



**Annual Report of the  
Southern Boundary Restoration and Enhancement Fund and the  
Northern Boundary and Transboundary Rivers Restoration and Enhancement Fund  
for the year 2008.**

***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  
Lorelei Smith  
Ron Fowler

**United States:**

Doug Mecum  
David Bedford  
Jim Bacon

Southern Fund Committee

**Canada:**

Wilf Luedke/Don Radford  
Don Hall  
Mike Griswold

**United States:**

Rollie Rousseau/Larry Peck  
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 137,072,000 or \$CDN 167,858,000.
- For the year, the Fund underperformed the benchmark by 0.4%, returning -33.48% against -33.08% in US terms. Brandes, and to a much lesser degree LSV, were the source of the Fund's underperformance in 2008, although this improved in the fourth quarter. Over 4 years the Fund has trailed the benchmark by 0.29% in US terms, returning -1.69% before fees.
- In 2008 the Southern Fund Committee supported a total of 55 projects for U.S. \$4.14 million.
- The Southern Fund Committee's Strategic Plan document first developed in 2006 and revised with input received from the Southern and Fraser River Panels in 2007 was completed in June 2008.
- In 2008 the Northern Fund Committee supported a total of 59 projects for U.S. \$5.52 million.
- Northern and Southern Fund Committee members met jointly once in 2008. In addition, the Southern Fund Committee met three times in separate session and the Northern Fund Committee also met three times in separate session.
- For the U.S., Mr. Larry Peck was appointed to the Southern Fund Committee, replacing Mr. Rollie Rousseau.
- For Canada, Mr. Don Radford was appointed to the Southern Fund Committee, replacing Mr. Wilf Luedke. Also Ms Lorelei Smith completed her term with the Northern Fund Committee in December.

## *Investment Review*

The Fund's return of -7.0% was slightly below the benchmark return for the first quarter. The EAFE manager (LSV) and US (Barclays) equity managers both outperformed their benchmarks, but the Global (Brandes) manager underperformed its benchmark by a wide margin. Over the quarter there were \$15.3 million in capital losses as equity markets declined.

In the second quarter the Fund return of -2.1% was 1.0% below the benchmark return for the quarter, with Brandes and LSV underperforming their benchmarks by a wide margin. Barclays on the other hand had their best quarter since 2004, outperforming their benchmark by 1.9%. Over the quarter the market value of the Fund value declined by \$4.3 million.

In the third quarter, the market value of the Fund declined by a further \$20.0 million. The total Fund return of -11.4% was 0.3% below the benchmark return for the quarter. Barclays and Brandes both underperformed their respective benchmarks, while LSV outperformed by 1.1%.

In the fourth quarter the Fund beat the benchmark by 0.69% returning -17.49% compared to -18.18% for the benchmark. Gains in December helped to offset earlier losses in November and this was partially aided by a rebalancing of the asset mix back to target percentages in mid-December; nevertheless the market value of the Fund still declined by a further \$28.25 million US for the quarter.

For the year, very weak equity markets in 2008 resulted in negative numbers across the board for the Fund and the benchmarks, now extending out to the four-year mark. Brandes, and to a much lesser degree LSV, were the source of the Fund's underperformance in 2008 although this improved in the fourth quarter. Rebalancing the asset mix helped to offset the manager performance but only partially.

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 137,072,000 or \$CDN 167,858,000.

Contributed capital and asset value of the individual Funds as of December 31, 2008 stood as follows:

	<b>Contributed Capital</b>		<b>Asset Value</b>	
<b>Northern:</b>	\$US 75,000,000	\$CDN 112,388,000	\$US 74,416,000	\$CDN 91,130,000
<b>Southern:</b>	\$US 65,000,000	\$CDN 97,408,000	\$US 62,655,000	\$CDN 76,728,000

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: per Royal Trust, December 31, 2008	1.2246	0.81659
U.S. Dollar Exchange (noon) rate: per Royal Trust, November 30, 2008	1.2372	0.80828
U.S. Dollar Exchange (noon) rate: per Royal Trust, December 31, 2007	0.9881	1.01204

## ***2008 Project Funding***

### **Southern Boundary Restoration and Enhancement Fund**

In the five years between 2004 and 2008 the Southern Fund has granted \$17,196,230 US to 271 projects.

Similar to the 2007 spending pattern, in 2008 the Southern Fund invested almost two thirds of its projects budget, \$2.6M US, in 30 Improved Information projects. For a second year, the single largest grant was a \$323K 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. Forward-looking research projects into emerging genetic stock identification (GSI) techniques were awarded significant grants in 2008 with eight projects in BC, WA, and ID receiving \$1.06M between them. Other GSI-based projects were awarded grants to support stock identification work that will improve stock and fishery specific objectives through the shaping of fisheries. Further Improved Information grants were made to Fraser River hydroacoustic research; to on-going habitat-based Chinook escapement goal calibration work and improvements to coded-wire tag (CWT) programs.

Allocating \$820K US in 2008, the Southern Fund continued to sponsor Georgia Basin coho habitat restoration projects on the east coast of Vancouver Island, the BC Interior, the lower Fraser and in the Nooksack Basin. Early marine survival and production studies of Chinook salmon in the Strait of Georgia and Puget Sound attracted the largest grants (av. \$107K US) in the Habitat category.

Enhancement is typically the smallest of the three investment areas but saw an increase in grant funding in 2008 with interesting projects including deterring seal predation through the use of electrical barriers and the management of invasive piscivorous fish species affecting sockeye stocks in BC.

### **Northern Boundary & Transboundary Rivers Restoration & Enhancement Fund**

Between 2004 and 2008 the Northern Fund has granted \$17,186,957 US to 208 projects.

The Northern Fund Committee awarded grants of \$5.52M US in 2008 with 55% of that money being directed towards Improved Information projects. This is consistent with last year's spending in this category (60%) and indicative of a trend in the Northern Fund that has seen major investments made in 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, radio telemetry feasibility studies and coded-wire tag programs on the Stikine, Nass and Skeena rivers in BC and the Chickamin and Chilkat rivers in Alaska. Grants were again made to on-going northern BC and SEAK sockeye and chinook genetic stock ID studies, baseline expansions and stock composition estimates.

The habitat portfolio, usually the smallest investment area for the Northern Fund, saw a substantial increase in funding in 2008 up by 70% from \$370K in 2007 to \$1.2M in 2008. Almost all of this increase (\$700K) can be attributed to two major off-channel projects. The first was the construction phase of an on-going 3 year effort to improve and extend the chum salmon spawning channels at Fish Creek near Hyder, Alaska. The second was a significant back channel rehabilitation project at Exchamsiks River, a tributary to the Skeena River west of Terrace, BC.

Investments in enhancement projects in the north are generally larger than those in habitat restoration, but in 2008 the two investment areas were close with \$1.25M being invested in enhancement, up by a quarter million over 2007. All enhancement funds were directed towards projects in northern and central coastal areas of BC and in Canadian transboundary watersheds, many of which are multi-year Northern Fund investments. Chinook and chum were the species of interest at the Snootli and McLoughlin hatcheries on the central coast and sockeye the focus of on-going enhancement programs at Lakelse Lake and the hanging lakes around Hartley Bay. In the transboundary, Trapper Lake sockeye enhancement and access improvements were supported for a fifth year and a fifth year of investment was made in support of Tuya River sockeye harvest infrastructure development that included dramatic in-river blasting operations this year.

### ***Joint Funding Initiatives***

The Northern and Southern Fund Committees approved motions to support a new “Chinook Sentinel Stocks Program” with funds in the amount of \$1M US per Fund each year for a period of 5 years beginning in 2009. It is understood that this annual commitment will depend on fund performance given that the guarantee of interest income on the endowment fund in any given year is not assured.

### ***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 once annually. Thus in 2008 the Joint Fund Committee held one in-person meeting with all Committee members in attendance on November 13<sup>th</sup> and 14<sup>th</sup>, 2008.

The meeting was held at the PSC offices in Vancouver, BC and as usual the November agenda included the annual Fund investment manager performance reports and interviews. Hewitt and Associates staff provided an introduction to, and review and analysis of, the performance review and manager evaluations. They also provided the third quarter report. LSV Asset Management made the point that their mixed performance of late did not mean that their overall process is flawed and the Committee was generally satisfied with that explanation. The Committee was generally satisfied with Barclays Global Investors who despite underperforming for six consecutive quarters to the end of 2007 had outperformed in the first half of 2008 and who by reducing their exposure to financials late in 2007 had helped mitigate the worst effects of the liquidity crisis. The Committee was concerned with the poor performance of Brandes Investment Partners in 2008. There was disappointment that better down market protection was not realized given Brandes’s value bias. However there was some optimism that the current market conditions would favour Brandes’s style in the future.

Mr. Chris Kautzky also presented a Spending Policy and Asset Allocation review. This was a follow up to discussions held in 2006 and 2007 regarding the efficacy of the asset allocation strategy and its impact on the spending policies. The review provided an analysis of the current

and alternative allocation strategies in conjunction with the current and alternative spending policies. The current asset allocation strategy and Northern and Southern spending policies have been in place since 2000.

A conference call was held on Aug 19<sup>th</sup> between the Northern and Southern Fund Committee co-chairs and Chris Kautzky of Hewitt Associates concerning the agenda for the annual November Joint Fund Committee meeting.

### ***Southern Fund Committee Meetings***

The Southern Fund Committee met in person three times during 2007.

January 16<sup>th</sup>, 2008

- Final approval of projects selected for funding in 2008.

May 22<sup>nd</sup> and 23<sup>rd</sup>, 2008

- Preparation for the 2009 Call for Project Concepts.
- Southern Fund Strategic Plan.

October 6<sup>th</sup> & 7<sup>th</sup>, 2008

- First round “Project Concept” review meeting and shortlist selection for 2009.

In addition to the in-person meetings, a small sub-committee of the Southern Fund met at regular intervals through the month of June via conference call to make improvements to the Southern Fund’s Strategic Plan document and adjust the Call for Proposals documents and application forms. Members of the sub-committee were Larry Rutter, Wilf Luedke and Larry Peck, with Fund staff from the PSC Secretariat.

### ***Northern Fund Committee Meetings***

The Northern Fund Committee met three times during 2008.

January 23<sup>rd</sup> and 24<sup>th</sup>, 2008

- Final project selection meeting for 2008.

April 24<sup>th</sup>, 2008

- Consideration of strategic issues in the preparation for 2009.

September 25<sup>th</sup> and 26<sup>th</sup>, 2008

- First round “Project Concept” review meeting and shortlist selection for 2009.

### *Site visits*

In late-October 2008 the Southern Fund Committee, Fund Manager and Program Assistant spent three days visiting a number of Southern Fund projects in northern Washington State with emphasis on the Nooksack, Skagit and Snoqualmie rivers.

The first day was spent near Bellingham where the Committee met with members of the Nooksack Tribe Fisheries Department on-site to view their engineered log-jams project on the North Fork Nooksack. Later the Committee met with the South Fork Chinook Rescue Program Advisory Committee and toured Kendall and Skookum hatcheries. Lummi Tribe fisheries biologists showed the Committee projects at Skookum Reach and at Bells Creek. The day concluded with a visit to the Nooksack Salmon Association offices in Bellingham and a look at two habitat restoration projects nearby.

The morning of the second day was spent in La Connor with Skagit River System Cooperative staff hearing presentations on their various projects supported by the Southern Fund. In the afternoon the Committee visited Dry Slough with grant recipient Tom Slocum, Washington Conservation Districts Northwest Regional Engineer. The day closed with a visit to the offices of the Northwest Indian Fisheries Commission in Mount Vernon and a presentation from fisheries biologist Grant Kirby.

The last day was spent with Wild Fish Conservancy and Ducks Unlimited managers and staff visiting the Cherry Valley project near Duvall, WA which will restore stream habitat and floodplain wetlands to the benefit of Snoqualmie River chinook, coho, pink and chum stocks as well as local trout.

### *2008 Call for Proposals for projects in 2009/10*

In April and May 2008 both the Northern and Southern Fund Committees reviewed the earnings from the Fund's investments and found that according to their spending policies, a sixth round of project funding could be undertaken in 2009. The Southern Fund set a notional target budget figure of \$3.2 million U.S. and the Northern Fund \$3.5 million U.S. These amounts were inclusive of the \$1 million U.S. from each Fund to be directed to the Chinook Sentinel Stocks Program. Thus the spending target for regular Fund business proposed by the Southern Fund for 2009 was down almost \$2M from \$4.14M spent in 2008 to \$2.2M proposed for 2009. The Northern Fund was down \$3M from \$5.52 spent in 2008 to \$2.5 proposed for 2009. The proportional difference in spending targets between the two funds is the result of differences in their spending policies.

In the 2009 Call for Proposals the Southern Fund Committee based their Call on the Mission Statement and Strategic Goals articulated in their Strategic Plan developed in 2007 and then further refined during the early part of 2008. The Northern Fund Committee again took advice from the Northern and Transboundary Panels on priority areas of Panel interest for project funding in 2009.

The combined Northern and Southern Fund number of first round “project concept” applications was down by 108 over last year. The overall amount of grant funding requested decreased by \$12.9M US compared to 2008 in this round.

The Northern Fund received 87 project concepts (118 for 2008) requesting \$8.9M US (\$12.9M US for 2008), more than 3.6 times greater than the spending target.

The Southern Fund received 132 project concepts (209 for 2008) requesting \$9.7M US, (\$18.6M US for 2008) more than 3 times oversubscribed.

During the first round review process in late September and early October:

The Northern Fund Committee short-listed 51 proposals to move to the second stage requesting \$4.3M US.

The Southern Fund Committee short-listed 79 proposals requesting \$5.3M US.

Detailed proposals from proponents on the short-lists were due by November 2<sup>nd</sup> 2008 (Northern Fund) and November 16<sup>th</sup> 2008 (Southern Fund).

Northern Fund national technical reviews took place in November, December and early January, but Fund Committee project selection has been placed on hold. Southern Fund technical reviews that were due to take place in early December 2008 were also placed on hold until at least mid-April 2009 pending a market recovery.

It is foreseeable that no project grants will be awarded in 2009.