

# ADVISER'S PERSPECTIVE QUARTERLY | Q4 2009

## QUAKER® GLOBAL TACTICAL ALLOCATION FUND

Annus Horribilis is a Latin phrase meaning "horrible year" and which was made famous by Queen Elizabeth II in describing the year 1992 for her family. That pretty much describes our calendar 2009.

Domestic markets gained ground for the third quarter in a row with the S&P 500® Total Return Index (S&P 500) gaining 6.04% over the last three months. The global markets also posted positive results for the quarter with the MSCI World Index rising 4.07%.

Class A of the Quaker Global Tactical Allocation Fund trailed the market gaining 0.32% for the quarter ended December 31, 2009. For year end 2009, the Fund gained 19.66% versus a gain of 29.99% for the MSCI World Index and 26.46% for the S&P 500 Index. (After sales charges, Class A shares returned -5.20% and 13.08% for the quarter end and the year, respectively).

2009 was a challenging year for stock pickers in general and more specifically, DG Capital. For the second consecutive year, equity correlations were very high among stock price movements with close to 90% of stocks moving in the same direction (down in 2008, then up in 2009), which created a "rising tide lifts all boats" environment that mitigated the impact of stock picking on overall returns. Consistent with our process and philosophy, historically our portfolios have lagged passive indices in periods of high equity correlations (1997, 2006 and now 2008-9) when active management has added far less value, since sentiment rather than fundamentals was the primary driver of stock prices. What made 2009 particularly challenging for us was the sudden switch, starting March 9, of the market rewarding high quality stocks (which are our bread and butter) to rewarding lower quality stocks for the rest of the year as the tail risk of bankruptcy and depression was lifted by massive government intervention in the capital markets. On a brighter note, the good news (at least to us) is that, historically, the environments in which our process has outperformed have been more common and longer in duration than those in which we have underperformed.

For perspective, in 2009, one 7-week period (the junk rally from March 9 through April 30) accounted for 170% of our underperformance for the year; without that period, our returns were 6.5% ahead of the market for the year. Including that period, we lagged the MSCI World Index by over 11%. These were seven truly difficult weeks for most high-quality growth managers.

Looking forward, domestic broad-based sentiment (economic, capital market, consumption, and manufacturing) seems to be improving by most measures as we enter 2010. We believe the domestic stimulus efforts will have a positive impact on the economy into 2010 (leading economic indicators continue to trend up, supporting this conclusion). However, we are concerned that a positive economic outlook does not necessarily translate into a positive outlook for the capital markets, and base our concern on a number of factors. First, this recovery faces serious challenges from deleveraging, higher taxes and uncertainty around government policy and its impact on companies and consumers. While we believe the domestic economic stimulus packages we've seen in recent months will have more of an impact on the economy in 2010 than they did in 2009, we're concerned they will not provide broad-based support for the equity markets due to the aforementioned headwinds. In addition, although The Fed seems intent on continuing its spending spree (e.g., left over TARP funds are being redirected to jobs creation since unemployment remains in the upper teens), Congress—despite a professed shared focus on job creation—is actually undertaking policies (e.g., health care reform, climate change legislation and tax law changes) that create uncertainty for employers, which hurt the job creation picture. Further, we believe the recent stock market rally already has priced a lot of the positive expected economic news in 2010 into current stock prices. Finally, as stated earlier, we are concerned that the recent rotation back to quality and valuation as drivers of stock prices also indicates we are in the later stages of expansion within the overall economic cycle, which does not usually correlate with high absolute return levels.

Looking abroad, growth in emerging markets has recovered faster than the domestic market due to their more effective stimulus programs, commodity oriented economies, lack of "sophisticated" financial industries and export driven economies. In fact, it is likely that in 2010, domestic profit leadership will occur in those industries, including energy, materials and, potentially, industrials, that will benefit most directly from global stimulus measures through increased exports or multinational partnerships. In anticipation of this, we continue to maintain several global growth themes in the portfolio, anchored by stock picks in the materials, agribusiness and energy sectors. In a similar theme, we hold

*Continued on next page*

Performance	For Calendar Quarter Ended 12/31/2009		
	Before Sales Charges	After Sales Charges	MSCI World Index
Class A Inception 5/01/2008			
3 Months	0.32%	-5.20%	4.07%
Year-to-Date	19.66%	13.08%	29.99%
1 Year (Cumulative)	19.66%	13.08%	29.99%
5 Years (Annualized)	n/a	n/a	n/a
10 Years (Annualized)	n/a	n/a	n/a
Life of Share Class (Annualized)	-23.97%	-26.51%	-12.43%

Maximum Expense Ratio: 2.38%

*Performance data shown before sales charges does not reflect the deduction of the sales load for period end. Performance data shown after sales charge reflects the Class A maximum sales charge of 5.50%.*

*Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end is available by calling us toll free at 800-220-8888.*

**Additional disclosures about the Fund appear on the next page.**

**Sub-Adviser:** DG Capital Management, Inc.  
**Fund Assets:** \$30.6 Million  
**Public Offering Price:** \$6.70

### Ticker Symbols

Class A: QTRAX  
 Class C: QTRCX  
 Institutional Class: QTRIX

### Mutual Fund Exposures

**% Assets**  
 Long Positions 97.49%  
 Cash 2.53%  
 Options -0.02%

### Top Positions

**% Assets**  
 Google Inc. 3.45%  
 ACE Ltd. 3.02%  
 Apple Inc. 3.00%  
 Goldman Sachs Group Inc. 2.97%  
 BHP Billiton Ltd. 2.51%  
 Pfizer Inc. 2.50%  
 Merck & Co. Inc. 2.50%  
 Suncor Energy Inc. 2.44%  
 Freeport-McMoRan Copper & Gold Inc. 2.39%  
 Mead Johnson Nutrition Co. 2.32%  
 Total % 27.10%

The Fund's holdings and characteristics are as of 12/31/2009 and are subject to change. Current and future holdings are subject to risk.



QUAKER® FUNDS

Quaker® Global Tactical Allocation Fund invests in “special situation” securities and engages in short selling (selling securities not owned at time of sale), which involves special risks and requires special investment expertise.

The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

The Fund will also invest in U.S. and foreign small and medium-sized companies, which involve additional risks such as limited liquidity and greater volatility.

The Morgan Stanley Capital International (MSCI) World Index measures developed-market equity performance throughout the world. You cannot invest directly in an index.

*Continued from previous page*

a significant investment in the healthcare sector, concentrating on pharmaceutical companies who are exhibiting accelerating revenue growth from emerging economies (China, for example, is on track to implement universal healthcare, with an emphasis on rural coverage, by 2020).

So, while the more favorable environment toward active management makes us optimistic about our ability to produce alpha going forward, we remain cautious of absolute equity market returns in 2010, especially as the year progresses. As a result, the number of holdings in our portfolio has gradually increased to help us manage and reduce our risk exposure via diversification (as opposed to the use of cash). In addition, our portfolios continue to have a larger-cap bias, as we seek companies with global brands and strong patent profiles that are growing revenues and earnings at above-average rates.

With respect to current sector and/or theme positioning within the portfolio:

- We continue to favor energy companies. World oil demand will continue to grow strongly in 2010 with the International Energy Agency forecasting 1.4 million barrels a day (mmbd) of oil demand growth for the year. On the supply side, non-OPEC production is forecast to increase only 0.2 mmbd while OPEC production is expected to be up 0.8 mmbd. As a result, global spare capacity is becoming increasingly tight. We like energy companies that are growing their production reserves or have long-lived reserves, have good balance sheets and cash flow characteristics and have conservative managements.
- In materials, we like the agricultural commodities like phosphate and potash where demand is rebounding from very depressed levels and inventory levels are low. In addition, we like companies that are in the business of supplying commodities that are in short supply in Asia and which are essential building blocks for their economic growth: copper, iron ore and coal.
- In healthcare, we believe pharmaceutical companies continue to be undervalued. Not only do they have internal levers to accelerate earnings growth due to merger & acquisition that has occurred in the industry but they are also well positioned for the continued increase in healthcare spending that will occur in the developing world. In addition, a number of biotechnology companies are undervalued based on their pipelines and balance sheets.
- In technology, we are invested in companies that are exposed to wireless growth, mobile computing and data storage and payment processing. In finance, we are invested in commercial banks that are seeing a turn in their loan losses and/or are trading at below their burned down book values.
- Finally, in consumer staples and consumer discretionary we like companies that have global brands and have high growth businesses in international markets. We also own a supermarket that we believe will benefit from the return of food inflation that we expect to occur later this year and we own an auto parts supplier that has a good balance sheet and an increasing backlog of new business.

In summary, we are enthusiastic about our portfolio positioning as we enter the new year, as those companies we own, in aggregate, demonstrate solid earnings growth, strong balance sheets and significant free cash flow. Bolstering that optimism is the belief that we are in an environment of lower market volatility and lower correlations in which company specific fundamentals will once again drive stock prices. With a combination of attractive stocks and a favorable investing environment, we are convinced our stock picking ability and time-proven philosophy should once again produce very competitive performance for our clients, and we thank you for your continued support.

*Provided by DG Capital Management, Inc.*

**Absolute return** strategies aim to produce a positive return regardless of the directions of financial markets. **Alpha** is a measure of risk-adjusted return. **Correlation** is a statistical measure of how 2 stocks move in relation to each other. **Free cash flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures.

**Fund Mandate:** Our Investment Process is designed to create a flexible strategy that allows us to opportunistically react to market changes. The Fund can hold up to 25% in short positions or go to 100% cash if deemed necessary.



**The Sub-Adviser:** DG Capital Management, Inc., based in downtown Boston, MA, was founded in 1996 and currently has approximately \$1.8 billion under management.

**Mutual fund investing involves risk, including the possible loss of principal.**

*Consider investment objectives, risks, charges, and expenses carefully before investing. The Prospectus contains this and other information and is available for download at [www.quakerfunds.com](http://www.quakerfunds.com) or by calling 800-220-8888. Read the Prospectus carefully before investing.*



QUAKER® FUNDS

Contact us:  
Quaker Funds, Inc.  
c/o U.S. Bancorp Fund Services, LLC  
P.O. Box 701  
Milwaukee, WI 53201-0701  
800.220.8888  
[www.quakerfunds.com](http://www.quakerfunds.com)

©2010 Quaker® Investment Trust