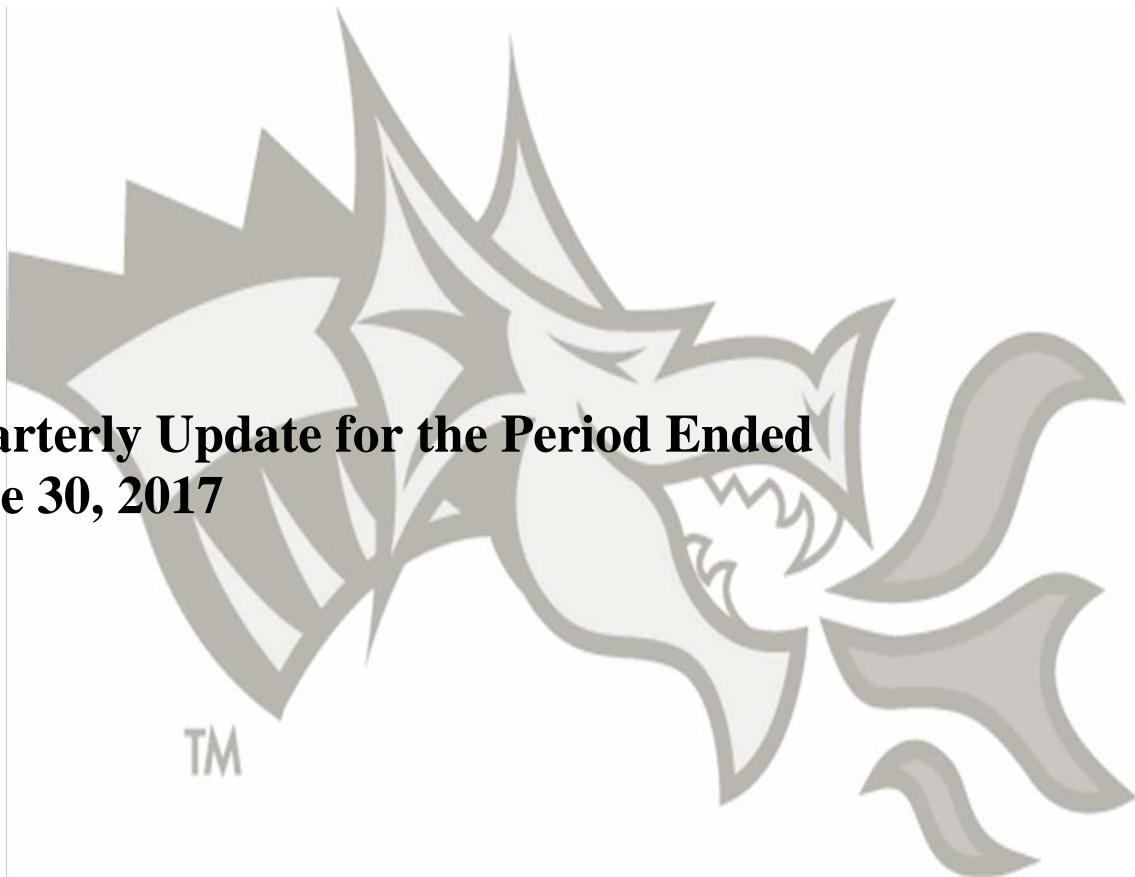


The Dragon Fund
Prof. Daniel Dorn



Drexel University The Dragon Fund

**Quarterly Update for the Period Ended
June 30, 2017**



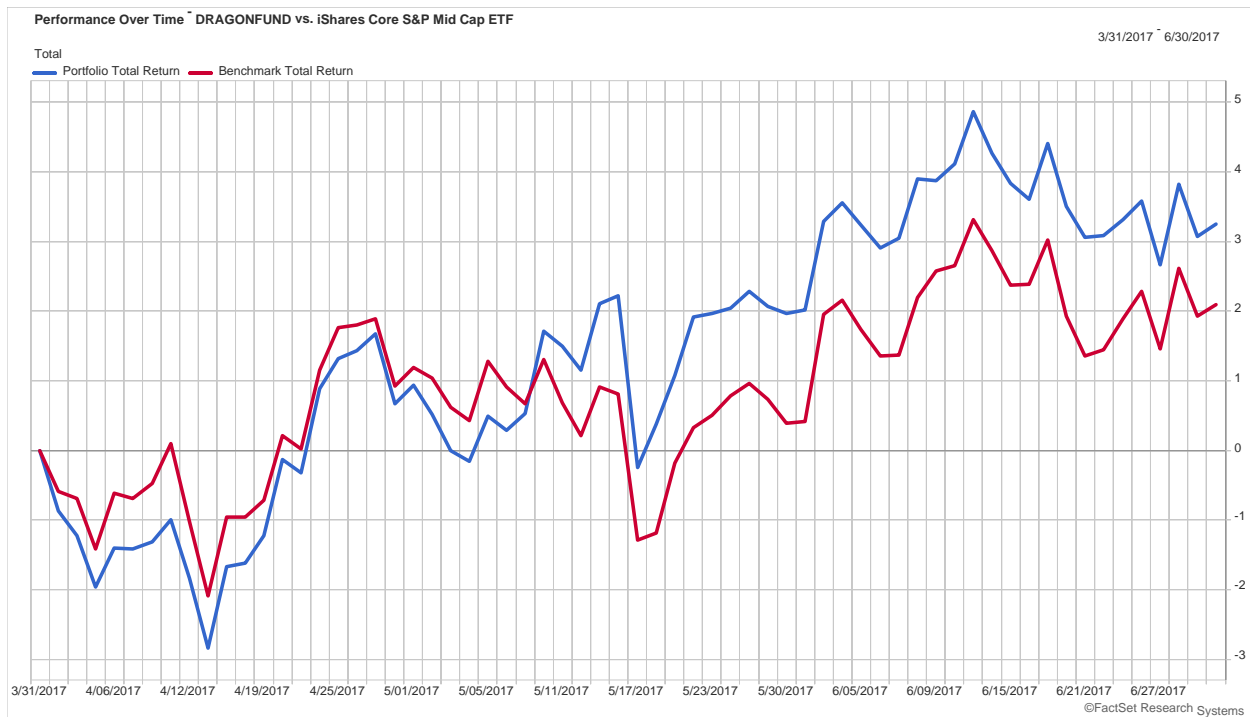
The Dragon Fund

The Dragon Fund, which has been managed by Drexel undergraduates since the fall of 2007, seeks capital appreciation by primarily investing in U.S. stocks with a market capitalization of between \$500 million and \$10 billion. The student analysts apply a combination of sector analysis and discounted cash flow as well as multiples valuation techniques to identify attractive investment opportunities. The fund was started with \$250,000 and received additional infusions of \$100,000 in March 2011, \$450,000 in June 2013, and \$200,000 in June 2016. As of the end of June 2017, the fund's total assets stood at slightly over \$2 million.

1 Performance review

1.1 Fund performance

The Dragon Fund returned 3.3% for the quarter, outperforming its benchmark, the S&P 400, which gained approximately 2%. It also outperformed the broader market, proxied by the MSCI USA, which appreciated by 3.1%.



Sources: Dragon Fund model portfolio in FactSet

1.2 Attribution analysis

Allocation effects detracted 30 basis points from performance. The main culprit was the fund's overweight in the Energy sector, which fell mirroring the downward trend in oil prices.

Security selection effects contributed most of the outperformance (about 110 basis points) and were broadly positive: eight out of ten sectors had positive selection effects. The biggest contribution came from the IT sector, whose semiconductor holdings Nvidia (+33%) and Lam Research (+10%) and gaming stocks Electronic Arts (+18%) and Activision Blizzard (+16%) outperformed. During the second quarter, the fund cut back its position in Nvidia (mandated by fund rules), but the IT analysts continue to be positive on the fund's semiconductor holdings. The fund's position in Activision was liquidated as the stock reached its optimistic target price.

Despite the back and forth regarding health care reform, the Health Care sector was the best performing sector in the midcap space during the second quarter. Unfortunately, with the exception of Cooper Industries (a recent addition to the fund that appreciated 20% during the quarter), the fund's health care holdings could not capitalize on this sector tail wind. The main detractor in terms of security selection came from the fund's Health Care Provider & Services holdings: Mednax (-13%), Express Scripts (-3%), and Universal Health Services (-2%). Endo – currently the fund's only pharma stock – also lagged its benchmark peers. However, the Health Care analysts continue to be positive on the stock, citing attractive valuation coupled with solid operational performance.

Attribution analysis relative to ishares S&P 400 Midcap ETF, April 2017-June 2017

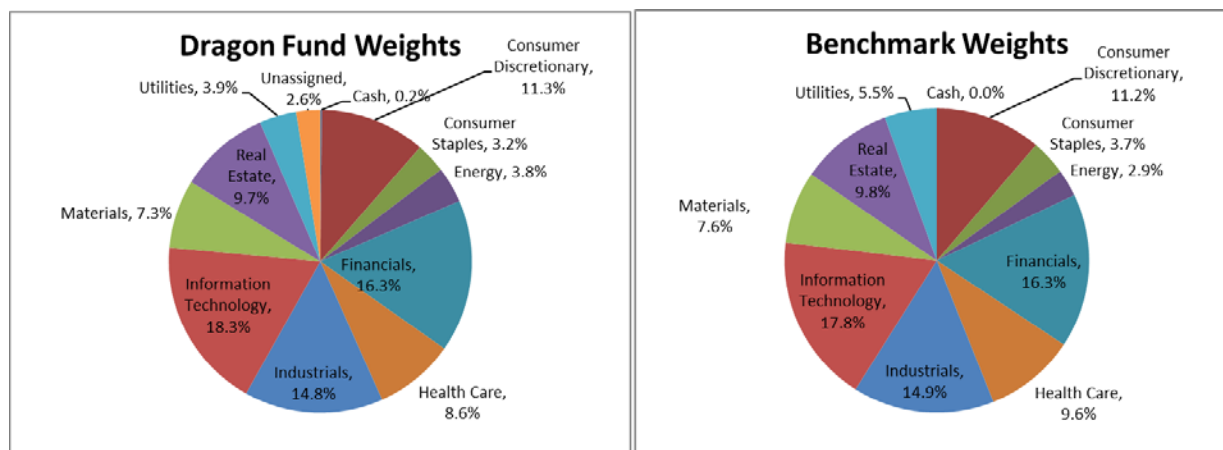
DF 2017 Q2 Sector	Dragon Fund		ishares S&P400		Performance effects [%]			
	Weight	Return	Weight	Return	Allocation	Selection	Interaction	Total
Cash	1%	0.2%	0%	0.0%	-0.1	--	--	-0.1
Consumer Discretionary	11%	3.4%	11%	2.0%	-0.0	0.2	0.0	0.2
Consumer Staples	3%	2.7%	4%	-3.9%	0.1	0.3	-0.1	0.3
Energy	5%	-14.6%	3%	-19.5%	-0.3	0.2	0.1	-0.0
Financials	17%	1.0%	15%	0.9%	-0.0	0.0	-0.0	-0.0
Health Care	7%	2.1%	8%	12.1%	-0.2	-0.8	0.2	-0.8
Industrials	16%	1.4%	15%	3.4%	0.0	-0.3	-0.0	-0.3
Information Technology	19%	11.9%	18%	4.6%	0.1	1.3	0.2	1.6
Materials	8%	0.6%	7%	0.8%	-0.0	0.0	-0.0	-0.0
Real Estate	10%	2.2%	10%	0.9%	0.0	0.1	-0.0	0.1
Utilities	4%	3.9%	6%	0.3%	0.0	0.2	-0.1	0.2
Unassigned	0%	-0.6%	2%	3.9%	-0.0	-0.0	-0.0	-0.0
Total		3.3%		2.1%	-0.3	1.1	0.3	1.2

The table is based on the ishares S&P 400 midcap as opposed to the actual S&P 400 index (which is not included in our FactSet subscription). Dragon Fund holdings are based on a

FactSet model portfolio of the Dragon Fund which is updated on a quarterly basis. Therefore, the returns shown differ slightly from the actual fund and benchmark returns. “Weight” refers to the portfolio and benchmark allocation as of March 31, 2017.

2 Current holdings profile as of June 30, 2017

2.1 Sector allocation



Source: Dragon Fund model portfolio in FactSet, FactSet, benchmark refers to the iShares S&P 400 ETF

2.2 Top ten holdings

Ticker	Name	Weight [%]
LRCX	Lam Research Corporation	3.5
VHT	Vanguard Health Care ETF	3.3
EA	Electronic Arts Inc.	2.9
NVDA	NVIDIA Corporation	2.8
VCR	Vanguard Consumer Discretionary ETF	2.8
IJH	iShares Core S&P Mid-Cap ETF	2.6
WAL	Western Alliance Bancorporation	2.5
MAN	ManpowerGroup Inc.	2.3
AOS	A. O. Smith Corporation	2.2
ALE	ALLETE, Inc.	2.1
Total		27.1

Source: Dragon Fund model portfolio in FactSet

Note: The sector and benchmark ETF holdings are the result of reinvesting cash from several fund holdings receiving takeover offers. The ETF holdings, which account for less than 10% of the portfolio, are designed to avoid making inadvertent sector bets and reduce cash drag; they are expected to decline in the future as student-managers identify attractive investment opportunities.

2.3 Characteristics of Dragon Fund holdings

The forward price to earnings ratio is based on consensus estimates for the next fiscal year. The Dragon Fund statistics do not reflect the fund's ETF holdings.

Characteristics (medians)	Dragon Fund	S&P 400
Market Capitalization	7,010	3,874
# of Securities	61	402
Dividend Yield	1.2	1.2
P/E using FY1 Est	17.5	19.9
Price/Cash Flow	12.9	12.7
Price/Book	2.8	2.5
Price/Sales	2.4	2.0
Est 3-5 Yr EPS Growth	9.7	10.0
ROA	6.5	5.0
ROE	14.3	10.8
Operating Margin	14.7	12.5
Net Margin	10.2	7.2
LT Debt/Capital	37.3	38.6

Source: Dragon Fund model portfolio in FactSet