



**Annual Report of the
Southern Boundary Restoration and Enhancement Fund and the
Northern Boundary and Transboundary Rivers Restoration and Enhancement Fund
for the year 2009.**

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
Frank Quinn
Ron Fowler

United States:

Doug Mecum
David Bedford
Jim Bacon

Southern Fund Committee

Canada:

Don Radford
Don Hall
Mike Griswold

United States:

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, 2009 was \$US 169,816,000 or \$CDN 177,729,000.
- Annual funding for all new and on-going projects in 2009 was suspended by the Northern and Southern Fund Committees due to the impact of the global financial crisis of 2008/09 on Fund investments. Total Fund project expenditures to date remain at the 2008 level of \$34.5M US, in support of 479 projects.
- Equity markets rebounded strongly in 2009 resulting in positive one year returns in both currencies for the Fund and the benchmarks. However, the Fund underperformed the benchmark for the second year in a row, owing mostly to weak results by Brandes, also for the second consecutive year. The four-year returns reflect the weak capital markets, and manager performance, over the past two years.
- Northern and Southern Fund Committee members met jointly twice in 2009. In addition, the Northern Fund Committee met once in separate session and the Southern Fund Committee also met once in separate session.
- For Canada, Mr. Frank Quinn was appointed to the Northern Fund Committee, replacing Ms. Lorelei Smith.

Investment Review

The Fund's return of -9.0% was slightly below the benchmark return for the first quarter. Stock picks outside North America were the primary value detractor during the quarter. The EAFE (LSV) manager and Global (Brandes) equity manager both underperformed their benchmarks. The US (Barclays) manager's sector allocation, with the exception of Health Care and Consumer Staples added a small amount of value. Over the quarter there were \$12.4 million in capital losses as equity markets continued to decline.

In the second quarter the Fund return of 17.2% was 0.1% above the benchmark return for the quarter, and the first positive quarterly return for two years. Brandes' overweights in the Telecom and Health Care sectors and Barclay's sector allocation overall, especially being underweight in Financials and overweight in the Health Care sectors were negative influences. However, LSV's security selections in Financials, Materials and Industrials all had a pronounced positive impact. Over the quarter the market value of the Fund value increased by \$21.4 million.

In the third quarter, the market value of the Fund increased by a further \$20.8 million with \$23.0 million in capital gains and \$2.1 million in investment income. There were also \$2.5 million in net cash outflows to fund program spending (Chinook Sentinel Stocks Program).

This was another strong quarter from LSV with stock selection (in Financials and Industrials) being the most significant factor in their performance. Their relative performance since being hired for this mandate is now back above the benchmark. Brandes and Barclays both underperformed against their benchmarks, again due to their sector selections.

In a disappointing fourth quarter the Fund trailed the benchmark by -1.2% returning 0.1% compared to 1.3% for the benchmark. Barclays led the way in US equities, but Brandes was very flat and LSV failed to maintain momentum from the second and third quarters. The market value of the Fund increased slightly due to Barclays performance but only by a further \$4.25 million US for the quarter.

Equity markets rebounded strongly in 2009 resulting in positive one year returns in both currencies for the Fund and the benchmarks. However, the Fund underperformed the benchmark for the second year in a row, owing mostly to weak results by Brandes, also for the second consecutive year. The four-year returns reflect the weak capital markets, and manager performance, over the past two years.

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 169,816,000 or \$CDN 177,729,000.

Contributed capital and asset value of the individual Funds as of December 31st, 2009 stood as follows:

	Contributed Capital		Asset Value	
Northern:	\$US 75,000,000	\$CDN 112,388,000	\$US 92,193,000	\$CDN 96,489,000
Southern:	\$US 65,000,000	\$CDN 97,408,000	\$US 77,623,000	\$CDN 81,240,000

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, 2009	1.0466	0.95547
U.S. Dollar Exchange (noon) rate: per Royal Trust, November 30, 2009	1.0574	0.94572
U.S. Dollar Exchange (noon) rate: per Royal Trust, December 31, 2008	1.2246	0.81659

2009 Project Funding

Northern Boundary & Transboundary Rivers Restoration & Enhancement Fund and Southern Boundary Restoration and Enhancement Fund

In February 2009 there were \$13M US worth of active projects between the Northern and Southern Funds. Much of this was 2008 funding with some carry forward funding from 2007.

By year's end there were 36 active projects worth about \$4M US still on the books, although about half of these will end on March 31st 2010. During 2009 most active projects reached their scheduled end dates, often linked to the ends of each quarter. A larger proportion than usual also applied for extensions to their end dates. In many of these cases project leaders sought to eke out their grants as a way to bridge the 2009 funding shortfall.

Between 2004 and 2009 the Northern Fund has granted \$17,186,957 US to 208 projects. In the five years between 2004 and 2009 the Southern Fund has granted \$17,196,230 US to 271 projects. Total Fund project expenditures to date remain at the 2008 level of \$34.5M US, in support of 479 projects.

Joint Funding Initiatives

In 2008 the Northern and Southern Fund Committees approved motions to support the "Chinook Sentinel Stocks Program" with funds in the amount of \$1M US each, per year, for a period of 5 years beginning in 2009. This commitment was dependent upon Fund performance given that the guarantee of interest income on the Fund in any given year is not assured. In January 2009 the value of the Fund stood at \$127,130M US, some \$13M US below the contributed capital sum. Neither Northern nor Southern Fund was therefore able to support the SSP financially in 2009. However, Fund staff did take responsibility for the administration of the program, banking the funds provided by the US and Canadian governments, entering into contracts with the selected Sentinel Stock project leaders, advancing funds and overseeing interim and final reporting requirements.

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. Thus the Joint Fund Committee met in person on two occasions: April 15th and November 18th, 2009.

The Joint Committee's first meeting in 2009 was held on April 15th, 2009 at the PSC offices in Vancouver. Mr. Chris Kautzky of Hewitt Associates, the Fund's investment consultants, presented the Fund performance review for the fourth quarter of 2008 and gave a preview of the first quarter of 2009. Mr. Kautzky said that the markets had picked up in March 2009 and that trend continued in April. His opinion was that the market was six weeks into a rebound. Mr. Kautzky also led the Committee through the document titled Alternative Asset Classes describing the attributes, returns and fees, key features and drawbacks, and managers involved with three alternative asset classes namely Infrastructure, Hedge Funds and Real Estate. Summarizing, he cautioned against hedge funds, but continued to believe that infrastructure and real estate provide attractive risk/return characteristics to the Fund in the long term. There was consensus among the Committee in favour of moving into the alternative asset classes, however no motion to this effect was proposed. The Committee instructed Hewitt Associates to

proceed with the development of an implementation strategy for review at the November joint meeting.

The other Joint Fund Committee meeting of the year was an in-person meeting held at the PSC offices in Vancouver, BC on November 18th, 2009. As usual the November meeting was marked by the annual Fund investment manager performance reports and interviews. In summarizing their thoughts on the managers' presentations, the Committee was satisfied with the performance of LSV. The Committee was also generally satisfied with the report from Brandes and agreed with the presenters that the market presently offered good opportunities for investment and that Brandes was well placed to capitalize upon them. There was a feeling among the Committee that better performance should now be expected. Of the three managers, Mr. Kautzky was most concerned with Barclays, believing that there existed the potential for uncertainty in their future from a recent ownership change that saw Barclays Global Investors spun off from the parent group and sold to BlackRock Asset Management. This coupled with their poor performance might lead him to advise new investors away from the firm. For those clients already with holdings in Barclays/BlackRock he suggests staying the course and watching developments. The Committee agreed with this strategy and were willing to let the firm prove itself in the aftermath of the recent anomalous market conditions and were not about to reverse their earlier decision to invest in Alpha Tilts.

For the remainder of the meeting Mr. Kautzky presented and led discussion on his "Spending Policy and Asset Allocation Review – An Implementation Strategy". The document described a strategy for monitoring equity investment conditions and for implementing allocations to two new asset classes, namely real estate and infrastructure, over time. It was determined that a formal motion to implement the portfolio changes as per Mr. Kautzky's strategy had not yet been made; the instruction to prepare the implementation strategy being in the form of an action item so far. There was a consensus that the Committee wished to deliberate on the question of implementation further and Mr. Kautzky was asked to prepare additional background information on transaction costs and fees associated with the alternative asset strategy for the April 2010 Joint Fund Committee meeting.

Northern Fund Committee Meetings

The Northern Fund Committee met once during 2009.

November 17th, 2009

- Selection of on-going, multi-year projects to be supported in 2010.
- Motion passed to commit \$1.80M US in support of 26 projects. A further \$1M US to be directed to the Chinook Sentinel Stocks program in 2010; and \$250K to be paid to Canada for its contribution to the SSP in 2009.
- \$3.05M US committed in total for 2010.

Southern Fund Committee Meetings

The Southern Fund Committee met once during 2009.

November 18th, 2009

- Selection of on-going, multi-year projects to be supported in 2010.
- Final funding decision to be deferred until January 2010.

Committee Appointments

Mr. Frank Quinn was appointed by Canada to the Northern Fund Committee early in 2009, replacing Ms. Lorelei Smith.