Muhlenkamp & Company, Inc.

Quarterly Letter, January 2016

By Ron Muhlenkamp, Portfolio Manager and Jeff Muhlenkamp, Investment Analyst and Co-Manager

In the fourth quarter, the S&P 500 Index was up a bit over 7% and up 1.38% for the year. Our accounts, on average, were up 3.52% in the quarter and down 5.03% for the year. (Individual performance varies by account.) The gains for the broader Index in the quarter were mostly made by a small number of large capitalization tech stocks, Facebook, Amazon, Netflix, Google, and Microsoft among them. Since only one of those companies is found in our portfolios we did not participate in the "bounce" nearly to the extent that the S&P 500 Index did. While we are not pleased with our relative underperformance in the last 90 days, we feel no urge to chase those stocks that are running and, frankly, the limited number of stocks that has participated in the upward move gives us pause.

Last quarter we highlighted that aggregate second quarter earnings and revenues for U.S. companies were actually down year over year (y/y). That sad state of affairs continued when third quarter earnings were reported with revenues down 4% y/y in the aggregate and earnings down 3% y/y. Continued low energy and commodity prices, coupled with a strong dollar, hit the energy, materials, and industrial sectors particularly hard with a number of bankruptcies in the coal industry and among the small oil and gas producers.

Several years ago we warned about the risks of searching for yield in a low interest rate world. Two of those risks manifested themselves in the fourth quarter. First, two high-yield bond funds closed their doors and stopped allowing redemptions so they could realize the best value of their remaining illiquid assets. Second, Master Limited Partnerships (MLPs) have begun cutting dividends. MLPs became popular yield investments over the last few years attracting lots of money. Many of the MLPs relied on cheap equity capital to fund their growth plans even as they paid out most of their free cash flow; that game is over, as their share prices have fallen dramatically. Kinder Morgan (the largest pipeline operator in the U.S. and an MLP up until early 2015) finally recognized that model no longer worked and cut their dividend 75% in December.

The Federal Reserve finally raised the Federal Funds Rate one-quarter of 1% in December after declining to do so in June and September. As we've said many times before, artificially low rates are bad for the economy in the long run. The small increase in U.S. interest rates will likely help reinforce the strong dollar as both the European and Japanese central banks continue to keep their rates at zero (or negative) and execute their own quantitative easing (QE)programs.

In summary, here are the main things we are seeing:

- The ability of U.S. companies to grow earnings without growing revenues is waning.
- The strong dollar makes it incrementally more difficult to grow revenues. We see no reason for a weakening of the dollar in the near term.
- Low energy and other commodity prices are wreaking havoc in the U.S. energy sector and related industrial companies. This is having follow-on effects in the bond market, which are concerning. (The spread between junk bonds and government debt is widening. This implies that investors are increasingly worried about getting their money back from all but the most solid companies and are charging a higher interest rate to lend to lower quality companies than they had been.)
- Low energy prices benefit the consumer, but the windfall is not being spent on consumer goods; in fact, a number of retail companies reported very disappointing third quarter earnings and have been hit hard in the market as a result.

We continue to believe that stocks are fairly priced, on average. As previously discussed, we have sold those companies which had met our estimate of fair value, but have been patient putting the cash back to work. We are not yet finding the values we seek. We'll let you know when we do.

With our best wishes for 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.

Free Cash Flow represents the cash a company is able to generate after paying out the money required to maintain or expand its business.

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MuhlenkampSMA All-Cap Value

For the period ended 12/31/15

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	-5.45%	-5.45%	11.58%	8.11%	1.27%	3.48%
S&P 500 Total Return*	1.38%	1.38%	15.13%	12.57%	7.31%	5.00%
Consumer Price Index**	1.07%	0.50%	1.02%	1.64%	1.85%	2.09%

* **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 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	7.20%
Gilead Sciences, Inc.	Biotechnology	4.34%
Microsoft Corporation	Software	4.21%
JPMorgan Chase & Co.	Banks	3.89%
Celanese Corporation	Chemicals	3.66%
Apple Inc.	Technology Hardware, Storage & Peripherals	3.20%
Hanesbrands, Inc.	Textiles, Apparel & Luxury Goods	2.96%
ARRIS Group Inc.	Communications Equipment	2.63%
Annaly Capital Management Inc.	Real Estate Investment Trusts	2.62%
Bristol-Myers Squibb Company	Pharmaceuticals	2.59%
ON Semiconductor Corporation	Semiconductors & Semiconductor Equipment	2.58%
Delta Air Lines, Inc.	Airlines	2.54%
Alerian MLP ETF	Exchange Traded Funds	2.39%
Baker Hughes Incorporated	Energy Equipment & Services	2.36%
Teva Pharmaceutical Industries Ltd.	Pharmaceuticals	2.21%
PowerShares Buyback Achievers Portfolio	Exchange Traded Funds	2.19%
WCI Communities, Inc.	Household Durables	2.15%
NeuStar, Inc.	IT Services	2.06%
Outerwall Inc.	Specialty Retail	1.83%
Pfizer Inc.	Pharmaceuticals	1.55%

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	23
Cash & Cash Equivalents	36.13%
Portfolio Turnover	25.81% ‡

‡ *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.*

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**
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
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

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, 2015 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 June 30, 2015. 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.*