



DoD NAF Treasury Management Open Forum Meeting Minutes

November 5, 2015

Meeting Purpose and Objectives

The DoD NAF Treasury Open Forum meeting is held annually, in accordance with enclosure 9 of Department of Defense Instruction (DoDI) 1015.15, to provide free exchange of information regarding treasury management practices. The Army and Air Force Exchange Service (AAFES) hosted the 2015 meeting. The third quarter calendar year 2015 results for each DoD Component were discussed, as well as other items of interest to the group.

Agenda Items

1. Welcome and Overview
2. Economic Conditions "Numbers in Context"
3. Review of prior meeting agenda
4. Third Quarter Treasury Update (Investment Strategy, Funding, Borrowing)
 - a. AAFES
 - b. Air Force
 - c. Navy
 - d. Marine Corps
 - e. The Navy Exchange Service Command (NEXCOM)
 - f. Army
5. Open Discussion on DoDI 1015.15 and other topics
6. Closing Remarks

Meeting Attendees

- Mr. Tommy Ward, AAFES (Meeting Host)
- Mr. Taysirul Huq, AAFES
- Mr. Laurent Lant, Army IMCOM G9
- Mr. Samuel Steffanina, Army IMCOM G9
- Mr. Matthew Keathley, Navy CNIC
- Mr. Fred Stout, Marine Corps MCCA
- Mr. AC Berry, Air Force SVA/FM
- Mr. Cameron Zablocky, Air Force SVA/FM
- Mr. Tom McDonald, NEXCOM
- Mr. Tom Toth, Wilshire Consulting
- Ms. Paulette Freese, OSD, MC&FP
- Mr. Michael Curtis, OSD, MC&FP

Meeting Notes

1. Welcome and Overview – Mr. Tommy Ward, AAFES (Meeting Host)

- a. Mr. Ward opened the open forum meeting with comments about the economy. Janet Yellen, the Federal Reserve (Fed) Chairman, testified before the House Financial Services Committee that the economy is performing well overall and that the Fed could raise interest rates in December. Mr. Ward noted that AAFES is impacted by short-term rates more than the others in the meeting due to involvement in the commercial paper market.

2. Economic Conditions “Numbers in Context” – Mr. Tom Toth, Wilshire Consulting

- a. Mr. Toth began with economic indicators. The consumer price index has decreased over the last three months and has been flat over the year. The unemployment rate has been moving to five percent, which is close to full employment. Energy has been the main driver of low inflation, with an 18.4% decrease in prices. Personal Consumption Expenditures Index, the Fed’s preferred inflation measure, has been running well below the two percent target, and is continuing to trend downward.
- b. Mr. Toth provided an overview of asset class performance. Within fixed income, the Treasury Yield Curve is flatter from the previous year. The Barclays aggregate bond index was up for the quarter, as fixed income provided stability compared to a volatile equity market. The real yield on cash is currently depressed.

3. Review of prior meeting agenda – Mr. Tommy Ward, AAFES

- a. Mr. Ward noted the only outstanding item from the last quarterly meeting (Component treasury managers only) was a review of DoDI 1015.15, which would be discussed at the end of this meeting.

4. Third Quarter Treasury Update (Investment Strategy, Funding, Borrowing) – Mr. Tommy Ward, AAFES

- a. AAFES. Cash and investments balance at September 30, 2015: \$70 million. AAFES is a net borrower and has the smallest cash and investments balance of the group. Troop drawdowns have led to a decline in the Military Star Card receivable. Interest expense has been reduced due to declining debt and more efficient borrowing. AAFES is currently in negotiations with the Federal Financing Bank for a new borrowing program. Mr. Lant asked how debt ratio targets are determined for AAFES. Mr. Ward explained that there is no specific target, and credit rating agencies are comfortable with a 60/40

distribution of short-term and long-term debt. Mr. Stout asked how credit rating agencies assessed troop drawdown. Mr. Ward explained that reductions to overhead (selling, general, and administrative expenses, capital expenditures, and debt), with a corresponding improvement in gross margins, have alleviated concerns over the decreasing receivable.

- b.** Air Force. Cash and investments balance was a little more than \$1.4 billion at September 30, 2015. The portfolio balance will continue to increase until lodging construction initiatives begin. The portfolio will continue to buy bullet bonds in response to uncertainty with the labor market and a Fed interest rate change. Bullet bonds are non-callable and the entire face value is paid at once on the maturity date. Mr. Ward asked about the Air Force's view of the possible interest rate hike by the Fed. Mr. Zablocky noted that while unemployment is down, there is little growth in wages and hours worked. Even with the overseas market slowdown, a rate increase may be delayed until June 2016.
- c.** Navy. Cash and investments balance at September 30, 2015: \$987 million. Given a potential interest rate increase by the Federal Reserve, the Navy has decreased holdings of 4- to 5-year maturity investments. The portfolio has maintained IDC Financial Publishing, Inc. (IDC) rankings of superior, excellent, or average for certificate of deposit (CD) holdings. IDC is a bank rating agency. Mr. Ward asked about the Navy's opinion on the interest rate outlook. Mr. Keathley indicated that based on the futures market, there could be a 50 basis point interest rate (0.50%) increase in December and a further increase of up to 75 basis points (0.75%) in March.
- d.** Marine Corps. Cash and investments balance at September 30, 2015: \$430 million, down from \$500 million in May. Mr. Stout believes a Fed interest rate increase could occur at the end of 2016's first quarter. The Marine Corps portfolio value has declined due to a decline in appropriated fund support, an increase in construction projects, and callable securities called at the end of September. Currently, there is a greater priority on liquidity over new investments.
- e.** NEXCOM. Cash and investments balance at September 30, 2015: \$300 million. Mr. McDonald explained that NEXCOM cash flows are cyclical in nature, so the portfolio matches investments with cash needs. Maximum maturity in investments is 3 years. Mr. McDonald does not think the Fed will be raising rates in the short term due to less than stellar gross domestic product and the recent equities downturn. Mr. McDonald asked if anyone had prior experience using StoneCastle for bank deposit investments for overnight investing. Mr. Keathley indicated the Navy had previously looked

into StoneCastle and the organization seemed to provide fair rates and liquidity, but they decided against using them.

- f. Army. Cash and investments balance at September 30, 2015: \$1.8 billion. Mr. Steffanina mentioned the Army Investment Oversight Committee now has a approved formal charter. The Army started investing in CDs in June 2014 and they now make up 21% of the total portfolio. The Army does not anticipate any change in the interest rate in the near future.

5. Open Discussion on DODI 1015.15 and other topics – Mr. Tommy Ward, AAFES

- a. Mr. McDonald indicated that lending between Components is a high priority policy change request that benefits both the borrower and lender. Mr. Curtis said the next step is for the Components to write an information paper to analyze the pros and cons of inter-Component lending. Ms. Freese noted that examining the history of the section 6.10's prohibition on loans between Components may help determine if current policy is outdated.
- b. Mr. Ward proposed extending the maximum maturity limit to 10 years in order to facilitate private placement. Mr. Curtis indicated that such a change could be a stretch of the definition of a "short term" investment.
- c. Mr. McDonald proposed updating sections E9.7.4.2 and E9.7.4.3 because banking and investment programs align portfolio strategy with business and liquidity needs, not by fund designation currently in the DoDI. Mr. Curtis agreed that this section could be looked at for potential revision.
- d. Mr. Curtis is open to set up one or more forums in the near future to discuss DoDI 1015.15 revisions.

6. Closing Remarks – Mr. Tommy Ward, AAFES

- a. Summary of actions and due outs
 - MWR & Resale Policy office to distribute historical documents submitted by the Components in 2014 concerning DoDI 1015.15.
 - NEXCOM to distribute its own inter-Component borrowing white paper.
 - MWR & Resale Policy office to schedule DoDI 1015.15 review sessions with Components.

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Approved:



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