Muhlenkamp & Company, Inc.

Quarterly Letter, October 2016

By Ron Muhlenkamp and Jeff Muhlenkamp, Portfolio Managers

Last quarter we said "It seems like every quarter something big happens for us to talk about… ." Well, not this quarter. The last three months have been very quiet – economic growth hasn't changed much, central bank policies haven't changed much, bond prices haven't changed much, commodity prices haven't changed much, etc. The S&P 500 did have its best quarter of the year gaining a little over three percent even as volatility in the U.S. equity markets set new records for all-time lows in August and September. Not much to talk about there.

Instead, we'd like to share an excerpt from an interview between Tom Keene of Bloomberg TV and Federal Reserve Vice Chairman Stanley Fischer where they discussed negative interest rates (rates of return on loans that are less than zero) that aired on Bloomberg TV on 30 August, 2016, immediately after the central bankers ' conference in Jackson Hole: (emphasis ours)

KEENE: What did you learn about negative rates in the crucible of the markets? What have you learned in the last number of months?

FISCHER: Well, we've learned that the central banks which are implementing them — there were four or five of them — basically think they're quite successful and are staying with their approach, possibly with the exception of Japan. They're thinking it through and they have said they'll come back to try and make negative rates work better. So we're in a world where they seem to work. I think one of the most interesting developments I've seen in theory is a paper that says, yes, they work up to a certain point and then they become counterproductive.

KEENE: Precisely. Yes, that's a critical point. I mean, we have within the interviews of Bloomberg Surveillance that Francine Lacqua and I have had, Olivier Blanchard [who] calls them an outright scam. Granted, he's not a public official anymore, I understand that. There is a raging debate about the efficacy of negative interest rates for central banks, for governments, and again for banking itself. What about the efficacy of negative rates for savers and the people of these different nations?

FISCHER: Well, clearly there are different responses to negative rates. ***If you're a saver, they're very difficult to deal with and to accept, although typically they go along with quite decent equity prices. But we consider all that and we have to make trade-offs in economics all the time and the idea is the lower the interest rate the better it is for investors.***

Note: Olivier Blanchard was the Chief Economist for the International Monetary Fund from 2007 until 2015.

We find Mr. Fischer's comments difficult to reconcile with the Federal Reserve's dual mandate to maintain price stability and promote full employment.

As we've stated before, savers, including pensions and insurance companies, are being thrown under the bus in the hopes a low cost of debt will spur growth – we find no evidence very low or negative interest rates have improved economic growth on a sustained basis anywhere they've been tried. It is clear now that central bankers fully understand the drawbacks of low and negative interest rates but consider the damage done to savers an acceptable price to pay as central banks incentivize borrowers in the hope it will generate growth.

Have they made a good decision? You are all participants in our economy and likely to benefit if the economy grows more quickly and probably most of you are savers. Is the poor return on your savings adequate compensation for an economy growing at less than 2% per year and "quite decent equity prices"?

We'd also remind you that as the price of an asset rises, it's future return declines. From these prices we think future returns from the stock market in general will be low relative to the past few decades, and future returns from bonds will be very low. We continue to hold a significant amount of cash awaiting lower prices and hence better future returns.

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.

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Muhlenkamp & Company, Inc.

The 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. One cannot invest directly in an index.

Bonds are a way for the government or a company to borrow money. Bonds have two parts: the principal and the coupon. The coupon is a fixed amount that is to be paid to the bondholder periodically over the life of the bond (thus providing "income"). The principal is repaid when the bond matures. Bonds are traded in an open market, just like stocks. Bond prices reflect many things, including changes in interest rates. AAA bond rating is the highest possible rating assigned to an issuer's bonds by credit rating agencies. The AAA rating is assigned to bonds whose issuers can easily meet their financial commitments.

MuhlenkampSMA All-Cap Value

For the period ended 9/30/16

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.

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	-3.40%	-0.74%	2.63%	9.49%	1.24%	4.71%
S&P 500 Total Return*	7.84%	15.43%	11.16%	16.37%	7.24%	7.15%
Consumer Price Index**	1.83%	1.06%	0.98%	1.23%	1.68%	2.06%

* **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 August 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	5.77%
Apple Inc.	Technology Hardware, Storage & Peripherals	3.56%
Gilead Sciences, Inc.	Biotechnology	3.47%
ON Semiconductor Corporation	Semiconductors & Semiconductor Equipment	3.41%
SPDR Gold Shares	Exchange Traded Funds	3.00%
Annaly Capital Management Inc.	Real Estate Investment Trusts	2.98%
Hanesbrands, Inc.	Textiles, Apparel & Luxury Goods	2.62%
Microsoft Corporation	Software	2.57%
Celgene Corporation	Biotechnology	2.55%
WCI CMNTYS Inc. Com Par $0.01	Household Durables	2.40%
PowerShares Buyback Achievers Portfolio	Exchange Traded Funds	2.38%
Biogen Inc.	Biotechnology	2.27%
UnitedHealth Group Incorporated	Healthcare Providers & Services	2.25%
Celanese Corporation - Series A	Chemicals	2.18%
Bristol-Myers Squibb Company	Pharmaceuticals	2.10%
Tencent Holdings Ltd.	Internet Software & Services	2.03%
McKesson Corporation	Healthcare Providers & Services	2.01%
Lannett Company, Inc.	Pharmaceuticals	1.75%
Pfizer Inc.	Pharmaceuticals	1.66%
Teva Pharmaceutical Industries Ltd.	Pharmaceuticals	1.62%

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 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	28
Cash & Cash Equivalents	36.46%
Portfolio Turnover	25.21% ‡

‡ *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

				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**
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.*