MUHLENKAMP Memorandum

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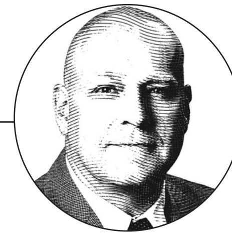
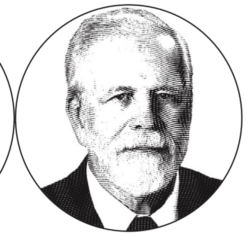
QUARTERLY LETTER





By Jeff Muhlenkamp, Portfolio Manager and Ron Muhlenkamp, Founder

Inflation remained high in the United States in the third quarter with the August 2022 Consumer Price Index (CPI) rising 8.3% year over year. The Federal Reserve continued its inflation fighting efforts by raising the Federal Funds target rate to 3.25% at their September meeting (an increase of .75%). The Federal Reserve is not alone in raising rates as most countries around the globe have followed suit in order to fight their own domestic inflation, the notable exceptions being China and Japan.

Domestically, the rapid rise in interest rates has had three noticeable affects: First, it popped the bubble in cryptocurrencies. Second, it pushed mortgage rates above 5% in June (mortgage rates at the end of September reached 7%) which triggered a rapid decline in new home sales and a modest decline (so far) in new home prices – so the housing market is basically in recession. Third, it triggered a decline in both stock and bond markets. As of September 30, 2022, the S&P 500 Index is down 24% year to date and the Bloomberg Bond Index is down roughly 16% year to date.

There have been international impacts as well. Because U.S. interest rates are rising faster and are at a higher level than most other countries, the dollar has risen relative to most other major currencies. Because commodities, particularly energy, are generally priced in dollars this exacerbates inflation in many other countries, most notably Japan and the countries of Europe. The U.S. dollar has been so strong relative to the yen that the Japanese government intervened in the currency markets to support the price of the yen—they did so by selling dollars and buying yen. Japan's ability to do that is constrained by their supply of dollars or dollar denominated assets, which is quite large, so they can do it for quite a while, but not forever. The United Kingdom also experienced some difficulties in late September in part due to dollar strength but mostly due to the ongoing European energy crisis. In order to deal with skyrocketing energy prices, the new Prime Minister, Liz Truss, announced caps on energy bills, tax cuts, and some regulatory changes to encourage energy production. The markets focused on the additional government spending and reduced government revenue and sold the Pound and United Kingdom bonds (known as gilts). As it turns out a number of pension funds in the United Kingdom had effectively borrowed money to invest in gilts and the falling prices prompted a margin call. (The strategy was called "Liability-Driven Investing" and the details are much more complicated than this, but you get the general idea.) A negative feedback loop developed from the forced selling of gilts which forced the Bank of England to intervene by pledging to buy bonds "without limit." This only days after pledging to raise interest rates to fight inflation.

While we did not predict the problems in the UK bond market, they do not surprise us. It is our belief that rising interest rates will periodically result in something "breaking." We continue to believe that at some point something important to the Federal Reserve will break and force them to make a hard choice—continue fighting inflation or address the crisis that crops up, whatever it may be. We think this will occur well before inflation gets back down to 2%, which is why we think inflation will be with us for a while. How high will inflation be going forward, and how long will it last? We don't really know. Ray Dalio (Founder of Bridgewater Associates, the world's largest hedge fund) opined that inflation in the medium term would be 4-5%, that seems like a reasonable guess to us, but we doubt it will be steady. Our guess is that the process of fighting inflation will be "two steps forward and one step back" as other problems appear and require government action to address. We also believe that the Federal Reserve alone cannot bring inflation back down to desirable levels—in the early '80s it took fiscal and regulatory changes, in addition to monetary policy, to get inflation back down and economic growth back up. To date, we are not seeing the fiscal and regulatory changes that we believe are consistent with bringing inflation down—nobody has been elected to beat inflation, not yet. So, the short answer to the question is probably on average

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VIEW FROM THE FRONT OFFICE: INFLATION

By Tony Muhlenkamp, President

Inflation is the topic of the day in both the popular press and financial markets, but this is not a new topic for us. As Ron commented to me today, “This is where I came in.” Ron started his career in 1968 just as inflation started to increase and he was managing money throughout the ‘70s while inflation kept going up. He did a LOT of work figuring out how to invest money in a high inflation environment that lasts a decade. Additionally, Jeff has written about inflation in each of the 2022 newsletters and continues his discussion in this Quarterly Letter. I encourage you to re-read his letters from this year, and to read what Ron wrote about the ‘70s. Frankly, no one under the age of 60 has any experience investing with high and sustained inflation, and understanding the past is helpful in recognizing what is going on in the present.

It’s also useful to recognize that the CAUSES of inflation are NOT the same as the measurements of inflation. Inflation is caused by several things including: the rate at which the supply of money surpasses the production of goods and services; where that money is sent and how; whether or not that money is lent, spent or saved; where and how it is lent, spent or saved; etc. I’m not going into the details, but if you want to talk more about inflation, give us a call.

Inflation is measured by the rate at which prices increase. Most people use the Consumer Price Index (CPI), and the Federal Reserve (FED) uses Personal Consumption Expenditures (PCE) to gauge whether inflation is too high, too low, or just right. Currently, the CPI has increased by 8.3% year over year and the core PCE has increased by 4.9%, also year over year. The FED has targeted a 2% annual increase in PCE, which is one reason we think they aren’t done trying to get inflation down.

We like a quick and dirty way of measuring inflation suggested years ago by a financial planner named Nick Murray, and that is to use postage stamps. A first-class stamp delivers a letter anywhere in the country in 2-3 business days, much as it did in the 1960s. The difference is, a first-class stamp cost $0.06 in 1968, and today it costs $0.60. The price of a stamp has gone up ten times in 54 years while supplying the identical service, which is an average 4.36% a year. For the same period, the CPI grew by an average 4.08% annually and the PCE went up by an average 3.51% annually.

Comparison of Inflation Measures showing Average Annual Rate of Increase 1968-2022

CPI	PCE	1ST CLASS POSTAGE
4.08%	3.51%	4.36%

As investors, everything we do is measured in dollars. So, rather than thinking of inflation as prices going up, we find it useful to think of inflation as our dollars “shrinking” AND, the longer the time period, the more pronounced that shrinkage becomes. So, we have to grow the dollars enough to offset the shrinkage, PLUS some to improve purchasing power over time.

Which means that 1968 dollars had to grow about 4% a year just to BREAK EVEN. It also means any money we are saving today to use 10, 20, or 30 years from now has to earn some return OVER inflation in order for us to be better off.

We think the primary investment risk over the long term is the loss of purchasing power; we use inflation to measure just how much purchasing power assets are losing and how rapidly; and the rate of inflation becomes both the performance benchmark we need to EXCEED as investors trying to grow assets for future use AND is used to determine what price we can pay for an investment to earn that required return. If we can’t find investments that will grow assets by at least 3-5% OVER inflation, we are willing to hold cash until we can. Jeff talks about that in his Quarterly Letters as well.

Today, we have higher than average inflation—at least we think so, not everyone agrees on that. And if we have higher than average inflation nobody knows how long that will last, or what the economic consequences will be. Neither do we; we are not making ANY predictions. We are trying to understand the past, so we know what to look for in the present; acknowledging that history rarely repeats but it often rhymes. We are applying the lessons Ron learned in the ‘70s to the socio/political economies we are working in today, and we are constantly checking assumptions. So please, read what Jeff writes today and what Ron wrote in the past critically, and let us know what you think we are missing.

As always, please call if you have questions or if you are working on something we can help with. We aspire to be your resource for anything with a dollar sign attached.

Additional Reading:

2022 Quarterly Letters: https://muhlenkamp.com/library/quarterly-letters/

The Basics of Investing: https://muhlenkamp.com/wp-content/uploads/2022/06/BasicsBook2004.pdf

Why the Market Went Down: https://muhlenkamp.com/wp-content/uploads/2022/06/why-the-market-went-down.pdf

The Inflation Time Bomb: https://muhlenkamp.com/wp-content/uploads/2022/06/the-inflation-time-bomb.pdf

Defusing the Inflation Time Bomb: https://muhlenkamp.com/wp-content/uploads/2022/06/defusing-the-inflation-time-bomb.pdf

Muhlenkamp Library: https://muhlenkamp.com/library/

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

LETTER

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4-5%, and it will last for maybe a decade, but that's a low conviction answer. We expect unfolding events will continue to shape our opinion on this topic.

As we've explained many times, our assessment of company values is based on the rate of inflation—as inflation rises, values fall. Today, the broad market has not priced in the inflation we expect, so we see few good buys. Further, markets struggle to rise in a rising interest rate environment. Thus, we have two good reasons to hold cash, which we are doing. On the other hand, we are optimistic about our energy investments in both the short and the medium term due to both the internal dynamics of the industry and the ongoing energy crisis in Europe. We continue to look for lucrative investment opportunities and will put money to work when we find them. We should also mention that rising interest rates have improved returns on cash-like investments: money market funds are now yielding above 2.5% (something we haven't seen in a decade). While still far lower than the rate of inflation it is much better than the fraction of a percent we've seen for so long and higher than savings accounts and most CDs. We don't expect interest on bank deposits in either savings or checking accounts to move any time soon as banks don't really want additional deposits—only a year ago many banks were turning new deposits away as they couldn't put the capital to work.

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

With our best wishes for your continued success and good health.

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

GLOSSARY

Bloomberg U.S. Aggregate Bond Index, *or the Agg, is a broad-based, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. Investors frequently use the index as a stand-in for measuring the performance of the U.S. bond market. One cannot invest directly in an index.* Source: Wikipedia

Consumer Price Index (CPI) – *measures the average change in prices over time that consumers pay for a basket of goods and services, commonly known as inflation. One cannot invest directly in an index.*

Personal Consumption Expenditures (PCE) Price Index – *is prepared by the Bureau of Economic Analysis (BEA), it measures the prices of goods and services purchased by consumers in the US. PCE is used as a measure of price inflation. One cannot invest directly in an index.*

S&P 500® Index – *is a widely recognized, unmanaged index of common stock prices. It 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.*

ANNOUNCEMENTS

Request for Email Address
Muhlenkamp & Company regularly publishes information that gets distributed by email only. To be added to our email list, visit www.muhlenkamp.com or call us at (877) 935-5520.

Webcast Archive
State of the Economy – Fall Update 2022 by Jeff Muhlenkamp, available on our website at www.muhlenkamp.com and on our Vimeo channel at https://vimeo.com/muhlenkamp.

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MUHLENKAMPMemorandum

Inside this issue:

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- View From the Front Office: Inflation
- Announcements

STATE OF THE ECONOMY – FALL UPDATE 2022

Visit our website for a link to our recent webcast where Jeff Muhlenkamp explains the status of items on “Our Checklist” and the direction we think they may be heading.

MUHLENKAMPSMA ALL-CAP VALUE

For the period ended 9/30/2022

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)

			Annualized			
	Year to Date	One Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Return	-3.87%	5.35%	13.65%	7.32%	7.95%	6.28%
S&P 500 Total Return*	-23.87%	-15.47%	8.16%	9.24%	11.70%	8.03%
Consumer Price Index**	6.23%	8.26%	4.90%	3.82%	2.54%	2.39%

*** 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 2022 – 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
EQT Corporation	Oil, Gas, & Consumable Fuels	5.75%
Occidental Petroleum	Oil, Gas, & Consumable Fuels	4.56%
UnitedHealth Group Inc	Health Care Providers & Services	3.74%
Schlumberger NV	Energy Equipment & Services	3.52%
McKesson Corporation	Health Care Providers & Services	3.40%
CVS Health Corp	Health Care Providers & Services	3.26%
Direxion Daily S&P 500 Bear 1X Fund	Exchange Traded Funds	3.09%
ALPS Alerian MLP ETF	Exchange Traded Funds	2.97%
Tenneco Inc	Auto Components	2.97%
Kirby Corp	Marine	2.88%
Bristol-Myers Squibb Company	Pharmaceuticals	2.77%
Berkshire Hathaway Inc Class B	Diversified Financial Services	2.75%
Dow Inc	Chemicals	2.74%
SPDR Gold Shares	Exhange Traded Funds	2.68%
Mastec Inc	Construction & Engineering	2.40%
Apple Inc	Technology Hardware, Storage & Peripherals	2.33%
Microsoft Corp	Software	2.20%
Broadcom Inc	Semiconductors & Semiconductor Equipment	2.16%
Microchip Technology Inc	Semiconductors & Semiconductor Equipment	2.04%
Rush Enterprises Inc	Trading Companies & Distributions	2.04%

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	26
Cash & Cash Equivalents	32.21%

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 month 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 Composite Gross	Composite Net	S&P 500 Total Return Index	THREE-YEAR ANNUALIZED STANDARD DEVIATION* Composite	S&P 500 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.*