

Drexel University The Dragon Fund

**Annual Update
December 31, 2012**

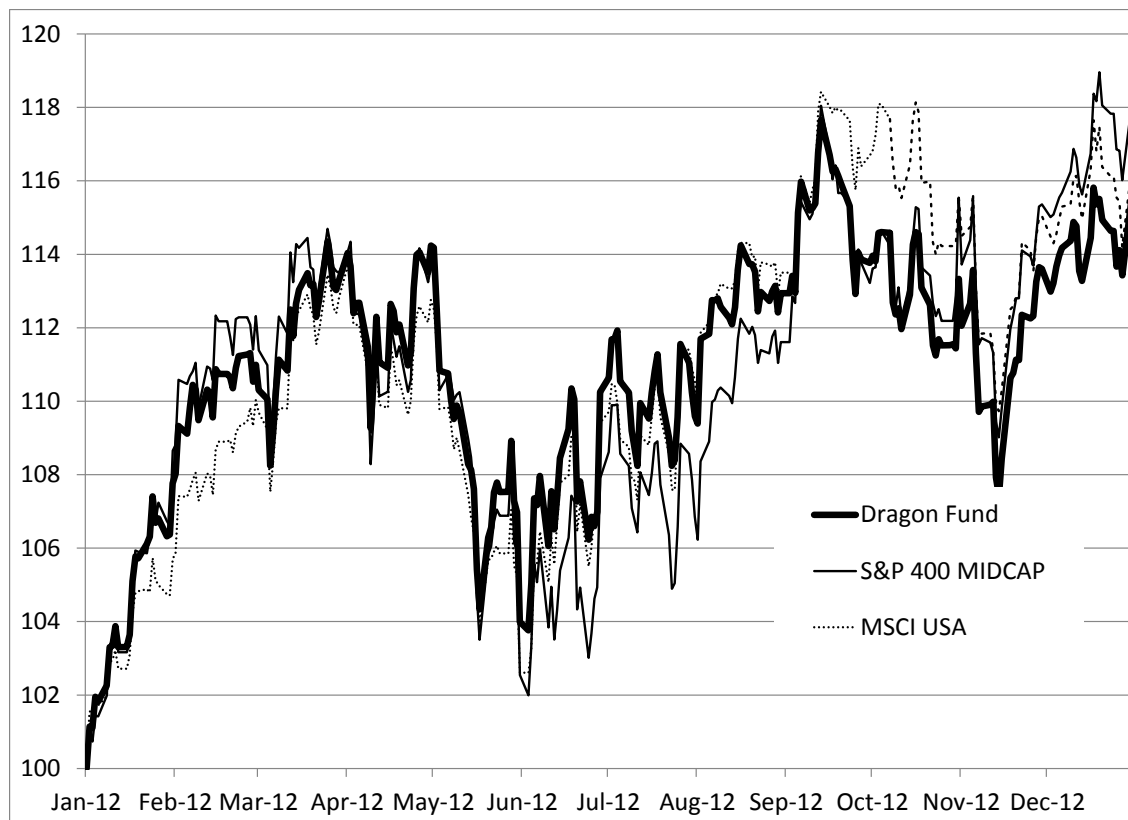


The Dragon Fund

The fund, which has been managed by Drexel undergraduates since the fall of 2008, seeks capital appreciation by primarily investing in U.S. stocks with a market capitalization of between \$500 million and \$5 billion. The fund currently manages more than \$500,000, by applying a combination of sector analysis and discounted cash flow as well as multiples valuation techniques to identify attractive investment opportunities.

How did the fund perform in 2012?

The Dragon Fund returned 15.4%. During the same time, S&P400 midcap index and the associated ishares S&P 400 ETF returned 17.9% and 17.4%, respectively. The aggregate market of U.S. stocks, proxied by the MSCI USA, appreciated 16.1%.



Sources: Dragon Fund account reports provided by US Bank, Datastream

Performance analysis

Asset allocation: Deviations from the sector benchmarks had little effect on performance. The largest detractor was a relatively high cash position of 6% at the beginning of 2012 that has since been reduced to about 2% (the attribution table below shows the weights at the beginning of 2012).

Security selection: The main driver of the fund's underperformance was poor stock selection, particularly in the Information Technology and Healthcare sectors. Although many of the holdings even in these sectors performed well, a few stocks experienced sharp drops in response to missing revenue estimates: Adtran and VeriFone (IT) and Allscripts (Healthcare). To a degree, these losses were offset by strong performers within the Energy (oil equipment and services) and Financials (HCC Insurance) sectors.

Attribution analysis, January 2012-December 2012

Sector	Dragon Fund		ishares S&P400		Performance effects [%]		
	Weight	Return	Weight	Return	A	S	I
Cash	6.2%	0.0%	0.0%	0.0%	-0.67	--	--
Consumer Discretionary	16.6%	20.6%	14.5%	23.8%	0.27	-0.35	0.15
Consumer Staples	4.6%	11.6%	4.3%	17.6%	0.00	-0.01	-0.19
Energy	7.8%	24.0%	6.2%	1.3%	-0.35	1.29	0.28
Financials	14.5%	23.6%	20.3%	17.5%	-0.07	1.21	-0.42
Health Care	9.7%	6.9%	9.2%	22.3%	0.03	-1.25	-0.14
Industrials	14.8%	21.0%	16.3%	21.4%	0.15	-0.04	-0.13
Information Technology	14.7%	2.5%	15.0%	15.1%	0.05	-1.92	0.12
Materials	6.9%	18.1%	6.5%	23.4%	0.01	-0.27	-0.07
Utilities	4.4%	3.6%	6.2%	5.2%	0.19	-0.07	-0.00
Total		15.3%		17.4%	-0.24	-1.42	-0.40

Note that the attribution analysis is based on a FactSet model portfolio of the Dragon Fund which is updated on a quarterly basis. Therefore, the returns shown can slightly differ from the actual fund returns.

Based on actual weekly returns for 2012, the fund had a Jensen's alpha of -0.01% per week or -0.6% for the year. Its alpha relative to a four-factor model (the four factors being market excess returns, returns of small minus large stocks, returns of value minus growth stocks, and returns of high momentum minus low momentum stocks) was -0.02% per week. The fund has significant positive exposure to the returns of small minus large stocks, that is, the fund tends to do better when small stocks outperform large stocks. This is to be expected given the fund's midcap focus. It also has positive exposure to momentum, that is, the fund tends to do better when

recent winner stocks outperform recent loser stocks. This can be explained, at least in part, by the “relative 20% rule” which is part of the fund’s sell discipline: a stock that has underperformed its sector by more than 20% during the past 6 months is sold at the time of quarterly review unless the covering analysts determine that there is a compelling catalyst to hold.

Market review and outlook

2012 turned out to be a good year for the U.S. stock market, especially for mid-cap stocks, reflecting the slow recovery of the U.S. economy with unemployment below 8% and a stronger housing market. Concerns linger about the strength of the economic recovery in the U.S., the European debt crisis which spooked markets in May, and the messy fiscal cliff debate at the end of the year. While Washington was able to reach an agreement and push off the impact of the fiscal cliff, the fixes implemented were mainly short term. Headline risk and gridlock around the planned sequestration and debt ceiling increase is likely to cause continued uncertainty and volatility, especially in the first quarter. If long term resolutions are reached this could be an overall positive, but continued ‘can-kicking’ is likely to be looked at unfavorably by the market. The uncertainty surrounding future U.S. tax policy caused dividends to skyrocket towards the end of the year. We usually interpret an increase in the dividend yield as a signal for higher future stock returns, but are reluctant to do so this time around. Even without the dividend effects, our quantitative return forecasting model predicts a positive development for the U.S. market during the first quarter of 2013. The upside appears small, however, reflecting the mixed readings of macroeconomic indicators during the final weeks of 2012.

Performance history

The fund’s past 3- and 5-year return and risk profiles compare favorably to those of the S&P 400 benchmark as well as the broader U.S. market.

Portfolio returns	2008	2009	2010	2011	2012	3-yr avg	5-yr avg
Dragon Fund	-12.5%	16.1%	30.7%	-1.7%	15.4%	14.0%	8.5%
S&P 400	-36.2%	37.4%	26.6%	-1.7%	17.9%	13.6%	5.1%
MSCI USA	-37.1%	27.1%	15.4%	2.0%	16.1%	11.0%	1.8%

Sources: Dragon Fund account reports provided by US Bank, Datastream

In addition, the fund has maintained a stable and lower risk profile than its benchmark with a beta of about 1 and a return volatility of 11.7%, relative to the S&P 400’s beta of 1.12 and return volatility of 13.3%. The fund’s tracking error, calculated as the annualized standard deviation of

weekly fund returns in excess of the S&P 400, is in line with other actively managed mid-cap funds.

Portfolio risk	2008	2009	2010	2011	2012
Dragon Fund volatility	14%	15%	18%	23%	12%
S&P 400 volatility	41%	30%	21%	26%	13%
MSCI USA volatility	35%	25%	17%	22%	11%
Dragon Fund tracking error (relative to S&P 400)			4.8%	4.6%	3.7%
Dragon Fund beta	0.38	0.55	1.00	1.05	1.01
S&P 400 beta	1.12	1.16	1.15	1.17	1.12

Sources: Dragon Fund account reports provided by US Bank, Datastream

Note that 2008 and 2009 are not directly comparable since the fund's assets were only gradually invested in equities. By the beginning of 2010, the fund was fully equitized.

Turnover and costs

Dragon Fund portfolio turnover and the associated total costs have consistently been below those of actively managed mid-cap funds.

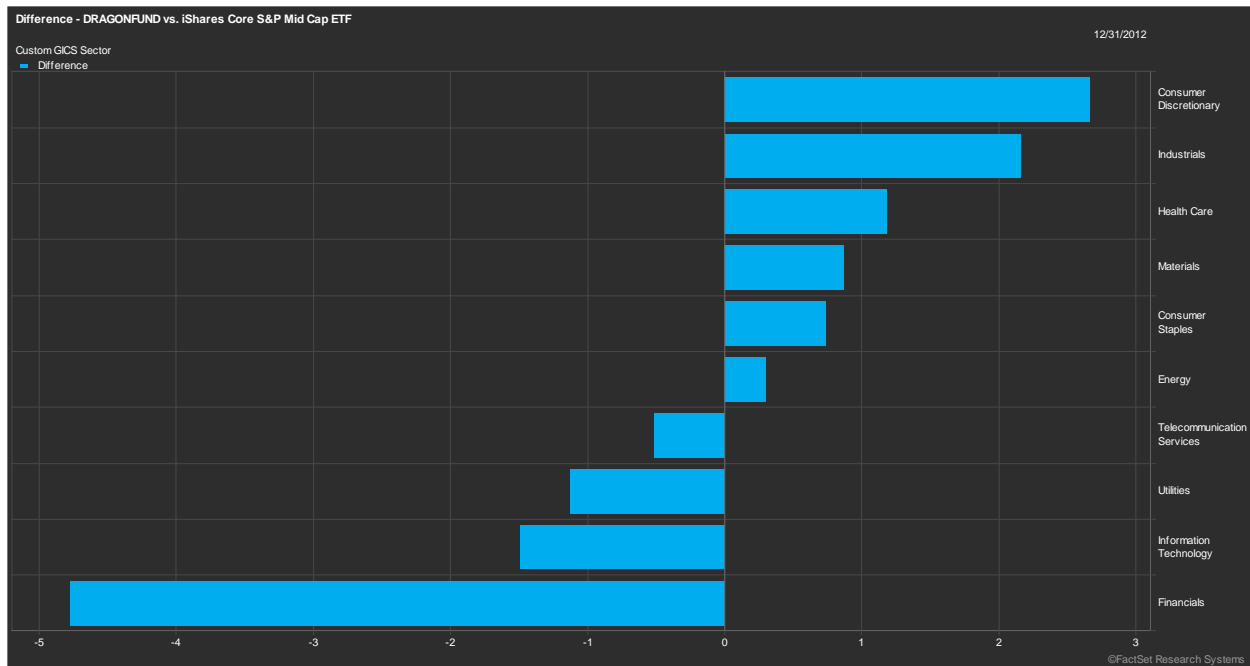
Turnover	2008	2009	2010	2011	2012
Dragon Fund	6%	9%	76%	25%	41%
Purchases	\$155,842	\$40,241	\$292,691	\$198,830	\$202,734
Sales	\$6,227	\$12,528	\$204,383	\$102,942	\$183,613
Average portfolio	\$99,742	\$135,668	\$267,739	\$405,260	\$445,451
Trading costs	\$158	\$66	\$545	\$270	\$363
Trading costs [%]	0.2%	0.0%	0.2%	0.1%	0.1%

Sources: Dragon Fund account reports provided by US Bank, FactSet

Current holdings profile as of December 31, 2012

Sector over-/underweights as of December 31, 2012

The snapshot below reflects that, with the exception of Financials – where the Dragon Fund maintained a substantial underweight of 5% relative to the benchmark – sector weights are typically within 2% of the benchmark sector weights.



Source: Dragon Fund model portfolio in FactSet

Top ten holdings

Despite the three largest holdings being sector ETFs, the fund has halved its exposure to sector ETFs, from 34% at the beginning of 2012 to about 18% at the end of 2012.

Ticker	Name	Weight [%]
VIS	Vanguard ETF Industrials	6.0
VGT	Vanguard ETF Information Technology	3.7
VFH	Vanguard ETF Financials	3.6
PETM	PetSmart Inc.	3.5
RBC	Regal-Beloit Corp.	3.1
BX	Blackstone Group L.P.	3.0
TJX	TJX Cos.	2.7
UHS	Universal Health Services Inc. Cl B	2.6
WCN	Waste Connections Inc.	2.5
HCC	HCC Insurance Holdings Inc.	2.3

Characteristics of Dragon Fund holdings

The forward price to earnings ratio is based on consensus estimates for the next fiscal year. Momentum measures past returns from July 2012 to November 2012. The Dragon Fund statistics do not reflect the fund's ETF holdings.

Characteristic medians	Dragon Fund	S&P 400
# securities	61	400
Market cap	4,270	2,897
Current P/E	18.7	19.2
Forward P/E	15.5	15.2
P/B	2.3	1.6
Dividend yield [%]	1.2	0.2
Momentum	12.2%	8.0%
Estimated long-term EPS growth	12.9%	10.0%
Beta	1.07	1.18

Source: Dragon Fund model portfolio in FactSet, FactSet