

**THE WHITMAN INVESTMENT COMPANY**

Date: 10/17/18

**12:03 Call meeting to order**

Go over agenda

Motion to approve last week’s minutes ‐ passes

Motion to approve agenda ‐ passes

**12:05 Portfolio and Market Update**

As interest rates rise, tech stocks especially have been taking a hit as they rely on growth, which is harder to attain when rates increase, and debt is more expensive. Our active portfolio has taken a large hit as it's disproportionately tech and biotech, two industries that rely heavily upon growth. Intercept, PACCAR, and CBRE have performed the worse while Disney, Matson, and Gilead have performed the best.

**12:20 Stock Pitch: Cardinal Health Inc. (CAH): Steven, Sihan, Gavin, Sam**

Company Overview:

Cardinal Health focuses on the distribution of pharmaceuticals and medical equipment to over 100,000 locations worldwide

Traded on NYSE (Ticker CAH)

Headquarters: Dublin, OH

Founded in 1971

50,000 Employees in 42 Countries

Manufacture or source more than 2.5 billion healthcare products each year, spanning medical, surgical, pharmaceutical, lab, specialty, and nuclear.

Key Financials:

Mkt Cap: $16.13Bil Revenue YoY Growth: 6.24%

Price/Earnings: 66.41 Operating Margin: 1.37%

EV/EBITDA: 8.03 10yr. Avg. Payout Ratio: 61.5%

EPS: 0.81

Risks:Highly competitive industry, New management, Rising Interest Rates, Lawsuits over opioid crisis, CVS agreement expires June 2019

Opportunities: Diverse revenue stream, Business in 46 countries, Very low interest rate, Culture, Acquisitions, Cordis’ strong presence on endovascular and cardiovascular instruments market

Monte Carlo DCF Model:

Randomizes growth rates over the next 10 years

80% Confidence Interval results:

Low: $198.05

Mean: $242.72

High: $287.24

Earnings Power Value Model

No growth

Tells us what the company will be worth now, assuming earnings and cost of capital are held constant

Very helpful when considering value buys

EPV Per Share: $86.77

Dividend Discount Model:

Past 5 year dividend growth (8.1%) for 5 years into the future

Discounted payouts of dividends starting with 2018 ($1.88)

Compare to share price

DDM Per Share: $70.51

Valuation:

Low: Dividend Discount Model

Middle: Earnings Power Value

High: Mean Monte Carlo DCF Value

Composite: 50% EPV, 40% DDM, 10% DCF

Low: $70.51

Middle: $86.77

High: $242.72

Composite: $ 95.84

Current Price: $51.53 as of 10/15/18

Investment Thesis:

Invest target allocation in Active Portfolio in Cardinal Stock, hold for a year, and reevaluate the stock in fall of 2019

Key Financials- low P/E, low Beta (Volatility), and strong dividend

Valuation models show a significant market inefficiency, company is undervalued

Setbacks are temporary, market overreacted to lawsuits re: opioid crisis and Cordis IVC Filter lawsuit

The market has overreacted to lawsuits and high-profile targeting of opioid companies in the current political landscape. Cardinal Health has strong financials and valuation models indicative of being undervalued. Overall, we have identified an opportunity to buy a company that is trading at a discount to their intrinsic value.

Motion: Buy 564 shares of Cardinal Health - passes (11I : 3O : 1S)

**12:40 Educational Presentation: Hedge Fund Industry (Alex, Reily)**

Definition:

Investopedia Definition: “Hedge funds are alternative investments using pooled funds that employ numerous different strategies to earn active return, or alpha, for their investors. The term "hedge fund" originated from the paired long and short positions that the first of these funds used to hedge market risk”

Pooled Funds- Capital from many individual investors aggregated into one investment vehicle.  This helps benefit from economies of scale. The individual investors are called Limited Partners. LPs have to be accredited or be an institutional

Alpha- The measure of an active return on an investment. Ex.  If a passive index fund makes 3.5% gains in a year and your hedge fund gains 6.5%, Your alpha return is the difference.

Most often, Fund performance is compared to performance of the S&P 500

Regulation and Industry Standards:

Only Accredited Investors allowed to invest (minimum net worth of $1,000,000 or income of $200,000 in past two years)

Limited Disclosure (only have to report long positions, hard to evaluate what is being invested in)

Use leverage and can invest in “alternative investments,” more freedom than mutual funds

Hedge Funds often have much higher fees (usually 2/20)

Longer redemption periods than mutual funds (lock-ups)

Some assets hard to value

Strategies:

Equities: Long/Short, Market Neutral

Credit: Distressed Debt, Fixed Income

Global Macro, Event Driven, Activist (Value),

Arbitrage: Fixed Income Arbitrage, Convertible Arbitrage, Relative Value Arbitrage, Merger Arbitrage

Black Box (Quantitative)

Why Invest in a Hedge Fund?

Increase diversification

Reduce Correlation (Low, Negative, or even zero BETA!)

Reduce Volatility

Not necessarily attempting to beat the market (S&P 500)

Some beat the market

Some have consistent returns

Leveraged Returns

Risk to Investing in a Hedge Fund:

High Minimum often combined with Low Liquidity

High Fees (2 and 20 structure)

Hedge Funds themselves have higher costs due to regulation post 2008 FC

Lack of Transparency

Hard to do due-diligence on funds

Often take on sizable risk

Some fund strategies don’t lend themselves well to large sizes

Arbitrage

The genius of some have allowed for the stupidity of many, there are 11,000 Hedge Funds and there are not 11,000 geniuses running them

High competition and investor demand leading to short term swings instead of long-term wealth creation

**12:50 Motion to adjourn meeting**

Motion passes