



**Annual Report of the
Southern Boundary Restoration and Enhancement Fund and the
Northern Boundary and Transboundary Rivers Restoration and Enhancement Fund
for the year 2018.**

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 CAD \$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
Carmel Lowe
John McCulloch

United States:

Doug Mecum
Bill Auger
Charlie Swanton

Southern Fund Committee

Canada:

Andrew Thomson/Laura Brown
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 CAD \$209,796,000 using the exchange rate at the time the last installment was made). Actual fund asset value at December 31st, 2018 was U.S. \$204,367,000 or CAD \$278,797,000.
- Global equity markets were rocked by rising concerns of slowing global growth and escalating trade tensions in the fourth quarter of 2018. As a result, positive equity returns that were generated in the first three quarters of the year were largely given up in the fourth.
- In 2018 the Southern Fund Committee supported a total of 33 projects for U.S. \$3.02 million including U.S. \$800,000 provided to the fifth and final year of the Salish Sea Marine Survival Program.
- In 2018 the Northern Fund Committee supported a total of 63 projects for U.S. \$4.84 million.
- Informed by advice provided by the Commission, U.S. \$2.3 million was contributed to support 26 *Very High Priority Chinook* projects in 2018. The Northern Fund contributed U.S. \$1.47 million and the Southern Fund contributed U.S. \$0.83 million
- Combined project spending by the Northern and Southern Funds was U.S. \$7.86 million in 2018.
- Since 2004, the total Northern and Southern Fund expenditures have been U.S. \$85.5 million, contributed in financial support to 1,182 projects. This sum is inclusive of U.S. \$6.95 million to the *Very High Priority Chinook* projects and the Southern Fund's contribution of U.S. \$5 million to the *Salish Sea Marine Survival Program*. In addition to the U.S. \$85.5 million, the Funds have contributed another U.S. \$10 million to the *Sentinel Stocks Program*.
- In 2018 the Northern and Southern Fund Committee members met in person jointly on three occasions, February, April and November. In addition, the Northern Fund Committee's met separately on three occasions and the Southern Fund Committee met separately on four occasions.
- A sub-committee of two members, one from each Fund Committee, was formed in April 2018 and tasked with reviewing administrative costs related to the Funds financial custodian and investment consultants.
- Dr. Laura Brown took over from Mr. Andrew Thomson on the Southern Fund Canadian section. Mr. Charlie Swanton left the Northern Fund Committee US section in December.
- Fund staff provided administrative services for the Yukon River Panel's annual U.S. \$1.2 million Restoration and Enhancement (R&E) Fund for an eighth year in 2018.

Investment Review

Most managers in the portfolio performed well, either outperforming or matching their respective benchmarks. The global equity manager, Morgan Stanley, had another strong year, outperforming its benchmark by 7%. The US equity manager, BlackRock, did its job by replicating the performance of its benchmark. The international equity manager, LSV, was the sole laggard as it underperformed, in part due to its value style of investing which continued to be out of favour. The portfolio also had modest levels of outperformance from its Canadian commercial mortgage fund manager, ACM, its global infrastructure equity manager, RARE, and its US real estate manager, Invesco (based on real estate returns to the end of the third quarter). In January 2018, Phillips, Hager & North (“PH&N”) replaced BlackRock as the Canadian fixed income manager as the strategy was changed from a passive mandate to an active core plus mandate. PH&N performed close to its benchmark as it has taken a defensive stance in the current market environment. Bond returns fluctuated between negative and positive over the year, but with yields dropping in December, most bond markets ended the year with slightly positive returns. Alternative investments such as real estate performed better than equities and bonds in most regions as the risk-off behavior of most investors late in the year did not impact these returns. The US dollar strengthened against most currencies, with an increase of over 8% versus the Canadian dollar. As of December 31, 2018, all investment strategies in the PSC portfolio continued to be rated “Buy” by Aon.

Total contributed capital (nominal) was U.S. \$140,065,000 (the equivalent of CAD \$209,796,000 using the exchange rate at the time the last installment was made). Actual fund asset value at December 31st, 2018 was U.S. \$204,367,000 or CAD \$278,797,000.

Contributed capital and asset value of the individual Funds as of December 31st, 2018 stood as follows:

	Contributed Capital	Asset Value
Northern:	U.S. \$75,000,000 CAD \$112,388,000	U.S. \$111,212,000 CAD \$151,716,000
Southern:	U.S. \$65,000,000 CAD \$97,408,000	U.S. \$93,154,000 CAD \$127,081,000

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, 2018	1.3642	0.73303
U.S. Dollar Exchange (noon) rate: per Royal Trust, November 30, 2018	1.3301	0.75182
U.S. Dollar Exchange (noon) rate: per Royal Trust, December 31, 2017	1.2545	0.79713
U.S. Dollar Exchange (noon) rate: per Royal Trust, December 31, 2016	1.3427	0.74477

Note #3:

Cash withdrawals performed July 4th 2018 to a total of U.S. \$7,682,300 or CAD \$10,000,000

Asset Mix Optimization Study

During much of the previous year, 2017, the Joint Northern and Southern Fund Committees took steps to implement the recommendations of an Asset Mix Optimization Study begun in late 2016.

Specifically the Fund Committees actions in 2017 were as follows:

- Approved the transfer of the Fund’s infrastructure assets from “listed” to “direct” with a view to further separating those assets from market fluctuations. The actual investment date is anticipated to be mid-2019.
- Implemented a move of 10% of the fixed income portfolio to Canadian mortgages.
- Implemented the transfer of the remaining 20% of the fixed income assets to an active management strategy.

In 2018, with these structural changes complete, the Fund Committees turned to the third and final phase of their asset mix optimization strategy. Phase III involved a consideration of recommendations for optimizing each Funds spending policies, in light of the asset mix changes made, to finalize improvements to the risk-reward profile of the Master Trust.

In February 2018 an analysis of each Funds’ spending policy by the investment consultants proposed three basic considerations to be addressed:

- (i) Protection of Fund value in real terms – keeping the market value of the Fund above the inflation-adjusted contribution.
- (ii) Maintenance of spending in real terms – implementing a sustainable spending rate such that spending keeps pace with inflation.
- (iii) Stability of spending – maintaining a dollar amount of spending that does not fluctuate significantly from year-to-year.

With each Fund Committees approval, the investment consultants developed proposed revisions to each spending policy based on a step-wise approach to balancing the trade-off between preservation of capital and stability in spending. These changes were presented to the Committees in April 2018 and approved by each Committee, to be adopted immediately and to be implemented in time for the 2019 Call for Proposals.

Southern Fund Spending Policy as of April 2018

Market Value of Fund (12-Month Average)	Spending Rate (as % of 4-Year Average Market Value)
Below original contributions	Administration costs only
Between original contributions and inflation-adjusted contributions	2.0%
Above inflation-adjusted contributions (excess < 10%)	4.0%
Above inflation-adjusted contributions (excess ≥ 10%)	5.0%

Northern Fund Spending Policy as of April 2018

Market Value of Fund (12-Month Average)	Spending Rate (as % of 2-Year Average Market Value)
Below original contributions	Administration costs only
Between original contributions and inflation-adjusted contributions	2.0%
Above inflation-adjusted contributions (excess < 5%)	3.0%
Above inflation-adjusted contributions (excess between 5% – 10%)	4.0%
Above inflation-adjusted contributions (excess > 10%)	5.0%

Custodian and consultant fees review

During review and approval of the Fund Committees' annual administration budget for 2018/19 at the April 2018 meeting, it was noted that the fees for custodial services (Royal Bank of Canada) and investment consultant services (Aon) represented a considerable administrative cost burden and that an Action Item should be noted to the effect that said fees be further investigated with a view to reducing them if possible. Mr. Doug Mecum (N Fund, U.S. section) and Dr. Don Hall (S Fund, Canadian section) volunteered to assist PSC Director of Finance Ilinca Manisali and Fund staff with this task.

A report was commissioned from local consulting firm George & Bell into custodian fees and options in September 2018. The report was delivered to the Joint Fund Committees at their November 2018 meeting by Ms. Kamila Giesbrecht. The principal recommendation in the report was that the Fund Committees consider the firm Northern Trust as the Commission's custodian, due to excellence in operations, reporting, and service capabilities, as well as offering the most attractive pricing assuming the current manager structure is retained for the foreseeable future. An in-person interview process was recommended in order to make a direct assessment of the servicing team and the systems that would be available to the Commission's staff on an ongoing basis. In addition, a second potential custodian firm, namely CIBC Mellon was recommended for interview because they are very similar organizationally to the current custodian but with the second lowest pricing. RBC has been servicing the Commission for many years, thus no particular added-value was seen in interviewing them. In November the Joint Fund Committees approved a plan to conduct in-person interviews in early-February 2019 with a view to developing a final recommendation to the Joint Fund Committees in late-February 2019. Mr. Mecum and Dr. Hall agreed to participate in those interviews along with PSC staff and Ms. Giesbrecht.

With respect to the perceived high cost of investment consultant fees forecast in the annual administration budget, a Request for Proposals (RFP) was developed by PSC staff and Mr. Mecum and Dr. Hall in November 2019 as the next step in "going to market" for investment consultant

services presently provided to the Funds by Aon. This course of action was taken as a due diligence exercise to ensure that the Funds are getting the best value for money from their consultants.

By November 2018, five potential investment consulting firms including Aon had been identified and were sent the RFP. The deadline for responses is mid-February 2019 and interviews are anticipated to take place in April 2019.

2018 Project Funding

In 2018 the Southern Fund Committee supported a total of 33 projects for U.S. \$3.02 million. The list included projects addressing (i) specific priorities identified by the Pacific Salmon Commission’s Fraser River and Southern Panels for U.S. \$1.38 million or 46% of their overall spending, (ii) eleven *Very High Priority Chinook* projects for U.S. \$832,449 or 27.5%, (iii) year 5, the fifth and final year of the *Salish Sea Marine Survival Program* for U.S. \$800,000 or 26.5%.

In 2018 the Northern Fund Committee supported a total of 63 projects for U.S. \$4.84 million. Of these, seven projects with a total value of U.S. \$407,673 were in the Enhancement envelope (8%) with the majority dealing with sockeye enhancement in the Transboundary region. U.S. \$94,512 (2%) was invested in two Habitat access improvement projects in the Transboundary region. U.S. \$2.87 million (60%) was directed to 37 Improved Information-type projects across South East Alaska, the Transboundary and Northern BC. In addition, the Northern Fund provided U.S. \$1.47 (30%) in total to seventeen *Very High Priority Chinook* projects across the region.

In the fifteen years between 2004 and 2018 the Northern Fund has granted U.S. \$46.6 million to 659 projects. Similarly, between 2004 and 2018 the Southern Fund has granted U.S. \$38.9 million to 523 projects. Total Fund project expenditures to date are U.S. \$85.5 million in support of 1,182 projects. Included in this total is a sum of U.S. \$6.95 million between 2015 and 2018 on Very High Priority Chinook projects and U.S. \$5.0 million from the Southern Fund to the Salish Sea Marine Survival Program. In addition to these amounts, the Chinook Sentinel Stocks Program was funded jointly by the Northern and Southern Funds between 2009 and 2014 in the amount of U.S. \$10 million.

Very high priority Chinook projects

	Very high priority chinook projects 2018 funded by the Southern Fund	Agency	Cost		
			CAD \$	US \$	US \$ Total
1	Abundance estimates for Stillaguamish River chinook salmon using trans-generational genetic mark recapture	WDFW		\$56,958	\$56,958

2	Genetic-based abundance estimates for Snohomish River chinook salmon	WDFW		\$168,241	\$168,241
3	Automating procedures for forecasting of terminal run and escapement of Chinook, Coho and Chum salmon stocks using open-source statistical software: "Chapter 2"	DFO	\$68,750		\$55,000
4	DNA stock composition of the Canadian Strait of Georgia chinook catch	DFO	\$15,000		\$12,000
5	Increased Chinook salmon stock coded-wire tagging to improve the quality of Chinook indicator stock analyses	DFO	\$303,495		\$242,796
6	Cowichan Adult Chinook Enumeration methodology change	DFO	\$40,000		\$32,000
7	DNA stock composition of the Canadian Juan de Fuca chinook catch	DFO	\$16,000		\$12,800
8	Chilko River Chinook Salmon Indicator Stock (Fraser River Summer-run Age 1.3 stock)	DFO	\$205,562		\$164,450
9	Burman River Chinook salmon mark-recapture 2016. Year 9	NTC	\$110,256		\$88,205
	Total 2018 very high priority chinook funding from the Southern Fund.		\$759,063 CAD \$	\$225,199 US \$	\$832,450 US \$

	Very high priority chinook projects 2018 funded by the Northern Fund.		Cost		
	Title	Agency	CAD \$	US \$	US \$
10	Mixed stock analysis of districts 108 and 111 chinook fisheries	ADFG		\$40,016	\$40,016
11	Origins of Chinook harvested in SEAK in 2018	ADFG		\$284,602	\$284,602
12	Upriver Bright Density Dependence Analyses of existing samples	MFR		\$60,199	\$60,199
13	Terminal Abundance of WCVI Chinook salmon	DFO	\$194,000		\$155,200

14	Estimation of Fraser River - South Thompson Age 0.3 Chinook Aggregate Escapement	DFO	\$195,575		\$156,460
15	Lower Shuswap River Chinook Salmon Indicator Stock (Fraser River Summer-Run Age 0.3 Stock)	DFO	\$165,000		\$132,000
16	Nass chinook salmon mark-recapture project 2018	NLG	\$114,000		\$91,200
17	Atnarko River Chinook Escapement Estimation project 2018	DFO	\$77,000		\$61,600
18	Klukshu Chinook	DFO	\$51,399		\$41,119
19	Stikine River Coded Wire Tagging	DFO	\$118,684		\$94,947
20	Stikine Fishery Sampling & Stock Assessment	DFO	\$90,374		\$72,299
21	Taku Fishery Sampling & Stock Assessment	DFO	\$39,322		\$31,458
22	Stikine River Chinook Aerial Surveys	DFO	\$23,200		\$18,560
23	Genetic Analyses of samples collected in the Recreational Chinook Fishery in Northern BC 2018	DFO	\$28,000		\$22,400
24	Chinook salmon Escapement Estimation to the Skeena River using Genetic techniques 2018	DFO	\$30,000		\$24,000
25	Genetic Stock Identification of Chinook salmon caught in Northern BC Troll fisheries 2018	DFO	\$73,000		\$58,400
26	Area 3 and 4 Creel Survey, 2018	DFO	\$158,906		\$127,125
	Total 2018 very high priority chinook funding from the Northern Fund.		\$1,358,460 CAD \$	\$384,817 US \$	\$1,471,585 US \$

	Total 2018 very high priority chinook funding.		\$2,117,523 CAD \$	\$610,016 US \$	\$2,304,035 US \$
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The combined total of all Northern and Southern Fund grant awards to Very High Priority Chinook projects in 2018 was U.S. \$2.3 million (exchange rate calculated at 0.8).

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, preferably twice, for Fund financial reviews and investment manager interviews. The Fund Committees have also determined that it is beneficial to meet jointly early in the year during their annual project selection meetings to discuss and determine co-funding arrangements for *Very High Priority Chinook* projects. Thus the Joint Fund Committees met in person three times during 2018 on February 22nd (a.m. only), 2018; again on April 25th (p.m. only) and 26th (a.m. only), 2018 and finally, on November 8th and 9th, 2018.

February 2018

In February the two Fund Committees met to select their projects for funding support in 2018. As in previous years the two Committees took the opportunity to meet jointly to discuss funding issues, principally funding for a suite of *Very High Priority Chinook* projects that each Committee had selected to forward to their second round reviews. In this the fourth and final year of the Committees commitment to dedicated funding support for such projects, the Fund Committees again received recommendations from the Commission on a number of priority “themes” to address critical Chinook salmon initiatives in support of implementation of Chapter 3 for inclusion in their Calls for Proposals. Each Fund Committee grouped project proposals that either self-identified or most closely aligned with the Chinook themes in the Calls for Proposals, and identified these as the list of *Very High Priority Chinook* projects for the year. Technical analysis of all the second round VHPC projects North and South, was provided by the four technical advisors to the Northern Fund Committee (Ed Jones and John H. Clark being the U.S. technical advisors and Cameron West and Dave Peacock being the Canadian technical advisors). The Southern Fund identified and funded 9 such projects at a total cost of U.S. \$0.83 million while the Northern Fund identified and funded 17 at a total of U.S. \$1.47 million. Discussions at the Joint Fund Committee meeting centered on funding questions pertaining to coast-wide projects not exclusively associated with Northern or Southern Fund areas of interest by virtue of their geographical location.

Following these discussions Executive Secretary Mr. John Field speaking on behalf of the by-laws sub-committee, presented an update on progress towards the development of revisions to the Fund Committees bylaws. A final draft was scheduled to be delivered for formal approval at the Joint Committees April 2018 meeting.

The Funds investment consultant, Ms. Satinder Sidhu from Aon, provided each Committee with proposed revisions to their spending policies consistent with Phase III of the Asset Mix Optimization Strategy. After recapping the key objectives for undertaking the spending policy review she led each Committee through the proposed potential changes and recommended that a final decision be made at the April 2018 meeting.

April 2018

The Spring meeting of the joint Northern and Southern Fund Committees was held in Vancouver on the afternoon of April 24th and the morning of April 25th. Ms. Michelle Richardson of Aon Hewitt presented the 2017 Q4 investment performance report that saw global equity markets

ending the year on a high note with the 2018 outlook being positive for most markets, but potentially volatile. Of interest would be the performance of the new investment managers in the year ahead. A discussion on the Fund's tax position with respect to the new direct infrastructure manager IFM was discussed. Ms. Sidhu advised that IFM's anticipated formation of a Canadian pooled fund vehicle in which the Funds would be invested would eliminate the issue of US withholding taxes.

Ms. Sidhu then presented her final proposals for changes to the Northern and Southern Fund spending policies that had been a work in progress since November 2017. The Committees agreed to consider her final draft proposed changes overnight and make their decisions on the changes in separate Northern and Southern sessions the next day.

The Committee then gave consideration to a suggestion from Ms. Sidhu that at the November annual financial review meeting, it may not be essential to interview in-person all the Funds managers every year. Meeting with a sub-set of managers, for example new managers or managers "on watch", may be a better use of the Committees time. It was proposed that the suite of managers to be invited for interview in November 2018 would be new managers ACM (Canadian mortgages) and PH&N (Canadian core plus fixed income), and returning manager Morgan Stanley (global equities).

In the final presentation from Aon for the day, Ms. Sidhu provided an educational overview of recent investment trends. First she mentioned "delegated investment management" whereby clients without the expertise or having limited resources to handle complex investments would outsource the investment management function to external companies (like Aon). Next she discussed Environmental, Social and Governance Investing (ESG) a philosophy that had seen an exponential rise in popularity lately. She said that Aon would shortly be implementing a review of ESG considerations in their future manager ratings.

The last item of business for the day was to make a final review of the revised by-laws and a motion to approve was proposed by Carmel Lowe (Can) and Doug Mecum (U.S.) and seconded by Andrew Thomson (Can) and Bill Auger (U.S.).

Day 2

PSC Secretariat Director of Finance Ms. Ilinca Manisalli led the Joint Fund Committees through a detailed review of the proposed administration budgets for the Northern and Southern Funds for 2018/19. Topics covered included administrative staff salaries, Committee member honoraria, professional and legal fees, travel costs and the potential of and likely reasons for variance. It was noted that costs associated with fees for investment management charged by Aon had recently been higher than in prior years largely due to additional work that had resulted from the Asset Mix Optimization Study. An outcome of this discussion was an Action Item for the Director of Finance to review the consultant's fees over the last 5 years and take steps to compare the costs and services provided by Aon with those offered by potential alternative service providers. In addition to this work the administrative costs charged by the Fund's custodian, presently the Royal Bank of Canada (RBC) were also reviewed by the Director of Finance and found to be significant. Having become aware of this, the Joint Fund Committees instructed the Director of Finance to add a review of alternative custodians to the consultant's fees Action Item. To help guide the Director of Finance and assist with this task, a working group comprised of one Committee member from each

Committee was struck. Mr. Doug Mecum (U.S. section) volunteered to represent the Northern Fund and Dr. Don Hall (Canadian section) the Southern Fund. The working group was instructed to report back to the Joint Fund Committee by November 2018. *(See page 5 for further details).*

Executive Secretary John Field gave a presentation on the timing of Treaty Chapter negotiations (and associated ratification) and outlined potential implications for project funding in 2019. He briefed the Committee on the status of the on-going negotiations; he gave an overview of Rule 33 and its implications for the Funds; he noted the contractual obligations that would exist with project proponents beyond December 31st; and, he said he would provide an update to the Fund Committees in November 2018 as to the status of the negotiations.

The Joint Committees have in the past approved funding (approx. CAD \$10K) to host an evening Fund seminar and networking opportunity during the week of the PSC's Post-season or Annual meeting – whichever of those two is held in Vancouver. The value of sponsoring such an event in January 2019 was discussed. While recognizing the communications and outreach value of these events and the successful outcomes achieved in previous years, it was agreed that Treaty renewal activities were likely to take precedence in 2019 and that reconsidering this idea in 2020 would be more appropriate at this time.

Lastly, the Committees set meeting dates for later in 2018 for their first round proposal reviews in September and for the annual financial review meeting in November.

November 2018

The joint Northern and Southern Fund Committees met together for the third and final time in 2018 in Vancouver on November 27th and November 28th. The meeting opened with a Third Quarter report presentation on Fund Performance in 2018 presented by Ms. Satinder Sidhu and Ms. Michelle Richardson, investment consultants from Aon. Following the presentation there was a short discussion on potential administrative cost savings that might be realized by providing quarterly performance “summaries” for three of the four quarters, and a full-length report for Q3 only ahead of each November's annual financial review meeting. The Committee agreed that Aon should provide a shortened Quarterly report format on Fund performance for Q4 2018 and Q1 2019. Further instructions from the Joint Fund Committee to Aon are to be provided for subsequent Quarters at a later date.

In addition Ms. Sidhu provided an update on the last structural element of the 2017 asset mix optimization initiative namely the transfer of responsibility for management of the Fund's infrastructure portfolio from listed (RARE) to direct (IFM) anticipated in 2019.

She also discussed the Fund's (Europe, Asia & Far East/Non-North American) EAFE/NNA investments with LSV; their management fees; custodial fees charged by RBC on LSV trades; and, evaluating the merits of continuing to invest in a segregated mandate with LSV (based upon the revised fee schedule negotiated in 2017) versus other alternative investment vehicles where costs may be lower.

Given that the Northern and Southern Fund Spending Policies were revised in April 2018 and are being implemented for the first time in 2019 spending forecasts, Ms. Sidhu gave a brief refresher on inflation rates, consumer price indices and realistic future return-on-investment expectations.

Lastly, Ms. Sidhu gave an update on the educational item that she had presented in April on the topic of Responsible Investing and taking Environmental, Social and Governance (ESG) considerations into account in portfolio investments. She noted that Aon has now rated most of the PSC's investment managers with respect to ESG and also recently completed a survey of 200 institutional investors.

Next on the agenda Ms. Sidhu set the stage for the manager in-person interviews to follow. She revisited the decision to invite only three of the managers to Vancouver for in-person interviews and reminded the Committees that in November 2019 interviews are planned to be held with the Fund's other three active managers, Invesco (real estate), LSV (EAFE/NNA equities) and IFM (direct infrastructure). She reviewed the questions that had been directed in advance to the managers attending and provided her assessment of what to expect or listen for.

The Committee then received in-person presentations from the Fund managers: Morgan Stanley (global equity manager); ACM (Canadian mortgage manager); and, Philips, Hager and North (Canadian core plus fixed income). The Committee was generally satisfied with the managers' reports and were interested to hear in-person from their new Canadian core plus manager, local firm PH&N for the first time.

Day 2

PSC Secretariat Director of Finance Ms. Ilinca Manisali reported back to the Joint Fund Committee on developments concerning the Fund's custodian and investment consultant fees Action Item from the April 2018 Joint Fund Committee meeting. She reminded members that during the review and approval of the annual administration budget for the two Fund Committees, it was noted that the fees for custodial and consultant fees were high and that this should be further investigated with a view to reducing them if possible. Doug Mecum (N Fund) and Don Hall (S Fund) volunteered to assist staff with this task.

Regarding custodian fees, a report was commissioned with consulting firm George & Bell to review and examine custodian fees and to propose options for the Joint Fund Committees' consideration. A final report was delivered by Kamila Giesbrecht with George & Bell. The outcome of the report and Committee review and discussion with Ms. Giesbrecht was an instruction for staff to arrange meetings with two potential alternative custodians namely CIBC Mellon and Northern Trust by mid-February 2019. The purpose of the meetings would be to review each firm's operating procedures and meet client service personnel. Committee members Doug Mecum and Don Hall with Ilinca Manisali with other PSC staff as needed would attend. The outcome shall be a recommendation on the Fund custodian that will most closely achieve the Committee's interests going forward. The recommendation will be presented to the Joint Fund Committees for a final decision at the Feb 19-20, 2019 meeting.

Regarding investment consultant fees and services, Ms. Manisali reported that with help from the working group a Request for Proposals (RFP) had been developed as the next step in "going to market" for investment consultant services presently provided to the Funds by Aon. The Joint Committee having reviewed the document determined that the RFP was to be issued as soon as possible, with a deadline for applications to be received at the PSC office by mid-February 2019. The applications received will then be reviewed and discussed by the Joint Fund Committees at

their February 19-20, 2019 meeting. All potential candidates will be invited for an in-person meeting and presentation to the full Joint Fund Committee members at the May 7-9, 2019 meeting.

The next item on the agenda was a routine review by Ms. Manisali of the Funds financial statements 6 months into the year and a check on administrative expenditures compared to the approved budget. The Committee were satisfied with the report.

The Northern Fund Committee took the opportunity to share with their Southern Fund colleagues their opinion that with the recent renegotiation of the Treaty for a 10 year period and with it the possibility of government agencies securing A-base financial support for their core functions – now would be a good time to consider the future strategic direction for the Funds. Although the two Funds have some differences in approach, there are some shared concerns such as agency core funding and on-going multi-year projects that they have in common. There was some discussion about possible strategic direction ideas for the Funds and if there are procedural and/or policy ideas that could shape developments.

During the first round project proposal reviews that had taken place in September, the Northern Fund Committee had determined that a number of projects (5), that had been submitted to the first round of the Northern Fund’s proposal review for 2019, were of greater relevance in terms of their objectives and in their geographical location to the Southern Fund. Given the limited alignment of the identified project proposals with Northern Fund priorities, the Northern Fund invited the submission of detailed proposals, however deferred the consideration of funding in 2019 to the Southern Fund. Further, there were two additional projects submitted to the Northern Fund that the Northern Fund Committee felt should properly be shared between the two Funds. The Southern Fund Committee agreed to consider the Northern Fund’s suggestions in their on-going deliberations on 2019 funding with the exception of one of the suggested projects to be shared. The Southern Fund Committee had previously considered one of those two projects at the first round conceptual stage and had decided that it was low priority and not to be considered further.

Lastly, the Committees confirmed meeting dates for February 2019 and selected dates for their Spring meeting in May 2019.

Northern Fund Committee Meetings

The Northern Fund Committee met in separate session on three occasions during 2018.

February 19th, 20th and 21st (p.m. only), 2018

- Separate U.S. and Canadian section meetings with their technical advisors.
- Final selection of Northern Fund projects for funding in 2018.
- Technical feedback to project proponents from the technical advisors to the Northern Fund.
- Discussions with Southern Fund on funding strategies and co-funding for the *Very High Priority Chinook* projects.

April 25th (p.m. only), 2018

- Potential for a Call for Proposals for 2019.
- Fund financial obligations in 2019.
- Timetable for Call for Proposals.
- Approved revisions to the spending policy effective immediately.

September 26th and 27th, 2018.

- First round selection of 2019 Northern Fund project concepts to be invited to proceed to Stage Two detailed proposals.
- Memo to Southern Fund regarding 5 project proposals having relevance either in large part or in total to the Southern Fund's Call for Proposals and being located within the Southern Fund's geographical area of interest. Plus, identification of two proposals which offer the potential for shared funding arrangements with the Southern Fund.
- Memo to the Commissioners regarding persistent and incremental increases in the number and overall cost of agency "core" programs seeking financial support from the Northern Fund to deliver on the Parties obligations under the Treaty.
- Review and approval of annual audited financial statements.

Southern Fund Committee Meetings

The Southern Fund Committee met in separate session four times during 2018.

February 20th (p.m. only), 2018

- Final selection of Southern Fund projects for funding in 2018.
- Discussions with Northern Fund on funding strategies and co-funding for the very high priority chinook projects.

April 25th (p.m. only), 2018.

- Annual report on Year 4 (2017) of the Salish Sea Marine Survival Program from U.S. and Canadian partners Long Live the Kings & the Pacific Salmon Foundation.
- Potential for a Call for Proposals for 2019.
- Fund financial obligations in 2019.
- Timetable for the Call for Proposals.
- Approved revisions to the spending policy effective immediately.

September 18th, 2018.

- First round selection of 2019 Southern Fund project concepts to be invited to proceed to Stage Two detailed proposals.
- Review and approval of annual audited financial statements.

November 28th, 2018. (1 hour only).

- Briefing from Dr. Hall on custodian and consultant fees review.
- Consideration of the memo from the Northern Fund regarding 5 project proposals having in their opinion relevance either in large part or in total to the Southern Fund's Call for Proposals and being located within the Southern Fund's geographical area of interest. Plus,

identification of two proposals which offer the potential for shared funding arrangements with the Southern Fund.

Committee Appointments

In August 2018 Dr. Laura Brown took over from Mr. Andrew Thomson as the Southern Fund Canadian section Co-Chair. Her first Committee meeting was on September 18th. Mr. Thomson had served on the Southern Fund Committee for a six year term.

In early-December 2018 Mr. Charlie Swanton resigned from his position as Alaska's Commissioner to the Pacific Salmon Commission. His seat on the Northern Fund Committee (U.S. Co-Chair) is ex-officio, tied to his role as the Alaskan Commissioner, therefore that seat was in effect vacated at the time of his resignation. A replacement had not been named by the end of December.

2018 Call for Proposals for projects in 2019/20

Both Fund Committees issued Calls for Proposals in mid-2018 for projects starting in 2019.

The Southern Fund Committee focused its 2019 Call for Proposals on specific priorities identified by the Pacific Salmon Commission's Fraser River and Southern Panels. The Fund Committee accepted 56 proposals requesting U.S. \$4.5 million. During the first round review meeting in September the Southern Fund Committee approved 4 multi-year, on-going proposals and 48 new proposals that together were in total requesting U.S. \$3.87 million to move to the second stage. The final decisions on 2019 funding will be made at a meeting of the Southern Fund Committee in mid-February 2019.

The Northern Fund Committee received a total of 122 proposals requesting U.S. \$7.12 million. At the first round review meeting in September 2018, 85 of the proposals were selected to move to the second round detailed proposal stage having a total value of U.S. \$6.58 million. In addition, the Northern Fund Committee identified a group of 5 proposals requesting U.S. \$425,000 in total that they believe to be more appropriate for the Southern Fund to consider by virtue of the geographical location of the projects and the stocks that will benefit from successful project outcomes. Two further projects were brought to the Southern Fund Committee's attention as being possible co-funding opportunities. Bilateral technical reviews of the detailed proposals took place in January 2019 and a final decision on 2019 funding will be made at a meeting of the Northern Fund Committee in mid-February 2019.

Yukon River Panel Restoration and Enhancement Fund

In March 2011 the Yukon River Panel (YRP) invited PSC Fund staff to take responsibility for the administration of the Panel's Restoration and Enhancement Fund (R&E Fund). In April 2014 this arrangement was formalized in a three-year contract between the YRP and the PSC. In May 2016 after an open competition process, the PSC was again selected by the Panel to administer the Fund

for a further three-year period. 2018 was the eighth year in which PSC Secretariat Fund staff have administered the R&E Fund.

In 2018 the Yukon River Panel continued to place emphasis on Chinook Restoration priorities in their R&E Fund selection of projects for the year; this in response to the decline of Yukon River Chinook salmon stocks experienced in recent years.

A total of 29 projects were selected for R&E funding, of which, 23 were on-going multi-year projects and 6 were new. In U.S. dollar terms 50% of the funds were directed towards Conservation projects; 26% to Restoration; 12% towards Stewardship; and 12% towards Communications.

Funds in the amount of U.S. \$1,420,445 were allocated to projects. This sum was comprised of the annual U.S. \$1.2 million disbursement supplemented by unspent funds held by the Panel from previous years. Unspent funds are principally a result of exchange rate fluctuations and, to a lesser extent, from projects that complete under budget.