MUHLENKAMPMemorandum

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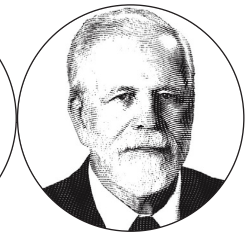
QUARTERLY LETTER

By Jeff Muhlenkamp, Portfolio Manager and Ron Muhlenkamp, Founder

The first quarter of 2021 has been pretty good to us. Our homebuilder holdings have benefitted from a very strong housing market that began in May of 2020 and has not seen a letup since. Buyers are occupants not speculators and are putting money down, so the excesses we saw in the housing market early this century are not currently present. Home inventories remain low and rising interest rates do not appear to be impacting demand to any significant degree. Our holdings in financials have benefitted from both an improved consumer outlook (due in part to government stimulus checks) and higher long-term interest rates (which makes it more profitable to lend). Our investments in industrial companies have benefitted from improved business activity. Our information technology companies continue to do well even though some of the upward momentum appears to have come out of the stocks of the biggest companies.

Shifting to the stock market, we've observed a rotation out of many of the stocks that have dominated the market the last few years and into stocks that will likely benefit from the re-opening of the economy. That rotation in the market has been to our benefit so far. There are still a lot of overpriced stocks out there, particularly ones tied to popular themes (electric vehicles, renewable energy, artificial intelligence, etc.). We've also observed a lot of shenanigans in the market by both amateurs and professionals. The amateurs have used internet forums to coordinate efforts to drive up the stock prices of a number of heavily shorted stocks—you may have read about GameStop (GME) and AMC Entertainment Holdings, Inc. (AMC)—causing acute pain for the institutional investors who sold them short. The professionals have used borrowed money to make themselves financially vulnerable, examples are Greensill Capital (a European financial services company that is now out of business) and Archegos Capital Management, LP (a family office that was done in by margin calls from its lenders). We don't think any of the above examples will have a big impact on the financial system, but they have been entertaining to watch. We also believe that they are indicative of the mood of market participants (somewhere between confident and overconfident) and are useful as anecdotal indicators of market sentiment.

Expanding our view a little bit, we note that demand for corporate debt remains very strong—no problems there. Interest rates have increased during the quarter and are now almost to the level we saw in January of 2020: the 10 year Treasury Yield on January 2nd 2020 was 1.88%, on April 1st 2021 it was 1.68%, so we are 20 basis points lower than pre-pandemic. Interestingly the rise in interest rates corresponded with a selloff in some of the most popular "growth" stocks. What are the odds that rates continue to rise from here? Our best estimate is 60/40, up a little bit from a few months ago. The primary reason the odds are higher than a few months ago is we are seeing widespread increases in input costs to businesses—raising concerns about higher inflation, which is more often than not accompanied by higher interest rates. Jerome Powell, Chairman of the Federal Reserve, has repeatedly stated that any inflationary pressures resulting from the re-opening of the economy will be temporary. We're not so sure. On the other hand the abundance of global capital looking for a decent return has not diminished and the "pension feedback loop"* which we believe has contributed to low rates remains intact.

We believe there are incremental reasons to think interest rates may continue to rise but strong, long term reasons to think they may not rise much further, thus our lack of conviction in either direction. We remain pessimistic on the return potential for bonds.

Finally, a brief note about the scale of government COVID-19 relief measures. By our count the Federal Government has approved $5 trillion in COVID relief so far. The first package, $2.2 trillion, was approved in March 2020, the second for a measly $900 billion was approved in December 2020, and the third package, for $1.9 trillion, was approved in March 2021. With a population of 330 million people, the additional spending amounts to $15,000 per person, or roughly $45,000 per household (we have 110 million households in the US). In 2019 the US Federal debt was $70,917 per capita. Thus the per capita Federal debt increased 21% as a result of COVID relief spending. We hope we get our money's worth as we'll be paying interest on that debt forever.

continued on page 3

VIEW FROM THE FRONT OFFICE: FOLLOWING MY OWN ADVICE

By Tony Muhlenkamp, President

I have spent time with young people this past year sharing things I've learned and know. They range in age from 16-30 and I tell you what; they are good kids. Unfortunately, they are every bit as uncertain, confused, and mistrustful as their elders. Moreover, they don't have the life experience to know that there are ALWAYS crises but that it's NEVER the end of the world.

So, we go to church, and the gym, and the range, and to lunch. And we talk.

We talk about how they can change their minds about the degree, program, job, or calling they have selected. At 20 years of age, they will live for another 80 years. They can spend a decade learning and studying, practicing, and perfecting their craft and THEN decide to try and do something else. They can do that 8 times! We talk about how self-esteem comes from doing something other people find useful (one way of knowing what you do is useful is being paid to do it). You can make a living doing anything in this country as long as someone finds it useful, especially since the necessities of life are cheap. A person can live a long time on baloney and day-old Wonder Bread (or rice and beans if you are from the South); our grandparents can tell us how. So, it's ok to make a living at something you enjoy, or at something that is teaching you something you don't already know.

We talk about the difference between a calling and a job. Quoting Gary North, "A job is different from a calling. A job puts food on the table. It pays the bills. A calling is the most important thing you can do in this life in which you would be most difficult to replace."[1] I help them understand that the calling is not going to come knocking on their door while they live at home with Mom and Dad. It's hiding from them, and they have to go out and hunt for it, track it down, and bring it home. There are as many ways of doing that as there are people, but one way of doing it is described in the book "How to Fail at Almost Everything and Still Win Big" by Scott Adams.[2] Basically, taking every job you can get will help you determine your calling AND acquire the skills you need to live it.

We talk about being a professional at work no matter how menial, simple, or spiritually deadening the task. Doing the job, doing it well, and taking pride in doing it well are all tremendous qualities and are, in fact, ultimately good for the mind and body, heart and soul. I tell them to trust me on this, and I recommend they read "Turning Pro: Tap Your Inner Power and Create Your Life's Work" by Steven Pressfield for some more ideas on being a professional.[3]

We talk about getting and keeping a job:

1. Show up on time, which means 15 minutes early to get coffee, use the restroom, finish a cigarette or whatever.
2. Dress professionally, which means to blend with and meet the expectations of the Boss, co-workers, and customers.
3. Quitting time is when the job is done; not when happy hour starts.
4. Pass the drug test EVERY time.
5. Have an idea.
6. Be able to communicate that idea clearly, both verbally and in writing.
7. Be smart enough to be dumber than the Boss for the first six months on the job, which means DO NOT share every idea the second you have it. Keep a journal and practice your writing skills by developing the idea into a full-blown proposal or Masters' theses. Even then, hold onto it for at least six months to ensure the problem you're solving is the real problem. Trust me, if it's a good idea today, it will still be a good idea six months from now; use that time to polish it to perfection. (Don't ask me how I learned this lesson, or how often I had to re-learn it. It's embarrassing…)

We talk about the advice I received at that age:

1. Be a profit center. Know what you are costing the company and produce more than that.
2. When courting a future spouse, look to the family. You are marrying into an ENTIRE family, pay attention to them as well as your intended.
3. Nice people are fun, romantic, and sexy. Don't compromise your standards, morals, or sense of self for sex; it's not worth it.

And when I say we talk; I mean WE talk. I make sure to spend as much time listening as possible. These kids have a lot to teach us old farts if we are willing and able to listen and learn.

1 https://www.garynorth.com/public/department148.cfm
2 https://www.amazon.com/How-Fail-Almost-Everything-Still-ebook/dp/B00COOFBA4
3 https://stevenpressfield.com/books/turning-pro/

In fact, reflecting on the conversations I've had this past year it becomes clear that the answers to the confusion and uncertainty and mistrust that I and my peers are experiencing lies in the advice I'm giving to the next generation. (Note, my inability to follow my own advice does NOT render it bad advice.)

Pay attention to what actions we can take individually; be responsible for our own health and welfare; focus on the areas of our life where we can have an impact and ignore those areas that are out of our influence and control. Realize that saving Western Civilization is above our pay grade, but we determine how we treat our friends and family, neighbors, co-workers, customers, and clients. Every word that comes out of our mouths (or off our fingertips) is entirely under our control; so, learning and practicing self-control and self-discipline are worthy endeavors. I think these are worthy aspirations, and good advice, for all of us.

Especially me.

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

LETTER

Continued from page 1

As always, if you've got questions or comments feel free to write or give us a call. We'd love to hear from you.

**A brief refresher on what we call the "pension feedback loop." Low interest rates means pensions don't meet their return requirements and become increasingly underfunded. Current law requires a minimum funding level for pensions, so the plan sponsor (company or municipality) is required to contribute more money to the pension over time. That additional money is partly invested in debt instruments, partly in equities and other assets. The net result is that lower rates create a greater supply of capital that is invested in debt which we believe puts downward pressure on interest rates. Global pensions are the biggest investors in the world, and the math and laws are inflexible. We believe the impact on interest rates of this feedback loop is significant, but we have not been able to quantify it.*

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

ANNOUNCEMENTS

Visit our Vimeo Channel
We have a collection of webcasts and seminars at https://vimeo.com/muhlenkamp

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MAKE MORE, SPEND LESS

SETTING SHORT- AND LONG-TERM FINANCIAL GOALS

TAKE YOUR FIRST STEP IN RETIREMENT PLANNING

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AVOIDING ESCHEATMENT

Escheatment is when forgotten, abandoned, or unclaimed property (including physical and financial assets) is turned over to the state of the owner's last known residence if the company holding the property is unable to contact its rightful owner. Though it is a way for states to protect the property of its residents (rather than assets remaining with the company forever), sometimes accounts that you are well aware of fall into the "abandoned property" category depending on the laws of your state of residence.

Steps to prevent escheatment of your accounts:
- For each of your financial accounts (e.g. checking, savings, brokerage, IRA, 401(k), etc.) "check in" annually via online access or by telephone to the number provided on your account statement. It may be beneficial to speak with a client service representative to make sure all your contact information is correct.
- When applicable, make sure your beneficiaries are up to date.
- Visit the National Association of Unclaimed Property Administrators website [www.unclaimed. org] to learn the escheatment laws of your current and/or past state(s) of residence and to search for any unclaimed property registered in your name.

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MUHLENKAMPMemorandum

Inside this issue:

- Quarterly Letter
- View from the Front Office: Following My Own Advice
- Announcements

Financial Independence: It's Not a Sprint, It's a Marathon.

Join us for our Virtual Lunch & Learn Series as we highlight and discuss specific miles of the Muhlenkamp Marathon Financial Training Workbook. Our next live webcast is May 19, 2021 12:00 p.m. EDT. Visit our blog at muhlenkamp.com/blog/ for details.

MUHLENKAMPSMA ALL-CAP VALUE

For the period ended 3/31/2021

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

ALL-CAP VALUE COMPOSITE PERFORMANCE (NET OF FEES)

	Year to Date	One Year	Annualized Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Return	11.42%	66.37%	9.91%	8.06%	6.94%	3.01%
S&P 500 Total Return*	6.17%	56.35%	16.78%	16.29%	13.91%	10.02%
Consumer Price Index**	0.98%	1.68%	1.84%	2.10%	1.74%	1.89%

*** 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 February 2021 – 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
Mastec Inc	Construction & Engineering	5.16%
Alliance Data Systems Corp	IT Services	4.69%
Dow Inc	Chemicals	4.57%
Microchip Technology Inc	Semiconductors & Semiconductor Equipment	4.46%
WESCO International Inc	Trading Companies & Distributions	3.87%
Lennar Corp Class A	Household Durables	3.84%
Broadcom Inc	Semiconductors & Semiconductor Equipment	3.58%
Microsoft Corp	Software	3.49%
Kirby Corp	Marine	3.39%
Apple Inc	Technology Hardware, Storage & Peripherals	3.37%
McKesson Corporation	Health Care Providers & Services	3.30%
Cameco Corp	Oil, Gas, & Consumable Fuels	3.24%
Meritage Homes Corp	Household Durables	3.10%
UnitedHealth Group Inc	Health Care Providers & Services	3.00%
Schlumberger NV	Energy Equipment & Services	2.92%
Berkshire Hathaway Inc Class B	Diversified Financial Services	2.89%
CVS Health Corp	Health Care Providers & Services	2.76%
ALPS Alerian MLP ETF	Exhange Traded Funds	2.74%
NMI Hldgs Inc	Thrifts & Mortgage Finance	2.64%
SPDR Gold Shares	Exhange Traded Funds	2.62%

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 MANAGER

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	13.33%

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

				ANNUAL PERFORMANCE			THREE-YEAR ANNUALIZED STANDARD DEVIATION*		
Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Number of Accounts	Composite Gross	Composite Net	S&P 500 Total Return Index	Composite	S&P 500 Total Return Index	Composite Dispersion**
2020	261	38	45	14.06	13.14	18.40	18.63	18.79	2.05
2019	253	34	48	14.70	13.78	31.49	10.33	12.10	1.37
2018	254	32	51	(11.71)	(12.45)	(4.38)	9.24	10.80	1.21
2017	342	40	52	15.24	14.30	21.83	8.70	9.92	2.12
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

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 June 30, 2020 by ACA Performance Services.

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 June 30, 2020. 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.*