



DoD NAF Treasury Management Open Forum Meeting Minutes

15 November 2017

Meeting Purpose & Objectives

The DoD NAF Treasury Open Forum meeting is held annually, in accordance with enclosure 9 of Department of Defense Instruction (DoDI) 1015.15, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources," in order to provide a free exchange of information regarding treasury management practices. The Army Installation Management Command G9 hosted the 2017 meeting.

Agenda Items

- 1. Welcome and Overview**
- 2. Interest Rate, Economic and Investment Outlook for 2018: IMCOM G9's NAF Investment Strategy**
- 3. 2016 DoD NAF Treasury Management Open Forum Meeting Action Items: Army Actions**
- 4. NAF Investment Committee Membership: Independent Investment Professional**
- 5. NAF Investment Consultant Contracts**
- 6. NAF Investment Portfolio Management Software: SymPro**
- 7. NAF Banking and Investment Rapid Improvement Event Recommendations**
- 8. Closing Remarks**

Meeting Attendees

- Mr. Paul Burk, Army IMCOM G9
- Mr. Laurent Lant, Army IMCOM G9
- Mr. Robert Ramsey, Army IMCOM G9
- Mr. Samuel Steffanina, Army IMCOM G9
- Ms. Pyper Brenner, Marine Corps MCCS
- Mr. Fred Stout, Marine Corps MCCS
- Mr. Matthew Keathley, Navy CNIC
- Ms. Nancy Stephens, Navy CNIC
- Mr. AC Berry, Air Force SVA/FM
- Mr. Cameron Zablocky, Air Force SVA/FM
- Mr. William Moring, AAFES
- Mr. Brian Poss, AAFES
- Mr. Andrew Howell, NEXCOM
- Mr. Tom McDonald, NEXCOM
- Mr. Michael Curtis, OSD, MC&FP

Meeting Notes

1. Welcome and Overview – Mr. Laurent Lant, Army IMCOM G9 (Meeting Host)

- a. Mr. Lant welcomed the participants to the NAF Treasury Open Forum Meeting, hosted by the Army.

2. Interest Rate, Economic and Investment Outlook for 2018: NAF Investment Strategy

- a. Mr. Lant stated that the inflation rate has been low (around two percent) because of three factors: (1) quantitative easing (i.e., large scale asset purchases by the Federal Reserve); (2) technology and innovation; (3) and “Shrinkflation,” which is the shrinking in size or quantity of products while their prices remain the same. The low inflation rate caused by these factors leads to lower interest rates. Unfortunately, this means low levels of interest income for DoD Nonappropriated Fund Instrumentalities (NAFIs).
- b. Mr. Lant discussed the Federal Reserve’s (Fed) effort to begin quantitative tightening, or a reverse of the quantitative easing. The incoming Fed Chair, Mr. Jerome Powell, is expected to follow similar monetary policy applied by Ms. Janet Yellen, the current Fed Chair. The Fed’s strategy is to sell the bonds in their portfolio at a slow pace, which should eventually lead to a slow increase in interest rates. Increased volatility and Congressional tax reform is expected, with one interest rate hike in December and possibly two in 2018.
- c. Mr. Lant explained that pursuant to paragraph 4.6 of DoDI 1015.15, the Army bases its NAF investment strategy on safety, liquidity, and yield. The Army’s goal is to maintain a ten percent liquidity level and is seeking to add mortgage-backed securities to its portfolio. The Army is pursuing a three-year investment horizon due to potential Fed policy shifts.
- d. Mr. Berry stated that the Air Force uses a five-year ladder approach and does not invest in mortgage-backed securities. The Air Force has no concerns with meeting DoDI 1015.15 requirements and has no significant working capital issues.
- e. Mr. Howell stated that NEXCOM invests cyclically and needs to ensure security maturities are aligned with the cash needs for maintaining holiday inventory. Another factor impacting cash flow is prepayments required by Naval Facilities Engineering Command (NAVFAC) for capital expenditures, which reduces the investment portfolio, and leads to reduced interest income. Mr. Burk responded that the Army faces a similar situation with

prepayments, but has reached an agreement with higher headquarters in Army Installation Command to provide quarterly prepayments instead of a single prepayment for the entire year.

- f. Mr. Curtis noted that DoD policy in the Financial Management Regulation (FMR) provides that DoD APF entities cannot record an outstanding receivable from a non-federal entity at the end of the year. However, FMR policy allows the APF entities to use their own budgetary resources to perform reimbursable orders for a NAF Instrumentality without an advance during the year (see DoD FMR, Volume 4, Chapter 3, paragraph 030302.A.). NAFIs are considered to be non-federal entities for the purpose of recognizing APF receivables as budgetary resources.
- g. Mr. Keathley stated that the Navy portfolio has a seven-percent liquidity target, and while the Navy has a small amount of mortgage-backed securities in its portfolio, the Navy has not purchased any mortgage-backed securities in three years. The Navy's portfolio has about a 1.5 year average duration and they are looking to adjust the portfolio duration in anticipation of rising interest rates.
- h. Mr. Stout stated that the Marine Corps portfolio does not contain any mortgage-backed securities, and its internal policy is stricter than DoDI 1015.15. Moving forward, the Marine Corps sees Consumer Price Index inflation rising slowly and adjusted its portfolio two years ago, with the intent to adjust the portfolio again given potential rising inflation.

3. 2016 DoD NAF Treasury Management Open Forum Meeting Action Items: Army Action Items – Mr. Laurent Lant, Army IMCOM G9

- a. As a result of the discussions at the 2016 Open Forum meeting in November 2016, Army IMCOM G9 volunteered to work on some of the actions items from that meeting.
- b. **Inter-Service Borrowing.** Mr. Lant noted that DoDI 1015.15 (see paragraph 6.10) prohibits loans between DoD Components. Mr. Keathley circulated a point paper on inter-Service borrowing and noted that documenting additional interest income and savings derived from inter-Component borrowing, compared to commercial loans, could help provide justification for the policy change. Additional support could be attained by quantifying interest income, interest expense savings, and ultimately the benefit to Service members and their families (i.e. increased funding for MWR programs). Additionally, details about the impact on interest income over the long term would strengthen the argument.

- c. Mr. Burk stated that the Army also provided definitions for terms to be added to DoDI 1015.15. No changes to the proposed definitions were noted from the group. Mr. Curtis said he would use the definitions in the draft of the revised DoDI 1015.15.
- d. Mr. Moring discussed AAFES' issuance of commercial paper as another form of borrowing. Mr. Morning proposed revising DoDI 1015.15 to add commercial paper as an additional type of borrowing. Mr. Curtis stated that MC&FP would consider adding that to the DoDI 1015.15.

4. NAF Investment Committee Membership: Independent Investment Professional – Mr. Laurent Lant, Army IMCOM G9

- a. Mr. Lant stated that the Army is looking for an independent investment professional to join its investment committee, and asked the Services to share how each addresses the need for an independent investment professional. The Navy has an economics professor from the Naval Academy as an independent advisor for its portfolio. The Air Force has two Treasury professionals who sit on its investment sub-committee. The Marine Corps' independent investment professional is a retired reservist, a retired mutual fund managing director, and a non-voting member of the investment committee. NEXCOM's independent professional is the Chief Financial Officer of the Coast Guard Community Services Command.
- b. Both Mr. McDonald and Mr. Keathley would be willing to sit on the Army's investment board as an independent board member, if needed.

5. NAF Investment Consultant Contracts – Mr. Laurent Lant, Army IMCOM G9

- a. Mr. Lant asked the Services to share what services are provided by a hired investment consultant or professional. The Air Force does not currently have an investment consultant, but recently released a request for quote to contract for investment consulting services. The Marine Corps uses a combination of its actuary, Aon Hewitt, and SEI Investments to provide advice on portfolio allocation for pension and 401(k) plans. The Navy uses Wilshire Associates for advice on pension and 401(k) portfolio allocation, as well as reporting for the Navy's investment portfolio. AAFES uses Wilshire Associates to provide advice on economic and interest rate trends, and Fidelity to administer the 401(k) plan.

6. NAF Investment Portfolio Management Software: SymPro – Mr. Laurent Lant, Army IMCOM G9

- a. Mr. Lant stated that the Army's portfolio management software, SymPro Software, has limitations and asked the Services what software each uses: (1)

the Marine Corps uses SunGard; (2) the Air Force uses SymPro; and (3) the Navy uses an online version of SymPro, which has been cost-effective. The Army’s desktop version of SymPro is out of date, and it is concerned that Microsoft may cease supporting SymPro in the near future. The Navy suggested that if the Army cannot upgrade its desktop version, it should consider using the online version.

7. NAF Banking and Investment RIE Recommendations – Mr. Michael Curtis, OSD, MC&FP

- a. Mr. Curtis stated that 49 recommendations were developed during the 2013 rapid improvement event (RIE) in association with the Common Services Task Force, and asked if the recommendations were still relevant to the Services. Mr. Burk stated that most of the recommendations were aimed at specific issues the Services were facing at the time of the Task Force, and are not relevant at this time. He said the group can take credit for implementing the recommendation to establish a standing working group. The annual Open Forum meetings have been providing this vehicle for review of policies and discussion of relevant topics. Additionally, the recommendations regarding cloud-based solutions and a potential MWR domain can be incorporated into the NAF IT Working Group efforts. The Army has made progress incorporating piggyback clauses into contracts, and Mr. Burk said this area should remain a recommendation. Further, the update of the DoDI 1015.15 should remain a recommendation.
- b. Mr. Curtis will distribute the full list of recommendations to the Treasury Group following this meeting for any other comments. Disposition of the recommendations will be discussed further at next year’s Open Forum meeting.

8. Closing Remarks

- a. Mr. Lant thanked everyone for attending the meeting and contributing to the effort to share ideas with the group.

Action Items

Item	POC
Navy CNIC to draft the Unified Legislative and Budgeting (ULB) package to allow borrowing between Military Services	Mr. Matthew Keathley
Mr. Curtis to send out RIE recommendations to the Services for feedback	Mr. Michael Curtis

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Approved. However, with respect to paragraph 4a, the Marine Corps' use of a retired reservist as a member of its investment committee, even in a non-voting capacity, would appear to trigger the applicability of the Federal Advisory Committee Act. Recommend that the Marine Corps replace that individual with an independent investment professional who is a full-time officer or employee of the Federal Government and who also satisfies the requirements in DoDI 1015.15, Enclosure 9, Section E9.7.4.

 JUN 15 2018

Virginia S. Penrod
Performing the Duties of the Assistant Secretary of Defense
for Manpower and Reserve Affairs