



Muhlenkamp & Company, Inc.

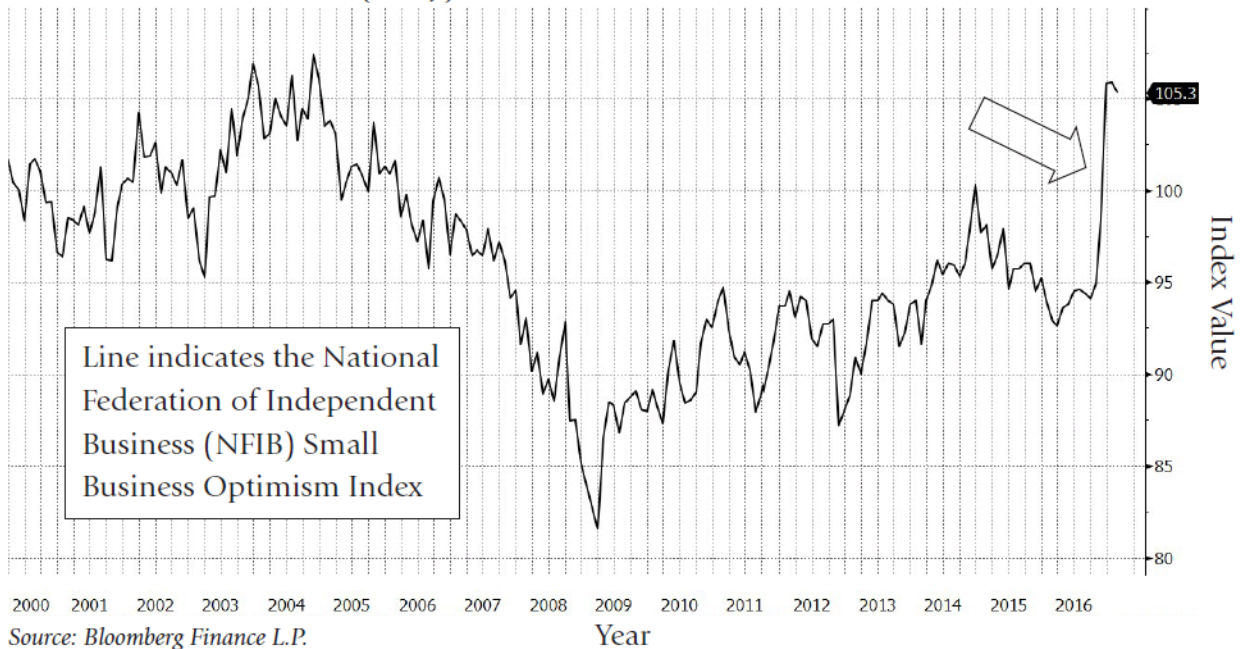
## Quarterly Letter, April 2017

Fellow Investor,

Below is the single most interesting chart we've seen in the last quarter.

### NFIB SMALL BUSINESS OPTIMISM INDEX

March 2000 - March 2017 (Daily)



It is a plot of the National Federation of Independent Business (NFIB) Small Business Optimism Index since March 2000. The NFIB conducts monthly surveys of its members in order to better understand the environment in which small businesses are operating. The way we interpret the chart is that small businesses are MUCH more optimistic about their future post-election than they were pre-election (the arrow is there to highlight that move for you). If that increased optimism results in greater hiring and spending on capital goods, we believe the economy can grow significantly faster than it has managed to do the last few years. In part we think the chart validates our assertion that increased regulations and costs have been limiting business growth—and the promise to reduce them has small businesses more optimistic than they've been in years. The questions now are "Will our politicians deliver on their promises?" and "Which companies will benefit and which will be hurt by the changes?" That's what we are paying a lot of attention to right now. It's pretty obvious that most other market participants are thinking along the same lines.

While potential U.S. policy changes are the most important things going on, they aren't the only things to keep an eye on. A quick update on some pertinent developments: the U.S. Federal Reserve\* raised the Federal Funds Rate\*\* by .25% in March. This is the third rate hike by the Fed since the '09 recession and

(Continued on next page)

was largely expected. The Fed has stated that they may continue to raise short-term rates this year as the country is near their employment and inflation goals. At this point we don't expect a rapid run up in inflation nor do we see rising interest rates triggering a recession. Either or both of those things may happen in the future, but we don't see signs that they are imminent.

U.S. companies in the aggregate in the 4<sup>th</sup> quarter of 2016 reported an increase in both earnings and revenues—the first time we've seen that in five quarters, led by improvements in the energy sector where higher crude oil prices (now in the vicinity of \$50 per barrel) have led to increased drilling activity. The strong dollar we saw late last year has weakened a little, easing pressure on the earnings of our exporters. Long-term interest rates have also declined a bit since last year, keeping the cost of rolling over debt low for those companies that need to do so. From a consumer perspective, rising short-term rates will provide savers a marginally better return on savings accounts, money markets, and short-term certificates of deposit but inflation adjusted returns on fixed income products are still pretty poor, as we've been pointing out for a long time now. On the consumer borrowing side, rates are pretty cheap with 30 year mortgage rates at about 4%—they've been as high as 4.2% and as low as 3.8% over the last year.

Outside of the U.S., elections in France and Germany later this year have the potential to disrupt the Eurozone. Belgian elections in March resulted in a re-election of the status quo, we'll have to see what develops in France and Germany. The European Central Bank (ECB) continues to buy bonds, keeping interest rates low in Europe and, we believe, helping to keep interest rates low in the U.S. That program is scheduled to end in December, it isn't clear if the ECB will let it expire or extend it once again. On a positive note, real Gross Domestic Product (GDP) growth in Europe the last quarter was 1.9%, much improved over a year ago and on par with U.S. GDP growth.

The U.S. stock markets remain on the expensive side, as they've been for some time now. In the absence of signs of an approaching recession or financial crisis we have stuck to our knitting, selling holdings that have reached full value and reinvesting the proceeds in companies we believe are selling for less than we think they are worth—though good companies selling cheaply are few and far between these days.

Until next quarter.....

The image shows two handwritten signatures in black ink. The signature on the left is 'Ron' and the signature on the right is 'Jeff Muhlenkamp'. Both are written in a cursive, flowing style.

Ron Muhlenkamp and Jeff Muhlenkamp

*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.*

**Earnings growth is not representative of an investment's future performance.**

**\*Federal Reserve Board** (informally referred to as "the Fed"), is the central banking system of the United States, created in 1913 by the Federal Reserve Act. The main tasks of the Fed are to supervise and regulate banks, implement monetary policy by buying and selling U.S. Treasury bonds, and steer interest rates.

**\*\*Federal Funds Rate** is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. It is the interest rate banks charge each other for loans.

**\*\*\*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).

# MuhlenkampSMA All-Cap Value

For the period ended 3/31/17

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)

	Year to Date	One Year	Annualized			
			Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
<b>Return</b>	4.20%	6.96%	0.98%	7.12%	1.20%	3.43%
<b>S&amp;P 500 Total Return*</b>	6.07%	17.17%	10.37%	13.30%	7.51%	7.09%
<b>Consumer Price Index**</b>	0.90%	2.74%	1.24%	1.36%	1.82%	2.12%

\* 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 2017 – 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	6.48%
Apple Computer Inc.	Technology Hardware, Storage & Peripherals	4.40%
Gilead Sciences, Inc.	Biotechnology	4.15%
ON Semiconductor Corporation	Semiconductors & Semiconductor Equipment	4.12%
Hanesbrands, Inc.	Textiles, Apparel & Luxury Goods	3.51%
Twenty-First Century Fox	Media	3.21%
Annaly Capital Management Inc.	Real Estate Investment Trusts	3.16%
Lannett Company, Inc.	Pharmaceuticals	3.05%
Dow Chemical Company	Chemicals	3.04%
Microchip Technology	Semiconductors & Semiconductor Equipment	3.01%
McKesson Corporation	Health Care Providers & Services	2.93%
Cameco Corporation	Oil, Gas, & Consumable Fuels	2.93%
Celgene Corporation	Biotechnology	2.93%
Celanese Corporation - Series A	Chemicals	2.85%
Biogen Idec Inc.	Biotechnology	2.85%
Microsoft Corporation	Software	2.75%
SPDR Gold Shares	Exchange Traded Funds	2.61%
Schlumberger Ltd.	Energy Equipment & Services	2.61%
UnitedHealth Group Inc.	Healthcare Providers & Services	2.59%
PowerShares Buyback Achievers Portfolio	Exchange Traded Funds	2.44%

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.



## SMA Facts

Average Number of Equity Holdings 32  
Cash & Cash Equivalents 14.40%  
Portfolio Turnover 14.00%‡

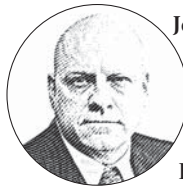
‡ Trailing 12 months

## 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.



**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 are presented as supplemental information.

## 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			THREE-YEAR ANNUALIZED STANDARD DEVIATION*		
				Composite Gross	Composite Net	S&P 500 Total Return Index	Composite	S&P 500 Total Return Index	Composite Dispersion**
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
2002	742	81	139	(19.80)	(20.49)	(22.06)			3.65

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.

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, 2016. 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.