

# ADVISER'S PERSPECTIVE QUARTERLY | Q3 2008

## QUAKER® STRATEGIC GROWTH FUND

Domestic equity markets sold off strongly in the third quarter of 2008 with the S&P 500 falling 8.37% (the fourth quarterly decline in a row) and the NASDAQ declining 7.44%.

Class A shares of the Quaker Strategic Growth Fund underperformed its benchmark, falling 30.69% (before sales charges, -34.50% after sales charges) for the quarter, and posting a year-to-date loss of 26.36% (before sales charges, -30.41% after sales charges) versus the S&P 500's loss of 19.29%.

Prior to the beginning of the third quarter, we had enjoyed an extended period of strong absolute/relative performance primarily driven by an over-weight in energy, materials, and to some extent, industrials. This was the result of our broad global growth theme fueled in part by strong growth in the BRIC countries (Brazil, Russia, India and China) and the Middle East. We also benefited from under-weights in financials, consumer discretionary and technology (driven by a second theme that the U.S. economy was not growing or, if it was, certainly not at the rates we were seeing overseas).

On or around the middle of July, the markets reversed themselves as financials and some consumer names rallied, and the aforementioned energy and material names began to sell off. This trend was driven by, what has become painfully clear now, a number of large hedge funds, positioned similarly to us, that began to de-lever themselves during the third quarter. This initiated a short covering rally in the finance and consumer areas and a sell-off in the commodity and energy space. The magnitude and speed of this reversal caught us off guard. Further, selling continued during the quarter as redemptions started to rise which forced more selling and short covering. We initially believed that this market sentiment was more of a financial event rather than a change in the secular growth of emerging economies. However, this rout triggered a much broader sell-off as confidence in equity markets waned, and eventually, snowballed into the current global financial crisis in which we are now embroiled.

It has now become abundantly clear to us that we have grossly underestimated the interconnectedness of the global financial system and how the failure of one pillar of that system (Lehman Brothers comes to mind) can cause a domino effect that leads to the potential failure of various other financial institutions and even a downgrade in the creditworthiness of a country (Iceland). As of this writing, it is also becoming clear to us that the weakness ripping through the global financial markets due to uncertainty about national government policies and a lack of trust in counterparties is causing a sharp economic slowdown that, unfortunately, will not be contained to one specific country (like the United States) or one geographical region (like South America). We are, however, hopeful that as the global financial system is nursed back to health (either by the private sector or by national government mandate), then the equity markets will begin to function as the discounting mechanism they have always been and will react positively to an eventual global economic recovery.

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Performance	For Calendar Quarter Ended 9/30/2008		
	Before Sales Charges	After Sales Charges	S&P 500 Index
Class A Inception 11/25/1996			
3 Months	-30.69%	-34.50%	-8.37%
Year-to-Date	-26.36%	-30.41%	-19.29%
1 Year (Cumulative)	-20.75%	-25.10%	-21.98%
5 Years (Annualized)	9.33%	8.10%	5.16%
10 Years (Annualized)	14.11%	13.46%	3.06%
Life of Share Class (Annualized)	14.66%	14.11%	5.44%

Maximum Expense Ratio: 1.80%

*The returns shown above reflect the performance of the former No-Load Class for periods ending before June 23, 2000, and Class A Shares thereafter. Performance data shown before sales charges does not reflect the deduction of the sales load for periods end. Performance data shown after sales charges for periods after June 23, 2000 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:** \$1,019,672,412  
**Public Offering Price:** \$20.87

### Ticker Symbols

Class A: QUAGX  
 Class B: QAGBX  
 Class C: QAGCX  
 Institutional Class: QAGIX

### Mutual Fund Exposures % Assets

Long Positions 69.88%  
 Cash 30.12%

### Top Positions % Assets

XTO Energy Inc. 3.98%  
 Potash Corp. of Saskatchewan 3.84%  
 Schlumberger Ltd. 3.79%  
 Monsanto Co. 3.37%  
 Suncor Energy Inc. 3.37%  
 Freeport-McMoRan 3.06%  
 Canadian Natural Resources Ltd. 3.01%  
 News Corp. Inc. 2.99%  
 Hess Corp. 2.81%  
 Anadarko Petroleum Corp. 2.80%  
 Total 33.02%

The Fund's holdings and characteristics are as of 9/30/2008 and are subject to change.



This Fund 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 "special situation" companies in which the adviser believes unique events at the company may offer a compelling investment opportunity, but could cause the investment to be more risky than other investments.

The S&P 500® Total Return Index is a widely recognized, unmanaged index of the approximately 500 largest companies in the United States as measured by market capitalization. The index assumes reinvestment of all dividends and distributions and does not reflect any asset-based charges for investment management or other expenses. You cannot invest directly in an index.

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At this time, we continue to monitor and adjust the portfolio in an attempt to insulate it from the unprecedented price volatility that we have recently experienced in the equity markets. Since current conditions are being driven by liquidations (of hedge and mutual funds), speculation (about the state of the financial system due to their inherent opaqueness), and the unprecedented level of government intervention rather than company fundamentals and earning surprises, we have raised our cash levels and diversified the portfolio across sectors by reallocating capital into our best long-term ideas. We still continue to hold our long-term belief that overall global growth will be driven by the big savers (China) in the future and that the big spenders (the OECD countries) will see slow growth, eventually leading (based on International Monetary Fund projections) to a situation in which the advanced economies will contribute no more than 50% of the world's GDP by the middle of the next decade (from its current contribution of 65%). Going forward, this may require a bar-bell approach to equity portfolio construction in which investments in stable growth stocks in the OECD countries (pharmaceuticals and consumer services, for example) are coupled with companies that sell products that satisfy the infrastructure building needs of the emerging economies.

While we do not know when we will come out of this financial turmoil, we will continue to pay attention to risk, rely on our experience and fundamental research and focus on companies whose fundamentals are strong and growth prospects are solid. There have been many shocks to the world's financial system over the last several decades, including the collapse of the nifty 50 and oil shocks in the 1970s, the savings and loan crisis in the 1980s, the collapse of Long Term Capital in 1998, the tech bubble bursting in March of 2000 and now this dramatic financial crisis fueled by housing related mortgage derivatives and leverage. What is helpful in reflecting on these previous times of stress is that the financial systems survived and patient investors were rewarded. We are doing our best to focus on the underlying fundamentals of our companies and not on the noise swirling around us. We remain committed to our opportunistic growth investment process that has delivered good long-term performance over the long run.

As always, we appreciate your continued confidence and welcome comments or questions.

*Provided by DG Capital Management, Inc.*

**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 almost \$2.4 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

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