Muhlenkamp & Company, Inc.

Quarterly Letter, January 2017

Fellow Investors,

2016 was a disappointing year for us as our accounts, on average, lost about 3.56% of their value over the course of the year (individual performance varies by account), while the S&P 500* gained 11.96%—both figures include reinvestment of income. The obvious question is "Why the underperformance relative to your benchmark?" The short answer is that we didn't own enough of the best performing sectors in the market: energy, financials, and industrials and we owned too much of the worst performing sector in the market: health care.

Low crude oil prices in January and February gave us an opportunity to buy energy companies cheap, and we did. In retrospect we should've bought more as crude oil prices have nearly doubled off of the bottom and energy stocks have been the market's best performers this year. In a similar manner our energy holdings have been our best performers this year.

Last year and early this year, we deliberately reduced our positions in companies that are sensitive to the business cycle which includes industrial and financial companies as prices fully reflected the value we saw in those companies and our expectations for business performance during the current economic expansion. The market turned a cold shoulder to those companies through March, but warmed up to them in the spring and summer and fully embraced them postelection. Industrials and Financials have been the best performing stocks in the last two months. They didn't get cheap enough for us to buy into them earlier in the year and so we didn't participate in their outperformance late in the year.

Health care stocks have been declining for over a year and we found some great companies at low prices throughout the year. Unfortunately, the market has yet to agree with us on our assessment of these companies and their stock prices have continued to lag the market. We don't expect that to last forever and believe we are best served by waiting for the market to come around to our point of view. This year, however, that attitude has not been profitable.

Throughout the year our technology companies have done quite well both in terms of company performance and stock price appreciation.

So in summary, this year we zigged and the market zagged—as a result we look pretty dumb. That doesn't mean we've changed our approach to investing: we haven't. We continue to invest in companies that are selling for less than we think they are worth, and sell them when the market price fully reflects that value. We continue to believe that, on average, doing so will produce satisfactory investing results. This year it did not.

Continuing to look in the rear view mirror, we saw ongoing slow economic growth both in the U.S. and internationally and a continuation of unprecedented central bank** intervention in both the European Union and Japan. U.S. companies, in aggregate, reported declining revenues and earnings during the first two quarters of the year with growth in both measures returning in the third quarter. They haven't reported the fourth quarter yet. Interest rates declined from January through July, with the benchmark 10-Year U.S. Treasury yield going from 2.2% in Jan to 1.4% in early July then rising to 2.6% or so by year end. As a reminder, bond prices move inversely to yields, so bonds had a good first half of the year and a poor second half. Politics were also responsible for some big market moves with the Brexit referendum in the United Kingdom driving the pound sterling to record lows and the election in the United States spurring an impressive rally in the U.S. equity markets.

Looking forward, we see no reason to expect a near-term resolution to many of the global risks we've been watching: European banking problems and existential threats to the European Union; massive debt and economic stagnation in Japan; and massive debt and slowing growth in China. Each of those regions could spark a global financial crisis of some sort and we'll continue to keep an eye on them.

The U.S., however, has changed a little bit—you may have noticed. The U.S. voter opted for change and installed a Republican majority in the Senate and a fairly unique Republican in the White House. We think many (but not all) of the

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changes suggested by the newly elected politicians should result in stronger economic growth in the long run but implementation will matter and it will take some time to put the new rules, once they're actually written, in place. So we are much more optimistic about the long-term direction of the economy than we were a few months ago, but we don't expect an immediate impact to the economy from changing policies, regulations, and laws—there will be a lag. The market, however, shifted in less than thirty days from anticipating a Democratic agenda to anticipating a Republican agenda. In the process it may have gotten a little bit ahead of itself. As noted above, interest rates have been on the rise since July with the election in November and the Federal Reserve rate hike in December adding to the ongoing move. Historically, long-term interest rates have been about 3% above inflation, so we view a further movement higher in rates as simply a return to "normal" conditions. A return to normal will not necessarily be painless, however, and we'll keep a close eye on default rates and credit spreads*** if rates continue to rise. Rising interest rates in the U.S. while the rest of the world keeps their interest rates abnormally low also creates the conditions conducive to a strong dollar, which we have been observing the last few months already. A strong dollar of course is beneficial for the U.S. consumer buying imported goods and a headwind to the U.S. producers selling overseas or owning overseas assets. It also encourages overseas investors to buy investable assets in the U.S. for as long as it continues since they'll get the asset return plus a positive currency return. Full employment and rebounding commodity prices put inflation risks back on the table, so we're keeping an eye out for higher inflation as well.

We believe the stock market in general is fairly priced and good companies at cheap prices are few and far between. When we find them, we'll invest appropriately. Until we find them, we'll continue to be patient with our cash. We remain uninterested in bonds as they are still priced above what we view as "fair" relative to current inflation and will decline even more if inflation picks up. Conversely they will likely do well if a financial crisis brews up and investors rotate from stocks to Treasury bonds in search of safety. We believe the long-term decline in interest rates has pretty well come to an end which implies the long running bond bull market has also ended. Few bond investors can remember a time when interest rates weren't generally falling and they are susceptible to thinking bonds are "safe" when we would argue that is no longer true.

With our best wishes for the New Year,

Ron Jeff Muhlenkamp

Ron Muhlenkamp and Jeff Muhlenkamp

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

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Earnings growth is not representative of an investment's future performance.

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.

*****Central Bank** is the entity responsible for overseeing the monetary system for a nation (or group of nations). The central banking system in the U.S. is known as the Federal Reserve (commonly referred to "the Fed"), composed of twelve regional Federal Reserve Banks located in major cities throughout the country. The main tasks of the Fed are to supervise and regulate banks, implement monetary policy by buying and selling U.S. Treasury bonds, and steer interest rates.*

******Credit spreads** refer to the difference in the number of percentage points or basis points in yield. The level of risk correlates with the potential for returns.*

MuhlenkampSMA All-Cap Value

For the period ended 12/31/16

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	-2.68%	-2.68%	0.20%	8.33%	0.47%	3.54%?
S&P 500 Total Return*	11.96%	11.96%	8.87%	14.66%	6.95%	6.70%
Consumer Price Index**	2.04%	1.69%	1.17%	1.30%	1.82%	2.07%

* **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 2016 – 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	6.16%
Apple Inc.	Technology Hardware, Storage & Peripherals	3.69%
ON Semiconductor Corporation	Semiconductors & Semiconductor Equipment	3.57%
Gilead Sciences, Inc.	Biotechnology	3.17%
Lannett Company, Inc.	Pharmaceuticals	3.11%
Hanesbrands, Inc.	Textiles, Apparel & Luxury Goods	3.03%
Schlumberger Ltd.	Energy Equipment & Services	2.94%
McKesson Corporation	Healthcare Providers & Services	2.86%
Celgene Corporation	Biotechnology	2.85%
Annaly Capital Management Inc.	Real Estate Investment Trusts	2.77%
Microsoft Corporation	Software	2.76%
Celanese Corporation - Series A	Chemicals	2.61%
SPDR Gold Shares	Exchange Traded Funds	2.60%
UnitedHealth Group Incorporated	Healthcare Providers & Services	2.60%
PowerShares Buyback Achievers Portfolio	Exchange Traded Funds	2.54%
Teva Pharmaceutical Industries Ltd.	Pharmaceuticals	2.53%
Federated Investors Inc., Class B	Capital Markets	2.51%
WCI Communities, Inc.	Household Durables	2.45%
Bristol-Myers Squibb Company	Pharmaceuticals	2.30%
Spirit Airlines, Inc.	Airlines	2.18%

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, 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	32
Cash & Cash Equivalents	23.30%
Portfolio Turnover	21.55%‡

‡ *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**
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
2003	1350	132	167	43.36	42.10	28.68			5.57
2002	742	81	139	(19.80)	(20.49)	(22.06)			3.65

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.

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, 2016. 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.*