



**Annual Report of the
Southern Boundary Restoration and Enhancement Fund and the
Northern Boundary and Transboundary Rivers Restoration and Enhancement Fund
for the year 2013.**

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
Steve Gotch
Tom Protheroe

United States:

Doug Mecum
David Bedford
Bill Auger

Southern Fund Committee

Canada:

Andrew Thomson
Don Hall
Mike Griswold

United States:

Larry Peck
Larry Rutter/Peter Dygert
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, 2013 was \$US 210,272,000 or \$CDN 223,645,000.
- Although most regions continued to struggle with long term structural issues and slow growth, monetary easing by central banks resulted in strong equity returns across most global equity markets, with the exception of emerging markets.
- In 2013 the Southern Fund Committee supported a total of 18 projects for U.S. \$1.49 million.
- In 2013 the Northern Fund Committee supported a total of 35 projects for U.S. \$2.43 million.
- U.S. \$2 million was contributed to the Chinook Sentinel Stocks Program in 2013, U.S. \$1 million each from the two Committees for a total to date of \$9.44M US.
- Total Fund project expenditures to date are \$50.3M US, in support of 705 projects, as well as the Sentinel Stocks Program.
- Northern and Southern Fund Committee members met jointly twice in 2013. In addition, the Northern Fund Committee met three times in separate sessions and the Southern Fund Committee met twice in separate sessions.
- The Northern Fund Committee participated in a 5-day site visit tour of Northern Fund projects located in Northern BC in September 2013.
- The Southern Fund Committee undertook a 4-day tour of project sites on Vancouver Island, including the West Coast of Vancouver Island in September 2013.
- For Canada, Mr. Tom Protheroe replaced Mr. Ron Fowler on the Northern Fund Committee. For the U.S. Mr. Bill Auger replaced Mr. Jim Bacon and Mr. Peter Dygert took over from Mr. Larry Rutter.
- Fund staff provided administrative services for the Yukon River Panel's Restoration and Enhancement Fund for a third year in 2013.

Investment Review

Although most regions continued to struggle with long term structural issues and slow growth, unprecedented monetary easing by central banks resulted in strong returns across most global equity markets. Volatility continued to decline in both the Canadian and American stock markets. Stock market volatility is an indication of uncertainty in financial markets and markets were relatively calm despite continuing economic and political concerns throughout the U.S., Europe and China. For the year ending December 31, 2013 equity returns were uniformly strong with the exception of emerging markets. For the year the S&P500 Composite led the MSCI World index higher, with returns of 41.3% and 35.2%, respectively. The Consumer Discretionary and Health Care sectors were two of the top performing sectors globally. For the past twelve months currency impact was mostly positive with Canadian investors benefitting from investments in some countries such as the U.S. Rising yields in 2013 resulted in a 1.2% loss in the DEX Universe Bond index. Longer-dated bonds were the worst performing maturity group in the index, losing 6.2%. Of the major DEX Universe Bond index sub-groups, only corporate bonds (up 0.8%) and short-term bonds (up 1.7%) avoided losses during the year.

In the first quarter, equities (with the exception of emerging markets) continued to post strong returns. The Fund posted a return of 5.0% (U.S.\$), exceeding the Benchmark by 90 bps. Outperformance was attributed to strong security selection in Infrastructure, International and Global Equity. LSV and Brandes both outperformed.

In the second quarter, equities (with the exception of Canadian and emerging markets) continued to post strong returns. The S&P 500 Index had the highest return at 6.9%, followed by the MSCI World Index with a return of 4.5%, which Brandes outperformed thanks to strong security selections in IT and Financials. LSV trailed its benchmark slightly due to poor security selection in Industrials, Health Care and Consumer Discretionary. The return for the DEX Long Bond Index was -4.6%. The Total Fund returned 2.9% net of fees in the second quarter of 2013 and outperformed the benchmark by 48 basis points

International equities enjoyed a strong third quarter and indeed strong returns for the last nine months. Brandes posted very strong relative returns and outperformed its benchmark this quarter by 2.88% (U.S.\$), net of fees. LSV beat the MSCI EAFE Index return of 8.7% by 54 basis points. RARE was a negative influence on total fund performance. Invesco also underperformed.

Preliminary figures for the fourth quarter ending December 31, 2013, show global equities posting a 11.6% return on the strength of a broad-based rally in U.S. equities. The S&P500 Composite led all regional indices with a 14.2% return, with all sectors moving higher. Bonds suffered a 1.9% loss during the quarter, continuing a 2-year trend of negative returns for this CPI-pegged sector of the market.

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, 2013 was \$US 210,272,000 or \$CDN 223,645,000.

Contributed capital and asset value of the individual Funds as of December 31st, 2013 stood as follows:

	Contributed Capital		Asset Value	
Northern:	\$US 75,000,000	\$CDN 112,388,000	\$US 115,397,000	\$CDN 122,736,000
Southern:	\$US 65,000,000	\$CDN 97,408,000	\$US 94,875,000	\$CDN 100,909,000

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, 2013	1.0636	0.9402
U.S. Dollar Exchange (noon) rate: per Royal Trust, November 30, 2013	1.0599	0.94349
U.S. Dollar Exchange (noon) rate: per Royal Trust, December 31, 2012	0.9949	1.00513

2013 Project Funding

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. The influence of 2008/9's economic crisis on the 4-year average lessens with every passing month and improving market conditions have helped to grow the Fund. Although the Fund is gaining ground financially, overall annual spending by the Fund Committee has also been influenced by a decision made in May 2012 to lower the maximum spending rate from 5.5% of the 4-year average to 4% as recommended by the Fund's investment consultant in the face of globally diminishing rates of investment returns following the 2008/09 financial crisis. The Committee funded 7 on-going multi-year projects in 2013; 8 new projects directly responsive to specific priorities identified by the Pacific Salmon Commission's Fraser River and Southern Panels; and, 3 out-of-cycle funding requests, one for Qualark hydroacoustics and two for the Salish Sea Program for overall total of \$1.49 million US.

In May 2012 the Northern Fund Committee was able to issue a general call for proposals for projects in 2013 that responded to the Fund's full range of goals and objectives. Following the review and selection process the Committee divided its use of available funding between support for 22 on-going multi-year projects funded by the Northern Fund in the year or years before 2013, and 13 new projects for a total of 35 new and on-going projects for a total of \$2.43 million U.S.

In the ten years between 2004 and 2013 the Northern Fund has granted U.S. \$25,792,281 to 333 projects. Similarly, between 2004 and 2013 the Southern Fund has granted U.S. \$24,514,898 to 372 projects. Total Fund project expenditures to date are U.S. \$50.3M, in support of 705 projects. In addition to this the Sentinel Stocks Program has been funded in the amount of U.S. \$9.44 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, 2012 and 2013 bringing the total contribution to the Sentinel Stocks Program to date to \$9.44 M US.

At its October Executive Session, the Commission prioritized upgrading the Secretariat’s computing infrastructure to support the implementation of SharePoint. SharePoint is an information and document management solution that will support an array of PSC bodies and the Fund Committees (the “PSC Family”) with virtual workspace, data archives, document libraries, and other functions accessible online. The Commissions recommendations included specific guidance to Secretariat staff to approach the Fund Committees with an out-of-cycle funding proposal, since ordinary budgets cannot completely fund the project. In November the Fund Committees agreed to consider a proposal to fund the computer hardware and software infrastructure upgrades at the PSC Secretariat offices for a cost of \$64,320, half of this amount to be provided by each of the two Fund Committees. The Fund Committees unanimously approved this proposal in December 2013. Implementation by Secretariat IT staff began at once.

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 twice, on April 23rd and on November 13th and 14th, 2013.

At the April meeting the Fund Committees received the first Quarter report from Mr. Chris Kautzky of Aon Hewitt. Mr. Kautzky also provided a review of market volatility and the effect on the Fund’s master trust of the hiring of two new managers in real estate and infrastructure. Mr. Kautzky gave a brief presentation on value-management investment style and the value manager universe for the benefit of new Committee members. He also provided a brief historical record of the master trust investment strategy history and milestones. Mr. Kautzky’s final task was to describe investment manager performance evaluation techniques.

The next agenda item was a presentation and question and answer period with Dr. Laura Richards from DFO and Canadian co-chair of the PSC's Committee on Scientific Cooperation. Under discussion was progress by the CSC towards a final version of their out-of-cycle funding request. The Fund Committees agreed to prepare a letter outlining their concerns to be sent to the CSC co-chairs.

A discussion on Fund accounting procedures with respect to Administration costs followed. A contract with auditing firm KPMG was considered, but the Committee decided to accept a staff proposal to bolster internal controls with a review in November.

The future of the Sentinel Stocks Program was briefly discussed, but Committee members decided that a more meaningful discussion could take place following the Commission's Executive session in October 2013.

At the November meeting, Mr. Chris Kautzky of Aon Hewitt presented the Third Quarter report for 2013. He described global market conditions for the year to date and went into some detail on the performance of each of the Fund's investment managers ahead of the in-person interviews that would follow in the agenda.

The Committee then heard in-person presentations, first from the co-founder of the Fund's new infrastructure manager RARE. The next to report was Invesco, the Fund's real estate portfolio manager. The Committee were satisfied with these managers reports. The third manager to report was Brandes and a lengthy discussion followed. Mr. Kautzky assured the Committee that Brandes still warranted a hold rating with his firm and that their performance had improved considerably over the last 4 quarters. The Committee debated their strategy with respect to Brandes at some length. The last manager to report was LSV whose performance had been only modest for the year, but who still hold a buy rating with Aon. The outcome was a motion to maintain the manager status quo for the present and review the investment strategy with Mr. Kautzky at the Spring 2014 joint Fund Committee meeting.

On the second day of the meeting the Committee and Mr. Kautzky discussed a variety of issues with respect to manager performance; performance measurement; the format and content of quarterly reports; and, changes to the structure of the in-person manager presentations

The next agenda item involved a discussion in general terms on the past practices and forward looking policies of each of the Funds regarding funding projects that meet core management responsibilities created by the PST.

The Fund Committees reviewed their audited financial statements and discussed administration costs and financial controls with PSC Secretariat Controller Ms. Ilinca Manisali. Mr. John Field also discussed Secretariat computer infrastructure upgrades. The Fund Committees agreed to consider a proposal from Mr. Field for the Funds to financially support implementing specific server hardware upgrades.

The Fund Committees next heard a presentation from Mr. John Clark on the status of the Sentinel Stocks Program. The potential need for further financial support for the Program beyond

its 5-year term was discussed. The Committee recognized that the Commission will discuss the issue in February 2014.

In the last agenda item for the meeting Southern Fund Committee members described their commitment to the Salish Sea Marine Survival program for the benefit of their Northern Fund counterparts.

Northern Fund Committee Meetings

The Northern Fund Committee met three times during 2013.

February 21st, 2013

- Spending policy review.
- Final selection of projects for funding in 2013.

April 24th, 2013

- Potential for a Call for Proposals for 2014.
- Fund financial obligations in 2014.
- Northern and Transboundary Panel input.
- Timetable.

September 19th through 25th, 2013

- Site visit tour of project sites in Northern BC including Terrace, the Nass Valley, Stewart and Hyder, AK, Hazelton, Kitwanga, the Skeena Valley and Prince Rupert.
- First round selection of project concepts to be invited to proceed to stage two. Meeting held in Vancouver, BC.

Southern Fund Committee Meetings

The Southern Fund Committee met twice during 2013.

April 23rd, 2013

- Potential for a Call for Proposals for 2014.
- Fund financial obligations in 2014.
- Southern and Fraser River Panel input.
- Strategic Plan.
- Timetable.
- Out-of-cycle funding requests.

September 26th, 2013.

- Site visit tour of project sites on Vancouver Island including the Cowichan River and estuary, Campbell River, Gold River, the Burman River and Nanaimo.
- First round selection of project concepts to be invited to proceed to stage two. This meeting was held in Gold River on Vancouver Island.

2013 Call for Proposals for projects in 2014/15

Both Fund Committees issued Calls for Proposals in mid-2013 for projects starting in 2014.

In April 2013 the Northern Fund Committee determined that up to \$2.2M US might be available in 2014 to fund new projects in addition to 24 prospective on-going projects requiring some \$1.68M US in funding. The Committee received a total of 69 proposals for new projects requesting \$6.2M US. At the first round review meeting in September, 39 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 2014 and a final decision on 2014 funding will be made at a meeting of the Fund Committee in late January 2014.

In April, 2013 the Southern Fund Committee anticipated granting \$0.44 million to fund six on-going multi-year project commitments, leaving approximately \$1.69 million for new projects in 2014. Once again in 2013, the Committee focused its 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 61 new project concepts requesting \$4.95 million US. During the first round review process in September the Southern Fund Committee short-listed 37 proposals to move to the second stage. A meeting of a four person bilateral technical review team took place in December, 2013. The final decisions on 2014 funding will be made at a meeting of the Fund Committee in mid-February 2014.

Committee Appointments

Mr. Tom Protheroe was appointed by Canada to the Northern Fund Committee, replacing Mr. Ron Fowler. Mr. Bill Auger was appointed by the United States to the Northern Fund Committee, replacing Mr. Jim Bacon. Also for the United States, Mr. Peter Dygert took the place of Mr. Larry Rutter starting in October.

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). 2013 was the third year in which PSC Secretariat Fund staff administered the R&E Fund. A total of 29 projects were awarded grants, being funded to a total amount of \$1.228M US. Of these, 23 were on-going multi-year projects and 6 were new.

At the December 2013 meeting of the Yukon River Panel in Whitehorse, the Panel approved an application by PSC Fund staff to continue to administer the R&E Fund. A second three year term was approved.