MUHLENKAMPMemorandum

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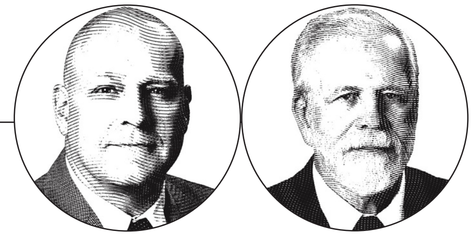
QUARTERLY LETTER, JANUARY 2025



By Jeff Muhlenkamp, Portfolio Manager and Ron Muhlenkamp, Founder

Fellow Investors,

A year ago, we told you that we thought we were in an era of higher inflation (higher than we had seen from 2009 to 2021) and that it was possible we could see a recession in 2024. As it turned out, the inflation high water mark for the year occurred at the end of March with a Consumer Price Index (CPI) reading of 3.5% and bottomed the end of September with a reading of 2.4%. The latest CPI number is from the end of November, and it came in at 2.7%. We did not see a recession in 2024 and the Federal Reserve Bank of Atlanta's latest GDPNow™ estimates on 2 January 2025 is for real GDP growth of 2.6%. So, we saw inflation that's higher than the Federal Reserve target of 2.0% but not completely crazy and reasonable GDP growth. U.S. unemployment increased early in the year breaking above 4.0% in May 2024 and remaining there through the end of the year, with the November 30th number coming in at 4.2%.

Considering the relatively low CPI numbers and the gradually increasing unemployment rate the Federal Reserve cut the Federal Funds Rate by .50% at their September meeting then cut it by .25% in November and December. Interestingly, the fall in the Federal Funds Rate was NOT matched by a decline in long-term treasury rates. On the contrary, such rates have risen, with the yield on the 10-year Treasury Note rising from 3.6% on 19 September 2024 to 4.5% on 31 December 2024. The 30-year fixed-rate mortgage rate responded similarly, rising from 6.6% in mid-September to 7.3% at the end of the year. The falling short term interest rates and rising long term rates have un-inverted the yield curve and restored it to its "normal" upward sloping configuration. This makes it profitable for banks to once again borrow short term and lend long term and should result in greater bank lending going forward. As we highlighted in the third quarter the "un-inversion" often coincides with the onset of recession, but we're not seeing declining economic indicators that would suggest the odds of a recession were increasing.

The U.S. stock and bond markets in '24 looked a lot like the stock and bond markets in '23. Long-term bonds returned nothing as interest rates remained near their recent highs. The stock market was again dominated by AI related technology companies as capital spending on new servers and new server farms remained extremely robust. Other stocks did well, but once again tech led by a large margin. The returns of the three main U.S. stock indices illustrate this well: in '24 the Nasdaq 100 (tech heavy) was up 24.88%, the S&P 500© (broader, but also tech heavy) was up 23.31%, and the Dow Jones Industrial Average (much less tech heavy but also narrower and differently weighted) was up only 12.88%.

Finally, the presidential election closed out the year with a definitive and uncontested verdict. We wouldn't characterize the result as a "landslide" – Republican control of the House and Senate is very narrow, which will make passing major legislation difficult especially as Republicans are not known for their party discipline. We view it as positive that there seems to be significant interest in reducing government spending and government influence in the economy, but we are also mindful that every government program has a constituency making reducing such programs very difficult. There have been a lot of attempts to roll back government over the years, few of them have achieved much. Why is this important? To keep it simple, if the government has problems funding its expenditures, it will find a way to print what it needs and that will be very inflationary. Inflation (the declining value of a currency) is historically a huge impediment to building wealth over time. Thus, our interest in the topic.

What are we watching going forward? We think there are a few key questions:

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THOUGHTS ON: THE 6 PS OF FINANCIAL HAPPINESS

by Tony Muhlenkamp, President - Muhlenkamp & Company, Inc.

We all know that the job of a money manager is to make people money. As difficult as that can be, the job of the client service manager is even harder. Client service has to make people happy. You might think that if you make people money, then they will be happy; but, I have learned you have to make people happy first so they can stick around long enough for you to make them money. It is a classic "which comes first, the chicken or the egg" dilemma. If I don't make them happy, then I can't make them money, but if I don't make them money, then I can't make them happy.

Out of necessity, I have formulated some lessons about financial "happiness" that I want to share. The most critical (and some might think the most obvious) lesson I have learned is that investing is just like life. We are each responsible for our own happiness. Investment success and financial independence, "financial happiness" if you will, is dependent on the **INVESTOR**, not just the investment. If we do our homework, stick to principles that are tried and true, and remain patient, then we will be happy. We all KNOW this; we just don't all DO this. Why not? Because we ignore what we know to be true and fall prey to what sounds and looks tempting.

It is tempting to invest without doing any planning, to just assume that if we only had more money, then we would be happy. But we don't really define what "happy" means in terms of our finances and investments. We don't know what our destination is, or how we plan to get there, and then we are unhappy when we don't arrive.

More than thirty years ago, I was taught (at taxpayer expense) that "Prior Preparation Prevents Pathetically Poor Performance." (Actually, that isn't a direct quote from my Drill Instructor, but I am certain that is what he meant.) Marines plan and prepare before they expect to perform. The same is true for investing and finances.

I am a big believer in having a financial plan, I just don't always understand the financial plans I come across. For me, the simpler the plan the better because a simple plan is more likely to be used, referred to, and updated. A complicated plan gets filed, ignored, and forgotten.

A simple plan starts with:

- A list of what you own and what you owe;
- A list of how much you make, how much you spend, and how much you save; and
- A list of what you hope to do with your money and when.

See the article "Personal Finances" (Maxims II) on our website for an example of listing what you own and what you owe.

Then you create a spreadsheet to determine what returns you need from your investments so the money you save will be enough for when you need it. You can and should incorporate assumptions about increasing expenses, increased life expectancies, different retirement dates, etc. so that your plan covers a number of contingencies.

Out of this planning should come a personal statement of investment policy. All institutions have one, and we should each have one of our own. My own personal statement of investment policy is this:

> *To reach my financial goals, I require investment performance of at least 5% after taxes and inflation averaged over any five-year period. I recognize that financial markets are volatile, so I am willing to accept losses limited to 20% in any calendar year, but not in two consecutive years. I am willing to invest in any asset class that I reasonably expect to meet these criteria.*

Now, I have a plan and an idea of what is required to fulfill that plan. I can use my policy statement to evaluate all the investment options, products, and pitches that I come across. I can learn what should work and why and interview managers to see what they think should work and why. I am prepared to perform, and I have improved my odds of reaching financial "happiness."

Investing involves risk. Principal loss is possible.

The comments made in this article are opinions and are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

QUARTERLY LETTER

continued from cover

1. Will there be any evidence of a recession in the first quarter or two? We think the odds are declining, and if we don't see a slowing economy in the first few months, we will quit worrying about a recession (for now).

2. What will inflation do? The stock market quit worrying about inflation a year ago, but if we start to see inflation numbers tick up, that could change in a hurry. Now that banks have a greater ability to lend profitably, will we see credit creation pick up and push inflation higher? Will historically large federal deficits require imaginative (inflationary) funding mechanisms? We think inflation is more likely to rise than fall.

3. Will interest rates resume their upward movement? Long-term interest rates have historically been 2-3% above inflation. Even if inflation remains between 2-3% you could easily see long-term interest rates between 4 and 6%. With the 10-year Treasury rate currently near 4.5%, there is room for higher rates.

4. What surprises will come from the Trump administration? Many of the ideas floated by Candidate Trump work against each other in terms of their economic effect. We will be watching closely to see what gets implemented. In general, we think we will be in a more "business friendly" environment the next four years than we have been the last four years, but the details will matter.

We continue to hold significant investments in energy and gold related companies both because we find good values in those sectors, and because we view them as decent hedges against inflation and currency debasement. We recently initiated several small investments in Chinese companies we find attractive and worth taking the additional risks that come with international investments. Compared to the S&P 500© (which is market capitalization weighted), we have a significantly lower percentage of our assets invested in technology companies as we find most companies in that sector are significantly overvalued and therefore unattractive. As long as the broader investor community remains enamored of all things AI and tech, that will hurt us from a relative performance standpoint, but we remain convinced that value matters and will happily buy tech should prices decline to better match the value we see in the underlying businesses. As always, we continue to search for profitable investment opportunities and will put money to work when we find them.

If you have any questions please get in touch with us, we'd love to hear from you.

With our best wishes for your continued success and good health in 2025.

Consumer Price Index (CPI) measures the average change in prices over time that consumers pay for a basket of goods and services, commonly known as inflation.

Dow Jones Industrial Average (DJIA) also known as the Dow, is one of several stock market indices. It was created by 19th century Wall Street Journal editor Charles Dow and consists of 30 of the largest and most widely held public companies listed on stock exchanges in the United States. It is price-weighted. *You cannot invest directly in an index.*

GDP (Gross Domestic Product) is the total market value of all goods and services produced within a country in a given period of time (usually a calendar year).

Nasdaq-100 is a stock market index that represents 100 of the largest, non-financial companies listed on the Nasdaq Stock Market. It is a modified capitalization-weighted index where the stocks' weights in the index are based on their market capitalizations, with certain rules capping the influence of the largest components. *You cannot invest directly in an index.*

The comments made in this letter are opinions and are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

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MUHLENKAMP Memorandum

Inside this issue:

- Quarterly Letter
- Thoughts On: The 6 Ps of Financial Happiness

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MUHLENKAMPSMA ALL-CAP VALUE

For the period ended 12/31/2024

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 which focuses on 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	Past 3 Years (Annualized)	Past 5 Years (Annualized)	Past 10 Years (Annualized)	Past 15 Years (Annualized)
Return	11.23%	11.23%	8.65%	13.02%	6.81%	7.79%
S&P 500 Total Return*	25.02%	25.02%	8.94%	14.53%	13.10%	13.88%
Consumer Price Index**	2.85%	2.75%	4.31%	4.17%	2.94%	2.55%

* **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 2024 – 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 Form ADV 2A. 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.

TOP TWENTY HOLDINGS

Company	Industry	% of Net Asset
EQT Corporation	Oil, Gas, & Consumable Fuels	4.73%
McKesson Corporation	Health Care Providers & Services	4.22%
NMI Holdings Inc	Thrifts and Mortgage Finance	3.84%
BGC Partners Inc	Capital Markets	3.82%
Berkshire Hathaway Inc Class B	Diversified Financial Services	3.60%
Mastec Inc	Construction & Engineering	3.59%
Apple Inc	Technology Hardware, Storage, & Peripherals	3.51%
SPDR Gold Shares	Exhange Traded Funds	3.50%
Recurrent MLP & Infrastructure Fund 1	Mutual Funds	3.47%
Rush Enterprises Inc	Trading Companies & Distributions	3.34%
Microsoft Corp	Software	3.21%
Wabtec Corp	Machinery	3.13%
Tegna Inc	Media	3.09%
Agnico Eagle Mines Ltd	Metals and Mining	2.99%
UnitedHealth Group Inc	Health Care Providers & Services	2.86%
Occidental Petroleum Corp	Oil, Gas, & Consumable Fuels	2.78%
Schlumberger NV	Energy Equipment & Services	2.74%
United Rentals Inc	Trading Companies & Distributions	2.72%
PulteGroup	Household Durables	2.42%
Taylor Morrison Home Corp	Household Durables	2.21%

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 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

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.

INVESTMENT ADVISER

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SMA FACTS

Average Number of Equity Holdings	30
Cash & Cash Equivalents	21.22%

SMA INFORMATION

The inception date for the All-Cap Value Composite is December 31, 1993. The All-Cap Value Composite was created in December 2003. The Composite includes fee-paying accounts over $100,000, full discretion, under management for first full month 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**
2024	396	75	71	12.07	11.23	25.02	13.01	17.40	1.24
2023	370	62	66	13.79	12.98	26.29	13.01	17.54	2.50
2022	396	54	57	2.82	2.06	(18.11)	19.51	21.16	0.82
2021	317	48	48	28.05	27.11	28.71	18.28	17.41	1.67
2020	265	38	45	14.06	13.14	18.40	18.63	18.79	1.38
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

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 is an independent registered investment advisory firm registered with the Securities and Exchange Commission.

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.

* **Three-Year Annualized Standard Deviation** *is a measure of volatility, calculated by taking the standard deviation of 36 monthly returns, net of fees, 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, net of fees, 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.*