

Ahead of the Curve

Know your holdings and you will sleep better. The Quaker Fund holds concentrated positions in several diversified sectors. The research approach combines the macro economic analysis with the company research. Over the last five years the fund has stayed ahead of the market by investing in real-estate and energy sectors before others found value in these sectors.

Q: What is your investing philosophy?

A: Knott Capital's philosophy is a risk adverse, capital preserving approach to investment management. Research has proven that economic trends that are not fully discounted by the market are the keys to protecting principle and producing exceptional investment returns. Said differently, opportunities come again and again your principle comes only once.

Q: What is your investment strategy?

A: Our top down investment process is based on the ultimate arbiter of all investment outcomes: the economy and interest rates. We begin creating a macro economic forecast that looks at GDP, corporate profits, interest rates, inflation, and monetary and fiscal policies, in addition to other leading economic indicators (LEI). This 12 month outlook allows us to both assess risk/reward relationships and further formulate a strategy that takes advantage of the trends we uncover.

Our sector selection is a derivative of our macro forecast. We will invest in or overweight sectors that are more favored by our outlook. Conversely we

will underweight or avoid completely, those groups that will be impaired by the prevailing forecast.

Individual security selection, from favorably identified sectors, is made from a bottom up approach. Our research incorporates fundamental analysis, including company visits and meetings with management as well as independent and Wall Street sources. Our process favors companies with superior products, services and or business models, with pricing power and strong management teams. From a valuation perspective we look for companies that trade at a reasonable multiple to their normalized growth rates, their sector peers and the market.

Q: Can you give us some examples of your picks?

A: A good example is The St. Joe Co; a land development company, which owns more than 800,000 acres of land in the state of Florida, most of which was acquired between 1930 and 1950. In 1998 we talked with management and learned that a new CEO with an extensive background in real-estate development had started bringing new focus to leverage this asset. The compa-

Quaker Capital Opportunities A

Fund Facts

Symbol	QUKTX
Website	www.quakerfunds.com
Address	Quaker Funds, Inc. c/o Citco Mutual Fund Distributors, PO Box C1100, Southeastern, PA 19398-9951
Tel. No.	800-220-8888
Inception	1/31/2002

Portfolio

Total Net Assets *	\$ 23.60
Avg Mkt Cap (\$ Weighted) *	\$ 19.60
Average Price/Earnings Ratio	30.5x
Average Price/Book Ratio	6.3x
Annual Turnover Ratio**	231%

Investment Information

New Investment	\$ 2,000
Min Initial Investment	\$ 2,000
Min Subsequent Investment	\$ 100
Min Initial IRA Investment	\$1,000

Risk (Against S&P 500 - 3 Years)

Alpha**	4.81
Beta**	0.57
R-Squared**	39
Ann Std Deviation**	13.19
Sharpe Ratio**	0.52

Returns vs. Benchmark: S&P 500 INDEX

	QUKTX	Index
1 Year (Cum.)	17.62 %	6.69 %
3 Year (Ann.)	8.35 %	2.74 %
5 Year (Ann.)	N/A	N/A
Fd Inception	8.67 %	3.17 %

Fees and Expenses

Max Sales Charge - Front	5.50 %
Max Sales Charge - Deferred	N/A
Max Redemption Fee	N/A
Total Expense Ratio	1.98 %

Portfolio Manager

Charles Knott/J. Michael Barron	Jan-2002
---------------------------------	----------

* millions **Morningstar.com

Source: Quaker Funds, Inc.

Data through: 03/31/05



ny had sold-off all the timber related businesses, bought back shares and was gearing up to unlock the massive untapped value in the their land portfolio. Moreover, Florida has seen significant population inflow similar to California with lower living costs. We originally bought the stock for around \$14 a share. The stock is selling for \$72 a share. It is a core holding.

Another good example would be ConcoPhillips in the energy sector. Over the last five years our firm has been overweighted this space. We continue to be increasingly more concerned with both the rising demands worldwide for hydro carbon based energy and the long term viability of current supplies. Additionally, over the last three decades there has not been a single refinery built in this country and today more than 60% of our oil and gas consumption is met through imports. It looked to us that demand would continue to grow as Asian countries like China and India that had more liberalized economies which were generating higher energy demand. Our forecast for oil prices have been significantly ahead of most Wall Street estimates for more than 5 years. To further exemplify this point in January 2004 earnings estimates for COP were about \$5/share. The company actually earned \$11.60 last year. The same thing is happening this year as most analysts are again behind the curve.

Q: *Could you describe your research process?*

A: In addition to building macro economic models and company earnings profiles we like to meet management where that makes sense and can add value. Meeting management can be an integral part of a research process. We find value in developing background information on a company, industry and sector. We prefer to develop a deeper understanding of the company's business, products, management character and strategic insights. We also seek independent analysts whose opinions are not tied to investment banking business.

Our research process works on the economic level, sector/industry level,

and the company level. We invest for the longer term so our research is geared with that perspective. We look for earnings catalysts and to benefit from positive change in the industry or company.

Q: *So you look for a catalyst that could favor the earnings and revenue to meet your criteria?*

A: Yes. Chesapeake Energy is a great example. The company is the fourth largest independent producer of natural gas in the U.S. In addition to the positive outlook for the sector, we were attracted to its focused efforts towards replacing reserves both at the drill bit and through an aggressive acquisition strategy. We liked the man-



agement's philosophy of owning assets rather than leasing properties as well as their ability to effectively hedge current and future production. Earnings have gone from .16/shr in 1999 to \$1.56/shr last year. We have owned this company for years.

Prior to late 2001 we had been overweighted large cap pharmaceuticals within the healthcare sector. However, in 2001 we turned cautious in our outlook for the industry. With tighter state and federal budgets, pharmaceutical and health care providers were under margin pressures from government agencies that pay for these services. Moreover, expiring patents, continued battles with the FDA and several public cases of corporate malfeasance changed our thinking on the entire sub-sector. Those black clouds have created an opportunity within another space in the healthcare arena,

CROs or contract research organizations. These firms provide Phase I-IV testing mandated by the FDA. Many larger pharmaceutical companies will have to work with smaller contract research organizations to reduce cost and speed up the innovation cycle in developing new drugs. We added Covance and Pharmaceutical Product Development to our portfolio and both have generated positive returns.

A stock like Dillards also falls into this category. While we were not in love with the retailing space, in 2003 DDS was selling at 50% of underlying book value. Moreover, they had a tremendous amount of operating leverage. Our thesis was twofold, either they were going to be acquired by a competitor or sales would pick up and fall quickly to the bottom line.

Q: *Do you go beyond the sector division of the S&P 500?*

A: Absolutely, the earlier discussion of our negative view on pharmaceuticals but overweight in the healthcare sector is a good example. Our research allows us to make important but often times subtle distinctions within an industry group. Understanding the industry from a 30,000 foot view allows us to both identify opportunities and avoid pitfalls.

Q: *What is your sell discipline?*

A: Our sell discipline incorporates the same top down work that our buy discipline incorporates. Each sector or sub-sector has its own unique metrics. The key is to first understand how changes in the macro or sector level could effect our holdings. So, the first driver of our sell discipline is to identify changes to the macroeconomic landscape that will impact risk/reward relationships at the market or industry level.

The second driver of sell decisions combines an analysis of fundamentals at the sector and sub-sector level along with a valuation assessment. As an example, from 2000 to 2004 we owned several REITs. In early 2004 we saw the valuations in our positions rise to between 125% and 140% of their

underlying real estate holdings. This coupled with no real change in fundamentals, caused us to exit these stocks. The final driver looks at earning power along with security pricing.

Q: *How many stocks do you have in a portfolio and what is the portfolio turnover rate?*

A: The fund holds between 30-40 names. Turnover at the firm has averaged approximately 40-60% per year.

Q: *How do you construct your portfolio and what kind of risk control management do you put in place?*

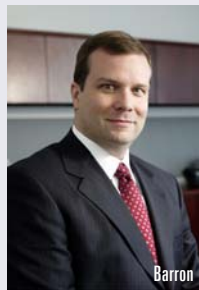
A: Unlike many managers we do not equate risk control measures with strict benchmark constraints or portfolio optimization based on expected volatility or Beta. Rather, our investment methodology has risk controls built in throughout the process. The top-down macro economic forecast and sector analysis are our primary tools. We feel that limiting exposure to sectors that have “higher economic hurdles” to overcome is our most effective risk control. Additionally these are further bolstered by detailed fundamental research and active portfolio management techniques, including both strategic and tactical rebalancing. ■

TICKER Staff

“Opportunities come again and again, but your investment principle comes only once.”

about

the Team



Charles A. Knott is the founder, Chairman and Chief Investment Officer of Knott Capital Management. He is also lead portfolio manager for the Fund. Charles has more than 35 years' investment experience, including more than 20 years with bank trust departments. In addition to holding the Chief Investment Officer position at several large institutions, he has served as the Deputy Banking Commissioner for the State of Maryland. He has offered his testimony as an expert witness before the Federal Reserve Banking Committee, as well as appearing on radio, television and in The Wall Street Journal. Charles is a graduate of Loyola College in Baltimore, MD.

J. Michael Barron, Chief Executive Officer, joins Charles Knott in managing the Fund. Before joining Knott Capital, Michael Barron served as Director of Real Estate Securities for INVESCO, overseeing the management of more than \$1 billion in client assets. Additionally, he has served as the Vice President and a member of the investment committee of a boutique investment advisory firm, and as an account executive with Cigna. Michael has been interviewed frequently by the Baltimore Sun, Bloomberg, and other media sources. He earned his B.S. degree in business administration from Villanova University and has completed executive study at MIT's Sloan School.