



# CFO Call Series

## Charles River CFO

October 20, 2022



## BUSINESS RISK

### Strategies for Management

**Kevin Sarney, CPA**  
Charles River CFO



## PANELISTS

- John Diercks  
*Vice President, Principal  
Sullivan Insurance*
- Marc St. André  
*Senior Portfolio Manager  
Capital Advisors Group*
- Anthony Vernaglia, CPA, MST  
*Managing Member  
Vernaglia Consulting, PLLC*

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## INSURANCE RISK

- Clinical trials insurance
- Directors and Officers insurance
- Cyber insurance

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# CLINICAL TRIALS INSURANCE

- Overseas trials
- Product transit insurance to clinical sites

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INSURANCE & RISK MANAGEMENT SERVICES  
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# DIRECTORS AND OFFICERS INSURANCE

- Market trends (pre 2019 vs post 2020)
- Public vs. private (range)
- Purchase of tail insurance – why

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INSURANCE & RISK MANAGEMENT SERVICES  
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# CYBER INSURANCE

- What is it?
- Key coverage sections for emerging growth firms
- Reasonable limit to consider
- What has changed in last three years

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INSURANCE & RISK MANAGEMENT SERVICES  
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# INSURANCE RISK

## Questions?

John Diercks  
*Vice President, Principal  
Sullivan Insurance*

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# INVESTMENT RISK

- Capital preservation
- Liquidity
- Risk return rates

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# CASH INVESTMENT OBJECTIVES

- Capital preservation
  - Conservative investment policy requirements
  - Segregated bank custody vs broker safekeeping
- Liquidity
- Return

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# CAPITAL PRESERVATION

Investment policy comparison: CAG's Life Science and Medical Device clients comprising more than \$20.9 billion under management as of 6/30/22

- Establish an appropriately conservative investment policy
- Eliminate structured products (ABS, MBS, etc)
- Eliminate pooled products (other than Govt Money Market Funds)
- Require high credit ratings to effectively eliminate default risk

|                                                | CAG Recommendation                                                                        | Peer Group                       |
|------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------|
| Minimum Credit Rating<br>(Moody's, S&P, Fitch) | <b>Corporates Rated A</b>                                                                 | <b>75%</b> of peer group clients |
| Individual Issuer Concentration<br>Limit       | <b>Typically 5% for balances larger than \$50M and 10% for smaller portfolio balances</b> | <b>71%</b> of peer group clients |

The above summarizes investment parameters of Capital Advisors Group, Inc. clients as of 6/30/22. Although the data represent actual investment policy considerations of Capital Advisors Group's clients, which we believe may provide a good point of reference in the evaluation and construction of a cash investment policy, it is intended for informational purposes only. Nothing contained herein should be construed as a solicitation or offer with respect to the purchase or sale of any security. Capital Advisors Group, Inc. is under no obligation to make changes or updates to this report and therefore disclaims any liability should the information contained herein change or subsequently become inaccurate. Photocopying and redistributing this report is strictly prohibited. This report is considered confidential and proprietary and may not be provided or disclosed to any other parties other than the intended recipient(s) without the prior written consent of Capital Advisors Group, Inc. Peer group policy data and assets under management as of 6/30/22. Clients listed do not necessarily endorse or approve of the investment advisory service provided by CAG. ©Capital Advisors Group, Inc. 2022. All rights reserved.



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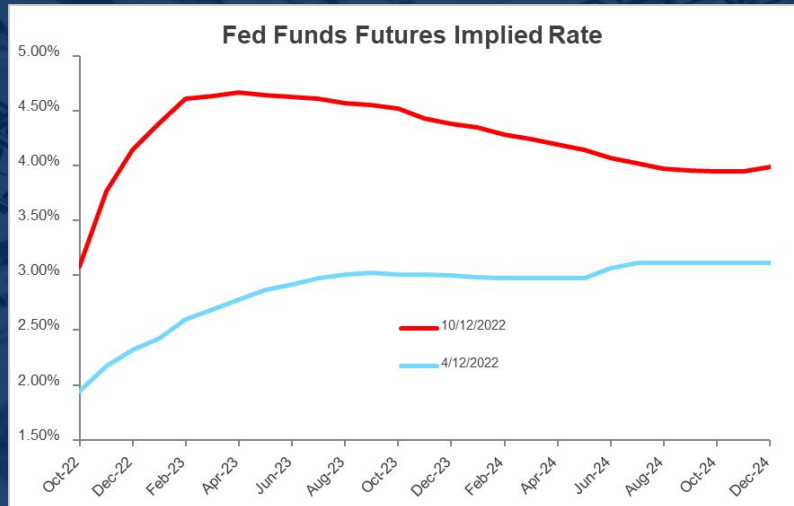
# LIQUIDITY

- Schedule maturities before forecasted cash needs
- Allow for variability in cash forecasts
- Interest rate volatility: within the limits defined by cash forecasts, lengthen or shorten average maturities as appropriate given Fed rate expectations



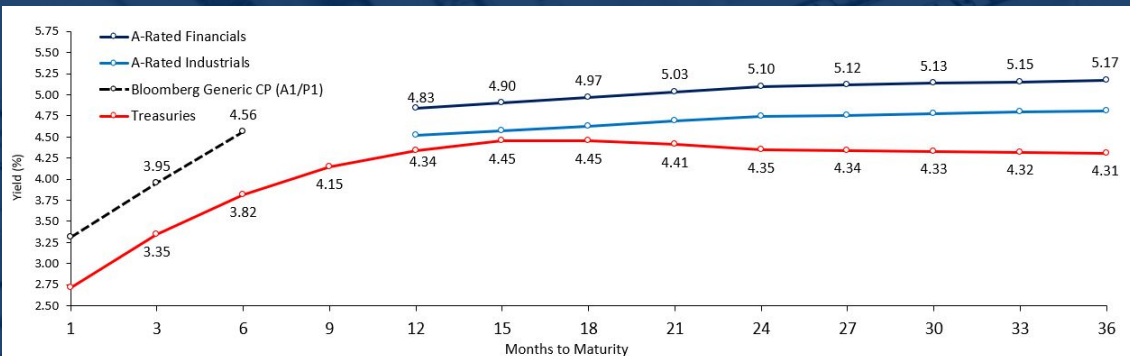
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# RATE OUTLOOK: Monetary Policy



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# RATE OUTLOOK



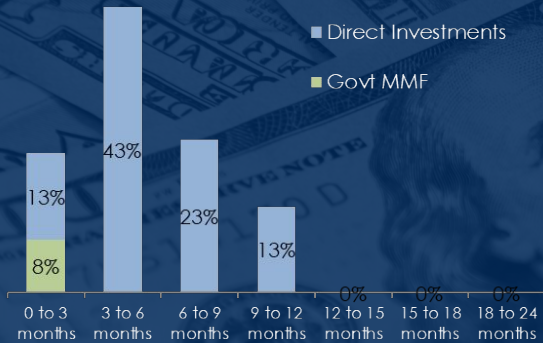
| Index                        | 3 Months | 6 Months | 12 Months | 18 Months | 24 Months | 30 Months | 36 Months |
|------------------------------|----------|----------|-----------|-----------|-----------|-----------|-----------|
| Treasuries                   | 3.35     | 3.82     | 4.34      | 4.45      | 4.35      | 4.33      | 4.31      |
| Bloomberg Generic CP (A1/P1) | 3.98     | 4.21     | -         | -         | -         | -         | -         |
| A-Rated Industrials          | -        | -        | 4.52      | 4.63      | 4.74      | 4.78      | 4.81      |
| A-Rated Financials           | -        | -        | 4.83      | 4.97      | 5.10      | 5.13      | 5.17      |

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\*Yields sourced from Bloomberg and Capital Advisors Group. Yields are estimates of attainable levels as of 10/12/2022 and may be more or less than realized yields. All yield information is subject to change without notice.

# SAMPLE LIQUIDITY PLAN

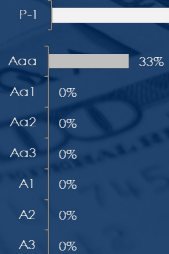
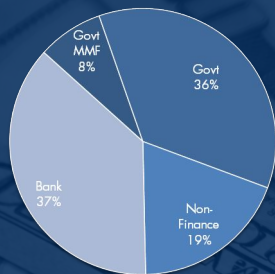
Company ABC has \$25M of cash and a 20-month cash runway



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|        | BALANCE      | FORECASTED<br>OUTFLOWS | MATURITIES  | DAILY<br>LIQUIDITY | FUTURE DAILY<br>LIQUIDITY<br>(% OF TOTAL) |
|--------|--------------|------------------------|-------------|--------------------|-------------------------------------------|
|        | \$25,000,000 |                        |             | \$2,000,000        |                                           |
| Nov-22 | \$25,000,000 | (\$1,000,000)          | \$1,500,000 | \$2,500,000        | 10%                                       |
| Dec-22 | \$24,000,000 | (\$1,000,000)          | \$1,750,000 | \$3,250,000        | 14%                                       |
| Jan-23 | \$23,000,000 | (\$1,250,000)          | \$2,500,000 | \$4,500,000        | 21%                                       |
| Feb-23 | \$21,750,000 | (\$1,250,000)          | \$2,500,000 | \$5,750,000        | 28%                                       |
| Mar-23 | \$20,500,000 | (\$1,250,000)          | \$3,000,000 | \$7,500,000        | 39%                                       |
| Apr-23 | \$19,250,000 | (\$1,250,000)          | \$2,750,000 | \$9,000,000        | 50%                                       |
| May-23 | \$18,000,000 | (\$1,250,000)          | \$2,500,000 | \$10,250,000       | 61%                                       |
| Jun-23 | \$16,750,000 | (\$1,250,000)          | \$2,000,000 | \$11,000,000       | 71%                                       |
| Jul-23 | \$15,500,000 | (\$1,500,000)          | \$1,250,000 | \$10,750,000       | 77%                                       |
| Aug-23 | \$14,000,000 | (\$1,500,000)          | \$1,250,000 | \$10,500,000       | 84%                                       |
| Sep-23 | \$12,500,000 | (\$1,500,000)          | \$1,000,000 | \$10,000,000       | 91%                                       |
| Oct-23 | \$11,000,000 | (\$1,500,000)          | \$1,000,000 | \$9,500,000        | 100%                                      |
| Nov-23 | \$9,500,000  | (\$1,500,000)          |             | \$8,000,000        | 100%                                      |
| Dec-23 | \$8,000,000  | (\$1,500,000)          |             | \$6,500,000        | 100%                                      |
| Jan-24 | \$6,500,000  | (\$1,250,000)          |             | \$5,250,000        | 100%                                      |
| Feb-24 | \$5,250,000  | (\$1,250,000)          |             | \$4,000,000        | 100%                                      |
| Mar-24 | \$4,000,000  | (\$1,250,000)          |             | \$2,750,000        | 100%                                      |
| Apr-24 | \$2,750,000  | (\$1,250,000)          |             | \$1,500,000        | 100%                                      |
| May-24 | \$1,500,000  | (\$1,250,000)          |             | \$250,000          | 100%                                      |
| Jun-24 | \$250,000    |                        |             |                    |                                           |

# SAMPLE INVESTMENTS



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| TICKER  | % OF HOLDINGS | INVESTMENT                                          | MOODY'S RATING | S&P RATING | INVESTMENT COST | GROSS YTM | MATURITY DATE | SETTLEMENT DATE | DAYS TO MATURITY |
|---------|---------------|-----------------------------------------------------|----------------|------------|-----------------|-----------|---------------|-----------------|------------------|
| DGCXX   | 8.00%         | Dreyfus Govt Cash Mgmt Fund                         | Aaa            | AAA        | \$2,000,000     | 2.81%     | -             | -               | Same Day         |
| DE      | 3.00%         | John Deere                                          | P-1            | A-1        | \$750,000       | 3.49%     | 11/16/2022    | 10/17/2022      | 30               |
| NESCP   | 3.00%         | Nestle                                              | P-1            | A-1+       | \$750,000       | 3.56%     | 11/30/2022    | 10/17/2022      | 44               |
| SANFP   | 3.00%         | Sano                                                | P-1            | A-1+       | \$750,000       | 3.50%     | 12/2/2022     | 10/17/2022      | 46               |
| SWEDBK  | 4.00%         | Swedbank                                            | P-1            | A-1        | \$1,000,000     | 3.88%     | 12/22/2022    | 10/17/2022      | 66               |
| FHLB    | 5.00%         | Federal Home Loan Banks                             | P-1            | A-1+       | \$1,250,000     | 3.92%     | 1/26/2023     | 10/17/2022      | 101              |
| DEXGTD  | 5.00%         | Dexia Credit Local (guaranteed by France & Belgium) | P-1            | A-1+       | \$1,250,000     | 4.47%     | 1/30/2023     | 10/17/2022      | 105              |
| NAB     | 5.00%         | National Australia Bank                             | P-1            | A-1+       | \$1,250,000     | 4.35%     | 2/14/2023     | 10/17/2022      | 120              |
| HON     | 5.00%         | Honeywell                                           | P-1            | A-1        | \$1,250,000     | 4.22%     | 2/27/2023     | 10/17/2022      | 133              |
| TOYOTA  | 5.00%         | Toyota                                              | P-1            | A-1+       | \$1,250,000     | 4.40%     | 3/22/2023     | 10/17/2022      | 156              |
| UST     | 7.00%         | U.S. Treasury                                       | Aaa            | AA+        | \$1,750,000     | 4.06%     | 3/31/2023     | 10/17/2022      | 165              |
| BNS     | 5.00%         | Bank of Nova Scotia                                 | P-1            | A-1        | \$1,250,000     | 4.77%     | 4/10/2023     | 10/17/2022      | 175              |
| FHLB    | 6.00%         | Federal Home Loan Banks                             | P-1            | A-1+       | \$1,500,000     | 4.39%     | 4/13/2023     | 10/17/2022      | 178              |
| UST     | 10.00%        | U.S. Treasury                                       | Aaa            | AA+        | \$2,500,000     | 4.40%     | 5/31/2023     | 10/17/2022      | 226              |
| WSTPAC  | 5.00%         | Westpac Banking                                     | P-1            | A-1+       | \$1,250,000     | 4.84%     | 6/12/2023     | 10/17/2022      | 238              |
| FHLMC   | 3.00%         | Freddie Mac                                         | Aaa            | AA+        | \$750,000       | 4.40%     | 6/30/2023     | 10/17/2022      | 256              |
| FFCB    | 5.00%         | Federal Farm Credit Bank                            | Aaa            | AA+        | \$1,250,000     | 4.39%     | 7/6/2023      | 10/17/2022      | 262              |
| RY      | 5.00%         | Royal Bank of Canada                                | P-1            | A-1+       | \$1,250,000     | 5.03%     | 8/28/2023     | 10/17/2022      | 315              |
| TD      | 4.00%         | TD Bank                                             | P-1            | A-1+       | \$1,000,000     | 5.10%     | 9/30/2023     | 10/17/2022      | 348              |
| SVENSKA | 4.00%         | Svenska Handelsbanken                               | P-1            | A-1+       | \$1,000,000     | 5.16%     | 10/4/2023     | 10/17/2022      | 352              |
| TOTAL   |               |                                                     |                |            | \$25,000,000    | 4.25%     | WAM           |                 | 167              |

\*\*\* Represents recommended purchases. Sample purchases do not represent actual market offerings. Securities typically those in which Capital Advisors Group invests and may differ from purchased securities. Yields are estimates of attainable levels as of date shown and may be more or less than realized yields. Account structure may differ from the recommended structure above. All information subject to change without notice. Confidential © Copyright 2022. All rights reserved. Not reflective of management fees. Repurchase agreements are not rated by Moody's or S&P, but are fully collateralized by government securities whose issuers are rated Aaa/AAA+.

(as of 10/17/2022)



# INVESTMENT RISK

## Questions?

Marc St. André  
Senior Portfolio Manager  
Capital Advisors Group

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**CAPITAL**  
ADVISORS GROUP

# MASSACHUSETTS SECURITY CORPORATION

- Overview
- Example
- Hot spots

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# MASSACHUSETTS SECURITY CORPORATION

## *Massachusetts Excise Tax – Operating Company*

- **Income tax:** Massachusetts apportioned net income taxed at 8%
- **Non-income tax measure:** Massachusetts apportioned net worth or Massachusetts tangible property sited in Massachusetts at end of year taxed at a rate of \$2.60 per \$1,000.
- Tax may be reduced by allowable credits (e.g. R&D and ITC)

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# MASSACHUSETTS SECURITY CORPORATION

## *Overview of MSC*

- Class 1 MSC - .33% of gross income or \$456, whichever is greater
- Class 2 MSC - 1.32% of gross income or \$456, whichever is greater
- Tax may be reduced by allowable credits

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# MASSACHUSETTS SECURITY CORPORATION

## MSC Analysis

*\$50 million equity raise/cash infusion. Investments earn interest at 5% pre-tax.*

### Without MSC

- Non-income measure of excise - \$130,000
- Income tax of \$200,000 (NOL Utilization)

### With MSC

- Non-income measure of excise eliminated
- Income tax at \$33,000

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# MASSACHUSETTS SECURITY CORPORATION

## Hot Spots/Risk Areas

- Consider cost/benefit to create and maintain MSC
- MSC - buying, selling, dealing in, or holding securities on own behalf and not as a broker
- Movement of funds between MSC and operating company
- Separate legal entity
- Accounting issues
- Federal tax issues

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# MASSACHUSETTS SECURITY CORPORATION

## Questions?

Anthony Vernaglia, CPA

*MST Managing Member  
Vernaglia Consulting, PLLC*

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## DISCUSSION

## CHARLES RIVER CFO

- Finance, Tax, HR expertise
- Interim, fractional, project
- Flexible team model
- Scaleable contract

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## PANELISTS

- John Diercks, *Vice President, Principal*  
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- Marc St. André, *Senior Portfolio Manager*  
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- Anthony Vernaglia, *CPA, MST, Managing*  
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## CHARLES RIVER CFO

Charles River CFO welcomes the opportunity to work with your company to provide fractional and interim CFO, accounting, tax, and human resource services.

**We are smart, nimble, and flexible.**

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