Muhlenkamp & Company, Inc.

Quarterly Letter by Ron & Jeff Muhlenkamp
October 2015

The domestic quiet we wrote about in June did not last very long. Between August 17 and August 25 the S&P 500 Index dropped 11%. The S&P 500 Index bounced back about 4% and, as of September 30, it is down 6.4% for the quarter. For the year, the S&P 500 Index is down 5.3%. Our accounts are down approximately 9% for the quarter-to-date and 7% year-to-date.

During the conference call we held on August 27 we were asked what caused the market to drop in August. The short answer is we don't know for sure. The market drop followed a Chinese currency devaluation by a couple of days—was that the cause? Perhaps, but our opinion remains that 10% corrections can occur at any time and for any reason—or no reason. We can't predict them and haven't found anyone who reliably can. Nor do we find much value in trying to determine attribution after the fact. We think the more pertinent question is was the August correction the start of something bigger? That's the question we are spending our time on.

We won't spend as much time going around the world as we have in the past—you've heard much of this before and none of the problems have been solved. Europe is digesting the fallout from the VW scandal, which has driven Greek elections and Central Bank quantitative easing out of the headlines. Japan is quiet. As we expected, the Chinese were unable to prevent the continued selloff of their stocks, though they appear to have slowed the decline. The Chinese economy is growing more slowly than expected, which is not new.

The pain in many commodities has now become acute. Looking at the globe broadly, we are now in the "bust" phase of a boom—bust commodity cycle. The specific reasons differ a little bit by commodity, but everything from energy to metals to grains are oversupplied which has driven prices down dramatically. Brazil is feeling the pain of the bust as their currency falls against the dollar, their debt is downgraded, and they remain stuck in a recession. Several U.S. coal companies have gone bankrupt as have a small number of small U.S. oil and gas producers. Steel prices have plummeted, affecting steel producers and processors. Offshore drilling rigs that come off contract are unable to find new work, and sales of Deere and Caterpillar machinery are down as farmers and construction companies reduce their capital expenditures. Profitability in the commodity businesses will not improve until supply falls or growth in demand catches up with supply. It could be a while.

The impact to the U.S. is not confined to companies in the commodity business or their immediate suppliers. With the drop in commodity prices has come a stronger dollar which hits the revenues and earnings of most companies that sell overseas. We expect to hear more detail about that during the upcoming earnings reporting period. Last quarter, aggregate revenues declined by 3% and earnings increased less than 1%. We believe companies' ability to engineer earnings growth in the absence of revenue growth via cost cutting and other methods is about done. Consensus estimates for 2016 earnings growth are 15%—far too high for the growth we expect to see in the U.S. We think those estimates will come down and are concerned about the ability of the market to remain at its current level in the absence of earnings growth. This is why we are selectively harvesting investments and holding a healthy amount of cash.

The Federal Reserve Bank at their September meeting decided not to raise short-term rates again. Ron likes to put it this way: "They keep doing more of the same because it hasn't worked." Sounds pretty close to the definition of insanity. As a result, real (inflation adjusted) Treasury Note rates out to about three years are still negative; holders of those notes are losing purchasing power over time. Or, to put it more plainly, savers are still getting killed. Which is why we still don't like bonds.

We remain confident that buying good companies at a discount and selling them at a premium is a great way to grow wealth over time. We are comfortable holding cash when those opportunities are not immediately present, knowing that if we are patient and continue to look diligently bargains will come our way.

With our best wishes for your continued success,

Ron Jeff Muhlenkamp

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

The S&P 500 Index is a widely recognized 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.

Earnings growth is not a measure of future performance.

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MuhlenkampSMA All-Cap Value

For the period ended 9/30/15

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	Annualized Past 5 Years	Annualized Past 10 Years	Annualized Past 15 Years
Return	-7.99%	-6.14%	10.93%	9.01%	1.26%	3.41%
S&P 500 Total Return*	-5.29%	-0.61%	12.40%	13.34%	6.80%	3.96%
Consumer Price Index**	1.49%	0.20%	1.14%	1.77%	1.95%	2.17%

* **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 2015 – 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	6.88%
Gilead Sciences, Inc.	Biotechnology	4.30%
JPMorgan Chase & Co.	Diversified Financial Services	3.66%
Microsoft Corporation	Software	3.43%
Apple Inc.	Computers & Peripherals	3.42%
Celanese Corporation	Chemicals	3.28%
Hanesbrands, Inc.	Textiles, Apparel & Luxury Goods	2.97%
Annaly Capital Management Inc.	Real Estate Investment Trusts	2.81%
State Street Corporation	Capital Markets	2.77%
Medtronic, PLC	Health Care Equipment & Supplies	2.77%
Baker Hughes Incorporated	Energy Equipment & Services	2.71%
ON Semiconductor Corporation	Semiconductors & Semiconductor Equipment	2.53%
NeuStar, Inc.	IT Services	2.33%
Delta Air Lines, Inc.	Airlines	2.30%
ARRIS Group Inc.	Communication Equipment	2.28%
Bristol-Myers Squibb Company	Pharmaceuticals	2.28%
WCI Communities, Inc.	Household Durables	2.23%
Teva Pharmaceutical Industries Ltd.	Pharmaceuticals	1.94%
Spirit Airlines Inc.	Airlines	1.70%
Pfizer Inc.	Pharmaceuticals	1.54%

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 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.

Jeffrey P. Muhlenkamp, Investment Analyst and Co-Manager, 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	24
Cash & Cash Equivalents	33.41%
Portfolio Turnover	33.24% ‡

‡ *Trailing 12 months*

SMA Facts are presented as supplemental information.

SMA Information

Created in December 1993, Muhlenkamp & Company's All-Cap Value Composite includes separately managed fee-paying accounts over $100,000, full discretion, under management for at least one full quarter. 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

				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**
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
2001	699	97	124	(2.72)	(3.51)	(11.93)			5.16
2000	428	101	99	16.10	15.23	(9.10)			5.98

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 December 31, 2014 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 December 31, 2014. 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.*