



**Annual Report of the
Southern Boundary Restoration and Enhancement Fund and the
Northern Boundary and Transboundary Rivers Restoration and Enhancement Fund
for the year 2007.**

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 \$65 million U.S. 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:

David Einarson, Co-Chair
Lorelei Smith
Ron Fowler

United States:

Doug Mecum, Co-Chair
David Bedford
Jim Bacon

Southern Fund Committee

Canada:

Wilf Luedke, Co-Chair
Don Hall
Mike Griswold

United States:

Rollie Rousseau, Co-Chair
Larry Rutter
"JP" Olney Patt

Executive Summary

- Total contributed capital (nominal) at year end was \$US 140,065,000 or \$CDN 209,796,000. Actual fund asset value at December 31st was \$US 216,365,000 or \$CDN 213,790,000. The much greater growth in asset values when expressed in U.S. currency (\$US 76,300,000) as compared to Canadian currency (\$CDN 3,994,000) is due to the significant appreciation of the Canadian dollar relative to the U.S. dollar since the funds were capitalized.
- For the year, the Fund underperformed the benchmark by 3.3%, returning 8.6% against 11.9% in US terms. The active managers all underperformed in the third and fourth quarters. Over 4 years the Fund has still outperformed by 0.3% in US terms, returning 13.2% after fees.
- In 2007 the Southern Fund Committee supported a total of 66 projects for U.S. \$3.86 million.
- The Southern Fund Committee's draft Strategic Plan document developed in 2006 has been revised with input received from the Southern and Fraser River Panels in the Spring of 2007. The Plan is expected to be completed in 2008.
- In 2007 the Northern Fund Committee supported a total of 49 projects for U.S. \$3.78 million.
- Northern and Southern Fund Committee members met jointly twice in 2007. In addition, the Southern Fund Committee met five times in separate session and the Northern Fund Committee met three times in separate session.

Investment Review

The Fund narrowly outperformed the benchmark in the first quarter. The EAFE manager (LSV) had a particularly strong quarter but the Global (Brandes) and US (Barclays) equity managers both underperformed. Bond returns matched the benchmark.

In the second quarter the Fund matched the benchmark with the EAFE and Global managers both performing well. However, US equities underperformed for the fourth quarter in a row.

In the third quarter, the Fund return in US dollar terms was 2.2%, well below the 3.9% benchmark return over the quarter. All of the equity managers underperformed their respective benchmarks.

In the fourth quarter the Fund slipped 1.6% below the benchmark of -0.8%. All three of the equity managers underperformed their benchmarks by significant amounts during the quarter.

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Contributed capital and asset value of the individual Funds as of December 31, 2007 stood as follows:

	Contributed Capital	Asset Value
Northern:	\$US 75,000,000 \$CDN 112,388,000	\$US 117,767,000 \$CDN 116,366,000
Southern:	\$US 65,000,000 \$CDN 97,408,000	\$US 98,597,000 \$CDN 97,424,000

Note #1:

In 2003 a rescission of 0.65% applied to the FY 2003 appropriations reduced the final contribution to the Northern Fund by \$US162,500 and to the Southern Fund by \$US97,500. Thus the actual Contributed Capital is:

Northern: \$US 74,837,500

Southern: \$US 64,902,500

Note #2:

U.S. Dollar Exchange (noon) rate: 0.9881 per Royal Trust, December 31, 2007

U.S. Dollar Exchange (noon) rate: 1.0008 per Royal Trust, November 30, 2007

U.S. Dollar Exchange (noon) rate: 1.1653 per Royal Trust, December 31, 2006

2007 Project Funding

Southern Boundary Restoration and Enhancement Fund

Between 2004 and 2007 the Southern Fund has granted \$13,051,255 US to 216 projects.

In 2007 the Southern Fund invested two thirds of it's spending budget, some \$2.5M US, in 37 Improved Information projects, the single largest of which was a \$380K investment in a collaborative feasibility study into the development of a fishwheel-based live capture and tagging facility for Fraser River sockeye and other species near Mission. Other significant Fraser River grants were made to a research project examining the value of hydroacoustic monitoring of migrating sockeye in the marine area; and into freshwater survival issues linked to the decline of Early and Late Stuart sockeye. Prominent Chinook projects concerned habitat-based escapement goal calibration and escapement estimation on the Coweeman River, and on the West Coast of Vancouver Island and the BC Interior. Genetic stock identification baseline extensions, improvements to coded-wire-tag estimates, management model development and

parameterization, and stock abundance estimation projects in WA, OR and BC were all also supported.

Allocating \$1.1M US in 2007, the Southern Fund continued to sponsor Georgia Basin coho habitat restoration projects on the east coast of Vancouver Island with some of the largest habitat grants this year being awarded to side-channel construction projects on the Millstone River in Nanaimo and the Englishman River near Parksville. Elsewhere, water use planning remains a priority, with major initiatives being supported in the Stamp-Somass watershed near Port Alberni on Vancouver Island and in the Nicola Basin in the BC Interior. 2007 also marked the final year of 3 years of on-going habitat restoration investment on the Squamish, Chilliwack and Coldwater Rivers principally benefiting chinook and coho.

Enhancement is typically the smallest of the three investment areas and in 2007 only \$117K US was awarded in this category, about 3% of annual spending. Interesting projects included enhancing survival of sockeye in Cultus Lake by purse seining for predatory pike-minnows and deterring seals through the use of electrical barriers.

Northern Boundary & Transboundary Rivers Restoration & Enhancement Fund

Between 2004 and 2007 the Northern Fund has granted \$11,665,376 US to 149 projects.

The Northern Fund Committee awarded grants of \$3.78M US in 2007 with 60% of that money being directed towards Improved Information projects. This is consistent with a trend in the north that has seen major investments into filling the gaps in stock assessment and stock identification work in these large and remote watersheds, with less being spent on habitat restoration because a much greater proportion of the region encompasses watersheds not yet subject to the pressures of human activity found in the south. Thus the Northern Fund continued to support population estimates, mark recapture programs and radio telemetry studies on the Alsek, Stikine and Nass rivers. Grants were again made for further northern sockeye and chinook genetic stock ID studies and more funds were put towards expanding the baselines.

In the habitat portfolio, the smallest investment area for the Northern Fund at \$370K US, sockeye spawning and rearing habitat in Lakelse and Kitwanga lakes were again the subject of on-going investments into flow augmentation, gravel improvements and habitat assessment work. Assessments of spawning distribution and habitat were also made of Tahltan Lake sockeye and a major side-channel project near Hyder, AK was supported for a second year with construction scheduled for 2008.

Investments in enhancement projects in the north are generally larger than those in habitat restoration and 2007 was no exception with just over \$1M US being awarded in enhancement grants. Coho and sockeye are the main species of interest. Coho enhancement projects were supported in Bakewell Lake, AK and at Pallant Creek in the Queen Charlotte Islands. Larger in scale were the sockeye enhancement projects including McDonald Lake AK, Trapper Lake now in its fourth year, the Tuya harvest structure also in its fourth year of funding and year two of an investigation into the potential of hanging lakes for sockeye production in the Hartley Bay region of northern BC. A study to assess enhancement opportunities in Northern and

Central BC was also supported and may generate more interesting enhancement proposals in 2008.

Joint Funding Initiatives

The Northern and Southern Funds contributed jointly to two “special case” projects in 2007 each proposed by a Committee of the PSC. The Committee for Scientific Cooperation was supported in its proposal to host a workshop series focused on the current and future uses of Genetic Stock Identification in ocean salmon management. The bilateral Chinook Technical Committee was also provided with funds to cover expenses associated with tasks that exceed the usual annual activities of the Committee and are necessary to foster progress in the negotiations to renew expiring chapters of Annex IV of the Pacific Salmon Treaty.

Joint Fund Committee Meetings

The Northern and Southern Fund Committees have agreed that given the congruent nature of their agendas and 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 for the time being. Thus the Joint Fund Committee met in person on two occasions: April 16th and November 27th, 2007.

The Joint Committee’s first meeting in 2007 was held on April 16th, 2007 at the PSC offices in Vancouver. Mr. Chris Kautzky of Hewitt and Associates presented the Fund performance review for the fourth quarter of 2006 and gave a preview of the first quarter of 2007. Mr. Kautzky also presented an overview of potential alternative investment products and the opportunities and risks associated with diversifying the Fund’s portfolio in the event of a downturn in the equity market.

The other Joint Fund Committee meeting of the year was an in-person meeting held at the PSC offices in Vancouver, BC on November 27th, 2007. As usual the November meeting was marked by the annual Fund investment manager performance reports and interviews. Hewitt and Associates staff provided their introduction to, and review and analysis of, the performance review and manager evaluations. They also provided their third quarter report. The Committee was generally satisfied with the performance and reports from Brandes Investment Partners and from LSV Asset Management. The Committee was less satisfied with Barclays Global Investors who had underperformed for six consecutive quarters. Mr. Chris Kautzky also presented a discussion paper on Asset Mix and Spending Policy implications that, being cognizant of increasing equity market volatility in recent months, examined whether adapting the investment strategy and/or spending policies to capital market conditions may be required in the future.

Southern Fund Committee Meetings

The Southern Fund Committee met five times in separate session during 2007.

January 8th, 2007

- Final approval of projects selected for funding in 2007.

April 17th, 2007

- Strategic issues concerning the 2008 funding round, Fraser River & Southern Panel feedback on the draft Strategic Plan.
- Southern Fund Strategic Plan.

May 30th, 2007

- Preparation for the 2008 Call for Project Concepts.
- Southern Fund Strategic Plan.

September 20th & 21st, 2007

- First round “Project Concept” review meeting and shortlist selection for 2008.

December 11th and 12th, 2007

- Initial project selection meeting for 2008.

Northern Fund Committee Meetings

The Northern Fund Committee met three times during 2007.

January 24th, 2007

- Final project selection meeting for 2007.

April 17th, 2007

- Consideration of strategic issues in the preparation for 2008.

September 27th and 28th, 2007

- First round “Project Concept” review meeting and shortlist selection for 2008.

Site visits

In mid-September 2007 the Fund Manager and Program Assistant visited a number of Northern Fund projects along the Skeena and Nass river corridors based out of the Terrace and Hazelton areas of Northern BC. The first day was spent near Terrace with agency staff and community representatives visiting project sites associated with the Lakelse Lake sockeye rehabilitation program. The second day was spent with Nisga’a Fisheries staff visiting projects on the Nass River including coho enumeration fences, fish wheels and the Kinkolith hatchery site. The next day was spent with Gitanyow Fisheries managers and staff. The Kitwanga fence was a key site as was a visit to the smolt fence at the outlet of Gitanyow Lake and the spawning area

rehabilitation sites on the lake itself. The fourth day was spent with Gitksan Fisheries visiting project staff collecting fry on the Skeena mainstem and also visiting the hatchery at Kispiox village and culvert and habitat restoration sites along the Kispiox River. The final day was devoted to a tour of proposed habitat restoration sites west of Terrace with DFO staff. Of particular interest was the proposed Exchamsiks side-channel project.

2007 Call for Proposals for projects in 2008/09

During the summer of 2007 both the Northern and Southern Fund Committees reviewed the earnings from the Fund's investments and found that according to their spending policies, a fourth round of project funding could be undertaken in 2007. The Southern Fund set a notional target budget figure of U.S. \$4 million and the Northern Fund U.S. \$5 million.

In 2006 and the early part of 2007 the Southern Fund Committee undertook a strategic planning exercise that culminated in a four part Mission Statement with nine Strategic Goals. The Mission Statement and Strategic Goals articulate how the Southern Fund Committee intend to achieve their mandate through the provision of funding grants in support of a variety of eligible activities. In the 2008 Call for Proposals the Southern Fund Committee based their Call for the first time on the new Strategic Plan. In 2008 proponents were asked to self-identify which element of the Mission Statement and which principal Strategic Goal their proposal was responding to.

The Northern Fund Committee again took advice from the Northern and Transboundary Panels on priority areas of interest for project funding in 2008.

The number of first round "project concept" applications was up by 26 over last year, most of those directed to the Northern Fund. The overall amount of grant funding requested increased by \$6M US compared to 2007 in this round.

The Northern Fund received 118 project concepts requesting \$12.9M US, more than 2.5 times greater than the spending target.

The Southern Fund received 209 project concepts requesting \$18.6M US, more than 4.5 times oversubscribed.

During the first round review process:

The Northern Fund Committee short-listed 70 proposals to move to the second stage requesting \$6.9M US.

The Southern Fund Committee short-listed 110 proposals requesting \$9.25M US.

Detailed proposals from proponents on the short-lists were due by October 31st 2007.

Northern and Southern technical reviews took place in November, December and early January and final Fund Committee decisions on the 2008 round of funding were announced in mid-January.