



**Annual Report of the
Southern Boundary Restoration and Enhancement Fund and the
Northern Boundary and Transboundary Rivers Restoration and Enhancement Fund
for the year 2005.**

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, Co-Chair
Gord Zealand / Lorelei Smith
Ron Fowler

United States:

Jim Balsiger / Doug Mecum, Co-Chair
David Bedford
Jev Shelton

Southern Fund Committee

Canada:

Wilf Luedke, Co-Chair
Don Hall
Bill Otway / Mike Griswald

United States:

Rollie Rousseau, Co-Chair
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 185,617,000 or \$CDN 216,411,000. The much greater growth in asset values when expressed in U.S. currency (\$US 45,552,000) as compared to Canadian currency (\$CDN 6,615,000) is due to the significant appreciation of the Canadian dollar relative to the U.S. dollar since the funds were capitalized.
- For the year, the Fund underperformed by the benchmark by 0.5%. The U.S. equity component added value, while the EAFE and global equity portfolios underperformed their relevant index returns. The bond portfolio met expectations.
- The Fund terminated its relationship with Putnam Investments, manager of the EAFE portion of the equity portfolio primarily due to a pattern of underperformance since being engaged four years earlier, and other issues; the funds they managed were transferred to LSV Asset Management in August.
- In 2005 the Southern Fund Committee supported a total of 46 projects for U.S. \$3.1 million or CAN \$3.8 million.
- In 2005 the Northern Fund Committee supported a total of 27 projects for U.S. \$2.88 million or CAN \$3.59 million.
- Northern and Southern Fund Committee members met jointly four times in 2005. The Southern Fund Committee met four more times on their own and the Northern Fund Committee four more times on their own.
- For Canada, Ms. Lorelei Smith was appointed to the Northern Fund Committee, replacing Mr. Gord Zealand. Mr. Mike Griswold was appointed to the Southern Fund Committee, replacing Mr. Bill Otway.
- For the U.S., Mr. Doug Mecum was appointed to the Northern Fund Committee, acting for Mr. Jim Balsiger.

Investment Review

The Fund trailed the benchmark by approximately 0.5% in the first quarter. This was due to Brandes global equities trailing the weak index return and by Putnam lagging behind the EAFE index. On the positive side, the US equities exceeded their benchmark.

In the second quarter the Fund slightly exceeded the benchmark by 0.4% with Putnam adding value to a relatively weak index result. Barclays and Brandes both added value in US and global equities.

In the third quarter, the Fund again exceeded the benchmark doing well with its US, global and EAFE equity portfolios. The performance of the global equity portfolio managed by Brandes was the main source of the Fund's relative out-performance.

The Fund trailed the benchmark return of 2.7% by 1.0% in the fourth quarter of 2005. While the U.S. equity manager (Barclays) beat the index, the new EAFE manager (LSV) trailed its relevant index return as did Brandes in the global equity component. The passively-managed bond portfolio matched the benchmark index return, as expected.

For the year, the Fund underperformed by the benchmark by 0.5%. Results were similar to the fourth quarter with the U.S. equity component adding value and the EAFE and global equity portfolios underperforming the relevant index returns. The bond portfolio met expectations.

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 185,617,000 or \$CDN 216,411,000. The much greater growth in asset values when expressed in U.S. currency (\$US 45,552,000) as compared to Canadian currency (\$CDN 6,615,000) is due to the significant appreciation of the Canadian dollar relative to the U.S. dollar since the funds were capitalized.

Contributed capital and asset value of the individual Funds as of December 31, 2005 stood as follows:

	Contributed Capital		Asset Value	
Northern:	\$US 75,000,000	\$CDN 112,388,000	\$US 99,788,000	\$CDN 116,343,000
Southern:	\$US 65,000,000	\$CDN 97,408,000	\$US 85,829,000	\$CDN 100,068,000

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: 1.1674 per Royal Trust, November 30, 2005
U.S. Dollar Exchange (noon) rate: 1.1801 per Royal Trust, October 31, 2005
U.S. Dollar Exchange (noon) rate: 1.2036 per Royal Trust, December 31, 2004

2005 Project Funding

In January 2005, the Southern Fund Committee announced that it had approved support for a total of 46 projects for U.S. \$3.1 million or CAN \$3.7 million. Proponents included Canadian and U.S. government agencies, First Nations, tribes, and community watershed stewardship groups from B.C. and Washington and Oregon States. Some examples are:

- A project with NOAA Fisheries to examine mortality and movements of chinook and coho in the nearshore by setting up hydroacoustic receiver arrays across key straits in Puget Sound, and by initiating tagging studies of juvenile coho and chinook salmon in north and south Puget Sound.
- A project with group of Canadian and American scientists who will collaborate to bring together transboundary multidisciplinary datasets collected from numerous studies over the past decade relating to salmon survival for a period before and after an accepted regime shift. This database will be used to determine the reasons that there is not a synchronous response of all salmon in the Strait of Georgia and Puget Sound to the most recent regime shift, and the mechanisms responsible for the continued poor marine survival of coho, chinook and steelhead in the Strait of Georgia.
- A project on the east coast of Vancouver Island to conduct preliminary investigations to identify, measure and map major sediment sources in the Cowichan River watershed below Lake Cowichan. The proponents will quantify sediment loading rates, and link loading rates and sediment composition to biological effects on fish habitat and production.
- A project with the Coastal Chinook Research and Monitoring Program to identify and assess the development of a wild Exploitation Rate Indicator (ERI) stock of chinook salmon returning to their home stream as mature fish in the Siuslaw River on the Oregon coast. This will allow the comparison of a wild stock with a domestic stock of chinook for use as an ERI-stock to appropriately represent the North Oregon coastal wild stock aggregate in the Chinook Technical Committee's coast model.

In March 2005, the Northern Fund Committee announced its support for a total of 27 projects for U.S. \$2.88 million or CAN \$3.59 million. Proponents included seven First Nations from northern B.C. and the Yukon; collaborative projects co-managed by Fisheries and Oceans Canada and the Alaska Department of Fish and Game and a range of other habitat restoration and fisheries management projects led by Fisheries and Oceans Canada, the Alaska Department of Fish and Game, NOAA Fisheries and two community watershed stewardship groups. These included:

- A substantial investment of funds in molecular genetic laboratory upgrades at the ADF&G lab in Juneau; at the NOAA Fisheries lab in Auke Bay and at the Pacific Biological Station in Nanaimo, BC.

- A Nisga'a study to improve coho pre-season forecasting and in-season escapement estimates to the Middle and Upper Nass River using radio telemetry and mark rate sampling.
- An ADF&G project to improve collection efficiency, processing efficiency, availability, and reliability of salmon biological data, particularly stock assessment data. Techniques for automating stock assessment data collection in the field using handheld computers will be developed and deployed in two SE Alaska locations.
- Two projects to improve sockeye spawning habitat and to map and monitor spawning locations as part of an on-going Lakelse Lake Sockeye Rehabilitation Program involving DFO in partnership with local First Nations and community groups.

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 for the time being. Thus the Joint Fund Committee met in person on four occasions: January 14th, 2005; February 16th, 2005; May 19th and 20th, 2005; and November 16th and 17th, 2005.

The Joint Committee's first meeting in 2005 was held on January 14th, 2005 at the Wall Centre in Vancouver. Acting on a Joint Committee request from November 2004, Mr. John Myrah of Hewitt and Associates provided an in-depth analysis of structural and style related reasons for changing the Fund's non-North American equity manager, Putnam Investments. The Committee agreed that the "downside protection" of changing their EAFE investment strategy from a core style to a value oriented investment style would beneficially diversify their portfolio. A motion directing staff to effect this change was passed. With Putnam Investments being a core style manager, the motion triggered the termination of the Fund's association with that firm. Mr. Myrah then provided a long list of potential value oriented style managers from which six were chosen to be considered in greater detail when the Committee met next, in February. Mr. Myrah was also asked to investigate the possibility of transferring a portion of the Putnam EAFE funds to the existing Brandes Global account so that the Fund might benefit from that firm's positive performance record and its value style.

The second meeting of the year was held in Portland on February 16th. Mr. John Myrah of Hewitt and Associates was instructed to contact a final shortlist of 4 value oriented style managers for interview at the end of March 2005 by an investment manager selection sub-committee of the Joint Committee. The sub-committee was struck with a balance of US and Canadian members from the Northern and Southern Fund Committees. Mr. Myrah also reported that it would be possible to increase the Fund's Brandes Global equities mandate with a portion of the Putnam holdings because the Funds investments with that firm had not yet reached a maximum threshold limiting further investment. A motion instructing staff to effect this structural change was passed. Mr. Myrah recommended that the Fund's Investment Policy

be bought up to date following the series of structural changes that had recently taken place. He agreed to present a draft update at the Committees next meeting in May.

The third meeting of the year was held at the PSC offices in Vancouver, on May 19th & 20th, 2005. A motion was passed accepting the recommendation of the investment manager selection sub-committee of the Joint Committee and the recommendation of Mr. John Myrah that the firm LSV be chosen to manage the Fund's EAFE portfolio. Mr. Myrah then led the Committee through a review of the draft updated Investment Policy Statement and took comments and edits. Finally as an information item, Mr. Myrah briefed the Committee on some alternative investment mandates including real estate, private equity and hedge funds. On the second day of the meeting the Joint Committee members discussed overlapping Northern and Southern program operational issues including that of the sharing of tissue sample data between labs conducting DNA projects supported by Fund Committee grants. The Northern and Southern Fund Committees also met separately.

The fourth and last Joint Fund Committee meeting of the year was an in person meeting held at the PSC offices in Vancouver, BC on November 16th and 17th, 2005. As usual the November meeting was marked by the annual Fund investment manager performance reports and interviews. The Committee was generally satisfied with the performance and reports from Barclays Global Investors; from Brandes Investment Partners and from LSV Asset Management. Hewitt and Associates staff provided their third quarter report. Mr. John Myrah reviewed a second draft of the Statement of Investment Policies and Procedures. Final edits were provided by the Committee and Mr. Myrah agreed to provide a final version early in 2006. The Committee also discussed issues arising from the funding of genetic stock identification projects. Principal topics of discussion were: what is the appropriate technology to be supporting in this field, microsatellites or SNP's; how to ensure or enforce data sharing between GSI labs and lastly, whether it would be practical or possible to develop a procedure whereby the Northern and Southern Funds could jointly support GSI projects that will provide benefits to both northern and southern fisheries managers. Mr. Ken Medlock then presented the 2006 budget for the combined Northern and Southern Funds. Of note was a request to increase the budget for Fund administrative staff from one staff member and a one half equivalent to two staff members and one whole equivalent in response to the growing workload. The request was debated and a motion passed approving the change. A second motion was passed approving the 2006 budget.

Southern Fund Committee Meetings

The Southern Fund Committee met four times during 2005.

May 20th, 2005

- Update on 2004 projects, final reporting and requests for extensions.
- Consideration of issues in the preparation for the 2006/07 Call for Proposals
- Discussion on the development of a Southern Fund Strategic Plan

July 18th and 19th, 2005

- Update on 2005 projects and program administration.

- Strategic issues concerning the 2006/07 season, Fraser River & Southern Panel priorities.
- Details of the 2006/07 Call for Proposals, Applications Form, Technical Review, Evaluation Criteria and Timetable.
- Further discussion on the development of a Southern Fund Strategic Plan

September 21st & 22nd, 2005

- First round “Project Concept” review meeting and shortlist selection for 2006/07

December 13th and 14th, 2005

- Initial project selection meeting for 2006/07.
- Staff instructed to engage consultants to assist the Committee in developing a Southern Fund Strategic Plan in 2006.

Site visits

In early September 2005 three members of the Southern Fund Committee and the Fund Coordinator visited some of the projects in central and southern BC that had been funded in 2005. These site visits are considered to be an important aspect of the Committee’s ongoing oversight responsibilities. The team visited the DIDSON hydroacoustic installation on the Horsefly River where this technology is being tested as an alternative means of enumerating returning spawning sockeye. Habitat restoration sites were reviewed on the Bonaparte and Coldwater Rivers. A water saving aid to irrigators in the form of a mini-weather station was visited with the local farmer. In Merritt, an in-river resistivity counter to enumerate Thompson Basin coho was inspected with the equipment’s technical staff and with local stock assessment biologists. And finally a complex of off-channel coho spawning and rearing habitats were visited near Chilliwack in the Fraser Valley.

Northern Fund Committee Meetings

The Northern Fund Committee met four times during 2005.

March 3rd & 4th, 2005

- Final project selection meeting for 2005

May 20th, 2005

- Consideration of early strategic issues in the preparation for 2005/06

September 29th and 30th, 2005

- First round “Project Concept” review meeting and shortlist selection for 2006/07

November 17th, 2005

- Technical Review Team nominations, Evaluation Criteria and Timetable.

2005 Call for Proposals for projects in 2006/07

During the summer of 2005 both the Northern and Southern Fund Committees reviewed the earnings from the Fund's investments and found that according to their spending policies, a third round of project funding could be undertaken in 2006. The Southern Fund set a target budget figure of U.S. \$3.9 million and the Northern Fund U.S. \$3.1 million.

The Southern Fund Committee had used a one-stage full application process in 2004 to select 2005/06 projects. The process was found to be somewhat cumbersome and time consuming for both proponents and reviewers and likely to result in further logistical difficulties as the number of applications increases. In 2005 a two-stage process was developed similar to that used by the Northern Fund Committee. The 2006/07 Call for Proposals schedule involved the issuance of the Call for Proposals in August with a deadline for submission of Stage 1 project concepts by mid-September. 223 project concepts were received of which 99 were short-listed by the Southern Fund Committee and invited to proceed to Stage 2, the development of full-length proposals. The full length application form was further refined in 2005, by adjusting the suite of evaluation criteria to better suit the expertise of the reviewers. Once again, two independent, bilateral proposal review teams were recruited to assist the Committee by providing their expert opinion on those elements of the applications concerning technical feasibility, human resources and cost effectiveness. Proposal review by the independent teams took place in late November, early December. Initial project selection by the Fund Committee took place in mid-December and final project selection in January 2006.

The Northern Fund Committee again applied their two-stage Call for Proposals approach adopted in 2004, requiring applicants to submit a brief 2 page project summary for initial review by the Committee themselves. In 2005 this yielded 122 project concepts from which a shortlist of 65 projects were chosen and the proponents invited to complete full length proposals. The full length proposals were forwarded to a team of Alaskan and Northern BC and Yukon expert reviewers who met in person in Seattle in November. Their findings were circulated to the Fund Committee members in December. Final decisions are expected to be made by the Northern Fund Committee in early February 2006.

Committee Appointments

Mr. Mike Griswold was appointed by Canada to the Southern Fund Committee in the capacity of Fraser River Panel representative on May, 19th 2005, replacing Mr. Bill Otway. Mr. Wilf Luedke continues to act for Mr. Ron Kadowaki on the Southern Fund Committee, while Mr. Kadowaki completes a special assignment.

Ms. Lorelei Smith was appointed by Canada to the Northern Fund Committee in the capacity of Transboundary Panel representative in October 2005, replacing Mr. Gord Zealand. Mr. Doug Mecum was appointed by the U.S. to the Northern Fund Committee late in 2005, acting for Mr. Jim Balsiger.