MUHLENKAMP Memorandum

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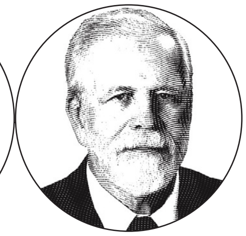
QUARTERLY LETTER

By Jeff Muhlenkamp, Portfolio Manager and Ron Muhlenkamp, Founder

Inflation remained high in the United States in the first quarter with the February 2023 Consumer Price Index rising 6% year over year, down from the recent peak of 9.1% in June 2022. The February 2023 unemployment rate is 3.6%, little changed from February 2022 when it was 3.8%. The Federal Reserve continued its inflation-fighting efforts by raising the Federal Funds target rate to a range of 4.75% - 5.00% at their March meeting, an increase of .25%. The Federal Reserve also continues to shrink its balance sheet with the assets they hold falling to $8.6 trillion on 23 March 2023 from $8.9 trillion a year ago, a decline of 3.3%. Assets dropped as low as $8.3 trillion on 8 March 2023 before increasing by $340 billion over the next two weeks as the Fed initiated a new lending program to support stressed banks (more on that below). The Federal Reserve continues to raise rates and shrink their balance sheet in the belief that increasing the cost of borrowing and reducing the supply of money in the economy will reduce the demand for goods and labor and thereby bring inflation down. We view this as logical but note that in the 1970s we had both high unemployment and high inflation. Thus, we view it as quite possible that even if the Federal Reserve successfully increases unemployment, the inflation rate may not come down to their long-term target rate of 2%.

The U.S. stock market as represented by the S&P 500 Index has rallied modestly so far this year. The leaders of the rally were the laggards from 2022 and vice versa (which is to say that Tech and Crypto increased the most and energy has done poorly). The rally was marred by the rapid-fire failure of Silvergate Capital Corporation, Signature Bank, and Silicon Valley Bank. These bank failures triggered a selloff centered around regional banks in mid-March as investors became concerned that there may be more problems yet to come in the banking industry. In response to the bank failures the Federal Reserve created a new loan program that allows banks to borrow from the Fed using the par value of high-quality assets as collateral. Usually, such loans are made against the market value of the assets, so this is a meaningful change. It is under this program that the Fed made $340 billion worth of loans in two weeks.

The problem in the banks has two aspects: asset value and deposit retention. As interest rates have increased, the market value of bonds has fallen. Banks that hold large unhedged bond portfolios are thus sitting on significant unrealized losses. If the bank is forced to sell their bonds at market prices they will realize a loss—and the losses might be big enough to make them insolvent. (This is what happened to Silicon Valley Bank.) So far, this is not an asset quality problem, though if delinquencies and defaults increase significantly, it could become one. Car loans and commercial real estate loans seem particularly vulnerable to us. On the deposit side we note that even if depositors retain full confidence in the solvency of their bank, money market funds offer far higher yields (currently about 4.5%) than checking and savings accounts, and it is completely rational to move excess cash to a money market fund to achieve that return. Banks that only a year or two ago were turning away deposits may now find themselves raising interest rates paid on checking and savings accounts to retain them. We see no end in sight to either of these pressures on banks and conclude that banks will remain under stress for a while.

We stated in our June 2022 quarterly letter that we expected some sort of financial crisis to develop as the Federal Reserve raised rates, and we hypothesized that such a crisis would put the Fed on the horns of a dilemma—should it lower rates and increase the balance sheet (the standard Fed crisis moves) to fight the crisis, or continue raising rates and shrinking the balance sheet to continue to fight inflation? As explained above, the crisis we expected is now starting to unfold and the Fed is indeed on the horns of a dilemma. While they continue to raise interest rates and have stated that they intend to reduce their balance sheet, the new bank loan program has instead increased the assets on their balance sheet! It'll be interesting to see if the Fed is able to solve both the banking problems and the inflation problem at the same time—it's too early to tell.

In our January newsletter, we listed three questions we thought were most important to focus on as we try to understand where markets are likely to go in the near term. Those questions, and our updated thoughts are below.

1. Will the U.S. enter a recession? In January we thought the odds were high that the U.S. was heading for a recession. We think problems in the banking industry make a recession more likely, not less. Let's say a recession is now "very likely," maybe even "almost certain." One data point that doesn't match the "Recession is coming" narrative is the strength we are seeing in home sales even with mortgage rates back near 7%. Still, most of the evidence points to recession, though we have no opinion about the duration or depth of the downturn.
2. What will inflation do? Banks going bust is very deflationary, pumping money into banks to keep them from going

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JEFF'S WELLING ON WALL STREET INTERVIEW

Jeff Muhlenkamp was interviewed by Kathryn Welling on March 15, 2023. Their conversation is published in the Welling on Wall St. article, "Hard-Won Market Insights – Muhlenkamp & Co.'s Leader on Turning Market Scares into Profits." Included below are excerpts of the interview which is available in its entirety on www.muhlenkamp.com and by subscription at www.wellingonwallst.com.

Continuing with their discussion of lessons learned during the Global Financial Crisis (GFC) of 2008-2009 and the COVID shutdowns in 2020, Jeff mentions that market volatility and turmoil create buying opportunities. When the market goes down, you have to be prepared to buy but also be a little patient…

JEFF: The other thing I learned is not to be too quick to snap up what looks like a relative value. It's tempting to say, "oh, look, it's down 30% from its peak. It *must* be cheap.

Kate: Ain't necessarily so.

JEFF: Right. Pay attention to other things, like sustainable cashflow, an unassailable balance sheet, a moat — and be more patient than it's probably my nature to be. But I'm not sure that I've developed yet a great rule of thumb on how to avoid being too early versus too late. In retrospect, you can say, oh well, clearly there were two market bottoms in '08/'09. One was when the government finally stepped in after the Thanksgiving 2008 debacle when Congress had failed to pass a bill — a bailout, basically. Then, after about a week in which the market puked up another 10% of the index's value, Congress came around and did it. And then the last one, of course, came the next March, after the Financial Accounting Standards Board (FASB) changed the rules on banks having to mark their holdings to market, which got all the financials out of their doom loop on asset prices. Those were two big markers that significant actions were being taken to resolve the underlying issues. If you were able to see them for what they were, that was helpful. In the COVID Panic of 2020, the key really was that you needed to pay attention to when the Fed basically said, "We're going to do whatever it takes," and not just the Fed, but the rest of the government chimed in, too. The Fed essentially said, "We'll lend whoever as much as they need," and the government said, "We'll spend as much as we need to, regardless." If you were paying attention to that response, it probably struck you that it might be a very useful market indicator. And it would have helped you step in and start buying when things pretty soon stopped getting worse in the markets — and started getting a little better.

Kate: That turn came very quickly.

JEFF: Basically because people started seeing the government throwing really huge sums of money at the problem.

Kate: Most dramatic market slides aren't reversed nearly so expeditiously. Then again, most aren't sparked by a virus. A typical bear market is both long and torturous as complex imbalances aren't worked out overnight

JEFF: Correct. And frankly, it's easier on your psyche to be late, rather than early. If you miss the precise bottom but you catch it on the upswing, the good news is once you've got back in, you're generally going to see positive results. If you're early in scooping up a "bargain" and you discover a still-deeper bottom ahead of you, you're going to feel really, really, really bad, for a period of time

Kate: Really bad?

JEFF: Really bad. Assuming you hold on, it'll work out quite well in the end, but for a period of time you're going to feel phenomenally stupid and bad. I used the totality of that experience in 2020. I put some money to work in late March, early April. But then I held back a bit and didn't put some more money to work until later in May and early June. WESCO International (WCC), for instance, is a stock that I was a little late on. They had won a bidding war to buy another B2B services company [Anixter International] just before the shut down, and there was some concern that WESCO was going to "kitchen sink" their earnings on their next earnings call, so I decided to be a little patient. Did I nail the bottom on that company? No, I did not. Did I get a nice double out of it in the next year? Yes, I did. Good enough.

Kate: I checked your year-end 2022 portfolio and noticed you didn't get tempted to buy banking stocks as they got hit last year — as some value types did.

JEFF: Well, the way I think about it, that choice was really informed by Nassim Nicholas Taleb's book, "Antifragile: Things That Gain from Disorder." Are you familiar with that?

Kate: Oh, quite.

JEFF: His descriptions of fragile and robust and antifragile really made a ton of sense to me. Ever since coming out of the Great Financial Crisis, when I did a lot of research and thinking about the banking industry, I've come to realize that banks are inherently fragile.

Kate: What, gathering short-term deposits and lending it long term doesn't sound like a winning business plan?

JEFF: Especially when you lever up to do it, et cetera, et cetera. The fractional reserve banking system is inherently fragile and, no matter how well-run, is vulnerable to a run on the bank any day that all its depositors decide to leave. Any day. In light of that, I want to make sure that when the Fed starts to raise interest rates, contract the money supply and tighten the availability of money, I don't want to be in a fragile asset. Meaning, I don't want to own banks. The time to buy banks is in the middle of a crisis when they're all trading at book or less, blah, blah, and things start to get a little better. Then you sell them sometime later before the Fed starts constricting the money supply again.

Kate: If you can.

JEFF: We have not owned banks in a year and a half or more. Now, did bank stocks get down to book for a while during that time? Yes, they did. Did they bounce off of those lows? Yes, they did. But what I said was, don't get anxious here. The Fed was still raising rates and the Fed was still shrinking their balance sheet. There might be more pain. That's when you want your holdings to be robust, to be antifragile. And what you want, instead, is to be partnered with an allocator of capital with excess cash when everybody else is desperate for it.

Kate: Do you care to bring up any other pointers for investors?

JEFF: Let me think. You asked earlier what I learned early in my money management career about investing amid the volatility of 2008 - 2009, and that reminds me. People tend to talk about volatility being driven by greed and fear. But one of my conclusions, after surviving that financial crisis, was to be very mindful of *leverage*. I think that whole downturn was driven not so much by fear, as it was by the forced unwinding of truly excessive leverage.

Kate: There's no doubt about it, once prices slide below the market's collective pain point.

JEFF: Again, once that unwinding of leverage starts, it's an essentially mechanical process. The bank doesn't care if you're hopeful or fearful. You're getting the margin call. It wants its money back, now. So you sell whatever you can — likely your best most liquid assets — into the market to repay your margin lender. And that adds even more selling pressure to the rout in progress.

And the knock-on effects are some weird otherwise inexplicable price movements. So I disregard all the behavioral science stuff when it comes to understanding bear markets. Leverage simply turns the market into a machine. Turn the crank and it forces sales.

Kate: That's why, while delightful on the upside, leverage is incredibly dangerous and destructive to investment returns, once prices reverse course sharply.

JEFF: It actually surprises me to a degree — but then really doesn't — that the Fed doesn't do more to restrict leverage. Prohibiting margin buying would take a whole lot of volatility swings out of the markets.

Kate: Okay. Anything I haven't asked you about that you wish I did?

JEFF: [Laughing] You are the only person to ever ask me that question. It's the same one I ask managements every time I talk to them. That's really interesting. I guess the one thing I would highlight to your readers, even as I highlight it to my own clients, is that probably your best risk-adjusted reward right now comes in money market funds*.

Kate: They are paying real money these days on investments, for the first time in ages.

JEFF: You're taking very, very little risk, particularly if you're in very short-dated governments or sometimes commercial bonds. Yet you're getting a 4% - 4.5% yield. That's been true now for about six months, and there have been a lot of flows out of bank deposits, for instance, and into money market funds.

Kate: From your lips to Jamie Dimon's ears! Thanks Jeff, for letting me grill you to elicit portfolio insights.

** An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other governmental agency. Although money market funds seek to preserve the value of your investment, it is possible to lose money by investing in a money market fund.*

LETTER

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bust may or may not be inflationary, depending on some other factors that are hard to predict. Recessions tend to be deflationary over the short term. High and growing government spending tends to be inflationary. Increased regulations tend to be inflationary. Our estimate (and it's a low confidence estimate) is that we'll see inflation continue to come down to 4-5% over the next year or so and then rise from there. We stated before that the last time we had inflation this high it took strong monetary action and significant regulatory change over the course of a decade to get inflation back under control. We remain skeptical of the idea that it will be much easier this time.

3. Will we get a financial crisis? Yes, it's here, and will likely take some time to fully unfold.

In light of our negative near-term outlook, we remain unusually cash heavy, and very selective in our investments. We expect more lucrative asset prices in the future than we see today and want to be prepared to take advantage of them should they occur.

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 these articles are opinions and are not intended to be investment advice or a forecast of future returns.

GLOSSARY

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.*

Federal Funds Rate *– 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.*

Financial Accounting Standards Board (FASB) – *is a private, independent, not-for-profit organization that establishes reporting standards for companies and organizations.*

S&P 500® Index *– 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.*

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MUHLENKAMPMemorandum

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- Quarterly Letter
- Jeff's Welling on Wall Street Interview

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MUHLENKAMPSMA ALL-CAP VALUE

For the period ended 03/31/2023

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	1.54%	-0.91%	25.29%	9.43%	7.52%	5.30%
S&P 500 Total Return*	7.50%	-7.73%	18.62%	11.19%	12.24%	10.06%
Consumer Price Index**	1.36%	6.04%	5.16%	3.86%	2.63%	2.37%

* **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 2023 – 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
Schlumberger NV	Energy Equipment & Services	4.42%
Occidental Petroleum	Oil, Gas, & Consumable Fuels	4.27%
EQT Corporation	Oil, Gas, & Consumable Fuels	4.14%
McKesson Corporation	Health Care Providers & Services	3.33%
Mastec Inc	Construction & Engineering	3.28%
UnitedHealth Group Inc	Health Care Providers & Services	3.27%
Dow Inc	Chemicals	3.20%
Kirby Corp	Marine	3.04%
Berkshire Hathaway Inc Class B	Diversified Financial Services	2.97%
SPDR Gold Shares	Exhange Traded Funds	2.90%
Broadcom Inc	Semiconductors & Semiconductor Equipment	2.88%
NMI Holdings Inc	Thrifts and Mortgage Finance	2.88%
Recurrent MLP & Infrastructure Fund I	Mutual Funds	2.88%
Microchip Technology Inc	Semiconductors & Semiconductor Equipment	2.58%
Apple Inc	Technology Hardware, Storage & Peripherals	2.53%
Bristol-Myers Squibb Company	Pharmaceuticals	2.53%
Microsoft Corp	Software	2.52%
CVS Health Corp	Health Care Providers & Services	2.38%
Rush Enterprises Inc	Trading Companies & Distributions	2.25%
Royal Gold Inc	Metals & Mining	1.44%

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).

MUHLENKAMP

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	25
Cash & Cash Equivalents	34.68%

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 first 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	ANNUAL PERFORMANCE Composite Net	S&P 500 Total Return Index	THREE-YEAR ANNUALIZED STANDARD DEVIATION* Composite	THREE-YEAR ANNUALIZED STANDARD DEVIATION* S&P 500 Total Return Index	Composite Dispersion**
2022	396	54	57	2.82	2.06	(18.11)	19.51	21.16	0.82
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

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, 2022 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, 2022. 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.*