

# DoD NAF Treasury Management Open Forum Meeting Minutes

November 14, 2019

## **Meeting Purpose & Objectives**

The DoD nonappropriated fund (NAF) Treasury Management 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. Per policy, the meeting is hosted by one of the Military Services or exchanges and a summary of the meeting is issued by the ASD(M&RA).

The Navy Exchange Service Command (NEXCOM) hosted the 2019 meeting.

## **Agenda Items**

1. Welcome and Introductions
2. Wilshire Consulting – Discussion of Current Economic and Investment Climate and Challenges
3. DoDI 1015.15 Update
4. NAF Investment Portfolio Review
  - a. Army
  - b. Air Force
  - c. Marine Corps
  - d. Navy
  - e. NEXCOM
  - f. AAFES
5. Closing Remarks

## **Meeting Attendees**

- Mr. Tom McDonald, NEXCOM
- Mr. Laurent Lant, Army Installation Management Command (IMCOM) G9
- Mr. Sam Steffanina, Army IMCOM G9
- Mr. Robert Ramsey, Army IMCOM G9
- Ms. Nancy Stephens, Navy Commander, Navy Installation Command (CNIC)
- Mr. Matthew Keathley, Navy CNIC
- Ms. Pyper Brenner, Marine Corps Community Services (MCCS)
- Mr. Fred Stout, Marine Corps MCCS
- Mr. AC Berry, Air Force Services Agency, Financial Management (AFSVC/SVFTP)
- Mr. William Moring, Army and Air Force Exchange Service (AAFES)
- Mr. Thomas Toth, Wilshire Associates
- Mr. Jon Lewis, Wilshire Associates
- Mr. Michael Curtis, OSD, Military Community and Family Policy

## Meeting Notes

### 1. Welcome and Introductions – Mr. Thomas McDonald, NEXCOM (Meeting Host)

- a. Mr. Thomas McDonald opened the NAF Treasury Management Open Forum meeting by thanking the Military Services and the Military Services' exchanges for their attendance and participation. Mr. McDonald took attendance and began the meeting.

### 2. Discussion of Current Economic and Investment Climate and Challenges – Wilshire Associates

- a. Mr. Thomas Toth and Mr. Jon Lewis from Wilshire Associates provided a summary of the current state of the economy and the markets. Mr. Lewis noted that real GDP has showed consistent economic growth, while inflation is trending around 2 percent. Employment rates have been dropping. Consumer sentiment, an economic indicator that measures how optimistic consumers feel about their finances and the state of the economy, is hovering around a 10-year high. Hourly earnings are trending up.
- b. The Federal Reserve (Fed) recently cut rates for the third time in 2019. Foreign investors seem to be investing in US bond markets to gain higher yield investments. There are still healthy returns from the fixed income (bond) market, but low returns for US stocks.
- c. Mr. McDonald asked if Wilshire thinks the Fed will be looking to increase rates, as market expectations become lower. Mr. Lewis indicated the Fed tends to be conservative and expects rates to hold steady. He stated that the Fed predicted faster increases in the market than what actually occurred. Mr. Lant stated that there seems to be a muddled picture since unemployment is low. This should, in turn, account for higher interest rates but we have seen the opposite happen in the past few quarters. Mr. Lant believes the Fed will not raise rates any time soon.

### 3. DoDI 1015.15 Update – Mr. Michael Curtis, OSD

- a. Mr. Mike Curtis asked the group whether there were any comments on the June NAF Treasury Managers Oversight Committee meeting minutes. There were no comments.
- b. Mr. Mike Curtis stated that he was still incorporating a number of investment issues into the update of DoDI 1015.15, including the allowance of inter-service borrowing. He noted that OSD has been working on revising DoD NAF policy that will affect other parts of DoDI 1015.15.
- c. Mr. Curtis said he is still waiting for the audited Financial Statements from the Air Force. Mr. Berry indicated that their independent public accounting firm RSM LLP (formerly McGladrey) was currently working on audits of the financial

statements for fiscal year (FY) 2017 and FY 2018, with the audit of FY 2019 to follow soon thereafter.

- d. Mr. McDonald asked if OSD still uses Tableau for data validation and visualization. Mr. Curtis noted that OSD still uses Tableau and creates visualizations based on the historical financial data contained in the OSD NAF data repository. OSD uses the Army's Tableau Server solution to post visualizations for access to others through a CAC enabled website. Mr. Curtis will work with Grant Thornton to update the NAF Treasury visualizations and provide NAF Treasury Oversight Committee members with instructions on how to get access them.

#### 4. NAF Investment Portfolio Review – Service and Exchange Treasury Managers

- a. Army IMCOM G9 (Mr. Lant). Disinflation could lead to more rate cuts as signs of recessions are increasing. In the past, Army used a barbell investment strategy, with investment maturities grouped at both short-term and long-term (within a three-year window), since the Fed was increasing rates. But, that strategy has changed to a ladder strategy, which puts investment maturities in various buckets over the next five years. Army believes that there will be challenging times ahead. For their treasury management system (TMS) system, they recently signed a contract with Clearwater to begin development.
  - i. Mr. Steffanina asked the group what they thought would happen if the Fed rates and, corresponding, market rates were to be negative, a situation that is currently occurring in Europe. Mr. Keathley noted that the DoDI 1015.15 does not currently address the situation if rates for government securities were negative. He said the chance of negative rates is very remote, but he would have to put funds in negative rate investment vehicles to meet the policy goals of safety and liquidity. Mr. Laurent said he and his team would draft some language to include in the update of DoDI 1015.15. Mr. Curtis thanked Mr. Lant and said OSD would look at the draft language for consideration to include in the DoDI update.
- b. Air Force SVC/SVFTP (Mr. Berry). No major update regarding investments. Air Force has started using, as of October 2019, an Oracle TMS system that will help with reconciliation at installations and investments.
- c. Marine Corps/MCCS (Mr. Stout). Yield on portfolio increased 80 basis points in 2018 and expect the trend to continue into 2019. The three Fed rate cuts have meant MCCS has not seen the anticipated yield increase in 2019. Significant calls to higher yielding investments have impacted the yield of the portfolio. A majority of the securities purchased in 2016, 2017, and 2018 have been called. The focus of current investment purchases has been rebuilding MCCS' maturity schedule to meet future cash flow needs. MCCS estimates the interest payout to plan participants will still be higher than 2018. MCCS' TMS is currently SunGard's ICMS and will no longer be supported after April 2020. MCCS' new financial management system will be Oracle Fusion, however it does not have a

TMS capability. MCCA is looking into Clearwater for a new TMS system. Mr. Stout asked Mr. Lant if the Army had a “sister service” clause in their contract with Clearwater. Mr. Lant said they did and Army would be happy to share their contract with Mr. Stout and MCCA.

- d. Navy/CNIC (Mr. Keathley). There has been a 40 basis point rise in CNIC’s investment yield in 2019, which is consistent with previous years. Increased the duration of the portfolio and have adopted a laddered strategy. Expect that over the next year, the market will continue to see Fed rates fall. Navy uses SymPro for their TMS.
- e. NEXCOM (Mr. McDonald). Cash flow has been consistent over the last couple of years. Investment portfolio is \$350 million. Being mainly in retail, the cash flow has been standard year over year to match up with the inventory cycles.
  - i. Mr. McDonald brought up the “Sahm Rule” suggested by economist Claudia Sahm. Ms. Sahm suggested a new measure to check the onset of a recession, based on the observation that when the 3-month average unemployment rate rises a half percentage point above the low of the prior 12 months, the economy is in recession, or is about to be. Some of the group had heard about the rule. Others said they were intrigued and would look into it.
  - ii. Mr. McDonald also asked if anyone had any insights on what is in the U.S. tariffs imposed on China. There is a concern that these tariffs will impact the retail sector over the holiday season. Mr. Moring said that AAFES has an import group that tracks tariffs and would contact Mr. McDonald and share any information he could.
- f. AAFES (Mr. Moring). As a “net borrower” NAFI, AAFES borrowing has dropped substantially over the past few years. Portfolio has been around \$550 to \$650 million in 2019. This time last year, the portfolio was \$1.2 billion, which shows the extent to which borrowing has slowed down. Current TMS system is Wallstreet Suite, however, had a demo from Kyriba to see their capabilities. 5-year commercial paper will be due September 2021. AAFES currently has an exception to policy from OSD to purchase commercial paper. That exception expires September 2020. AAFES will send OSD a request to extend to the exception to policy in May/June of 2020.

## 5. Closing Remarks

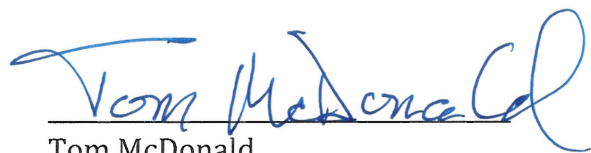
- a. Mr. McDonald asked if there were any other topics for discussion. With no additional topics mentioned, Mr. McDonald thanked everyone for attending the meeting and contributing to the effort to share ideas with the group and presenting their reports.
- b. The next NAF Treasury Management Open Forum meeting will be November 2020, with AAFES as the host.

**Action Items:**

Item	POC
MC&FP to put NAF Treasury and Banking visualizations on MC&FP's Tableau Server and provide access to the NAF Treasury Managers.	Mr. Michael Curtis
Army to develop draft policy guidance language for the DoDI 1015.15 update on the subject of a negative rate situation.	Mr. Laurent Lant

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Issued by:



Tom McDonald  
Vice President/Treasurer, NEXCOM