

# ADVISER'S PERSPECTIVE QUARTERLY | Q3 2008

## QUAKER SMALL-CAP VALUE FUND

The Quaker Small-Cap Value Fund returned -6.27% for Class A Shares before sales charges (-11.42% after sales charges) for the third quarter ended September 30, 2008, lagging the Russell 2000® Index return of -1.11%. Year-to-date, the Fund returned -10.34% before sales charges (-15.27% after sales charges) versus -10.38% for the Russell 2000® Index.

The stock selection for the Quaker Small-Cap Value Fund is driven by a bottom-up, quantitative, three-part evaluation of the attractiveness of each company in the investment universe. First, value is assessed — a company must prove its value according to fairly traditional measures, like price-to-book or price-to-earnings. Next, company management is considered. Management must show evidence, strictly by the numbers, that it has and will continue to produce earning power. Lastly, momentum is evaluated by taking the pulse of Wall Street to better distinguish future leaders from laggards.

Looking at the broad market, consumer staples, financial, and healthcare were among the best-performing sectors, while energy, materials, and utilities were among the worst. Overall, value stocks and small stocks outperformed. The best-performing gauges of value were price-to-book and price-to-sales. Quality of earnings and return on assets were predictive management characteristics this quarter, while price stability was an important predictor in terms of momentum.

Choosing stocks according to measures of value and momentum punished our work this quarter. The biggest laggards were companies with positive earnings estimate revision and price relative strength. And although our attention to price stability was clearly important during the quarter, it didn't help to offset the negative results from our other momentum measures. Management's actions influenced returns in the form of share repurchase — share buybacks continued to have a positive, though waning, influence on stock performance. A solid record of return on assets and evidence of earnings quality were other influential factors. Examining the quarter's performance from a different viewpoint, stock selection within sectors, our best picks were in the consumer staples and the telecommunications sectors. Alternatively, holdings in the financial, capital goods, and materials sectors were the least-rewarding. Aggregate industry bets (though modest) detracted from relative return, specifically, betting against real estate companies and banks.

AJO is a disciplined investor, maintaining a broadly diversified portfolio of small-cap value stocks. The Fund is always fully invested, sector-neutral, and makes modest stock-specific bets vis-à-vis its benchmark, the Russell 2000® Index. The Fund's

Provided by Aronson+Johnson+Ortiz, LP

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Performance	For Calendar Quarter Ended 9/30/2008		
	Before Sales Charges	After Sales Charges	Russell 2000® Index
Class A Inception 11/25/1996			
3 Months	-6.27%	-11.42%	-1.11%
Year-to-Date	-10.34%	-15.27%	-10.38%
1 Year (Cumulative)	-17.34%	-21.89%	-14.48%
5 Years (Annualized)	8.25%	7.03%	8.14%
10 Years (Annualized)	9.85%	9.23%	7.80%
Life of Share Class (Annualized)	10.32%	9.79%	7.05%

Maximum Expense Ratio: 1.78%

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:** Aronson+Johnson+Ortiz, LP

**Fund Assets:** \$104,976,533

**Public Offering Price:** \$13.77

### Ticker Symbols

Class A: QUSVX

Class B: QSVBX

Class C: QSVCX

Institutional Class: QSVIX

### Mutual Fund Exposures

Long Positions 99.01%

Cash 0.99%

### Top Positions

Sterling Financial Corp. 0.98%

Steris Corp. 0.93%

Owens & Minor Inc. 0.93%

The Pantry Inc. 0.92%

Aeropostale Inc. 0.92%

Axis Capital Holdings Ltd. 0.91%

Patterson-UTI Energy Inc. 0.90%

Alliant Energy Corp. 0.89%

PSS World Medical Inc. 0.89%

RLI Corp. 0.88%

Total 9.15%

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



The Fund invests in smaller companies (generally less than \$1.5 billion market capitalization). Smaller companies can be riskier investments than larger companies. The Fund invests in companies that appear to be “undervalued” in the marketplace (i.e. trading at prices below the company’s true worth). If the Fund’s perceptions of value are wrong, the securities purchased may not perform as expected, reducing the Fund’s return.

The Russell 2000® Index is a widely recognized, unmanaged market capitalization weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represent approximately 8% of the total market capitalization of the Russell 3000® Index. You cannot invest directly in an index.

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level of broad diversification ensures that no one name has a significant impact on performance, and purchase and sale decisions are driven by the fundamentals employed in the valuation model. Positive and negative influences will come from the market’s reaction to those fundamentals — namely, value, management, and momentum — and the Fund’s intended bias toward value.

**Price to Book (P/B) Ratio:** Compares a stock’s market value to the value of total assets less total liabilities.

**Price to Earnings (P/E) Ratio:** Reflects the multiple of earnings at which a stock sells.

**Price to Sales (P/S) Ratio:** Calculates a stock’s valuation relative to other companies, and is calculated by dividing a stock’s current price by its revenue per share.



Aronson+Johnson+Ortiz, LP, based in Philadelphia, PA, was founded in 1984 and currently has more than \$20.2 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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