



DoD Nonappropriated Fund Treasury Oversight Committee Meeting Minutes

June 17, 2019

Meeting Purpose & Objectives

The DoD Nonappropriated fund (NAF) Treasury Oversight Committee meets annually in accordance with DoD Instruction (DoDI) 1015.15, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources.”

Agenda Items

1. Welcome and Overview
2. Discussion of Current Economic and Investment Climate and Challenges
3. Discussion on Steady Increase of Current NAF Investment Balances in Declining Appropriated Fund (APF) Budget Environment
4. Results of DoDI 1015.15 Policy Compliance Review
5. Due Outs from 2018 NAF Treasury Oversight Committee Meeting
6. Due Outs from 2018 Open Forum Meeting
7. Portfolio Review/Annual Cash and Investment Management Reports
 - a. Air Force
 - b. Navy
 - c. Marine Corps
 - d. NEXCOM
 - e. Army
 - f. AAFES
8. Open Discussion
9. Wrap-Up

Meeting Attendees

- Mr. Justin Hall, OSD, MC&FP – Committee Chair
- Mr. Michael Curtis, OSD, MC&FP
- Ms. Coleen Amstein, Army M&RA
- Mr. Gerald Holliday, Army FM&C
- Mr. Paul Burk, Army, IMCOM G9
- Mr. Josh Gwinn, Army IMCOM G9
- Mr. Laurent Lant, Army IMCOM G9
- Mr. Sam Steffanina, IMCOM G9
- Mr. Robert Ramsey, IMCOM G9
- Mr. Eric Roberts, Army DASA(MQ)
- Mr. Matthew Keathley, Navy CNIC
- Ms. Annie Fowler, Navy N46
- Ms. Katy Bloomberg, Navy N46
- Ms. Evonne Carawan, OASN(M&RA)
- Ms. Nancy Stephens, Navy F&FR
- Ms. Nancy Pasternack, Navy DASN(MMP)
- Mr. John Johnston, Marine Corps MCCS
- Ms. Pyper Brenner, Marine Corps MCCS
- Mr. Fred Stout, Marine Corps MCCS
- Mr. AC Berry, Air Force AFSVC/SVFTP
- Mr. Cameron Zablocky, Air Force AFSVC/SVFTP
- Ms. Connie Lipko, Air Force AFSVC/SVFTP
- Mr. Scott Howard, Air Force AFSVC/SVFTP
- Mr. Wally Erck, Air Force SAF/FMCEB
- Ms. Teresa Asbury, Air Force SAF/FMCEB
- Ms. Laura Beal, Air Force SAF/FMCEB
- Mr. Mike Coltrin, Air Force A1S
- Ms. Carina Harrison, Air Force SAF-MR
- Ms. Sandra Heredia, Air Force SAF-MR
- Mr. Brian Poss, AAFES
- Mr. William Moring, AAFES
- Mr. Andrew Howell, NEXCOM
- Mr. Tom McDonald, NEXCOM

Meeting Notes

1. Welcome and Introductions – Mr. Justin Hall, OSD

Mr. Hall opened the NAF Fund Treasury Oversight Committee meeting by thanking the Military Services and their exchanges for their attendance and participation. He emphasized that there are over \$5 billion in total cash held by the Services and exchanges across the NAF enterprise, and acknowledged the importance of managing these funds effectively.

2. Discussion of Current Economic and Investment Climate and Challenges – Mr. Michael Curtis, OSD

- a) Mr. Curtis began the discussion by asking the attendees about their thoughts on the current economic and investment climate. Mr. Curtis engaged the participants on what specific changes could occur moving forward.
- b) Mr. Stout stated that the Federal Reserve (Fed) may lower interest rates on June 19, 2019. Mr. Stout also expressed his concern that the biggest impact on inflation seems to be stemming from the so-called trade war with China.
- c) Mr. Keathley speculated the current situation has caused uncertainty in the markets, and agreed this most likely indicates a rate decrease from the Fed.
- d) Overall, the committee believes the current rates foster a positive investment environment for the NAF enterprise. Further, unemployment rates are low and the economy continues to trend in a positive direction.

3. Discussion of the Steady Increase of Current NAF Investment Balances in Declining APF Budget Environment– Mr. Michael Curtis, OSD

- a) Mr. Hall referenced the NAF cash and investment balances summary and accompanying line chart and stated his interest in the Services and exchanges using those funds for capital investments.
- b) There was a general discussion on the NAF cash balances and Mr. Curtis asked Navy if they were receiving sufficient APF support for MWR. Ms. Fowler and Mr. Keathley both remarked that the Navy's APF dollars for MWR were trending in the wrong direction. Specifically, APF support for Fleet Fitness and other programs have been trending downwards.

4. Results of DoDI 1015.15 Policy Compliance Review

- a) Mr. Curtis then turned to the annual DoDI 1015.15 compliance review and noted no discrepancies in the report submissions. Mr. Curtis mentioned the update to DoDI 1015.15 was in process and input from previous Committee meetings had been incorporated into the draft policy document.
- b) Mr. Curtis brought up the subject of duration, as a follow-on to the discussion at last year's Committee meeting. Mr. Stout wanted to make it clear that there is a difference between duration and average maturity. Maturity (reported in days) is

the amount of time until the investment matures and the principal is paid out to the investor. Duration is a measure of the sensitivity of the price of a security to a change in interest rates. Duration is stated in years. Mr. Curtis noted the difference and repeated the pledge from last year to incorporate duration into the annual reporting process

- c) Mr. Curtis explained that OSD would continue to focus on realized return over total return due to the fact that all Components pursue a strategy to hold their investments to maturity.
- d) Finally, Mr. Curtis asked the Components to submit their audited financial statements when they are completed.

5. Due Outs from 2018 NAF Treasury Oversight Committee meeting

- a) Mr. Curtis stated that OSD was successful in getting approval to change policy to allow inter-Service borrowing. The reissuance of the DoDI 1015.15 will include the new policy update.

6. Due Outs from 2018 Open Forum Meeting - Hosted by the Military Services (Mr. Curtis)

- a) Mr. Curtis noted that OSD is revising DoDI 1015.15 to address measuring the performance of investment funds, benchmarks, and investment operation expenses.

7. Portfolio Review/Annual Cash and Investment Management Reports (NAF Treasury Managers/Investment Officers)

- a) Air Force. As of December 31, 2018, the Air Force had an investment balance of \$1.60 billion and a realized return of 1.68%. The portfolio's average days to maturity was 839 days. The Air Force also had a \$38 million letter of credit with J.P. Morgan Chase. An independent financial audit is ongoing concerning the ten Air Force Central NAFIs to include the six NAFIs that hold investments.
- b) Navy/CNIC. Navy's investment balances as of December 31, 2018, was \$1.03 billion. Their realized return was 2.06%. CNIC suffered liquidity concerns as a result of APF reductions and the impacts of increased borrowing costs. CNIC incurred borrowing costs in excess of \$125,000. CNIC's financial statements audits are almost complete.
- c) Marine Corps/MCCS. The investment balance for MCCS at December 31, 2018, was \$573 million with total rate of return of 2.27%. The portfolio's average days to maturity was 530 days. The Shared Service Center in Kansas City, MO began processing payroll for all stateside NAFI's and processes accounting transactions for 12 installations. The financial audit is complete, resulting in a clean audit opinion. It has been sent to Mr. Curtis.
- d) NEXCOM. The average investment balance for NEXCOM for the year ending December 31, 2018 was \$306 million, with a realized return of 1.71%. NEXCOM

- portfolio's average days to maturity was 168 days. The investment balance for Military Sealift Command was \$500 thousand, with an annual yield of 1.44%.
- e) Army/IMCOM G9. Army's investment balance was \$1.53 billion, with a total return of 1.77%. The portfolio's average days to maturity was 427 days. The Army utilizes a Barbell Investment Strategy to capitalize on high CD spreads across the yield curve, avoid callable bonds, and invest at the back end of the Barbell to hedge against rate falls.
 - f) AAFES. AAFES' opening investment balance for FY 2018 was \$11.1 million, with a portfolio average yield of 2.07%. AAFES utilizes a "Buy and Hold" strategy to limit exposure to interest rate fluctuations.

8. Open Discussion

- a) No additional items were discussed.

9. Wrap-up – Mr. Michael Curtis, OSD

- a) Mr. Curtis thanked the Services for submitting and presenting their reports; for their participation in this year's Committee meeting; and for their continued collaboration.
- b) Summary of actions and due outs:
 - All Components to provide their audited financial statements when complete.
 - MWR and Resale Policy office will revise policy to incorporate the concept of duration into the annual reporting process.

Next Meeting: Spring 2020

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Approved by:

Justin W. Hall Date: 10/16/2019
Justin W. Hall
Director, MWR and Resale Policy

Issued by:

James N. Stewart Date: 5 Nov 19
James N. Stewart
Assistant Secretary of Defense for Manpower and Reserve Affairs