

DoD NAF Treasury Management Open Forum Meeting Minutes

November 12, 2020

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.

The Army and Air Force Exchange Service (AAFES) hosted the 2020 meeting.

Agenda Items

1. Welcome and Introductions
2. State of the Economy: Interest Rates and Economic Outlook – Wilshire Associates
3. DoDI 1015.15 Update – Mr. Michael Curtis
4. NAF Investment Portfolio Review
 - a. IMCOM G9
 - b. MCCS
 - c. CNIC
 - d. AFSVA
 - e. NEXCOM
 - f. AAFES
5. Closing Remarks

Meeting Attendees

- Mr. Laurent Lant, Army Installation Management Command (IMCOM) G9
- Mr. Robert Ramsey, Army IMCOM G9
- Mr. Bryan Hartsell, Army IMCOM G9
- Mr. Seth McCabe, Army IMCOM G9
- Mr. John Johnston, Marine Corps Community Services (MCCS)
- Mr. Fred Stout, Marine Corps MCCS
- Mr. Matthew Keathley, Navy Commander, Navy Installation Command (CNIC)
- Mr. AC Berry, Air Force Services Agency, Financial Management (AFSVA/SVFTP)
- Mr. Cameron Zablocky, AFSVA
- Ms. Maria Jones, AFSVA
- Dr. Ann Tipton, Air Force A1
- Col. Christopher Harris, Air Force A1
- Mr. William Moring, Army and Air Force Exchange Service (AAFES)
- Mr. Ken Jacquin, AAFES
- Mr. Tom McDonald, Navy Exchange Service Command (NEXCOM)
- Ms. Audrey Yermal, NEXCOM
- Mr. Craig Morton, Wilshire Associates
- Mr. Thomas Toth, Wilshire Associates
- Mr. Michael Curtis, OSD, Military Community and Family Policy

Meeting Notes

1. Welcome and Introductions – Mr. William Moring, AAFES (Meeting Host)

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

2. Discussion of Current Economic and Investment Climate and Challenges – Mr. Thomas Toth, Wilshire Associates

- a. Mr. Toth provided a summary of the current state of the economy and the markets. Mr. Lewis noted that there was a very sharp decrease followed by a sharp increase in Gross Domestic Product in the second and third quarters of 2020, respectively, likely caused by monetary and fiscal stimulus to support spending for consumers when incomes materially fell as a result of the COVID-19 pandemic. He also said that expectations for stock returns are muted and global equity portfolio expected return is around 6 percent and core fixed income has an expected return just over 1 percent.
- b. Mr. Moring inquired about whether volatility will continue. Mr. Toth said that it is dependent on whether another stimulus bill (similar to the CARES Act) is passed by Congress, whether further COVID-19-related lockdowns are enforced, and other factors.
- c. Mr. McDonald asked with regards to short-term interest rates (i.e. 1-2 years), how Wilshire anticipates short-term U.S. government treasuries would be impacted. Mr. Toth replied that expectations should focus on the Federal Reserve's pledge to keep rates low. Expanded stimulus and economic activity will impact the long-term yield, while the short to intermediate period can expect little to no pressure on the short end of the yield curve for government securities.

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

- a. Mr. Curtis stated that OSD has sent the draft DoDI 1015.15 to the Military Departments for review. He reiterated that while comments were received from NAF Treasury Managers this past summer, he urges the group to conduct additional review to ensure all relevant inputs were captured.
- b. Mr. Lant inquired about the status of the website that is mentioned in the draft DoDI. Mr. Curtis responded that until the new version of DoDI 1015.15 is published, the existing DoDI is current policy. However, he expects to have the NAF Treasury website created in early 2021, which should be well before the updated DoDI 1015.15 will be published.

- c. Mr. Moring noted that a portion of the glossary in the draft DoDI 1015.15 sent out is missing. Mr. Curtis replied that he acknowledged the omission and has since updated the document, which will be distributed to the group.

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

- a. Army IMCOM G9 (Mr. Lant). IMCOM G9, as always, is focusing on liquidity, safety, and yield. Of these, having adequate cash on hand (liquidity) is by far the highest priority. Interest rates will likely remain near zero for the foreseeable future into 2021, and IMCOM G9's portfolio is in 30-40 percent short-term ladders (i.e., staggered maturity dates). Better interest rates are seen in 3-5 year callable bonds, but 1-2-year protection is essential.
- b. Marine Corps/MCCS (Mr. Stout). Mr. Stout agreed with Mr. Lant that liquidity is the highest priority for MCCS. Focus on liquidity has grown significantly due to COVID-19's impact on business outlooks and the low interest rate environment. Mr. Stout expects MCCS's portfolio yield to be muted in 2020, likely into 2023. Focus on liquidity will continue until they see a meaningful turnaround in MCCS business operations.
- c. Navy/CNIC (Mr. Keathley). Mr. Keathley reiterated Mr. Lant's and Mr. Stout's statements with regards to the current environment and focus on liquidity.
- d. Air Force/AFSVA (Mr. Zablocky). Air Force is also focused on liquidity and attempting to obtain additional yield on callable securities. Buying longer callable securities for protection with annual or quarterly call structures. Air Force's focus on liquidity due to mandates, shutdowns, and the need to have cash and liquid resources to keep activities operational.
- e. NEXCOM (Tom McDonald). Introduced Assistant Treasurer Audrey Yermal to the group. Focus is on liquidity in the short-term. Since NEXCOM is an exchange, operations and sales are cyclical in nature which will impact cash flow as we enter the November/December (i.e. holiday) timeframe. Sales declined in March through August due to the COVID-19 pandemic, but sales have increased in September and October. The appropriated funds provided through the CARES Act has helped cash flow remain strong despite sales declines.
- f. AAFES (Mr. Moring). AAFES is completely focused on liquidity while cash flow is stronger as a result of adopting a cash conservation policy and continuing its reduction in SG&A where possible. AAFES has experienced a period without issuing commercial paper between August to beginning of November, whereas it was issued daily before. In an effort to increase liquidity, AAFES is currently keeping \$150 million in cash on hand.

5. Closing Remarks

- a. Mr. Curtis thanked AAFES for scheduling and facilitating the meeting. Based on a suggestion from Mr. McDonald, Mr. Curtis will look into setting up a Microsoft Teams channel for the NAF Treasury Managers group. Due to the connectivity

issues during this Teams meeting, Mr. Jacquin suggested a short test meeting prior to the next one to ensure everyone can connect.

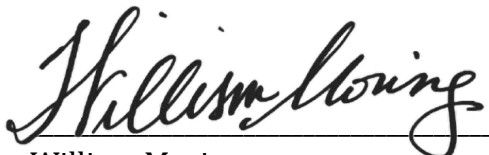
- b. Mr. Lant introduced Seth McCabe. He replaced Sam Steffanina, who retired this year.
- c. Mr. Curtis asked Mr. Lant and Mr. McDonald, since turnover in this group is minimal, to provide a short biography of Mr. McCabe and Ms. Yermal to share with the group.
- d. Mr. Moring asked Mr. Curtis about which organization will host the Open Forum meeting next year. Mr. Curtis said he wasn't sure, but would let the group know via email.
- e. Mr. Moring closed the meeting and thanked everyone for attending.
- f. The next NAF Treasury Management Open Forum meeting will be in November 2021.

Action Items:

| Item | POC |
|---|--------------------|
| MC&FP to send out an updated version of the draft DoDI 1015.15 to the group | Mr. Michael Curtis |
| MC&FP to set up a Microsoft Teams Channel for the NAF Treasury Managers | Mr. Michael Curtis |
| MC&FP to let the group know which organization will host the Open Forum meeting in 2021 | Mr. Michael Curtis |
| Army to send a short bio of Mr. McCabe to MC&FP | Mr. Laurent Lant |
| NEXCOM to send a short bio of Ms. Yermal to MC&FP | Mr. Tom Mcdonald |

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Issued by:



William Moring
Assistant Treasurer, AAFES

Date: **09 Dec 2020**