



# DoD Nonappropriated Fund Treasury Oversight Committee Meeting Minutes

May 14, 2020

## **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 Market Update and Discussion of 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 2019 NAF Treasury Oversight Committee Meeting
7. Due Outs From 2019 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
10. Wrap-Up

## Meeting Attendees

- Mr. Justin Hall, 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. Samuel Steffanina, Army IMCOM G9
- Mr. Robert Ramsey, Army IMCOM G9
- Mr. Bryan Hartsell, Army IMCOM G9
- Mr. Eric Alberts, DASA(MQ)
- Ms. Karan Reidenbach, DASA(MQ)
- Mr. Gerald Holliday, DASA(FO)
- Mr. James Matthews, Army DCS, G9-ISS
- Ms. Elizabeth Femrite, Army DCS, G9-ISS
- Mr. John Johnston, Marine Corps MCCA
- Ms. Pyper Brenner, Marine Corps MCCA
- Mr. Fred Stout, Marine Corps MCCA
- Ms. Nancy Stephens, Navy CNIC
- Mr. Matthew Keathley, Navy CNIC
- Ms. Evonne Carawan, OASN(M&RA)
- Ms. Annie Fowler, Navy N46
- Mr. AC Berry, AFSVA/SVFTP
- Mr. Cameron Zablocky, AFSVA/SVFTP
- Ms. Lisa Hughes, Air Force A1S
- Ms. Teresa Asbury, SAF/FMCEB
- Mr. Ken Jacquin, AAFES
- Mr. William Moring, AAFES
- Mr. Tom McDonald, NEXCOM
- Mr. Thomas Toth, Wilshire Associates
- Mr. Jon Lewis, Wilshire Associates
- Ms. Ariane Whittemore, Grant Thornton
- Mr. Vishal Ayyagari, Grant Thornton
- Mr. Matthew Thompson, Grant Thornton

## Meeting Notes

### 1. Welcome and Overview – Mr. Justin Hall, OSD, MC&FP

a. Mr. Hall opened the meeting by thanking the Military Services and Military Services' Exchanges for their attendance. He noted that given the economic conditions related to the COVID-19 pandemic, safety and liquidity are of the utmost importance. Mr. Hall further emphasized the need for a strongly managed program and touched on the current strain on NAFI's trying to manage their expenses during this period. Mr. Hall noted that MC&FP is working with the USD Comptroller on a memo that permits the use of appropriated funds for COVID-19 related expenses incurred by Category C morale, welfare, and recreation (MWR) activities.

### 2. Market Update and Discussion of Current Economic and Investment Climate and Challenges – Wilshire Associates

a. Mr. Toth provided a brief statement on their firm's goal during this challenging environment. He stated that the most important task is to maintain consistency across portfolios, even during high volatility periods.

b. Mr. Lewis began by outlining the key indicators that Wilshire is using to gauge the economy. He stated that most key metrics are either lagging or show a drastic drop in spending and production, implying that we may already be in a recession or are heading into one. Mr. Lewis said that Wilshire's views have become more conservative and traditional investors should be seeking out large value equities as well as investment grade bonds over other types of assets.

c. Mr. Jacquin asked Wilshire what their expectation is for the economic recovery and what shape it might take. Mr. Lewis stated that it is admittedly hard to forecast, but a V-shaped recovery is unlikely and he does not expect employment numbers to quickly return to pre-COVID-19 levels. Mr. Toth stated that he expects it to be a "swoosh"-shaped recovery, where the economy gradually comes back over time, or a W-shaped recovery in a worst-case scenario (i.e. if the virus subsides and then comes back).

d. Mr. Lant asked what assets Wilshire would recommend their teams look into during this crisis given that NAF investment managers are restricted in what types of investments they can make. Mr. Lewis recommended that asset-back securities may offer additional yields because the Federal Reserve is trying to ensure their liquidity levels. Mr. Toth noted that it will be important to keep an eye on where rates are going as that will determine what yields investors can expect.

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

a. Mr. Curtis noted that overall NAF cash balances across all the Services and exchanges went up 1.58% between calendar year 2018 and calendar year 2019. He said that he is

working on going into more detail in the update of DoDI 1015.15 to emphasize the importance of NAFIs to maintain sufficient cash balances to cover short- and long-term liabilities as well as current and future capital investments.

b. Mr. Keathley said that lodging was a “perfect negative storm” where there was a ramp up in cash balances from Navy Gateway Inn and Suites (NGIS) activity before the pandemic, but that that has changed drastically since hotel occupancy is low during the COVID-19 crisis. Ms. Fowler said that NGIS occupancy is actually relatively normal in some locations because first responders are staying at the properties.

**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 revision of DoDI 1015.15 and should be able to send a draft version out soon. He said that the last thing he needs to focus on is the section on investments where he plans to incorporate concepts such as duration. He mentioned that he will solicit feedback on that before submitting the entire document for formal coordination.

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

a. Mr. Curtis mentioned that the submitted reports looked great and noted no discrepancies in the report submissions. Further, he reminded participants to submit their IPA audited financial statements once they are completed.

**6. Due Outs From 2019 NAF Treasury Oversight Committee Meeting – Mr. Michael Curtis, OSD, MC&FP**

a. Mr. Curtis mentioned that the first of two due outs from last year’s meeting was for the Services and Exchanges to provide their audited financials. All did that. The second due out was in regard to incorporating the concept of duration to the annual reporting process. As mentioned, Mr. Curtis is in the process of adding that to the updated DoDI 1015.15.

**7. Due Outs From 2019 Open Forum Meeting – Mr. Michael Curtis, OSD, MC&FP**

a. Mr. Curtis noted there were two due outs from the 2019 Open Forum meeting. The first involved MC&FP providing access to the Treasury Managers and other stakeholders to view Tableau software visualizations of annual report data submitted on a Tableau server platform. MC&FP is still working through issues with Tableau and uploading visualizations to the server. In addition, he said that he is working with the Grant Thornton team to continually develop and upload these visualizations for everyone to see. Mr. Curtis will provide updates when they become available.

b. The second due out involved Army volunteering to draft policy guidance language on the subject of a negative rate situation, if the Fed were to lower rates below zero. Mr. Curtis

reminded the Committee that he had sent out an email with the draft language, submitted by Mr. Lant. There were no comments from the group.

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

a. Air Force. Mr. Zablocky provided the update. As of December 31, 2019, the Air Force had an investment balance of \$1.635 billion and a yield realized return of 1.98%. The portfolio's average days to maturity was 839 days. An independent financial audit is ongoing concerning the ten Air Force Central NAFIs to include the six NAFIs that hold investments.

b. Navy CNIC. Mr. Keathley reviewed the update for Navy CNIC. Navy's investment balance as of December 31, 2019, was \$1.2 billion. Their yield realized return was 2.37%. CNIC's financial statement audits are almost complete.

c. Marine Corps MCCS. Mr. Stout from MCCS provided the update. The investment balance for MCCS at December 31, 2019, was \$534.6 million with yield total return of 2.79%. The portfolio's average days to maturity was 639 days. The Shared Service Center in Kansas City, MO is now processing payroll for all stateside NAFI's and processes all accounting transactions for 12 installations. The financial audit is ongoing. Mr. Laurent Lant asked why MCCS uses a five-year benchmark return rather than a three-year benchmark return. Mr. Stout replied that a five-year benchmark was chosen because during a normal market environment, their portfolio primarily consists of maturities within that five-year range.

d. NEXCOM. Mr. McDonald provided the update. The investment balance for NEXCOM for the year ending December 31, 2019 was \$373 million, with a yield realized return of 2.22%. NEXCOM portfolio's average days to maturity was 168 days. The investment balance for Military Sealift Command was \$500,000, with an annual yield of 2.22%. Mr. Lant asked about NEXCOM's credit facility and how they structure committed and uncommitted lines. Mr. McDonald replied that it is based on their desire to always have money available if they need it. He also noted NEXCOM's great relationship with CNIC offers them similar rates for both committed and uncommitted lines.

e. Army IMCOM G9. Mr. Lant provided the update. Army's investment balance was \$1.47 billion, with a yield total return of 2.35%. Mr. Stout asked about the makeup of the Wells Fargo Public Institutional Bank Deposit Account (PIBDA). Mr. Lant replied that it is similar to money markets as a short-term investment. Further, if they have any additional interest income then they will sweep it into that account. Mr. Keathley asked whether PIBDAs have pass-through insurance that works the same way that it would for a certificate of deposit (CD) at a bank. Mr. Lant stated that he does not believe there is any pass-through insurance given how they structure the accounts.

f. AAFES. Mr. Moring provided the update. AAFES' investment balance was \$50.9 million, with a yield total return of 2.75%. Total debt is \$681.5 million. Total debt has decreased \$181.5 million since 2018.

## 9. Open Discussion/Closing Remarks

- a. No additional items were brought up during open discussion.

## 10. Open Discussion/Closing Remarks

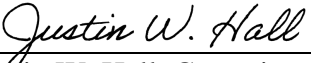
- a. Mr. Curtis thanked all the Services and Exchanges for participating and for submitting their reports.

- b. Summary of actions and due outs:

- 1) All Service and exchanges to provide their IPA audited financial statements when complete.
- 2) MC&FP will continue to work on update DoDI 1015.15 and send out a draft when ready.
- 3) MC&FP to put NAF Treasury and Banking visualizations on MC&FP's Tableau Server platform and provide access to the NAF Treasury Managers.

### Next Meeting: May 2021

DoD NAF Treasury Oversight Committee Meeting Minutes  
May 14, 2020

  
\_\_\_\_\_  
Justin W. Hall, Committee Chair

June 23, 2020  
\_\_\_\_\_  
Date