



**Annual Report of the  
Southern Boundary Restoration and Enhancement Fund and the  
Northern Boundary and Transboundary Rivers Restoration and Enhancement Fund  
for the year 2014.**

***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/Stefanie Moreland  
Bill Auger

Southern Fund Committee

**Canada:**

Andrew Thomson  
Don Hall  
Mike Griswold

**United States:**

Larry Peck  
Peter Dygert  
McCoy Oatman/ Joe 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 31<sup>st</sup>, 2014 was \$US 208,427,000 or \$CDN 241,796,000.
- While the US economy had a year of strong economic growth and labour improvement, most other nations, especially in Europe, Japan and the emerging markets, struggled with softening growth and declining inflation. For the year, the Fund's net return trailed the benchmark in both Canadian and US terms.
- In 2014 the Southern Fund Committee supported a total of 33 projects for U.S. \$2.17 million and in addition provided U.S. \$1.8 million to the Salish Sea Marine Survival Program.
- In 2014 the Northern Fund Committee supported a total of 52 projects for U.S. \$3.17 million.
- U.S. \$554,000 was contributed to the Chinook Sentinel Stocks Program in 2014, U.S. \$277,000 each from the two Committees for a final total of \$10 million US.
- Total Fund project expenditures to date are \$55.9M US, in support of 798 projects.
- Northern and Southern Fund Committee members met jointly twice in 2014. In addition, the Northern Fund Committee met three times in separate session and the Southern Fund Committee also met on three occasions.
- In the Northern Fund U.S. section Ms. Stefanie Moreland replaced Mr. David Bedford and in the Southern Fund U.S. section Mr. Joe Oatman replaced Mr. McCoy Oatman.
- Fund staff provided administrative services for the Yukon River Panel's Restoration and Enhancement Fund for a fourth year in 2014.

## *Investment Review*

During the first quarter of 2014 the Fund's net return of +1.1% in US dollar terms slightly trailed the benchmark return of +1.2%. Asset allocation had a neutral impact while security selection detracted value. Underperformance of the Infrastructure and U.S. Real Estate managers versus their respective benchmarks more than offset the outperformance from Brandes, the global equity manager, who exhibited improved performance over the last year.

In the second quarter the Fund's net return of +5.1% in US dollar terms matched the benchmark return. Both asset allocation and security selection had neutral impacts. The continuing outperformance of Brandes based on strong stock selection across most sectors, especially Telecommunications, Energy and Utilities was offset by the continuing underperformance of the Infrastructure manager.

The much publicized rift between Europe and Russia over the Ukraine and the resulting sanctions, coupled with political tensions in the Middle East contributed to an unfavorable international investment environment and a slowdown in investment especially in the Eurozone. In the third quarter of 2014, Brandes the Funds' global equities manager underperformed versus its benchmark and was the primary source of value detractor in the portfolio. The Fund's net return of -2.9% in US dollar terms trailed the benchmark return by 0.2%.

Over the past quarter, the Fund's net return trailed the benchmark return in both Canadian and US terms. The underperformance of the global equity manager versus its benchmark was the largest source of value detractor.

Summing up the past year, 2014 may be best remembered as a year of divergent global economic growth. While the US economy had a year of strong economic growth and labour improvement, most other nations, especially in Europe, Japan and the emerging markets, struggled with softening growth and declining inflation. The result was the US dollar strengthening against pretty much all major currencies (including the Canadian dollar) which dampened returns in US dollar terms for non-US assets, as well as US equities performing better than non-US equities. As the portfolio had a higher weighting than target to the better returning U.S. equities and a lower weighting than target to the assets that performed worse (i.e. international equities and Canadian universe bonds), maintaining assets in this manner added value.

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 31<sup>st</sup>, 2014 was \$US 208,427,000 or \$CDN 241,796,000.

Contributed capital and asset value of the individual Funds as of December 31<sup>st</sup>, 2014 stood as follows:

	<b>Contributed Capital</b>		<b>Asset Value</b>	
<b>Northern:</b>	\$US 75,000,000	\$CDN 112,388,000	\$US 114,095,000	\$CDN 132,362,000
<b>Southern:</b>	\$US 65,000,000	\$CDN 97,408,000	\$US 94,334,000	\$CDN 109,437,000

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, 2014	1.1601	0.86199
U.S. Dollar Exchange (noon) rate: per Royal Trust, November 30, 2014	1.1427	0.87512
U.S. Dollar Exchange (noon) rate: per Royal Trust, December 31, 2013	1.0636	0.94020
U.S. Dollar Exchange (noon) rate: per Royal Trust, December 31, 2012	0.9949	1.00513

## ***2014 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 6 on-going multi-year projects in 2014 and 26 new projects directly responsive to specific priorities identified by the Pacific Salmon Commission's Fraser River and Southern Panels. In addition a first year amount of \$1.8 million US, part of a \$5 million US, five year commitment, was granted to the Salish Sea Marine Survival Program.

In June 2013 the Northern Fund Committee was able to issue a general call for proposals for projects in 2014 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 2014, and 30 new projects for a total of 52 new and on-going projects for a total of \$3.17 million U.S.

In the eleven years between 2004 and 2014 the Northern Fund has granted U.S. \$29,144,989 to 397 projects. Similarly, between 2004 and 2014 the Southern Fund has granted U.S. \$26,721,580 to 401 projects. Total Fund project expenditures to date are U.S. \$55.9 million in support of 798 projects. In addition to this the Sentinel Stocks Program has been funded in the amount of U.S. \$10 million.

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

#### ***(i) Chinook Sentinel Stocks program***

In 2008 the Northern and Southern Fund Committees approved motions to support the "Chinook Sentinel Stocks Program" (SSP) with funds in the amount of \$1M US each, per year, for a period of 5 years beginning in 2009.

However, due to the global economic crisis of 2008/09 neither the Northern nor Southern Fund was able to financially support the SSP in its first year. Given the unexpected circumstances, the U.S. and Canadian governments stepped in and provided funds to support the Program in 2009. 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 (\$461,000 US). The Funds also repaid the U.S. government for their 2009 contribution in two installments, first in 2010 and again in 2011 for a total amount of \$985,000 US. Funding in the amount of \$2M US per year was allocated to the SSP by the Northern and Southern Funds in 2010, 2011, 2012 and 2013. Final contributions in fulfillment of the \$10M US commitment to the SSP were made in 2014 in the amount of \$554,000 US divided equally between the two Funds.

***(ii) Very high priority Chinook projects***

At the April meeting of the Joint Fund Committees, Committee members reviewed a letter of guidance received earlier that month from the Commissioners of the PSC. The letter drew attention to the conclusion of incremental funding from the Sentinel Stocks Program, Coded-Wire-Tag Improvement Program and model improvement mandated through the 2009 PST Agreement which together had provided support for implementing Chapter 3 of the Pacific Salmon Treaty. The letter further noted that the management agencies preparing for the 2015, 2016, 2017, and 2018 fishing seasons face financial challenges in meeting obligations for stock assessment and data collection, and under present circumstances, found themselves unable to build existing PSC programs into their agency budgets. In light of these two circumstances and while also acknowledging that decisions on project and activity selection are the responsibility of the Fund Committees, the Commissioners suggested that the Committees consider financial support for a list of chinook projects prioritized as very high priority by the joint Chinook Technical Committee to address Chapter 3 data needs over the next four years.

After considerable deliberation, the Joint Fund Committee agreed to respond to the Commissioners guidance as an important facet of treaty implementation through 2018. Members committed to finance the priority projects identified over the next four years within the bounds of their financial obligations and conservation priorities for other salmon species.

***(iii) SharePoint implementation***

In December 2013 the Fund Committees unanimously approved a \$64,320 proposal to fund computer hardware and software infrastructure upgrades at the PSC Secretariat offices 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. Half of this amount was provided by each of the two Fund Committees. In April 2014 the Fund Committees approved a further grant of \$85,000 for building and implementing the Secretariat’s internal office (intranet) sites and PSC bodies’ (extranet) sites.

***(iv) PSC website redevelopment***

In January 2014 reflecting on lessons learned during the Northern BC site visit tour in October 2013, the Northern Fund Committee discussed how best to communicate the results of funded projects. It was noted that 2014 is a milestone year for both Funds, marking 10 years of project investments, \$60M awarded in grants, and over 750 projects funded. Staff were tasked to explore this idea further and using the PSC website as a Fund communications tool was a clear option. The underutilized potential of the PSC website was a key finding of the 49 Solutions final report to the Commission during the Strategic Review process. Their recommendation was to “review and revamp the organization and content of the website to improve its content and navigability”. The consultants envisioned “a more informative and dynamic public website to be a communication and educational tool”. Acting on this advice the Commission formed a working group in collaboration with the Secretariat in October 2013 to advise on improvements to the PSC website and report back to the Commission. In two months’ time the working group successfully executed an electronic survey of PSC participants and public members on the current website and reported back to the Commission in

February 2014. A concern of the working group was that staff didn't have the expertise to redesign the website in-house. It would appear that an examination of potential third-party expertise and associated costs would be warranted. Fund staff took on this task and met with a number of local Vancouver-based web design firms. The scope of a website redesign project incorporating innovative Fund communications functions was proposed and quotes on costs were given. At the April 2014 meeting of the Joint Fund Committees, this information was presented and the Fund Committees approved a grant of \$35,000 to the PSC Secretariat to support the website redesign project.

(v) *Fund presentation and reception*

In addition to the website redesign project, the Fund Committees agreed to host an evening social event during the PSC post-season meeting in Vancouver in 2015 that would be anchored by a presentation or presentations about the Fund acknowledging 10 years of project funding. This format was successful in drawing a wide audience to a similar event held in February 2014 at the Wall Centre in Vancouver and featuring a presentation on the Salish Sea Marine Survival Program to which the Southern Fund has committed \$5 million over 5 years. A grant in the amount of \$10,000 was approved for the 2015 event and staff were tasked with implementation.

*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 16<sup>th</sup> and on October 28<sup>th</sup> in the afternoon only, and for the day on October 29<sup>th</sup>, 2014.

At the April meeting the Fund Committees Ms. Kamila Geisbrecht of Aon Hewitt presented on a number of investment related agenda items. Ms. Geisbrecht is now the Aon Hewitt lead on the Fund's portfolio, taking over that role from Mr. Chris Kautzky after an eight year term (since Nov 2005).

Ms. Geisbrecht began the morning with an educational review of the investment strategy building process with a focus on asset mix, implementation, rebalancing and monitoring. The Committee then received the fourth Quarter 2013 report which showed that the Fund had exceeded the benchmark for the quarter and for the year, but had only matched the benchmark for the previous four years. The next agenda item was a review of potential questions developed by Ms. Geisbrecht that could be posed to the Fund's investment managers at the annual meeting in October. This item was in response to the Committee's desire to move the annual investment manager interviews onto a more proactive footing, with the managers being required to answer specific questions rather than providing their own typical presentations. The Committees were satisfied with the work Ms. Geisbrecht had done and instructed her to brief the investment managers on the new format they would be required to follow in the Fall. Lastly Ms. Geisbrecht gave a review of the performance of Brandes Investment Partners, the Fund's global equities

manager. The Committees have been concerned with the performance of Brandes since the credit crisis of 2008/09.

The next agenda item was a review and discussion of the letter of guidance to the Funds from the PSC Commissioners received earlier in April. After considerable deliberation, the Joint Fund Committee agreed to respond to the Commissioners guidance as an important facet of treaty implementation through 2018. Members committed to finance the priority projects identified over the next four years within the bounds of their financial obligations and conservation priorities for other salmon species.

The Committees then received a presentation on Fund's audited financial statements and administration costs for the following year from PSC Secretariat Controller, Ms. Ilinca Manisali. The Committees approved the administration budgets as presented.

Mr. John Field gave a presentation on the Secretariat's server upgrades and SharePoint deployment. The Fund Committees approved a proposal to award a second grant in support of this initiative in the amount of \$85,000 to be divided equally between the two Funds.

Mr. Angus Mackay responded to an action item that arose during the Northern Fund Committee's meeting in January 2014 and provided a memorandum on Fund communications and website development. The Fund Committees approved grants in the amount of \$35,000 for website redevelopment and \$10,000 for an evening Fund presentation and reception to follow scheduled for the January 2015 meeting of the Commission in Vancouver.

On the afternoon of October 28<sup>th</sup>, the Fund Committees met in joint session to discuss the very high priority chinook projects identified by the Commissioners in April and subsequently reviewed and prioritized by the Chinook Review Committee (CRC) earlier in October. Noting the financial obligations and constraints particularly for the Southern Fund, the Fund Committee members agreed to fund priority projects #1 through #6 in the CRC's report for an amount up to \$1.2M US with the grants to be awarded in early 2015.

On the following day, October 29<sup>th</sup>, at the annual investment manager review meeting, Ms. Kamila Geisbrecht of Aon Hewitt presented the second Quarter report for 2014. Over the past year, the Fund had out-performed the benchmark on a gross and net of fees basis. Outperformance was attributed to both asset allocation (underweighting Universe Bonds) and security selection (outperformance of the Global and International Equity managers versus their benchmarks).

The Committee then received the in-person presentations from LSV, RARE, Invesco and Brandes. Of the four active managers, only Invesco appeared to have made a concerted effort to conform to the format approved by the Committees and Aon Hewitt of responding to set questions they had been provided with earlier. The other managers responded more or less to the questions, but largely stuck to the traditional presentation booklet format. For a first attempt at changing the procedure of the investment manager interview meetings, it was deemed a partial success that would be improved upon next year. Ultimately the Committees were content to maintain the manager status quo for the present and review performance again with Ms. Geisbrecht at the Spring 2015 Joint Fund Committee meeting.

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

The Northern Fund Committee met three times during 2014.

January 29<sup>th</sup>, 2014

- Final selection of projects for funding in 2014. This meeting was held at the Listel Hotel in Vancouver.

April 17<sup>th</sup>, 2014

- Potential for a Call for Proposals for 2015.
- Fund financial obligations in 2015.
- Commissioner's guidance on very high priority Chapter 3 chinook projects
- Timetable.

September 25<sup>th</sup>, 2014

- First round selection of project concepts to be invited to proceed to Stage Two detailed proposals.

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

The Southern Fund Committee met three times during 2014.

February 13<sup>th</sup>, 2014

- Final selection of projects for funding in 2014. This meeting was held at the Wall Centre in Vancouver.

April 15<sup>th</sup>, 2014

- Potential for a Call for Proposals for 2014.
- Fund financial obligations in 2014.
- Southern and Fraser River Panel input.
- Commissioner's guidance on very high priority Chapter 3 chinook projects
- Timetable.

September 29<sup>th</sup>, 2014.

- First round selection of project concepts to be invited to proceed to Stage Two detailed proposals.

### ***2014 Call for Proposals for projects in 2015/16***

Both Fund Committees issued Calls for Proposals in mid-2014 for projects starting in 2015.

In April 2014 the Northern Fund Committee determined that up to \$2.16M US might be available in 2015 to fund new projects (including a contribution towards the funding of the very high priority chinook projects), in addition to 29 prospective on-going projects requiring some



\$2.23M US in funding. The Committee received a total of 76 proposals for new projects requesting \$5.85 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 2015 and a final decision on 2015 funding will be made at a meeting of the Fund Committee in mid-February 2015.

In April, 2013 the Southern Fund Committee anticipated granting \$2.29 million to fund twenty on-going multi-year project commitments including the Salish Sea Marine Survival Program, leaving approximately \$300,000 for new projects in 2015. Given the very limited amount of funding available, 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 21 new project concepts requesting \$1.02 million US. During the first round review process in September the Southern Fund Committee short-listed 8 proposals to move to the second stage. The final decisions on 2015 funding will be made at a meeting of the Fund Committee in early February 2015.

### ***Committee Appointments***

Ms. Stefanie Moreland was appointed by the United States to the Northern Fund Committee, replacing Mr. David Bedford. Also for the United States, Mr. Joe Oatman took the place of Mr. McCoy Oatman on the Southern Fund Committee.

### ***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). 2014 was the fourth 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 \$1.16M US. Of these, 21 were on-going multi-year projects and 8 were new.