MUHLENKAMP

QUARTERLY LETTER, JANUARY 2021

Fellow Investors,

In September 2020 we wrote that we thought COVID-19 was in the process of burning itself out in Europe and the United States. We couldn't have been more wrong. As you already know the virus came roaring back on both continents prompting renewed restrictions by governments. The distribution of the first vaccines began in mid-December but hasn't made a difference yet. As we look at charts of case counts and deaths today, it appears the numbers are starting to decline, but you'll forgive us if we refrain from making any predictions about what we expect will happen in the next few months having failed so miserably three months ago.

As we reflect on 2020 it is quite clear that three things really mattered for the economy and the financial markets. The first was the spread of the COVID-19 virus. The second was government actions to slow the spread of the virus, mostly restrictions and lockdowns. The third was government actions to mitigate the economic damage done by the restrictions and lockdowns: relief spending by legislatures and various forms of bond buying by the central banks. We don't know if the restrictions and lockdowns altered the course of the virus to any great degree, we do know that very few medical systems were overwhelmed by COVID-19 cases, which is probably the critical point. To date, government payments to businesses and individuals plus central bank purchases of various bonds have prevented economic catastrophe. The bond markets, which had a tense few weeks in March-April, are now functioning normally and interest rates have come back down for even the least creditworthy borrowers. The stock market is setting new highs. Home prices are rising. Businesses are failing, but not so many as to impair the banking system.

So far so good. This remains a work in progress. We've read some reports recently that indicate actual occupancy in New York office buildings is only 15% of what it was in 2019. How long does that remain the case? At what point do tenants start renegotiating leases with landlords? How many landlords get caught between the fixed cost of their mortgage and the need to cut rents to keep their buildings mostly rented? How far will real estate values in cities like New York fall? How bad will the damage be to the lenders who hold the mortgages? What's the impact on all the small businesses that supported those urban workers (restaurants, for example)? No one knows yet. Our research to date indicates that commercial and residential rents have fallen on the order of 20% in New York City, San Francisco, etc. We don't know how far rents and by extension real estate values will decline because we don't know how many of the workers will come back to the office and when that will happen. The range of possible outcomes is very wide.

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That's the picture in commercial real estate, there is similar uncertainty in retail. Online shopping exploded during March and April out of necessity – many local stores were closed and many shoppers were unwilling to venture out. Restaurants have been devastated by restrictions on their business and the lack of customers. To what extent are those changes permanent? Many brick and mortar stores were struggling prior to the pandemic and the industry was already grappling with excess store capacity, the government restrictions significantly exacerbated the problems. The restaurant industry was fine pre-pandemic but has been devastated since March. Again, the range of possible outcomes is very wide.

It's been said that recessions serve to correct the excesses of the preceding boom. As we look at the economy, it's seems to us we are now dealing with excess capacity in oil and gas production, retail real estate, and probably commercial real estate. Because real estate is often collateral for loans, problems in commercial and retail real estate could create problems for the banks and other institutions that lent money against the value of the properties. We've written before that we are wary of the banks for these reasons, and we will remain wary until the scope of the problem becomes clearer.

We continue to watch for inflation. Unlike 2008-2009 the money created by the Federal Reserve has not just been distributed by the banking system but has also been directly distributed by the Federal Government. Yes, we've seen "helicopter money" this time around and Congress and the President have been flying the choppers. The new money hasn't been bottled up in the banks like it was during the 2008-2009 recession – sitting in their vaults and not being loaned out. This time we have sent it to citizens and businesses, and it's been spent or saved. Will that difference create inflation this time? We don't know. If we see a significant uptick in inflation it will, of course, hurt bond holders and put the Federal Reserve on the horns of a dilemma. The current low interest rates do not compensate investors for the risk of inflation, and we remain uninterested in bonds as a way to grow wealth. No change there.

During the summer we reduced our holdings in Apple and Microsoft, which had become quite large, as the price of those stocks exceeded our value estimates and momentum seemed to come out of them as well. We found a number of companies in the industrial and energy sectors that were selling at prices we liked and took the opportunity to invest there. We've been pleased with those purchases so far.

We continue to hold roughly 5% of our assets in gold or gold-related companies. One of the ways historically used by governments to deal with heavy debt loads has been to devalue their currency and we are concerned that our government will seek such a solution (officials will, of course, not say that out loud). We view the profligate spending by our government and the massive expansion of the Federal Reserve's balance sheet as consistent with actions that would result in a devaluation of the dollar. We view our gold holdings as a hedge against that possibility.

That's what we're seeing, and that's what we're doing. Please forgive us if we've written a little more about the risks we see than the opportunities we are seizing. Frankly, it seems as if "the market" has forgotten the risks, which makes it more important for us to remember them. (Conversely, in March it seemed the market could see only risks and it was more important for us to focus on the opportunities.) In general the companies we hold are doing very well and selling for fair, or less than fair prices. We continue to focus on individual companies even as we are mindful of the environment in which they operate.

As always, if you've got questions, give us a call. We'd love to hear from you.

With our best wishes for your continued success and good health,

Ron Muhlenkamp, Founder
Muhlenkamp & Company, Inc.

Jeff Muhlenkamp, Portfolio Manager
Muhlenkamp & Company, Inc.

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

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Click here for the quarterly commentary by the portfolio managers.

MUHLENKAMPSMA ALL-CAP VALUE

For the period ended 12/31/2020

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.

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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	13.14%	13.14%	4.07%	4.63%	6.35%	2.38%
S&P 500 Total Return*	18.40%	18.40%	14.18%	15.22%	13.88%	9.88%
Consumer Price Index**	1.27%	1.17%	1.80%	1.86%	1.75%	1.85%

*** 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 2020 – 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
Dow Inc.	Chemicals	4.41%
Microchip Technology Inc.	Semiconductors & Semiconductor Equipment	4.40%
Mastec Inc.	Construction & Engineering	4.18%
Apple Inc.	Technology Hardware, Storage & Peripherals	4.06%
WESCO International Inc.	Trading Companies & Distributors	3.90%
Broadcom Inc.	Semiconductors & Semiconductor Equipment	3.74%
Microsoft Corporation	Software	3.64%
Alliance Data Systems Corp.	IT Services	3.44%
Kirby Corp.	Marine	3.24%
McKesson Corporation	Health Care Providers & Services	3.24%
SPDR Gold Shares	Exchange Traded Funds	3.24%
Lennar Corp Class A	Household Durables	3.19%
UnitedHealth Group Inc.	Health Care Providers & Services	3.14%
Meritage Homes Corporation	Household Durables	3.08%
Berkshire Hathaway Class B	Diversified Financial Services	2.91%
Cameco Corporation	Oil, Gas, & Consumable Fuels	2.90%
Jazz Pharmaceuticals PLC	Pharmaceuticals	2.84%
NMI Holdings	Thrifts & Mortgage Finance	2.80%
CVS Health Corp.	Health Care Providers & Services	2.75%
Bristol-Myers Squibb Company	Pharmaceuticals	2.72%

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).

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	34
Cash & Cash Equivalents	7.90%

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**
2020	261	38	45	14.06	13.14	18.40	18.63	18.79	2.05
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
2007	1886	327	289	(7.61)	(8.19)	5.49			3.77
2006	3393	371	337	6.09	5.34	15.79			3.70

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 June 30, 2020 by ACA Performance Services.

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, 2020. 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.*

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