Muhlenkamp Memorandum

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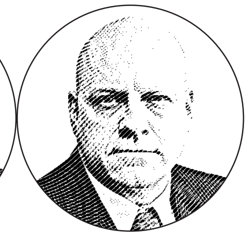
Quarterly Letter

By Ron Muhlenkamp and Jeff Muhlenkamp, Co-Managers

Allow us to summarize what we're seeing so far this year. The U.S. economy is doing well, with 1st quarter Gross Domestic Product (GDP) growth coming in at 2%, unemployment in May was a low 3.8%, and inflation was 2.8%. The interest rate on 2-year U.S. Treasury notes at the end of June was roughly 2.5%, 10-year U.S. Treasury notes yield almost 2.9%, and the average 30-year fixed mortgage rate in the county is 4.4%. As of June 30, 2018 the S&P 500 Total Return Index is up 2.65% since the beginning of the year. The Federal Reserve continues to raise short-term interest rates and continues to reduce their balance sheet as they said they would. Internationally, the dollar is up about 5% against a basket of foreign currencies year to date. The stock markets of a number of emerging markets have sold off with Turkey down 32%, Brazil down 20%, and China down 20% as examples. The European Central Bank (ECB) continues to pursue their policy of negative interest rates and asset purchases, though they have reduced the amount of assets they purchase each month and have reiterated their intention to end the program by the end of 2018. The Bank of Japan (BOJ) continues to pursue its policy of low interest rates and asset purchases as well. Italy has elected a populist government which raises the prospect of policy conflict with the rest of the European Union and disagreements over immigration are threatening the German coalition government led by Angela Merkel.

What do we make of all this?

First, we still don't like bonds with a duration of longer than three to four years as they are mispriced relative to inflation (historically the 10-year treasury yield would be roughly 3% above inflation, which would make a 5.5% - 6% yield "normal" with today's inflation).

Second, while it is appropriate and necessary (necessary because abnormally low interest rates are killing savers, pensions chief among them) for the Fed to raise interest rates and try to get them back to something approaching the historical norm, we foresee two challenges: the easy money policies of Europe and Japan are keeping our long-term interest rates low, hindering our efforts; and a decade of cheap money has gotten baked into a lot of business plans. Higher cost money will be a problem and no one (neither the Fed nor us) can know exactly what interest rate will start to cause serious problems. So while the Fed *intends* to return rates to normal without *disrupting* either the markets or the economy, they may be unable to pull off such a feat.

Third, higher inflation would put the Fed on the horns of a dilemma: should they stick with the slow pace of rate increases and risk still higher inflation and all the problems that would bring or should they raise rates faster and risk slowing the economy in a bid to keep inflation at a reasonable level? Market participants are alert to this dilemma and paying very close attention to inflation data.

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Announcements

Register for our Upcoming Webcast
Please join us for our webcast with Tony, Ron, and Jeff Muhlenkamp.

Thursday, August 30, 2018
4:00 pm – 5:00 pm ET

Register at www.muhlenkamp.com or call us at (877)935-5520 extension 4.

Webcast Archive Available on Website
During the webcast on May 24, 2018, Ron and Jeff Muhlenkamp walked through a number of economic and financial indicators to better understand the U.S. economy and asset markets. They concluded that the economy will likely continue to grow at 2% or a little better, but that rising interest rates and other actions of the Federal Reserve increase the likelihood of problems with businesses or countries that need low interest rates to survive. They believe the markets will remain volatile as investors grapple with these two diametrically opposed pressures. Visit www.muhlenkamp.com for the webcast archive and to access other videos and essays available in our Library collection.

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Muhlenkamp & Company, Inc.
Intelligent Investment Management

Relevant Elements for Investment Strategy

By Tony Muhlenkamp

I've had conversations with clients that have touched on themes and topics that I think are worth sharing. Some of the topics are long term and strategic, others are more tactical, and the challenge is to weave them into something that is useful and intelligible. We have discussed these ideas before, but I think the discussion is worth repeating periodically.

It starts simply enough with the question of moving assets to cash, and whether we do this on behalf of our clients or whether they have to instruct us to do it for them. Let's begin with spending needs. We think in terms of two different time frames: short term is five years or less and long term is five years or longer. Money that will be needed in under five years, is in fact, "spending" money, and should be invested in very low volatility securities. Money that is designated for use further out in the future is "investment" money, and your assets have to grow from investing AT LEAST AS MUCH as they shrink from taxes and inflation to maintain your purchasing power.

Our clients hire us to work with their LONG-TERM INVESTMENTS. Our very reason for existence, our MANDATE, is to preserve those assets, seek to maximize total returns, and provide a rationale for what we are doing. Stocks, bonds, and liquid securities are the MEANS by which we invest for our clients. Though we cannot guarantee the results, our clients hire us to NOT lose their money, grow it at a reasonable rate, and help them understand the process (especially when stuff is "hitting the fan").

Our clients hire us to work with their LONG-TERM INVESTMENTS. Our very reason for existence, our MANDATE, is to preserve those assets, seek to maximize total returns, and provide a rationale for what we are doing.

As money managers, it is our job to determine the mix of stocks, bonds, cash, international, domestic, large cap, small cap, etc. that will protect, grow, and reassure. We have written extensively about how changing conditions (interest rates, inflation, etc.) will result in evolving portfolios that meet those criteria; please browse the "Our Library" section of our website or request a copy of our book for more detail.

What else matters? As we explained, TIME HORIZON is a critical element to investing; we think the second critical element is PRICE. We have concluded you can turn a good company (or house, or car, or anything else) into a bad investment if you pay too much to get it—PRICE ALWAYS MATTERS.

The third critical element is knowing what we don't know; which means we KNOW that there is always something we DON'T KNOW about the companies we invest in. So we limit the damage any individual company can do to a client's portfolio by limiting how much of the portfolio is invested in any individual security or industry. Some people call this diversification; we think of it as risk management.

So we build and manage portfolios consisting of 20-30 different companies that we think will be worth more in five years than they are worth today, and that are currently selling for LESS than we determine they are worth today. If we can't find enough good companies to own, we will own cash and fixed income securities while we search those companies out. The decision to own cash, or to "move to" cash is usually a by-product of the other portfolio decisions we've made about what to own and why. We monitor our portfolios continuously, pruning, harvesting, and planting as conditions dictate (I'll refer you again to our website and our book for ideas on how investing is like farming).

I hope this is useful and interesting. Please let me know if you have questions or if you are working on something that I can help you with.

The comments made in this commentary are opinions and are not intended to be investment advice or a forecast of future events.

Diversification does not assure a profit or protect against a loss in a declining market.

Investing in stocks, mutual funds, and other assets involves risk. 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. Principal loss is possible. Past performance does not guarantee future results.

Quarterly Letter

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Fourth, the tax law changes passed at the end of 2017 plus regulatory changes are having a beneficial effect on the economy. The economic indicators we monitor all look pretty good with few signs of trouble to be seen. Corporate earnings were strong in the first quarter with sales growth of 8% and earnings growth of 22%.

Fifth, Europe and emerging markets are the most likely sources of external economic shocks. Europe because of the political turmoil, emerging markets because many of them borrowed heavily in dollars when dollars were cheap and will find it difficult to repay the loans now that dollars are more expensive.

We've been saying all year that we expected economic growth and earnings to increase but that higher interest rates should cause price-to-earnings ratios (P/E) to decline. Both of those things are happening, roughly offsetting each other so far resulting in only modest changes to stock prices and a small decline in bond prices.

That's what we see at a high level. Economically things are pretty good but there are a number of things that could upset the economy or the markets and we're keeping an eye out for them. We continue to spend most of our time looking for investment opportunities and managing our current investments. We are comfortable carrying a bit of cash given the tug of war between the economic strength and monetary tightening but we are equally comfortable putting money to work when we find what we believe is an attractive investment.

The comments made by Ron and Jeff Muhlenkamp in this commentary are opinions and are not intended to be investment advice or a forecast of future events.

Gross Domestic Product (GDP) is the total market value of all goods and services produced within a country in a given period of time (usually a calendar year).

Price-to-Earnings Ratio (P/E) is the current price of a stock divided by the (trailing) 12 months earnings per share.

S&P 500 Index is a widely recognized, unmanaged index of common stock prices. The S&P 500 Index is weighted by market value and its performance is thought to be representative of the stock market as a whole. You cannot invest directly in an index.

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Muhlenkamp & Company, Inc.
Intelligent Investment Management

MuhlenkampMemorandum

Inside this issue:

- Quarterly Letter
- Relevant Elements for Investment Strategy
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MuhlenkampSMA **All-Cap Value**

For the period ended 6/30/18

Muhlenkamp & Company's All-Cap Value SMA (Separately Managed Account) is designed for investors' accounts over $100,000. We employ full discretion, applying fundamental analysis.

Investment Objective

We seek to maximize total after-tax return through capital appreciation, and income from dividends and interest, consistent with reasonable risk.

Investment Strategy

We invest in undervalued assets wherever they may be found. Typically, this results in holding a portfolio of companies we believe are materially undervalued by the market. Bonds may be included in the portfolio if they are a good investment.

Investment Process

We start with a bottom-up scan of domestic companies, typically looking at most U.S. companies at least four times per year. We add to that an understanding of the sector dynamics in which companies are operating, an assessment of the business cycle, and a review of macroeconomic conditions.

Our primary screening metric is return on shareholder equity (ROE). We are looking for companies with stable returns that can be purchased cheaply, or for companies with improving returns that have not yet been recognized by the market.

We don't believe that a holding period of "forever" is appropriate in all cases, but are comfortable holding companies as long as they continue to meet expectations.

Investment Risk

We define investment risk as the probability of losing purchasing power over long periods of time, which is quite different from Wall Street's definition of price volatility in very short periods of time. Taxes, inflation, and spending will ALL impact the purchasing power of your assets.

Muhlenkamp & Company, Inc.
Intelligent Investment Management

All-Cap Value Composite Performance (Net of Fees)

			Annualized			
	Year to Date	One Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Return	-5.05%	2.61%	-0.45%	4.43%	3.88%	4.62%
S&P 500 Total Return*	2.65%	14.37%	11.93%	13.42%	10.17%	9.30%
Consumer Price Index**	2.05%	2.80%	1.90%	1.55%	1.51%	2.13%

* **The S&P 500 is a widely recognized, unmanaged index of common stock prices. The figures for the S&P 500 reflect all dividends reinvested but do not reflect any deductions for fees, expenses, or taxes. One cannot invest directly in an index.**

** Consumer Price Index (CPI) – As of May 2018 – U.S. CPI Urban Consumers NSA (Non-Seasonally Adjusted), Index. The Consumer Price Index tracks the prices paid by urban consumers for goods and services and is generally accepted as a measure of price inflation. Price inflation affects consumers' purchasing power.

Consolidated performance with dividends and other earnings reinvested. Performance figures reflect the deduction of broker commission expenses and the deduction of investment advisory fees. Such fees are described in Part II of the adviser's Form ADV. The advisory fees and any other expenses incurred in the management of the investment advisory account will reduce the client's return. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the above accounts. A list of all security recommendations made within the past twelve months is available upon request.

Top Twenty Holdings

Company	Industry	% of Net Asset
Apple Computer Inc.	Technology Hardware, Storage & Peripherals	5.15%
Alliance Data Systems Corporation	IT Services	5.10%
Microsoft Corporation	Software	4.00%
ON Semiconductor Corporation	Semiconductors & Semiconductor Equipment	3.88%
UnitedHealth Group Inc.	Healthcare Providers & Services	3.80%
Microchip Technology	Semiconductors & Semiconductor Equipment	3.66%
Tencent Holdings Ltd. ADR	Internet Software & Services	3.44%
Celanese Corporation - Series A	Chemicals	3.42%
Express Scripts Holding Company	Healthcare Providers & Services	3.25%
DowDuPont, Inc.	Chemicals	3.11%
Gilead Sciences, Inc.	Biotechnology	3.10%
Cameco Corporation	Oil, Gas, & Consumable Fuels	2.98%
Biogen Idec Inc.	Biotechnology	2.97%
Annaly Capital Management Inc.	Real Estate Investment Trusts	2.86%
Invesco Buyback Achievers	Exchange Traded Funds	2.75%
McKesson Corporation	Health Care Providers & Services	2.64%
SPDR Gold Shares	Exchange Traded Funds	2.60%
Cognizant Technology Solutions Corp.	IT Services	2.54%
Alerian MLP ETF	Exchange Traded Funds	2.51%
AutoZone, Inc.	Specialty Retail	2.42%

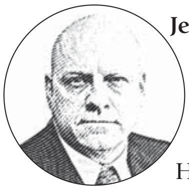
Composite holdings are subject to change and are not recommendations to buy or sell any security.

Composite Top Twenty Holdings are presented as supplemental information to the fully compliant presentation on the next page.

Return on Equity (ROE) is a company's net income (earnings), divided by the owner's equity in the business (book value).

Portfolio Managers

Ronald H. Muhlenkamp, Portfolio Manager, CFA, has been active in professional investment management since 1968. He is a graduate of both M.I.T. and the Harvard Business School.



Jeffrey P. Muhlenkamp, Portfolio Manager, CFA, has been active in professional investment management since 2008. He is a graduate of both the United States Military Academy and Chapman University.

SMA Facts

Average Number of Equity Holdings	30
Cash & Cash Equivalents	13.42%
Portfolio Turnover	17.22%‡

‡ *Trailing 12 months*

SMA Facts are presented as supplemental information.

SMA Information

The All-Cap Value Composite was created in December 2003 and includes fee-paying accounts over $100,000, full discretion, under management for at least one full quarter which are invested in the All-Cap Value strategy. The composite excludes the Muhlenkamp Fund and any wrap fee account.

Minimum Initial Investment	$100,000.00
Management Fee*	1% (first $1 million); 0.5% on the remainder

** May vary by account.*

Investment Adviser

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Muhlenkamp & Company serves individual and institutional investors through our no-load mutual fund and separately managed accounts.

Muhlenkamp & Company, Inc. All-Cap Value Composite Annual Disclosure Presentation

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Number of Accounts	ANNUAL PERFORMANCE Composite Gross	Composite Net	S&P 500 Total Return Index	THREE-YEAR ANNUALIZED STANDARD DEVIATION* Composite	S&P 500 Total Return Index	Composite Dispersion**
2017	342	40	53	15.25	14.31	21.83	8.70	9.92	2.14
2016	339	39	52	(1.86)	(2.68)	11.96	9.73	10.59	1.17
2015	422	48	67	(4.66)	(5.45)	1.38	10.41	10.47	0.68
2014	541	51	67	10.27	9.37	13.69	9.55	8.97	2.06
2013	585	50	60	35.50	34.39	32.39	11.29	11.94	3.13
2012	491	41	66	11.29	10.34	16.00	12.02	15.09	1.14
2011	555	45	74	(2.84)	(3.67)	2.11	16.60	18.70	0.85
2010	724	59	82	2.96	2.15	15.06			1.45
2009	839	90	107	32.68	31.72	26.46			2.80
2008	759	112	155	(40.53)	(40.94)	(37.00)			1.97
2007	1886	327	289	(7.61)	(8.19)	5.49			3.77
2006	3393	371	337	6.09	5.34	15.79			3.70
2005	3471	287	289	10.04	9.22	4.91			3.38
2004	2261	197	206	24.54	23.56	10.88			3.33
2003	1350	132	167	43.36	42.10	28.68			5.57

The objective of this All-Cap Value Composite is to maximize total after-tax return, consistent with reasonable risk—using a strategy of investing in highly profitable companies, as measured by Return on Equity (ROE), that sell at value prices, as measured by Price-to-Earnings Ratios (P/E).

Muhlenkamp & Company, Inc. ("Muhlenkamp") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Muhlenkamp has been independently verified for the periods December 31, 1993 through June 30, 2016 by Ashland Partners & Company LLP and for the periods July 1, 2016 through December 31, 2017 by ACA Performance Services, LLC.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The All-Cap Value Composite has been examined for the periods December 31, 1993 through December 31, 2017. The verification and performance examination reports are available upon request.

Muhlenkamp is an independent registered investment advisory firm registered with the Securities and Exchange Commission. The firm's list of composite descriptions is available upon request.

Returns are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite may invest in American Depositary Receipts (ADRs).*** Accounts may be shown gross or net of withholding tax on foreign dividends based on the custodian. Past performance is not indicative of future results.

The U.S. dollar is the currency used to express performance. Returns are expressed as percentages and are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. The annual Composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the Composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

* **Three-Year Annualized Standard Deviation** *is a measure of volatility, calculated by taking the standard deviation of 36 monthly returns, then multiplying the result by the square root of 12 to annualize it. Since standard deviation measures the dispersion of a set of numbers from its mean, higher results indicate more variation in monthly returns over the trailing three years.*

** **Composite Dispersion** *is a measure of the similarity of returns among accounts in the Composite. It is the standard deviation of the annual returns for all accounts which were in the Composite for the entire year.*

*** **American Depositary Receipts (ADRs)** *are shares that trade in U.S. markets, but represent shares of a foreign company. A bank (the depository) purchases a number of the foreign shares and holds them in a trust or similar account; in turn, the bank issues shares tradable in the U.S. that represent an interest in the foreign company. The ratio of ADRs to foreign shares is set by the bank. ADRs do not mitigate currency risk, but can reduce transaction costs and simplify trading compared to buying the local shares in the foreign markets.*