



DoD NAF Treasury Oversight Committee Meeting Minutes

08 May 2017

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. Data Repository and Tableau**
- 6. Realized Return versus Total Return on Investment**
- 7. 2016 Open Forum Meeting – Signed Minutes**
- 8. NAF Treasury Management Website**
- 9. Status of Revision of DoDI 1015.15**
- 10. Portfolio Review/Annual Cash and Investment Management Reports**
 - a. Air Force MWR**
 - b. Navy MWR CNIC/N9**
 - c. Marine Corps Community Services (MCCS)**
 - d. Navy Exchange Service Command (NEXCOM)**
 - e. Army**
 - f. Army and Air Force Exchange Service (AAFES)**
- 11. Collaboration Between the Services/Exchanges**
- 12. Open Discussion**
- 13. Wrap-Up**

Meeting Attendees

- Mr. Justin Hall, OSD, MC&FP – Committee Chair
- Mr. Michael Curtis, OSD, MC&FP
- Ms. La Zaleus Leach, DFAS (Representing OUSD(C))
- Ms. Coleen Amstein, Army M&RA
- Mr. Eric Alberts, Army M&RA
- Mr. Paul Burk, Army IMCOM G9
- Mr. Laurent Lant, Army IMCOM G9
- Mr. Robert Ramsey, IMCOM G9
- Ms. Elizabeth Femrite, Army ACSIM
- Mr. Matthew Keathley, Navy CNIC
- Ms. Nancy Stephens, Navy CNIC
- Ms. Annie Fowler, Navy N46
- Ms. Evonne Carawan, OASN(M&RA)
- Mr. John Johnston, Marine Corps MCCA
- Mr. Fred Stout, Marine Corps MCCA
- Lt. Col. Thomas Esser, SAF-MRR
- Mr. Mark Montgomery, AF/A1SRR
- Mr. Scott Howard, Air Force SVA/FM
- Mr. AC Berry, Air Force SVA/FM
- Mr. Cameron Zablocky, Air Force SVA/FM
- Mr. Wally Erck, Air Force SAF/FMCEB
- Ms. Teresa Ashbury, Air Force SAF/FMCEB
- Mr. Brian Poss, AAFES
- Mr. William Moring, AAFES
- Mr. Andrew Howell, NEXCOM
- Mr. Tom McDonald, NEXCOM

Meeting Notes

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

- a. Mr. Hall opened the Committee meeting by thanking the Military Services and Military Services exchanges for their attendance and participation. He emphasized the value of meeting on an annual basis, as required by DoDI 1015.15. Mr. Hall noted that it is important to ensure that the Services and their exchanges calculate the total and realized returns in a uniform manner.

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

- a. Mr. Curtis opened the discussion by noting that the current geopolitical and economic volatility creates uncertainty in the market. The arrival of a new Administration, Brexit, and the U.S. departure from the Trans-Pacific Partnership (TPP) are examples of events to consider when adjusting to new trends in the market.

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

- a. Mr. Curtis reminded the group that the Commander, Navy Installations Command (CNIC) spent NAF cash over the past three years because of reductions in its APF support of MWR by the Navy's budget office, due to CNIC's large NAF cash balances. Ms. Fowler stated that Navy CNIC was required to adhere to a 1:1 acid test ratio, which essentially becomes the ceiling for cash balances. Mr. Curtis urged Ms. Fowler to request some leniency from the Navy budget office on this requirement because some cash above a 1:1 ratio is needed for recapitalization and any unanticipated cash needs.
- b. Mr. Curtis noted that the Air Force cash balance has increased every year since 2008. Mr. Montgomery agreed and indicated Air Force is facing the same challenges as other Services in regard to construction delays, which is a major factor that causes increases in Air Force cash. Mr. Montgomery stated that Air Force has plans to use its cash.

4. Results of DoDI 1015.15 Policy Compliance Review – Mr. Michael Curtis, OSD

- a. Mr. Curtis questioned the differences in Cash and Investment Balances Ownership Report (CIBOR) versus Cash and Investment Portfolio Report (CIPR) concerning why the Book and Market Values in the CIPR differed from the NAF Balance in the CIBOR. He also asked the value of including both Book and Market Values.

- b. Mr. Berry stated that the Air Force report does not include cash in a J.P. Morgan account; and he affirmed that the Air Force will include this additional cash in future reports.
- c. Mr. Lant stated that the Army's in-house bank balance in the CIBOR is different than Book Value in the CIPR because the CIBOR includes the dividend pay-out to the Installation Command regions for December. This payout would not be reflected in the in-house bank balance in the CIBOR until January 1.
- d. Mr. Keathley affirmed that the market and book values in the CIPR are true values for the Navy. The difference between the CIBOR and the CIPR is primarily due to pre-paid expenses of about \$90 million paid in February 2017.
- e. Mr. Stout asserted that market values will never match in annual reports because numbers would only match on the day of investment purchase. Mr. Burke agreed that, for the Army, the CIBOR balance will never match the CIPR because of local deposits kept at local installations that are not included in the daily sweeps and the fluctuating investment market.
- f. Mr. Stout stated that it would be useful to provide clarification on which numbers should go into which parts of the CIBOR and CIPR to ensure consistency. Mr. Curtis agreed that this area needs further clarification and further discussion for inclusion in the revised DoDI 1015.15.

5. Data Repository and Tableau

- a. Mr. Curtis discussed the data repository created by the MWR and Resale Policy office using Microsoft Access. The repository contains selected financial and program data submitted by the Services over the past five years, to include NAF Treasury Management data. The data submitted with the calendar year 2016 reports was recently added to the repository. Mr. Curtis presented graphs showing calendar year 2016 realized return vs. total return.

6. Realized Return versus Total Return on Investment

- a. Mr. Curtis stated that there is a disconnect between the calculation of the individual month and year average returns in the Investment Portfolio Yield report template and the calculation of the average realized return and total returns. He also asked whether realized return or total return should be compared to the benchmark, if both are necessary, and why total return fluctuates significantly during the year, while realized return generally remains steady.
- b. Mr. Lant stated that Army used the weighted average calculation for each month and final averages, per the footnote on the Investment Portfolio Yield template.
- c. Mr. Lant and Mr. Stout affirmed that total return should be used to compare to the benchmark to take into account price changes and cash flows, which realized return does not do. Mr. Stout stated that total return fluctuates month-to-month

due to the price changes. Mr. Keathley stated that the Navy uses distinct realized return benchmark and a total return benchmark. The Committee agreed that both Realized and Total Return provide useful and different information.

- d. Mr. Stout expressed concern that since the Marine Corps uses a strict hold to maturity strategy and the Federal Reserve is likely to continue to raise interest rates in 2017, returns may appear negative next year, even though there is no loss on the investment. Mr. Stout noted that Marine Corps policies only allow MCCS to liquidate investments before maturity if they have a cash shortfall. Mr. Lant stated the Army, for the most part, does hold securities to maturity, but does sometimes sell securities early and recognize capital gains if the opportunity arises. Mr. Curtis said this may be a good reason to show returns for longer periods of time, as discussed. Mr. Curtis advised the Services and exchanges to include a thorough explanation of current and expected future returns in the executive summary in next year's report.
- e. Mr. Hall stated that the Committee needs consistency to ensure everyone is calculating returns the same way. Perhaps including returns in the annual report for longer periods such as three or five years will illustrate the larger investment strategy for each Service and exchange. Mr. Curtis said that OSD will work with the Services and exchanges in updating the provisions of DoDI 1015.15 concerning investment returns.

7. 2016 Open Forum Meeting – Signed Minutes – Mr. Michael Curtis, OSD

- a. Mr. Curtis pointed out there were numerous due-outs from the Open Forum meeting in November 2016. Mr. Burk acknowledged that the Army volunteered to take the lead on most of the items and would begin drafting language for the group to review.
- b. Mr. Keathley noted that removing the \$50 million money market limit was not included as an action item. Mr. Curtis acknowledged this change would be included in the draft DoDI 1015.15.

8. NAF Treasury Management Website

- a. Mr. Curtis noted that OSD is upgrading to Windows 10 and SharePoint 2013, impacting the NAF Treasury website. Once the site is upgraded, Mr. Curtis will work to ensure the members of the Committee have access. As mentioned before, the goal is to house the annual report templates in Excel on the site, as well as past Committee meeting minutes, reports and read-aheads.

9. Status of Revision to DODI 1015.15 – Mr. Michael Curtis, OSD

- a. The Committee agreed that it will explore having a two or three-day working session or ongoing working group to discuss updating Enclosure 9 of the 1015.15 and explore other ways to collaborate and learn from each other's investment

strategies. Mr. Curtis affirmed that each Service and exchange will have multiple opportunities to be involved in revising and reviewing drafts of the 1015.15.

10. Portfolio Review/Annual Cash and Investment Management Reports

- a. Air Force. As of December 31, 2016, the Air Force had an investment balance of \$1.52 billion and a total return of 0.79%. The Air Force also has a \$38 million letter of credit with J.P. Morgan Chase. Their audit is ongoing and will be submitted once completed.
 - Mr. Zablocky stated that the Air Force missed the total return benchmark partly because its balance was higher at the end of the year and rising prices affected total return. In response to an inquiry from Mr. Hall, Mr. Montgomery noted that the Air Force has a plan in place to reduce the large cash balance in their lodging fund, mainly through construction.
- b. Navy/CNIC. Navy's investment balances at December 31, 2016, was \$913 million. Their total return was 1.38%. CNIC continues to value a line of credit agreement with NEXCOM that is mutually beneficial, providing lower interest costs for NEXCOM and higher interest income for CNIC than available with any arrangement on the market. The Investment Fund Custodian, Mr. Daryl Davis, is retiring, to be replaced by Ms. Stephens. CNIC's audit is ongoing and will be submitted once completed.
 - Mr. Keathley also noted that CNIC regularly compares its returns to the private sector peers and performs well, using a CNIC-created Volatility, Expenses, and Total Returns (VETR) Index.
 - NEXCOM expressed concern with having to pre-pay NAVFAC for capital investments per Navy policy. Mr. Hall inquired as to prepayment requirements. Ms. Stephens and Ms. Fowler affirmed CNIC must also prepay NAVFAC for utilities. Mr. Burk stated that the Army has an agreement with IMCOM to only pay quarterly in advance. CNIC said they will explore pursuing changes to NAFVAC's practice.
- c. Marine Corps/MCCS. The investment balance for MCCS at December 31, 2016, was \$488 million with a total return of 1.69%. MCCS announced the creation of a new financial shared services center, to include accounting, finance, and treasury, that will be located at a Marine Corps facility in Kansas City, MO. It is expected to produce savings through economies of scale. Their financial statement audit is in progress and will be submitted once completed.
 - Mr. Stout stated that their IPY totals are somewhat misleading due to outstanding construction issues. He also mentioned that MCCS is in favor of acquiring the authorization to conduct inter-service lending and borrowing. This would allow the Marine Corps to lend liquid short term

funds to a Service in need of liquidity. The agreement would be beneficial to both parties, as the Marine Corps would see an increase in short-term investment return and the borrowing Service would see a reduction in their borrowing costs. Mr. Curtis noted that inter-service borrowing is currently not allowed per instructions from Congress. Mr. Curtis agreed to continue to discuss the inter-service lending issue and see if DoD could make a compelling case and seek a change with Congress.

- d. NEXCOM. The investment balance for NEXCOM at December 31, 2016, was \$311 million, with a total return of 0.70%. The investment balance for Military Sealift Command was \$0.65 million with a total return of 0.5%.
- e. Army/IMCOM G9. Army's investment balance was \$1.55 billion at December 31, 2016, with a weighted total return of 0.97%. The Army changed their benchmark for CY16 in the middle of the year. Army also announced the completed transition of moving to a single fund, allowing all cash to be owned at the HQ level and balanced out across the enterprise. Their audit is in progress and will be submitted once completed.
 - Mr. Lant expressed interest in exploring how the Navy is receiving high returns on investment. He also noted that Army is seeking an independent investment consultant to help with Army's investment strategy and portfolio.
- f. AAFES. The investment balance for AAFES was \$60.5 million at December 31, 2016, with a total return of 0.81%. Their audit is in progress and will be submitted once completed.

11. Collaboration between the Services/Exchanges

- a. Mr. Curtis encouraged the Services and the exchanges to explore collaboration in areas including staff development, process improvement, technology, and contracts.
- b. Mr. Curtis asked about the level of need or desire for shared treasury platform. Mr. Johnston and Mr. Stout expressed support and noted that transaction-level technology will be included in the new MCCS financial shared services center. Ms. Fowler expressed support for the idea of a "translator," with not every Service on the same system. Mr. Burk noted that two or more Services could share a system to take advantage of economies of scale. Mr. Keathley asserted that the Navy has made significant progress on their use and upgrade to SAP and that changing this system to another would create risk.

12. Open Discussion

- a. No additional items were discussed.

13. Wrap-up – Mr. Michael Curtis, OSD


- a. Mr. Curtis thanked the Services for submitting and presenting their reports and for their interest in increasing Inter-Service/Exchange cooperation.
- b. Summary of actions and due outs:
 - All Components to provide audit reports when they are complete,
 - All parties mentioned in the minutes of the November Open Forum meeting to complete their respective action items,
 - MWR & Resale Policy office to explore scheduling a special working group meeting in the near future to discuss items of mutual interest and potential changes to Enclosure 9 of DoDI 1015.15.
 - MWR & Resale Policy office to schedule next year's Committee meeting for early May 2018.

Next Meeting:

First Two Weeks of May 2018


Justin W. Hall, Committee Chairman
Date: November 8, 2017

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May 08, 2017
Approved:


Stephanie Barna
Principal Deputy Assistant Secretary of Defense
for Manpower and Reserve Affairs, Performing
the Duties of the Assistant Secretary of Defense
for Manpower and Reserve Affairs

Date: December 4, 2017