Muhlenkamp & Company, Inc.

Quarterly Letter, April 2016

By Ron Muhlenkamp and Jeff Muhlenkamp, Portfolio Managers

In the spirit of our times, when trigger warnings abound, we should probably warn you now that what we're about to discuss may make you uncomfortable. Continue reading at your own risk. And no, we won't be discussing politics.

In many ways the first quarter of 2016 was a repeat of the events of late last year. The 10% correction in the S&P 500 Index in January and February closely matched the August–October 2015 correction. Both were immediately preceded by a sharp decline in the value of the renminbi (Chinese currency) versus the dollar, and crude oil prices moved in lockstep with the stock market. During the quarter companies published their 4th Quarter 2015 business results. In the aggregate, both revenues and earnings declined for the top 3,000 U.S. companies on a year-over-year basis. For those of you not keeping your own scorecards, that's three consecutive quarters of declining revenues, and two consecutive quarters of declining earnings. As before, falling energy prices and a strong dollar accounted for the bulk of the declines. As was true late last year, the Central Banks of Europe and Japan continue to use asset purchases to keep interest rates down in an effort to goose their economies. This year, Japan joined Europe in the use of negative interest rates in pursuit of that elusive goal.

There has been a change in the apparent willingness of the U.S. Federal Reserve to continue raising our interest rates. You'll recall last year that the Fed spent a lot of time talking about the circumstances under which they would raise rates, and they actually raised them a quarter-of-a percent in December. This year, even though the conditions they outlined last year remain in place, they have indicated they are in no hurry to raise rates further. We believe this is important as the policy differences between our Central Bank and the European and Japanese helped drive the dollar up and oil down. The dollar has weakened since the Fed changed its tone, and, coincidentally, markets recovered and oil bounced. We'll continue to pay close attention to the central banks.

We were asked the other day what the impact of negative interest rates would be if they came to the U.S. The short answer is negative rates would do more of what low rates have already done—hurt savers. Think of negative interest rates as a tax on assets: some owners will stand and pay the tax; others will run to try to avoid it. Banks would try to pass along the negative rates, which would probably show up in higher banking fees of some sort. Insurance companies, which invest heavily in bonds, would be forced to raise premiums because they'd get lower returns on their assets. Pension plans, many of which are already massively underfunded, would become even more so, requiring greater contributions from the business or municipality that sponsors them. (Guess where a municipality gets funds: from you, the taxpayer.) Money market funds, which have been waiving fees for years to avoid "breaking the buck," would find creative ways to pass the cost on to their clients or simply close up shop. That was just off the top of our heads. We've seen much of that start to unfold in Europe already, and it's disquieting. We hope our leaders are smarter than that; we'll see. We also realized that lower interest rates alone have made all of the conventional assumptions used in retirement planning obsolete. We'll lay out our thoughts on that during the May 12 investment seminar. We hope you can catch that, either live or on the web.

Briefly reprising our list of expectations from last quarter, we expect U.S. Gross Domestic Product (GDP) growth to be in the vicinity of 2% at best with risks to the downside caused by falling corporate revenues and earnings. We have yet to see the full impact of low crude oil prices on the energy sector; we expect more bankruptcies to come with follow-on impacts to the banks. Having said that, high-yield credit spreads have come down a little bit in the last month, which is positive. We don't expect a rapid rise in energy prices or a rapid decline in the dollar, but both will be driven by central bank policy as indicated above.

We put a little bit of money to work in February and bought some interesting companies at very good prices. We still hold a large cash reserve and continue to look for good places to put it to work. As you know, we like to be buying when others are in a hurry to sell, but we don't want to be early to that party either.

Until next quarter….

Ron Jeff Muhlenkamp

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

The S&P 500 Index is a widely recognized 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. One cannot invest directly in an index.

Spreads refer to the difference in the number of percentage points or basis points in yield. The level of risk correlates with the potential for returns.

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MuhlenkampSMA All-Cap Value

For the period ended 3/31/16

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.

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	-5.20%	-11.69%	5.83%	5.83%	.57%	3.34%
S&P 500 Total Return*	1.35%	1.78%	11.82%	11.58%	7.01%	5.99%
Consumer Price Index**	0.25%	1.02%	0.70%	1.39%	1.78%	2.01%

* **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 2016 – 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
Alliance Data Systems Corporation	IT Services	5.97%
Gilead Sciences, Inc.	Biotechnology	4.11%
Apple Inc.	Technology Hardware, Storage & Peripherals	3.47%
Annaly Capital Management Inc.	Real Estate Investment Trusts	3.03%
Hanesbrands, Inc.	Textiles, Apparel & Luxury Goods	2.95%
ON Semiconductor Corporation	Semiconductors & Semiconductor Equipment	2.66%
Bristol-Myers Squibb Company	Pharmaceuticals	2.54%
Microsoft Corporation	Software	2.45%
Baker Hughes Incorporated	Energy Equipment & Services	2.31%
PowerShares Buyback Achievers	Exchange Traded Funds	2.30%
NeuStar, Inc.	IT Services	2.23%
Celanese Corporation	Chemicals	2.17%
UnitedHealth Group Incorporated	Healthcare Providers & Services	2.08%
Biogen Inc.	Biotechnology	1.90%
WCI Communities, Inc.	Household Durables	1.89%
Teva Pharmaceutical Industries Ltd.	Pharmaceuticals	1.88%
Lannett Company	Pharmaceuticals	1.84%
Spirit Airlines Inc.	Airlines	1.83%
Pfizer Inc.	Pharmaceuticals	1.48%
Delta Air Lines, Inc.	Airlines	1.34%

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).

Muhlenkamp & Company, Inc.
Intelligent Investment Management

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, Investment Analyst and Co-Manager, 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	24
Cash & Cash Equivalents	43.33%
Portfolio Turnover	21.30% ‡

‡ *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**
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
2002	742	81	139	(19.80)	(20.49)	(22.06)			3.65
2001	699	97	124	(2.72)	(3.51)	(11.93)			5.16

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, 2015 by Ashland Partners & Company LLP.

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, 2015. 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.*