



REPLY TO  
ATTENTION OF

**DEPARTMENT OF THE ARMY**  
**ASSISTANT SECRETARY OF THE ARMY**  
**FINANCIAL MANAGEMENT AND COMPTROLLER**  
**109 ARMY PENTAGON**  
**WASHINGTON DC 20310-0109**

**NOV 18 2010**

MEMORANDUM THRU Commanding General, Family, Morale, Welfare and Recreation Command, 4700 King Street, Alexandria, VA 22302-4406

FOR Chief Financial Management Officer/Fund Manager, Army Banking and Investment Fund, Family, Morale, Welfare and Recreation Command, 4700 King Street, Alexandria, VA 22302-4406

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1. References.

a. DoD Instruction 1015.15, Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources, 31 Oct 07 (with incorporated change 1, 20 Mar 2008).

b. AR 215-1, Military Morale, Welfare, and Recreation Programs and Nonappropriated Fund Instrumentalities, Chapter 16 (Financial Management), 22 Jun 2010.

2. Purpose. This memorandum outlines the responsibilities and policy for Army Banking and Investment Fund (ABIF) investment operations. It supplements the investment guidance contained in pertinent regulations, and supersedes the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) memorandum 5 Mar 09 regarding Investment Policy.

3. Responsibilities.

a. The Chief Financial Management Officer (CFMO) of the Family and Morale, Welfare and Recreation Command (FMWRC), as fund manager for the ABIF, has the fiduciary responsibility for developing investment objectives, procedures, and strategies, and for oversight of performance of the investment program. The CFMO directly supervises the Chief, Banking and Investment Office. The CFMO informs the Commanding General, FMWRC, of any potentially adverse situations in the financial markets that would affect the investment portfolio, and proposes mitigating actions, if any.

b. The Chief, Banking and Investment Office is responsible for:

(1) The daily operation of the investment program, including supervision of investment officers.

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(2) Reconciling the inventory recorded on the ABIF portfolio tracking system to the accounting records maintained by the Financial Administration Division on a monthly basis.

c. Investment officers are responsible for researching the marketplace for authorized investment opportunities and executing strategies previously approved by the CFMO and Chief, Banking and Investment Office.

d. The Financial Administration Division (FAD) will perform all cash transfer functions.

e. There is an established Investment Committee that provides review and advice to the Commanding General, FMWRC, on matters related to investment objectives, procedures, strategy and performance. The Commanding General, FMWRC, is chairman of the committee; members include representatives from the offices of the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA (FM&C)) and the Assistant Secretary of the Army (Manpower and Reserve Affairs) (ASA (M&RA)); and from a designated Army Command (ACOM), Direct Reporting Unit (DRU) or Army Service Component Command (ASCC). The committee meets quarterly or at the call of the chairman.

4. Investment Funds. The investment policies outlined in this memorandum will be applied to the following NAF investment and trust funds:

a. Army Banking and Investment Fund (ABIF). The ABIF is the Army's primary investment vehicle, holding monetary assets on behalf of nonappropriated fund instrumentalities (NAFIs) until such funds are required for authorized program expenditures. Monies are deposited in the central bank by NAFIs, where sufficient funds are retained to meet daily cash requirements. The remainder is invested in such a manner as to provide interest payments comparable with similar short-term bond mutual funds. ABIF investment operations will be in compliance with criteria outlined in this memorandum.

b. Army NAF Central Retirement Fund (ACRF) Trust. The NAF Central Retirement Fund Trust represents funds being invested for the long-term benefit of participating NAF employees. The trustees of the U.S. Army Nonappropriated Fund Employee Retirement Plan Trust have responsibility for the investment of the trust fund. Deposits in the ABIF are an authorized investment for the Trust. The Banking and Investment Office will provide support to the trustees as outlined in the memorandum of agreement between the Commanding General, FMWRC and the trustees.

c. Army NAF Employee 401(k) Savings Plan Trust. The Army NAF Employee 401(k) Savings Plan Trust represents Funds assigned to outside investment managers by employees participating in the 401(k) Savings Plan. Trust funds are also authorized

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to be deposited in the ABIF. The Banking and Investment Office will provide support to the trustees as outlined in the memorandum of agreement between the Commanding General, FMWRC and the trustees.

d. Other NAF investment funds or trust funds as may be directed by the Commanding General, FMWRC.

5. Basic tenets of the investment program.

a. Security. Preservation of principal is the primary objective of the Fund. To the maximum extent possible, a dollar invested shall be worth a dollar to depositors. Depositors will not be required to recognize changes in the value of investments resulting from market conditions. In addition to the limitations imposed on investments by the Department of Defense (DoD), the following restrictions will be in force:

(1) No more than 10 percent of the portfolio's market value shall be held in securities with final maturities greater than three years.

(2) No security shall be purchased for the ABIF with a final maturity or final cash flow greater than 60 months.

(3) Mortgage-backed securities shall be measured monthly for security extension and price risk. Securities which exhibit security extension and/or price risk in excess of the level established in the Standing Operating Procedure (SOP) shall be sold, unless overridden by the CFMO, FMWRC. In the event that the sale requirement is overridden, documentation describing the characteristics of the security and the surrounding interest rate environment shall be prepared and submitted as part of the record of the next Investment Committee meeting.

(4) With the exception of issues of the U.S. Treasury and issues of U.S. Government Agencies larger than \$1 billion, no more than 5 percent of the portfolio's aggregate market value shall be held in one investment issue. The Fund shall be restricted to no more than 5 percent ownership share of any one issue, regardless of issuer, and to issues with an original issue size of at least \$100 million.

(5) The Fund shall be restricted from investing in certain securities, as follows:

(a) The Fund shall not purchase any security whose interest rate changes periodically based on a spread within a band of interest rates, any security which might be characterized as an "inverse floater," or any floating rate security with a coupon determined by a complex formula.

(b) The Fund shall not purchase any security with a maturity of more than two years with variable interest rates that are preset at the time of issue.

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(c) No security shall be purchased that has the potential for experiencing a non-accrual interest period prior to the maturity of the issue. An exception may be made by the CFMO, FMWRC, if the security can be purchased at a discount to provide a competitive return as a zero coupon bond.

(d) The Fund may purchase securities with floors. These provide defensive protection in a falling interest rate environment.

(6) The Fund may purchase floating rate securities whose coupons reset based on a simple spread to a readily available index. Those with caps must conform to safety considerations defined in the SOP.

(7) The Fund may invest in externally managed no-load institutional government money market funds, provided the funds meet certain criteria, as follows: the average dollar-weight of the money market fund is 90 days or less; the money market fund must have an investment objective of maintaining a net asset value of \$1 per share; and the fund is regulated by the U.S. Securities and Exchange Commission. Investment in any one money market fund shall not exceed 10 percent of the total assets of the money market fund, and the fund must have assets of at least \$1 billion. However, the ABIF may not invest more than 5 percent of the ABIF portfolio par value at any one time in money market funds, and that sum may not exceed \$50 million.

b. Liquidity. Funds will be available as required for all depositors. To achieve this objective, the Fund must hold a combination of securities and overnight investments that can be readily accessed. The Fund shall hold a core position of not less than 10 percent of the Fund's par value in overnight investments, in agency securities maturing within one month or in U.S. Treasury securities. Securities that require lengthy and complex analysis in order to execute their sale shall be purchased only upon documentation of their benefit to the Fund and approval of the Chief Financial Management Officer, FMWRC.

c. Yield. Another objective of the Fund will be to provide a competitive rate to the depositors. Yield shall not take precedence over security and liquidity requirements.

(1) Any capital gains recognized through the sale of securities shall be considered one form of portfolio return.

(2) Given certain market conditions, it may be prudent to incur capital losses. When these occur, they will be highlighted to the Investment Committee and reported in writing to the ASA (FM&C) and the ASA (M&RA).

(3) The performance of the ABIF will be measured against the performance of comparable industry products identified by the committee.

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6. Specialized Activities:

a. The ABIF will perform foreign currency purchasing and hedging operations as requested by an ACOM, DRU, ASCC, FAD, or other headquarters-level entities to meet known foreign currency obligations of NAFIs of the Army.

b. Loans to other NAFIs.

(1) With the express written approval of the Commanding General, FMWRC, the ABIF may loan monies to other nonappropriated fund instrumentalities as authorized by regulations and directives. Each circumstance will be decided on its own merits. The fund manager will closely monitor the extent and maturity of loan activity so as not to impair liquidity.

(2) The ABIF may from time to time make loans to the Army and Air Force Exchange Service (AAFES) subject to the ABIF's availability of funds and AAFES' acceptance of the rates and terms quoted. Loans will be at a fixed rate and for a fixed period of time not to exceed 12 months, with interest calculated on a 360-day year and the actual number of days between inception and maturity of the loan. Interest will be paid at maturity or at least quarterly. The maximum amount the ABIF may lend at any one time will not exceed \$350 million or 35 percent of the ABIF portfolio par value, whichever is less.

(3) Loan agreements will be documented in memoranda of agreement (MOAs). The MOA will detail the terms of the loan made to the NAFI, payment of the loan and accruing interest, and what actions will be required on the part of the FMWRC and the NAFI borrower in the event of missed payments, late payments or default on the repaying the loan. Each signatory to the MOA will represent and warrant that he or she has the authority to commit his or her respective organizations to the actions, including funding, agreed to in the MOA; that the terms and conditions outlined in the MOA comply with DoD and Army internal policies; and that regulatory and statutory preconditions for the MOA have been met.

7. Investment Limitations.

a. NAFIs are not to generate funds for the purpose of investment; therefore, funds are deposited and invested until they can be expended.

b. Repurchase agreements are authorized, but not to exceed 30 percent of the ABIF portfolio.

(1) Repurchase agreements are authorized only with primary government securities dealers who are certified by and meet the capital adequacy standards of the Federal Reserve Bank of New York.

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(2) Collateral margin for the repurchase agreements will be no less than 102 percent of the combined value of the repurchase security and accrued interest. Securities pledged as collateral for repurchase agreements are limited to U.S. Treasury issues only (Bills, Notes, and Bonds), and must mature within three years.

(3) Delivery of funds and receipt of securities will be through the ABIF custodian bank only.

(4) A Master Repurchase Agreement as prepared by the Public Securities Association will be executed with each primary government securities dealer before repurchase agreements are initiated.

c. During periods of unusually heavy cash withdrawals by depositors, the Fund may from time to time have a temporary need for cash and may enter into reverse repurchase agreements for this purpose. Reverse repurchase agreements for investment purposes are authorized only under the following conditions:

(1) Securities being sold must generate an interest cost below the rate at which funds are reinvested.

(2) Funds reinvested will match the maturity of the reverse agreement, or funds to close the reverse repurchase agreement will otherwise be available from the maturity of a short-term portfolio security, including called securities to their announced call date.

(3) No reverse repurchase will exceed a term of 60 days.

(4) Reverse repurchase agreements will not exceed 5 percent of the market value of the portfolio.

d. Firm forward commitments (instruments purchased on a "when-issued" basis) will not be made in excess of 5 percent of the face value of the investment portfolio.

(1) Increases in forward commitments may only be allowed if anticipated cash flows into the investment portfolio exceed 5 percent between the purchase date and settlement date of the firm forward commitment instrument.

(2) Firm forward commitments will not be made for speculative purposes.

e. Securities will neither be bought nor sold on margin.

f. Transactions will be conducted only with primary government securities dealers and reporting government securities dealers as defined by the Federal Reserve Bank of New York, or directly with banks for the purchase of Certificates of Deposit. Exceptions will be made on an individual basis, after documentation of the firm's satisfactory financial condition and the value of the relationship to the fund.

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8. Management Controls and Oversight.

a. The ABIF fund manager will be appointed in writing. During change of fund managers, both new and old fund managers will confirm fund balances through the reconciliation of assets and liabilities. Outside resources to be used for reconciliation include documentation from the central bank and custodian bank statements.

b. Personnel of the Banking and Investment Office authorized to trade securities for the ABIF will be so appointed in writing by the Commanding General, FMWRC.

c. The CFMO through the Commanding General FMWRC will immediately notify the ASA (FM&C) and ASA (M&RA) of any significant losses, realized or unrealized, of principal; of circumstances where investments produce no yield; or any other situation warranting notification.

d. The Investment Committee is responsible for investment oversight of NAF monies at all levels. The Commanding General, FMWRC and Investment Committee review the investment environment and monitor the investment program quarterly.

e. Reports to meet DoD oversight requirements will be forwarded from the Commanding General, FMWRC through the ASA (FM&C) and ASA (M&RA) to the Office of the Secretary of Defense.

f. The Fund will be audited annually by an independent certified public accounting firm or the U.S. Army Audit Agency. Audit findings, to include command comments, will be presented both to the Investment Committee and the Commanding General, FMWRC.

g. The FMWRC Internal Review Office will review the ABIF at least annually, providing follow-up on commercial auditor findings and recommending additional controls necessary to enhance operations.

h. Procedures for investment operations will be documented in a standard operations procedure (SOP). Both the SOP and this policy memorandum will be reviewed annually for possible amendment. Documentation of these reviews will be presented to the Investment Committee.

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9. My point of contact for this action is Mr. Michael R. Curtis, Army Budget Office; he may be reached at 703-693-3506 or michael.r.curtis@us.army.mil.

A handwritten signature in black ink that reads "Mary Sally Matiella". The signature is written in a cursive style with a large initial "M".

Mary Sally Matiella, CPA

CF:  
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