, U.S. \$1.1 million invested in very high priority chinook projects.

Joint Funding Initiatives

(i) Very high priority Chinook projects

In November 2014, after deliberating over the Chinook Review Committee’s (CRC) list of very high priority chinook projects requiring financial support in 2015 and noting the financial obligations and constraints (particularly for the Southern Fund) at the time, the Joint Fund Committee members agreed to fund the top six ranked priority projects on the CRC’s list in the amount of U.S. \$1.11M. The Northern Fund contributed U.S. \$604,000 and the Southern Fund contributed U.S. \$511,710.

Grants were awarded in 2015 to the following projects:

CRC Rank	Very high priority chinook projects 2015 Title	Agency	Cost	
			CAD	USD
1	Canadian Mark Recovery program CWT Sampling and Coordination	DFO	\$385,000	
2	Terminal Abundance of WCVI Chinook salmon	DFO	\$257,000	
3	Increased Chinook salmon stock coded-wire tagging to improve the quality of Chinook indicator stock analyses	DFO	\$260,647	
4	Mark Recovery Program Head Lab	DFO	\$100,000	
5	Genetic-based abundance estimates for Snohomish River chinook salmon	WDFW		\$234,987
6	Abundance estimates for Stillaguamish River chinook salmon using trans-generational genetic mark recapture	WDFW		\$67,866

During the latter part of 2015, the process for selecting and recommending future very high priority chinook projects to the Fund Committees for funding in 2016 and beyond was re-examined. At the time of writing a final agreed-upon process is still pending. In the meantime, the 2016 projects proposed by the CRC are under technical review by Fund agency affiliates and funding decisions for the coming year are expected in February 2016.

(ii) Fund presentation and reception

In January 2015 at the Pacific Salmon Commission's post-season meeting at the Hyatt Regency hotel in Vancouver, BC the Joint Fund Committees sponsored an evening of brief presentations with guest speakers followed by a social event. The intention was to create an Endowment Fund communications opportunity that would draw the attention of the already assembled PSC delegates to 10 years of project investments, \$60M awarded in grants, and over 750 projects funded.

The program lasted for about one hour and twenty minutes and consisted of five speakers:- two staff (John Field and Angus Mackay) and three guests (David Peacock, Ed Jones and Don Hall). Seating was available for 120 and the room was filled, with further attendees standing in the back. Feedback to staff during and after the event was positive. Fund Committee communications goals with respect to providing messaging and awareness-raising among the Fund's core user-group were achieved. In the absence of any other opportunity during the week for all the PSC delegates to meet together socially, this event was much appreciated.

Joint Fund Committee Meetings

The Northern and Southern Fund Committees have agreed that given the congruent nature of their agendas, their decision to combine the funds into a single master account for investment management purposes, and the efficiencies involved with respect to interaction with the fund managers, it was appropriate to meet together as a Joint Fund Committee at least once a year for an annual financial review and investment manager interviews. The Joint Fund Committee met in person on November 17th and 18th, 2015

At the Spring meetings of the Northern and Southern Fund Committees (held separately in 2015), Mr. David Geisbrecht of Aon Hewitt presented the 2014 Q4 investment performance report to the Northern Fund and a month later the 2015 Q1 report to the Southern Fund. At both meetings Mr. Geisbrecht discussed Aon Hewitt's downgrading of the Brandes global equity strategy from "Qualified" (formerly "Hold") to "Sell". This change follows a downgrade from "Buy" to "Hold" in July 2012. The rationale for the downgrade was Brandes' disappointing performance since 2008/9, in particular in down markets when their process would be expected to do well. More critically for future results, Aon Hewitt had concerns regarding the high degree of professional turnover, significant asset outflows from the strategy, and, the business direction of the firm. Brandes has been on close watch by the Committee for quite some time and Committee members on both Funds resolved to revisit the issue in November 2015 when they would meet in joint session. Mr. Geisbrecht also presented the results of negotiations with Brandes and with the Fund's EAFE manager LSV concerning a change to their fee structures. A new performance-based fee structure had been negotiated by Aon Hewitt on the Fund's behalf, such that only the achievement of specified performance thresholds would trigger incremental fee increases above a base fee level. The Fund Committees were appreciative of these efforts and instructed Aon to implement the changes immediately. Each Committee also received a presentation on the Fund's audited financial statements and administration costs for 2015 from PSC Secretariat Controller, Ms. Ilinca Manisali. The Committees approved the administration budgets as presented.

The Committees met in joint session for their annual financial meeting, investment manager performance review, and manager interviews on November 17th and 18th, 2015. To open the meeting Ms. Kamila Geisbrecht of Aon Hewitt presented the third Quarter report for 2015 (see investment review above).

The Committee then received the in-person presentations from its managers LSV (international equities manager), RARE (infrastructure manager), Invesco (real estate manager) and Brandes (global equity manager). For the second year running, Aon Hewitt provided the managers ahead of time with specific questions on their performance developed with Committee input. Managers were expected to address these during their presentations. The Committee was generally satisfied with the managers' reports, with the exception of Brandes. Following the interviews and during Ms. Geisbrecht's summarization, Committee members discussed a proposal to fire Brandes and initiate a search for a new manager for this portion of the portfolio. Eventually it was decided to adjourn the meeting and revisit the Brandes issue on the following day.

The Fund Committee reconvened their annual meeting the next day on November 18th. A unanimous motion was passed to instruct Aon Hewitt to terminate Brandes; initiate the liquidation of Northern and Southern Fund assets held by Brandes, arrange the transfer of those funds to a passive global manager (BlackRock) to be held in the interim, and, immediately begin a search for a replacement manager. A manager search sub-committee comprised of two members from each Fund, one Canadian and one US member, was struck. Aon committed to providing the sub-committee with a short-list of potential candidates in February 2016 with a view to arranging interviews with top finalist candidates in the following month or months.

The next agenda item concerned the "very high priority chinook" projects proposed for funding in 2016. PSC Executive Secretary Mr. John Field provided a summary overview of "very high priority chinook" actions to date. The Fund Committee members discussed the program's process issues at great length. The Northern Fund Committee took the position that the group of "very high priority chinook" projects should be subject to the same Northern Fund technical review as all the other detailed proposals and that ultimately they would be considered for funding on their merits in competition with all the others seeking Northern Fund grant support. The Southern Fund expressed their interest in reviewing the results of the Northern Fund's technical analysis. The Committees agreed to meet again jointly in February 2016 to resolve the 2016 "very high priority chinook" project funding issues.

As an information item for the Northern Fund Committee, Mr. John Field described a proposal approved by the Southern Fund Committee to establish a Larry Rutter Memorial Award in Pacific Salmon Conservation - with the inaugural award to be made in February 2016.

Mr. Angus Mackay presented a proposal to the Fund Committees to sponsor a second Endowment Fund communications opportunity that would provide messaging and achieve awareness-raising among the Fund's core user-group. The evening event would once again take the form of one or more brief Fund related presentations followed by a social event at the PSC's annual meeting to be held at the Hyatt Regency hotel in Vancouver in February 2016. The Fund Committees approved the proposal.

Northern Fund Committee Meetings

The Northern Fund Committee met three times during 2015.

February 17th, 2015

- Final selection of projects for funding in 2015. This meeting was held at the Listel Hotel in Vancouver.

April 22nd, 2015

- Investment performance report to end of Q4, 2014.
- Update to Aon's rating of Fund's global equity manager, Brandes.
- Manager performance fee discussion.
- Potential for a Call for Proposals for 2016.
- Fund financial obligations in 2016.
- Consideration of Year 2 very high priority Chapter 3 chinook projects.
- Timetable.

September 30th, 2015

- First round selection of project concepts to be invited to proceed to Stage Two detailed proposals.

Southern Fund Committee Meetings

The Southern Fund Committee met three times during 2015.

February 12th, 2015

- Final selection of projects for funding in 2015. This meeting was held at the Embassy Suites Hotel in Portland.
- Consideration of pressing coho treaty implementation priorities.
- Increase in Southern Fund contribution towards the very high priority chinook projects.

May 20th, 2015

- Investment performance report to end of Q1, 2015.
- Update to Aon's rating of Fund's global equity manager, Brandes.
- Manager performance fee discussion.
- Salish Sea Marine Survival Program annual report.
- Potential for a Call for Proposals for 2016.
- Fund financial obligations in 2016.
- Consideration of Year 2 very high priority Chapter 3 chinook projects.
- Proposal to establish a Larry Rutter Memorial Award in Pacific Salmon Conservation.
- Timetable.

September 23rd, 2015.

- The members of the Southern Fund Committee (absent Andy Thomson) were accompanied on a Fraser River field trip by PSC Executive Secretary John Field, Fund

staff Angus Mackay and Victor Keong, PSC Hydroacoustics manager Fiona Martens and, CRITFC support staff Laura Gephart. The purpose of the field trip was for Committee members to visit both the PSC Mission hydroacoustics station and the Qualark hydroacoustic facility on the Fraser River. Both of these operations have been the recipients of multiple Southern Fund grant awards over the years and continue to be top priority projects recommended to the Committee for funding by the Fraser River Panel. The trip was accomplished via jet boat from the government wharf at Mission. PSC and DFO hydroacoustics staff were on hand at both stops to describe the operation of their facilities and the results achieved with Southern Fund financial support.

September 24th, 2015.

- First round selection of project concepts to be invited to proceed to Stage Two detailed proposals.

2015 Call for Proposals for projects in 2016/17

Both Fund Committees issued Calls for Proposals in mid-2015 for projects starting in 2016.

In April 2015 the Northern Fund Committee forecast that further funding would be available in 2016 to fund new projects that would be in addition to 37 potential on-going projects that if funded would themselves require U.S. \$2.36 million and that a general Call for Proposals should be issued. The Committee received a total of 92 proposals for new projects requesting U.S. \$5.89 million. At the first round review meeting in September, 58 of the new proposals were selected to move to the second round detailed proposal stage along with the on-going projects. Bilateral technical reviews of the detailed proposals took place in January 2016 and a final decision on 2016 funding will be made at a meeting of the Fund Committee in mid-February 2016.

In May 2015, the Southern Fund Committee anticipated granting up to U.S. \$1.96 million to fund seven on-going multi-year project commitments including U.S. \$800,000 for year three of a five-year commitment to the Salish Sea Marine Survival Program. After budgeting for these, and taking into account the very limited amount of remaining project funding thought likely to be available in 2016, the Committee focused its Call for Proposals to elicit proposals directly responsive to specific priorities identified by the Pacific Salmon Commission's Fraser River and Southern Panels. The Southern Fund received 40 new project concepts requesting U.S. \$2.12 million. During the first round review process in September the Southern Fund Committee short-listed 22 proposals to move to the second stage. The final decisions on 2016 funding will be made at a meeting of the Fund Committee in mid-February 2016.

Committee Appointments

In the Northern Fund U.S. section Mr. Charlie Swanton replaced Ms. Stefanie Moreland and in the Northern Fund Canadian section Mr. John McCulloch replaced Mr. Mel Kotyk.

Yukon River Panel Restoration and Enhancement Fund

In March 2011, PSC Fund staff took over responsibility for the administration of the Yukon River Panel's Restoration and Enhancement Fund (R&E Fund). 2015 was the fifth year in which PSC Secretariat Fund staff administered the R&E Fund.

In 2015, in response to the decline of Yukon River Chinook salmon stocks experienced in recent years, the Yukon River Panel took steps to improve the effectiveness of Fund resources by placing clear emphasis on its Restoration priorities in the R&E Fund Call for Proposals

A total of 30 projects were awarded grants, to a total amount of U.S. \$1.27 million. Of these, 22 were on-going multi-year projects and 8 were new.