



**Annual Report of the
Southern Boundary Restoration and Enhancement Fund and the
Northern Boundary and Transboundary Rivers Restoration and Enhancement Fund
for the year 2012.**

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:

Mel Kotyk
Denis D’Amours/Steve Gotch
Ron Fowler

United States:

Doug Mecum
David Bedford
Jim Bacon

Southern Fund Committee

Canada:

Don Radford/Andrew Thomson
Don Hall
Mike Griswold

United States:

Larry Peck
Larry Rutter
“JP” Olney Patt/McCoy Oatman

Executive Summary

- Total contributed capital (nominal) was \$US 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, 2012 was \$US 186,300,000 or \$CDN 185,350,000.
- For many investors, 2012 was a good year with positive returns in the main equity and bond markets. For the year the Fund did well in absolute terms rising 10.3%, although this lagged behind the benchmark return of 10.9%.
- The Joint Fund Committees hired two new investment managers in May and June of 2012. Invesco Core Real Estate and RARE Infrastructure. \$18M US was invested with each manager.
- In 2012 the Southern Fund Committee supported a total of 27 projects for U.S. \$2.23 million.
- In 2012 the Northern Fund Committee supported a total of 40 projects for U.S. \$2.74 million.
- U.S. \$2 million was contributed to the Chinook Sentinel Stocks Program in 2012, U.S. \$1 million each from the two Committees for a total to date of \$7.44M US.
- Total Fund project expenditures to date are \$46.6M US, in support of 652 projects, as well as the Sentinel Stocks program.
- Northern and Southern Fund Committee members met jointly once in 2012. In addition, the Northern Fund Committee met four times in separate sessions and the Southern Fund Committee met three times in separate sessions.
- For Canada, Mr. Steve Gotch replaced Dr. Denis D'Amours on the Northern Fund Committee and Mr. Andrew Thomson replaced Mr. Don Radford. For the U.S. Mr. McCoy Oatman replaced Mr. "JP" Olney Patt.
- Fund staff provided administrative services for the Yukon River Panel's Restoration and Enhancement Fund for a second year in 2012.

Investment Review

For many investors, 2012 was a good year with positive returns in the main equity and bond markets. Canadian bonds gained 3.6% as interest rates declined slightly and credit conditions improved. In the global equity markets, U.S. and non-North American markets performed very well as there were increasing signs of a sustained recovery in the U.S. economy and European financial conditions stabilised and in many cases started to rebound by the end of the year. Despite these positive returns, and signs that conditions are improving, there remained many episodes of economic and market wavering, such as Eurozone unemployment reaching 10.8% in April and the U.S. fiscal cliff stand-off in December. For the year the Fund did well in absolute terms rising 10.3%, although this lagged behind the benchmark return of 10.9%.

The Fund gained 8.1% in the first quarter of 2012, slightly below the 8.8% return for the benchmark. Both Brandes and LSV underperformed this quarter, impacting the Fund's relative results. LSV's sector allocation was the primary reason for their underperformance. The key factor was the large overweight position in the Telecoms sector, the weakest of ten sectors. In absolute terms, Brandes returned a strong quarter, but again trailed the benchmark in the first quarter where the portfolio's sector allocation detracted significant value. Several sector positions contributed to this but an overweight position in Telecoms was the primary reason.

The strong performance of the U.S. market during the first quarter of 2012 reversed in the second quarter. Six of the ten sectors experienced negative returns over the quarter. The non-North American equity market was negatively impacted by events in Greece and a slowing of growth in China. During the second quarter, the Fund value declined -3.4% (including fees), slightly below the -3.1% return for the benchmark. Brandes and LSV continued to underperform, but the new infrastructure manager RARE started its mandate with the Pacific Salmon Commission with a strong relative result.

The Fund gained 5.5% in the third quarter of 2012, matching the return for the benchmark. The performance of LSV and the new infrastructure manager RARE were positive influences. LSV saw a big uptick in the performance of their holdings in August and September, resulting in strong relative performance for the quarter. Key sectors where this was most evident were Financials and Industrials. RARE saw strong relative results from the Fund's holdings in the Toll-road, Power Generation and Airports sectors. On the negative side, once again, Brandes' posted poor relative returns. Their core competency – stock selection – was the source of their weak performance. Invesco, the new real estate manager, slightly underperformed its benchmark.

The 2012 fourth quarter results for the Fund have yet to be reported in detail. Preliminary results show equity markets had mixed returns in the fourth quarter. Global equities rose 3.7% with the U.S. lagging (up just 0.8%) and non-North American markets doing very well (gaining 7.8%). This reflected an increasingly shared view that European financial conditions were improving. Bond markets effectively trod water, up just 0.3% in the quarter. The Fund posted a solid 3.4% return, beating the benchmark return of 3.2%.

Total contributed capital (nominal) was \$US 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, 2012 was \$US 186,300,000 or \$CDN 185,350,000.

Contributed capital and asset value of the individual Funds as of December 31st, 2012 stood as follows:

	Contributed Capital		Asset Value	
Northern:	\$US 75,000,000	\$CDN 112,388,000	\$US 102,242,000	\$CDN 101,720,000
Southern:	\$US 65,000,000	\$CDN 97,408,000	\$US 84,059,000	\$CDN 83,630,000

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, 2012	0.9949	1.00513
U.S. Dollar Exchange (noon) rate: per Royal Trust, November 30, 2012	0.9932	1.00685
U.S. Dollar Exchange (noon) rate: per Royal Trust, December 31, 2011	1.017	0.98328

2012 Project Funding

In early May 2011 when the Fund Committees met to plan their 2012 funding programs, the financial positions of the two Funds had improved modestly over the preceding 12 months. For the first time since 2008, the Fund Committees were able to issue general calls for proposals for projects that responded to both Funds full range of goals and objectives.

The Northern Fund Committee divided its use of available funding between support for 14 on-going multi-year projects funded by the Northern Fund in the year or years before 2012 and 26 new projects for a total of 40 new and on-going projects for U.S. \$2.74 million. The Northern Fund has not been in a position to fund new works since 2008.

The Southern Fund Committee's spending policy is based on a value of the Fund calculated as an average of the Fund's value during the preceding 48 months. This has the effect of smoothing annual spending budgets relative to real time values which are prone to fluctuations especially in volatile market environments. While the value of the Fund had gradually increased leading up to May 2012, the influence of 2009's economic crisis was still influencing the 4 year average. Nevertheless the Committee funded 9 on-going multi-year projects in 2012 and 18 new projects for \$2.2M US.

In the nine years between 2004 and 2012 the Northern Fund has granted U.S. \$23,565,498 to 298 projects. Similarly, between 2004 and 2012 the Southern Fund has granted U.S. \$23,017,494 to 354 projects. Total Fund project expenditures to date are U.S. \$46.58M, in support of 652 projects. In addition to this the Sentinel Stocks Program has been funded in the amount of U.S. \$7.44 million.

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. Given the unexpected circumstances, the U.S. and Canadian governments stepped in and provided funds to support the Program in its first year. In 2010 the Northern and Southern Funds repaid the Canadian government for their 2009 contribution to the Program in the amount of Can \$500,000. The Funds also paid a first installment to the U.S. government in partial repayment for their 2009 contribution in the amount of \$492,500 US. A second similar installment was paid in 2011 to complete the repayment. Contributions were in the amounts of \$2M US in 2010, 2011 and 2012 bringing the total contribution to the Sentinel Stocks Program to date to \$7.44 M US.

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 a year for an annual financial review and investment manager interviews. The Joint Fund Committee met in person once, on November 7th and 8th, 2012.

Mr. Chris Kautzky of Aon Hewitt opened the meeting by giving a brief background presentation on the Fund’s investment portfolio for the benefit of the new Committee members. In so doing he turned to the recently updated and revised Statement of Investment Policies and Procedures which describes the Fund’s investment beliefs and objectives. The Committee as a whole agreed that an annual review of the SIPP would be valuable.

Mr. Kautzky then presented the Third Quarter report for 2012. There was some discussion on the format and content of the report. Mr. Kautzky explained that Aon Hewitt would shortly be changing the format of the Quarterly reports. Committee members described the aspects of the report they found most helpful and Mr. Kautzky committed to be flexible and to work together with the Committee to customize the report’s format where possible.

The Committee then heard in-person presentations from the Fund’s EAFE manager LSV Asset Management and the new real estate manager Invesco. The new infrastructure manager RARE presented their report via teleconference from Australia. The Committee were generally satisfied with the managers reports.

For the balance of the day, Mr. Kautzky and the Committee analyzed the performance of the Fund’s global value manager Brandes. The discussion covered particular developments with the firm and more general issues pertaining to value-style investing.

On November 8th the Fund Committee heard an in-person presentation from Brandes and a lengthy discussion followed. The outcome was to instruct Mr. Kautzky to report back to the Committee in May with an analysis of the value manager universe setting the attributes of Brandes in context with its peers; a retrospective report on the history of Brandes' relationship with the Fund; and, a re-run of the present portfolio.

In the final agenda item of the meeting Secretariat staff made presentation to the Committee on the organizational structure of the Secretariat and the duties, allocation of time and sources of funds that support Fund program personnel. There was also an in-depth review of Fund administration expenditures.

Northern Fund Committee Meetings

The Northern Fund Committee met four times during 2012.

May 3rd, 2012

- Fund performance and Q1 2012 review. Committee members questioned the performance of the Fund's value managers LSV and more particularly Brandes. The Fund's investment consultant Mr. Chris Kautzky advised the Committee that his firm rated the two managers as a "buy" and a "hold" respectively. Committee members requested an analysis of Brandes' performance against its peers.
- Alternative asset classes update and discussion.
- Revisions to the Statement of Investment Policies and Procedures
- Spending Policy Review. The Fund's investment consultant Mr. Chris Kautzky suggested three alternative strategies to address the effects of changing capital market conditions since the spending policy was first developed. The Committee accepted this advice but no decision to change the spending policy was made.
- Outlook for 2013 project funding.

June 20th, 2012 (by teleconference)

- On-going project status and review for 2013.

October 25th, 2012

- Financial position and date of record.
- First round selection of project concepts to be invited to proceed to stage two.

November 7th, 2012

- Spending policy and alternative approaches.

Southern Fund Committee Meetings

The Southern Fund Committee met three times during 2012.

May 1st, 2012

- Fund performance and Q1 2012 review.
- Alternative asset classes update and discussion.
- Revisions to the Statement of Investment Policies and Procedures
- Spending Policy Review. The Fund's investment consultant Mr. Chris Kautzky suggested three alternative strategies to address the effects of changing capital market conditions since the spending policy was first developed. The assumed annual return of 8.4% used when the spending policy was developed would be considered optimistic today and 6.5% would be more realistic. Responding to this new reality, one strategy would be to move the maximum spending rate down from 5.5% to 4%. This recommendation was approved by the Fund Committee and the spending policy was amended accordingly.
- Outlook for 2013 project funding. Potential for a focused Call for Proposals directed towards priorities identified by the Southern and Fraser River Panels.
- Initial discussions on the need to update the Southern Fund Strategic Plan.

October 24th, 2012 (by teleconference).

- First round selection of project concepts to be invited to proceed to stage two.

December 20th, 2012 (by teleconference).

- Second round selection of detailed proposals for funding in 2013.

2012 Call for Proposals for projects in 2013/14

Both Fund Committees issued Calls for Proposals in mid-2012 for projects starting in 2013.

In May 2012 the Northern Fund Committee determined that up to \$1.2M US might be available in 2013 to fund new projects in addition to 26 prospective on-going projects requiring some \$1.88M US in funding. The Committee received a total of 37 proposals for new projects requesting \$2.9M US. At the first round review meeting in September, 17 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 2013 and a final decision on 2013 funding will be made at a meeting of the Fund Committee in February 2013.

In May, 2012 the Southern Fund Committee anticipated granting \$0.5 million to fund seven on-going multi-year project commitments, leaving approximately \$0.5 million for new projects in 2013. Due to the modest amount of funding expected to be available in 2013, the Committee decided against issuing a general Call for Proposals. Instead, the Committee focused its 2013 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 17 new project concepts requesting \$855,140 US. During the first round review process in October the Southern Fund Committee short-listed 12 proposals to move to the second stage. Final project selection took place in December, 2012 with 8 new proposals being selected for funding along with the 7 on-going projects for a total amount of \$1.07 US.

Committee Appointments

Mr. Steve Gotch was appointed by Canada to the Northern Fund Committee, replacing Dr. Denis D'Amours. Mr. Andrew Thomson was appointed by Canada to the Southern Fund Committee, replacing Mr. Don Radford. Canadian representative Mr. Ron Fowler stepped down from his position on the Northern Fund Committee. A decision on his replacement is pending. Mr. McCoy Oatman was appointed by the United States to the Southern Fund Committee, replacing Mr. "JP" Olney Patt.

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). 2012 was the second year in which PSC Secretariat Fund staff administered the R&E Fund. A total of 29 projects were approved for funding being granted a total amount of \$1.14M US. Of these, 23 were on-going multi-year projects and 6 were new.

Further improvements to the project solicitation and review process were made during 2012 with respect to the call for proposals for projects starting in 2013.