MuhlenkampMemorandum

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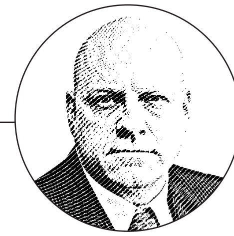
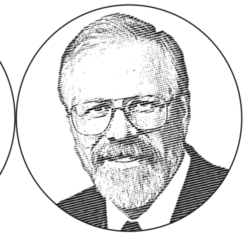
Quarterly Letter





By Jeff Muhlenkamp, Portfolio Manager and Ron Muhlenkamp, Founder

Here are the highlights of what we're seeing so far this year:

The Federal Reserve last raised short-term interest rates in December 2018 and is now actively talking about cutting them. The futures market, in fact, is pricing in two to three cuts this year. The Fed has also stated they will end the shrinking of their balance sheet in October. They've undergone quite a shift in thinking over the last six months! Our concern last year was that the Fed, through the reduction of the balance sheet, would reduce dollar availability and cause asset markets to fall. The Fed's actions this year have alleviated that concern.

Another dramatic reversal occurred in early May when the trade negotiations with China, which had appeared to be moving towards an agreement, came to a screeching halt as China had second thoughts about some of the terms of the agreement and the U.S. imposed another round of tariffs. The relationship with China was further strained a week later when the United States restricted sales of semiconductors and software to Huawei (a large Chinese tech firm that makes networking gear and low-cost cell phones). Huawei is somewhat of a national champion company in China, and cutting them off from U.S. suppliers is a mortal threat to the company. President Trump and President Xi met at the G-20 meeting in Osaka at the end of June and agreed not to take additional measures in the near term and to resume formal talks. The path forward is murkier than ever and we have no idea how or when a resolution will be achieved.

The same can also be said of Brexit (the withdrawal of the United Kingdom from the European Union). Prime Minister Theresa May has stepped down in the United Kingdom after having failed to find a way to exit the European Union that Parliament could accept. The UK is now going through the process of selecting a new Prime Minister. What that will mean for the Brexit process is unclear. Brexit concerns have not influenced the markets in a while, but the potential exists for the matter to become important again depending on the course of action the United Kingdom chooses, if they ever choose one.

On the home front, a number of U.S. economic indicators that we keep an eye on have begun to weaken, particularly in the industrial portion of the economy. The odds that we will see a slowdown similar to the one we saw in the winter of 2015 – 2016 are increasing. The stock market has not priced that in yet, but arguably the bond market has, as interest rates have fallen pretty dramatically this year with the 10-year U.S. Treasury yield falling from a high of 3.2% in October of 2018 to just over 2% today (that's a pretty dramatic move in the bond market). It is possible, but by no means certain, that the slowdown will become a recession. Developments in this area certainly have our attention.

In summary, the Fed is no longer squeezing, there is increased uncertainty around trade and Brexit, and we see indications that the economy is slowing down. That's what has been happening.

As we look forward, we expect uncertainty over trade and Brexit will continue. Until market participants think they can handicap the potential outcomes with some confidence, the news flow will probably affect market prices on a daily basis, so we expect some volatility. Currently market participants view the bad economic news as good for the market because they anticipate weak economic

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Muhlenkamp & Company, Inc.
Intelligent Investment Management

Lions and Tigers and Bears, Oh My!

By Tony Muhlenkamp, President

Lately I am reminded of the scene from the Wizard of Oz which introduces the Cowardly Lion. Just before he leaps out at them, Dorothy and friends are worried about "Lions and Tigers. And Bears. Oh My!" Today we are hearing "Inflation and Deficits and Trade Wars, Oh My! Recessions and Debt and Negative Rates, Oh My!

I'm not trying to minimize these threats, they are a lot scarier than the Cowardly Lion turned out to be, and you can find our observations on these topics at: https://library.muhlenkamp.com/article/may-30-2019-webcast/.

But these issues lead to a question that is far more basic: "What should I do now?!" And the correct answer is also the most unsatisfying answer: "It depends."

The answer depends A LOT on where you are now, where you are trying to go, and what your time frame is for getting there. And there is currently NO yellow brick road to follow. Sorry. All the historical landmarks and road signs that people have depended on have either disappeared or are now giving bad directions. The GPS has gone wonky. That's the bad news.

The good news is that there are still principles you can apply and rely on. The sun rises in the east and sets in the west. The North Star points the way north (in the Northern Hemisphere anyway), and water flows downhill.

The job for that money is to be there when I need it, the job for any money that I think I will use in the next 1-3 years IS TO BE THERE, not to grow.

As an investor trying to figure out what to do NOW, start by going back to fundamental principles. Then apply them to what you are trying to DO, and WHEN. For example: my financial priorities are to protect against financial disaster, have sufficient assets to support me in retirement, educate my children, support some good causes; all while trying to accomplish all these, I also try to minimize taxes, legal fees, and insurance commissions.

What's my time frame for each of these goals? Well, I need financial disaster protection and an emergency fund NOW. I will probably need my assets to support me starting in 20 years and lasting for at least 30 years after that. My children are in school for another four years; and I have flexibility about when and if I donate to charity.

So I take those goals and timeframes, and I create a time line of financial events that tells me how much money I need for what purpose and when. Then I bake in what I make, spend, save, and how I assume that will change over time given inflation and life events. And I use that to create my own personal Statement of Investment Policy which tells me what returns I require to accomplish my goals. Now I can go look for those investments that I reasonably think will earn me those returns based on what is available TODAY.

So my emergency money and college tuition money is invested primarily for low volatility and I pretty much ignore the returns. The job for that money is to be there when I need it, the job for any money that I think I will use in the next 1-3 years IS TO BE THERE, not to grow. So what I'm doing now with emergency funds and college funds is investing in short-term, zero-volatility instruments that have no real return after taxes and inflation.

My retirement money (or any money with a horizon greater than 4-5 years) needs to earn me at least 3% after taxes and inflation over any rolling 5-year period, so volatility is of MUCH LESS concern to me. In fact, I don't care about volatility at all, it will even out over time. Where can I get returns that are 3% greater than inflation? Primarily common stocks, but not all common stocks are going to make it. If you refer to the question and answer section of the transcription of our May 30, 2019 webcast, starting on Page 30, we are finding lots of companies to sell, but relatively few to buy (for all the reasons we go over in the webcast itself.) We look at ALL asset classes, ALL industries and sectors

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and market capitalizations, ALL countries searching for opportunities that we think will generate our required returns. But there is NO asset class, industry, sector, market cap or country we like across the board (for all the reasons we go over in the webcast.)

So, what should you do with your money now? It depends. Let me know if you want my help figuring out YOUR answer to that question.

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

Investing in stocks, mutual funds, and other assets involves risk. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Principal loss is possible. Past performance does not guarantee future results.

Letter

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metrics will prompt the Fed to cut interest rates. If economic fundamentals continue to weaken those same participants will come to view bad economic news as bad for the markets. We already consider bad economic news as bad for the markets, which is partly the reason we have a higher-than-normal cash position. The other reason we are holding cash is we are simply not finding many investment opportunities that look interesting. As we find interesting opportunities, we will put the cash to work.

You may know that we've owned a gold ETF for several years now. We bought it as a hedge against central banks doing stupid things but for most of our holding period it has done very little – until recently. Gold is up about 10% in the last month.

So that's what we're seeing, and thinking, and doing. As always, if you've got questions give us a call, we'd love to talk with you.

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

Announcements

Register for our Upcoming Webcast
Please join us for our webcast with Tony, Ron, and Jeff Muhlenkamp.

Thursday, August 29, 2019
4:00 p.m. – 5:00 p.m. ET

Register at www.muhlenkamp.com or call us at (877)935-5520.

Webcast Archive Available on Website
At our May 30, 2019 webcast, Ron and Jeff Muhlenkamp used several economic charts to discuss the trends they see, data that concerns them, and indicators that keep them optimistic. Visit www.muhlenkamp.com for the webcast archive and to access other videos and essays available in our Library collection.

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. Your contact information will not be released to any third party.

Muhlenkamp & Company, Inc.
Intelligent Investment Management

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MuhlenkampSMA All-Cap Value

(Preliminary) For the period ended 6/30/2019

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)

			Annualized			
	Year to Date	One Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Return	6.83%	-1.50%	3.38%	-0.26	6.77%	2.72%
S&P 500 Total Return*	18.54%	10.42%	14.19%	10.71%	14.70%	8.75%
Consumer Price Index**	1.93%	1.79%	2.15%	1.48%	1.82%	2.04%

* **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 May 2019 – 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
Microsoft Corporation	Software	5.37%
Apple Computer Inc.	Technology Hardware, Storage & Peripherals	4.52%
AutoZone, Inc.	Specialty Retail	4.15%
Microchip Technology	Semiconductors & Semiconductor Equipment	3.50%
SPDR Gold Shares	Exchange Traded Funds	3.22%
Alerian MLP ETF	Exchange Traded Funds	3.18%
Alliance Data Systems Corporation	IT Services	3.17%
Gilead Sciences, Inc.	Biotechnology	3.05%
Invesco Buyback Achievers	Exchange Traded Funds	3.01%
Cameco Corporation	Oil, Gas, & Consumable Fuels	2.93%
Broadcom Inc.	Semiconductors & Semiconductor Equipment	2.92%
Annaly Capital Management Inc.	Real Estate Investment Trusts	2.78%
McKesson Corporation	Health Care Providers & Services	2.75%
Federated Investors, Inc. - Class B	Capital Markets	2.51%
Celgene Corp.	Biotechnology	2.50%
Meritage Corp.	Household Durables	2.28%
Cognizant Technology Solutions Corp.	IT Services	2.15%
Acuity Brands Inc.	Electrical Equipment	2.11%
Pfizer Inc.	Pharmaceuticals	1.90%
Biogen Idec Inc.	Biotechnology	1.83%

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 & Company, Inc.
Intelligent Investment Management

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.

SMA Facts

Average Number of Equity Holdings	28
Cash & Cash Equivalents	25.39%
Portfolio Turnover	12.63%‡

‡ *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**
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
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

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, 2017 by ACA Performance Services, LLC.

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 December 31, 2017. 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.*