



## QUARTERLY LETTER, JANUARY 2022

Fellow Investors,

During 2021 the global economy continued to be buffeted by waves of COVID-19—first the Delta variant, then late in the year the Omicron strain. The reactions by government bodies continue to be quite varied: Sweden at one extreme imposed minimal restrictions as case counts rose, China on the other extreme completely locked down entire cities when cases were discovered. These episodic reactions to the virus continue to impact both the demand for goods and services and the ability of global supply chains to meet that demand. Six months ago we described the situation as “noisy” with all of the short-term changes making it difficult to identify long-term trends. That characterization remains true and we expect it to continue as long as people continue to react strongly to the virus.

One of the things that became clear by the middle of 2021 was that inflation had arrived. The November Consumer Price Index (CPI) was 6.8% higher on a year-over-year basis giving a decent indication of the pace of inflation last year. The higher inflation numbers finally got the attention of the Federal Reserve late in the year and caused them to announce the end of their bond buying program: they are winding it down now and will end it completely by the end of March 2022. It is widely expected that they will begin raising short-term interest rates after ending the bond purchase program. So the Fed has shifted from encouraging inflation to discouraging inflation. What we don't know is how hard the Fed will fight inflation and how long it will take to get it back to the Fed's desired level. In the 1970s the Fed was slow to realize the magnitude of the problem and only got inflation under control after significantly raising interest rates and triggering a recession. Will it play out that way again, or will inflation subside without such drastic measures? We don't know.

What we do know is that right now interest rates are well below the rate of inflation. On 31 December 2021 the interest rate on the 10 year Treasury bond was 1.52% and the interest rate on the 30 year was 1.90%: both were well below inflation. That makes it a great time to be a borrower, (and a terrible time to be a lender) which we explained in October when we highlighted that mortgage rates were below inflation for the first time since the early '80s. During the inflationary period of the '70s it actually made economic sense to borrow as much as you could at a fixed rate (for most people that meant taking out a mortgage) and repaying it with dollars that were worth less than the ones you borrowed. After Fed Chairman Paul Volcker broke inflation in the early '80s that was no longer true and Ron wrote an article alerting our clients to that fact. In October 2021 Ron revisited the topic pointing out that once again it makes complete sense to be a borrower. The longer mortgage rates remain below the rate of inflation the more the borrower will benefit. We have no idea how long this situation will last. Anecdotally we see ample demand for bonds of all flavors, so it is quite conceivable that interest rates stay low even in the face of rising inflation.

The stock market in 2021 saw the rise and fall of a number of hot investment ideas. “Green energy” stocks ran up and then collapsed as did cannabis stocks and meme stocks. Even growth stocks, which have been so strong for so long, started to fade by the end of the year. We think it is healthy for expensive sectors or stocks to correct to more rational levels. Last year this happened in a number of sectors without triggering market wide selloffs, that may continue as many areas of the market remain very expensive and there is a lot of room for further rationalization of prices.

The markets treated us pretty well in '21 and we are pleased with the portfolio's performance. We saw strong returns from our technology and industrial holdings in particular. We continue to have an exposure to gold as insurance against central bank mistakes and we hold a little bit of cash which we will put to work when we find attractive opportunities.

As always, if you have questions, give us a call. We'd love to hear from you.

With our best wishes for your continued success and good health in 2022,



Ron Muhlenkamp, Founder  
Muhlenkamp & Company, Inc.



Jeff Muhlenkamp, Portfolio Manager  
Muhlenkamp & Company, Inc.

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

# MUHLENKAMPSMA ALL-CAP VALUE

For the period ended 12/31/2021

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.



## 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	27.11%	27.11%	17.84%	10.37%	9.34%	3.67%
S&P 500 Total Return*	28.71%	28.71%	26.07%	18.47%	16.55%	10.66%
Consumer Price Index**	6.71%	6.81%	3.32%	2.86%	2.08%	2.57%

\* **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 November 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
WESCO International Inc	Trading Companies & Distributions	5.27%
Broadcom Inc	Semiconductors & Semiconductor Equipment	4.64%
Microsoft Corp	Software	4.50%
Microchip Technology Inc	Semiconductors & Semiconductor Equipment	4.49%
Apple Inc	Technology Hardware, Storage & Peripherals	4.44%
McKesson Corporation	Health Care Providers & Services	3.82%
Mastec Inc	Construction & Engineering	3.72%
UnitedHealth Group Inc	Health Care Providers & Services	3.69%
Dow Inc	Chemicals	3.65%
Meritage Homes Corp	Household Durables	3.63%
CVS Health Corp	Health Care Providers & Services	3.46%
EQT Corporation	Oil, Gas, & Consumable Fuels	3.16%
Berkshire Hathaway Inc Class B	Diversified Financial Services	3.10%
Kirby Corp	Marine	3.02%
Schlumberger NV	Energy Equipment & Services	2.92%
ALPS Alerian MLP ETF	Exchange Traded Funds	2.68%
Rush Enterprises Inc	Trading Companies & Distributions	2.64%
SPDR Gold Shares	Exchange Traded Funds	2.51%
Lennar Corp Class A	Household Durables	2.51%
Alliance Data Systems Corp	IT Services	2.49%

*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.

## INVESTMENT ADVISER

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## SMA FACTS

Average Number of Equity Holdings 31  
Cash & Cash Equivalents 15.53%

*SMA Facts are presented as supplemental information.*

## SMA INFORMATION

The inception date for the All-Cap Value Composite is December 31, 1993. The All-Cap Value Composite was created in December 2003. The Composite 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.

**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	Total Return Index	Composite Dispersion**
2021	317	48	48	28.05	27.11	28.71	18.28	17.41	1.67
2020	265	38	45	14.06	13.14	18.40	18.63	18.79	1.38
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

*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, 2021 by ACA Performance Services. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The All-Cap Value Composite has had a performance examination for the periods December 31, 2006 through December 31, 2021. The verification and performance examination reports are available upon request.

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Muhlenkamp is an independent registered investment advisory firm registered with the Securities and Exchange Commission. The firm maintains a complete list of composite descriptions and pooled funds, which 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 investments, calculating performance, and preparing GIPS Reports are available upon request.

\* **Three-Year Annualized Standard Deviation** is a measure of volatility, calculated by taking the standard deviation of 36 monthly returns, net of fees, 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, net of fees, 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.