ACADEMIC CASE STUDY: DREXEL UNIVERSITY DRAGON FUND

❯ Student analysts at Drexel use FactSet to gain real-world portfolio management experience, make informed investment decisions, and monitor their results.

NAME	TITLE	SCHOOL	TOTAL MBA STUDENTS	TOTAL UNDERGRAD BUSINESS STUDENTS
Dr. Daniel Dorn	Associate Professor and Dragon Fund Advisor	Drexel University	1,020	2,800

"FactSet has a wide range of different applications, excellent client support, and its academic package makes it easy to deploy the software to a potentially large group of users."

CHALLENGE

The Dragon Fund is a $1.3 million U.S. equity portfolio of mid-cap stocks managed by undergraduate students at Drexel University. The fund started as a voluntary club in 2007, and in 2008 management of the fund moved to the classroom.

Over the course of two 10-week semesters, students learn to create financial models to value a company, forecast market conditions and sector performance, present individual stock pitches, create and back test a quantitative equity strategy, and report back to their client—the Drexel endowment office. They are guided by Dr. Daniel Dorn, professor and faculty advisor, who develops the course curriculum and ensures the investment process is applied consistently by different teams of fund managers over time.

There are typically 15 to 20 student analysts in the course each semester. With hundreds of stocks in their coverage universe and no back office support to assist with fund monitoring, report generation, or trade administration, Drexel needed help.

"Without FactSet, it would simply not be feasible for the fund to hold and systematically monitor 60+ holdings and rigorously evaluate many more for possible inclusion or liquidation."

SOLUTION

Daniel needed a tool to effectively teach his students about real-world investing, help them identify research priorities, and manage the back office support and produce reports. He also wanted to streamline the investment process from semester-to-semester as students joined and left his class. FactSet consultants began by providing trainings and helping him develop step-by-step guides so students could quickly become involved and focus on investment decisions upon joining the course.

The first part of the course is devoted to understanding the factors and economic indicators that impact their assigned sector's performance in order to make asset allocation decisions. The students rely on FactSet's economic charting tool to create market return forecasts, and use attribution analysis to identify under- and over-performers for each sector in the portfolio.

> "FactSet has helped us enormously in understanding where the fund's performance comes from and where it lags behind the benchmark. This in turn helps us better allocate our research resources."

Once student fund managers understand the macro factors that affect their sector, they learn a range of methods for valuing companies. These include building discounted cash flows, creating relative valuation models, and analyzing qualitative catalysts using FactSet's Excel add-in and screening tools.

Students also use the Knowledge Base course and certification to learn to build financial models in Excel. For their final project, they develop quantitative strategies using screening which they back test over 10 years, and use portfolio analytics to evaluate the performance of their mock portfolio strategy.

Students also learn to present stock pitches using the various valuation methods to a team of financial professionals, including

alumni of the Dragon Fund. Changes to the portfolio can only take place following a class vote that results in a majority consensus.

"We have found that stock pitches that get accepted tend to outperform their sector benchmark, whereas stock pitches that fail to convince the other students also fail to outperform."

Throughout the course, students monitor the performance of individual stocks in their assigned sector, as well as across the fund's portfolio. They set up news alerts for the sector they cover, track intraday performance using FactSet's mobile apps, and track earnings calls using the event calendar.

Lastly, student fund managers prepare quarterly reports to be shared with the Drexel endowment office, their client, using FactSet's integration with Excel. This helps them efficiently pull data and create client-ready documents with ease.

"Put simply: FactSet's capabilities and the ease with which it can be accessed [is the reason why we use FactSet over other platforms]. FactSet has a wide range of different applications, excellent client support, and its academic package makes it easy to deploy the software to a potentially large group of users."

RESULT

FactSet has provided the Dragon Fund with an intuitive product that can accessed by the student analysts from any computer, so that the intensive course can focus on investing principles and the actual implementation of running a fund.

The students' ability to learn advanced software quickly, combined with various methods of valuation, have made the Dragon Fund extremely successful. The Fund experienced its best year in 2013, outperforming the market by 42.7% and beating many professional investors. This performance enabled the student managers to tie for 1st place in the University of Dayton's annual student portfolio competition at the RISE Forum. They were also selected for an interview with Bloomberg TV.

Student-managed funds are designed to provide students with a real world investing experience in a safe yet challenging environment. Aided by FactSet, the students who manage the Dragon Fund gain valuable experience navigating the markets and performing and communicating in a professional financial environment prior to starting their careers. Many of the student analysts go on to join top financial firms after graduating, largely due to the experience they have as part of the Dragon Fund.

"There is a big gap between working on textbook investment problems and tackling real-world investment tasks. FactSet helps bridge this gap effectively. Although FactSet's capabilities are vast and there is always something new to learn, it is intuitive enough so students can get started right away and make meaningful contributions within a couple of hours of using FactSet".