



# DoD Nonappropriated Fund Treasury Oversight Committee Meeting Minutes

June 10, 2021

## **Meeting Purpose and 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 Support Resources.”

## **Agenda Items**

1. Welcome and Overview
2. Wilshire Associates Update - Current Economic and Investment Climate and Challenges
3. Discussion on Current NAF Investment Balances in Challenging APF Budget Environment
4. Status of Revision to DoDI 1015.15
5. Results of DoDI 1015.15 Policy Compliance Review
6. Due Outs From 2020 NAF Treasury Oversight Committee Meeting
7. Due Outs From 2020 Open Forum Meeting
8. Portfolio Review/Annual Cash and Investment Management Reports
  - a. Air Force
  - b. Navy/CNIC
  - c. Marine Corps/MCCS
  - d. Navy Exchange Service Command (NEXCOM)
  - e. Army/IMCOM G9
  - f. Army and Air Force Exchange Service (AAFES)
9. Open Discussion/Closing Remarks

## **Meeting Attendees**

- Mr. Berry Patrick, OSD, MC&FP – Committee Chair
- Ms. Paulette Freese, OSD, MC&FP
- Mr. Michael Curtis, OSD, MC&FP
- Mr. Paul Burk, Army IMCOM G9
- Mr. Laurent Lant, Army IMCOM G9
- Mr. Bryan Hartsell, Army IMCOM G9
- Mr. Josh Gwinn, IMCOM G9
- Ms. Karan Reidenbach, Army DASA(MQ)
- Mr. Gerald Holliday, Army DASA(FO)
- Ms. Philanda Morgan, Army DASA(MQ)
- Mr. Grant Cleveland, Army DCS, G9-ISS
- Mr. John Johnston, Marine Corps MCCA
- Mr. Fred Stout, Marine Corps MCCA
- Ms. Nancy Stephens, Navy CNIC
- Mr. Matthew Keathley, Navy CNIC
- Ms. Evonne Carawan, Navy OASN(M&RA)
- Ms. Nancy Pasternack, Navy OASN(M&RA)
- Mr. Scott Howard, Air Force AFSVC/SVFTP
- Mr. Aubrey Berry, Air Force AFSVC/SVFTP
- Mr. Cameron Zablocky, Air Force AFSVC/SVFTP
- Dr. Ann Tipton, Air Force A1SRR
- Ms. Teresa Asbury, Air Force SAF/FMCEB
- Ms. Amber Basil, Air Force SAF/FMCEB
- Mr. Ken Jacquin, AAFES
- Mr. William Moring, AAFES
- Mr. Tom McDonald, NEXCOM
- Ms. Audrey Yermal, NEXCOM
- Mr. Robert Appling, Wilshire Associates
- Ms. Ariane Whittemore, Grant Thornton
- Mr. Dirk Casson, Grant Thornton
- Mr. Matthew Thompson, Grant Thornton
- Ms. Ciara Keefe, Grant Thornton

## **Meeting Notes**

### **1. Welcome and Overview – Mr. Berry Patrick, OSD, MC&FP**

a. Mr. Patrick opened the Committee meeting by thanking the Military Services and Exchanges for their attendance. Mr. Patrick introduced himself, as the new Director for MWR and Resale Policy, and provided background about his experience working multiple position within the DoD. Mr. Patrick emphasized the importance of the work that the attendees do and acknowledged the group's success in navigating the challenging COVID-19 pandemic investment market environment.

### **2. Wilshire Associates Market Update - Mr. Robert Appling**

a. Mr. Appling began by providing a brief recap on how initial struggles during the COVID-19 pandemic did not greatly impact growth assets by the end of 2020. He also reviewed Wilshire's expectations on the returns of various asset classes, with a baseline expected return on cash of 1.25 percent. Mr. Appling noted that he expects some normalization of interest but that the Federal Reserve is keeping rates low for as long as needed, which has slowed normalization. Therefore, Wilshire's view on fixed income is not as favorable as it has been historically. He did, however, remark that there is an attractive, almost equity-like profile for long-term bonds, as opposed to 2020.

b. Mr. Appling reiterated that the United States is still recovering from the effects of COVID-19, so we may see above average GDP growth moving forward. This could be in-part to the effect of consumer stimulus checks as well as a general rebound in consumer behavior, despite muted interest rates, in industries such as hospitality.

c. Mr. Appling was asked about his thoughts on how pension funds are slowly moving away from the traditional 60 percent/40 percent split between equity and fixed income. Mr. Appling replied that the traditional 60/40 portfolio simply does not have the return that such funds are targeting as a result of low expectations for fixed income, so other options like private equity, private credit, and real assets such as real estate have become more attractive. Mr. Appling noted that the split is gradually moving toward 70/30, while funds are also being more conservative by lowering their expected returns.

d. Mr. Lant asked Mr. Appling and Mr. Curtis about whether it is time to potentially make changes to DoD policy to allow them to invest in equities given how rates are changing or to increase the duration allowed in their holdings from the current maximum of five years. Mr. Appling stated that while he understands the Military Services and Exchanges cannot hold equities, he agrees that it might make sense to explore the possibility of changing policy to allow for it given the current environment. Mr. Curtis stated that if there is interest in changing the policy, now is an ideal time for discussions on how this may work, as DoDI 1015.15 is being revised. Mr. Curtis continued by saying that, while yield is important for generating revenue for NAF capital investment and other needs, safety and liquidity must always be considered and take precedence when developing policy in this area. Mr. Stout said that he would not condone the use of equities in the portfolios because the chance for the loss of principal is too great. For equities to become a viable investment option, the entire tenet of the policy (safety, liquidity, yield) would need to be adjusted. Mr. Stout said that during the current market disruption extending the maturity horizon would be beneficial as the yield curve was very steep just after the five-year maturity limit. If extended to seven years, the potential for greater returns would be

possible. That said, Mr. Stout fears a change like this is reactive to current market conditions and may not be as useful during the next market event. He would not be oppose extending to seven years but would certainly not wish to add an equity component to the policy. Mr. Curtis requested that Army draft the proposed policy change to be shared with the group for review and further discussion. Mr. Lant said he would.

### **3. Discussion on Current NAF Investment Balances in Challenging APF Budget Environment – Mr. Michael Curtis, OSD, MC&FP**

a. Mr. Curtis began by mentioning that the uptick in cash and investment balances is likely highly attributable to the impact of CARES Act funding that was received by the NAFIs. He noted that we are still waiting to see if Congress will provide additional appropriated funding for NAFIs in Fiscal Year 2021 due to the continued effects of the COVID-19 pandemic.

b. Mr. Paul Burk mentioned that while the Army did receive CARES Act funding, Army's cash decreased due to investment in high return-on-investment construction projects. He added that, while MWR operations are starting to return to normal, they are not there yet. Army only expects an 80 percent return of revenue in FY 2021. Army continues to spend cash to avoid layoffs and if additional appropriated funds are not provided, Army expects significant cash impact. While they are reducing expenses wherever they can, labor is their largest expense. Ms. Stephens stated that CNIC's increase is related to revenues from the Navy Gateway Inns and Suites properties, since they used the CARES Act funding to offset FY 2020 losses. Mr. Patrick said that MC&FP will continue to advocate with the USD Comptroller for appropriated fund relief for NAFIs to offset the impact of the COVID-19 pandemic.

### **4. Status of Revision to DoDI 1015.15 – Mr. Michael Curtis, OSD, MC&FP**

a. Mr. Curtis stated that he has been working diligently on the DoDI and that meetings are being set up with the Services to review their informal comments.

b. Once this review process has concluded and changes have been made, Mr. Curtis confirmed that DoDI 1015.15 will move to the formal issuance process.

### **5. Results of DoDI 1015.15 Policy Compliance Review – Mr. Michael Curtis, OSD, MC&FP**

a. Mr. Curtis mentioned that everything looked good and the annual reports submitted were complete and free of issues. He also reminded participants to submit financial statement audits once completed.

### **6. Due Outs From 2020 NAF Treasury Oversight Committee Meeting – Mr. Michael Curtis, OSD, MC&FP**

a. Mr. Curtis reiterated his commitment to put NAF Treasury and Banking visualizations on MC&FP's Tableau Server platform and provide access to the NAF Treasury Managers.

### **7. Due Outs From 2020 Open Forum Meeting – Mr. Michael Curtis, OSD, MC&FP**

a. Mr. Curtis reminded the group that he set up the new Microsoft Team collaboration site, however, with the cessation of CVR by DoD in mid-June 2021, he plans to find a more suitable collaboration tool in the future.

b. Mr. Keathley confirmed that CNIC would host the next Open Forum meeting in November. He said he plans to send a request for topics to discuss once the meeting date draws closer.

## **8. Portfolio Review/Annual Cash and Investment Management Reports – NAF Treasury Managers/Investment Officers**

a. Air Force. Mr. Zablocky, from AFSVC/SVFTP, provided an update on the Air Force's Annual Cash & Investment Management Report. Air Force had an investment balance of \$2.1 billion and a yield realized return of 0.618 percent. Mr. McDonald inquired about whether the Air Force's insurance fund also covers general liability. Mr. Zablocky replied that the fund does allow for bases to file property claims but that it is dependent on the type of claim filed. These claims are reviewed to see if there is potential for APF support to where the fund does not have to bear any expense.

b. Navy CNIC. Mr. Keathley, from CNIC, provided an update on the Navy's Annual Cash and Investment Management Report. CNIC had an investment balance of \$1.5 billion and a yield realized return of 1.8 percent. Mr. Berry asked to clarify the spread on CDs that CNIC is investing in. Mr. Keathley replied that it was 15 to 40 basis points and that they were attractive because they stayed stable for longer than government agency investments did.

c. Marine Corps MCCA. Mr. Stout, from MCCA, provided an update on the Marine Corps' Annual Cash and Investment Management Report. MCCA had an investment balance of \$624 million and a yield realized return of 0.88 percent. Mr. McDonald asked whether the lines of credit were just used for instances like shortfalls. Mr. Stout confirmed that events of that nature would represent a use of the lines, but they have not yet needed to utilize them.

d. NEXCOM. Mr. McDonald, from NEXCOM, provided an update on NEXCOM's Annual Treasury Report. NEXCOM had an investment balance of \$489 million and a yield realized return of 1.12 percent. No comments or questions were raised.

e. Army IMCOM G9. Mr. Lant, from Army IMCOM G9, provided an update on the Army's Annual Treasury Report. Army IMCOM G9 had an investment balance of \$1.4 billion and a yield realized return of 1.5 percent. Mr. Keathley asked Mr. Lant for more insight into Clearwater, the new investment operations solution that the Army has adopted. Mr. Lant said that it is far more extensive than prior solutions their team has used, with features such as fixed income product ratings and detailed reports.

f. AAFES. Mr. Moring, from AAFES, provided in update on AAFES' Annual Treasury Management Report. AAFES had an investment balance of \$198 million and a yield realized return of 1.06 percent. No comments or questions were raised.

## **9. Open Discussion/Closing Remarks**

a. Mr. Curtis reiterated that should there be interest in reevaluating investments that each component is allowed to invest in, the group might reconvene for a more detailed discussion.

b. Mr. Patrick thanked all the Services and Exchanges for participating and reemphasized the importance of the work that the group is doing.

Summary of action and due outs:

- 1) Army IMCOM G9 agreed to draft some new policy language on the possibility of expanding authorized investments to include equities and also increasing duration beyond the current five-year maximum.
- 2) MC&FP to continue to work to put NAF Treasury and Banking visualizations on MC&FP's Tableau Server platform and provide access to the NAF Treasury Managers.
- 3) Navy CNIC will host the NAF Treasury Open Forum meeting in November.
- 4) All Service and Exchanges to provide their IPA audited financial statements when complete.

**Next Meeting: May 2022**

DoD NAF Treasury Committee Meeting Minutes

June 10, 2021

*Berry W. Patrick*  
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Mr. Berry Patrick, Committee Chair

28 July 2021

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Date