July 18, 2019

Dear Partner,

Updated results, net of all fees, for the Hirschmann Partnership (the “Fund”) are shown below. Please note that the Fund has rebounded 12% in Q3 and is thus up 4% year-to-date:

	Class A Return	Class B Return	S&P 500 Index	MSCI World Index	Gold (US$)
Q4 2014	-2.2%	-2.2%	4.9%	1.0%	-2.2%
2015	27.0%	24.8%	1.4%	-0.5%	-10.4%
2016	47.1%	44.7%	12.0%	7.9%	9.1%
2017	-12.6%	-12.6%	21.8%	22.8%	12.6%
2018	-23.0%	-23.0%	-4.4%	-8.4%	-1.5%
Q1 2019	16.6%	16.6%	13.7%	12.6%	1.0%
Q2 2019	-20.0%	-20.0%	4.3%	4.1%	8.8%
H1 2019	-6.7%	-6.7%	18.5%	17.2%	9.9%
Q3 2019	11.6%	11.6%	1.9%	1.0%	2.6%
Cumulative	**28.0%**	**23.8%**	**67.6%**	**44.4%**	**19.4%**
Annualized	**5.3%**	**4.5%**	**11.4%**	**8.0%**	**3.8%**

Q3 2019 returns are as of July 18, 2019.

I plan to send additional performance updates before year-end.

The Fund’s H1 decline was mainly due to two gold-linked securities (GLS), discussed below. However, our GLS’ discounts to intrinsic value remain extremely large so a surge would not be surprising even if gold does not appreciate further. Further, the US may be entering a recession, which could easily trigger a gold and GLS boom that makes the Fund’s underperformance since 2016 seem minor. Thus, while I may sound like a broken record, I continue to expect the Fund to exceed all its benchmarks over the long-term.

Portfolio Detail

The portfolio is summarized on the table below. Our GLS should outperform gold over the long-term due to their low valuations and operating leverage (see 2017 year-end letter). Further, the Fund’s correlation with gold should increase as we continue our diversification strategy (see 2017 year-end letter).

Security	[redacted]	Portfolio Weight Jun-19	Dec-18	H1 '19 Return Contribution	Price / Intrinsic Value	[redacted]	[redacted]
GLS M	[redacted]	31.1%	19.2%	13.9%	80.6%	[redacted]	[redacted]
GLS S	[redacted]	27.2%	31.0%	-11.8%	11.7%	[redacted]	[redacted]
GLS O	[redacted]	5.8%	N/A	0.6%	41.8%	[redacted]	[redacted]
GLS M2	[redacted]	5.4%	N/A	0.2%	37.1%	[redacted]	[redacted]
GLS D2	[redacted]	5.2%	3.4%	0.1%	16.6%	[redacted]	[redacted]
GLS I	[redacted]	5.1%	7.0%	-2.9%	13.0%	[redacted]	[redacted]
GLS D	[redacted]	3.3%	2.1%	1.0%	50.0%	[redacted]	[redacted]
GLS C	[redacted]	1.5%	9.9%	-14.0%	1.4%	[redacted]	[redacted]
GLS L	[redacted]	0.3%	0.9%	-0.6%	12.0%	[redacted]	[redacted]
GLS G2	[redacted]	0.2%	N/A	0.0%	11.0%	[redacted]	[redacted]
GLS X	[redacted]	Sold	9.8%	3.2%		[redacted]	[redacted]
Total GLS		**85.1%**	**83.3%**	**-10.3%**			
UK Co.	[redacted]	8.1%	9.4%	3.9%	62.9%	N/A	N/A
CCC	[redacted]	6.8%	7.3%	-0.1%	43.9%	N/A	N/A
Total		**100.0%**	**100.0%**	**-6.5%**			

Prices are as of June 28, 2019. CCC stands for counter-cyclical China-related company. Returns exclude Fund operating expenses.

GLS S and C were the biggest drag on the Fund's H1 return and have been by far the biggest drag on the Fund's cumulative return.

GLS S

As shown in the table above, the Fund's [redacted] are trading at immense discounts to intrinsic value. (Intrinsic value equals the present value of a mine's future gold revenue, at current gold prices, less all costs discounted at 14%. See prior letter.) [redacted]

GLS S ("S") is trading at an especially large discount because [redacted] Were S then to return to its trading price before [redacted] S' stock price would quadruple and the Fund's value would double.

As a simple assessment of S, let's compare it to a security not in our Fund: [redacted]. S has ~2x the gold reserves of [redacted], yet the latter has ~25x the market capitalization of the former. Although [redacted] deserves a premium because it [redacted], a 50x higher valuation seems absurd. Indeed, [redacted] are trading at their lowest valuations ever relative to [redacted].[1] That may be due to competition for capital from [redacted] or due to the rise of exchange-traded funds, which can only own [redacted] Regardless the valuation disparity should eventually narrow as it always has in the past (e.g. through [redacted]).

GLS C

[redacted]

[redacted] we may be able to average down and thus still earn a very high return on our cumulative C investment.

[redacted] This made a compelling case for investing in [redacted] given their expected appreciation as they approach their intrinsic value. On June 28, 2019, the Fund's [redacted] weighted-average expected appreciation excluding C was 432%.

C had also seemed compelling: it had high expected appreciation as well as experienced management, low debt, low [redacted] production costs and deposits that [redacted] However, C was a larger investment than it should have been given [redacted], and, once I realized that, I reduced C and diversified more slowly than I should have.

With the exception of S, the Fund no longer has any large investments in [redacted], which prevents any [redacted] from having the negative impact C has had over the past year. S will probably be reduced after [redacted] Although GLS M is a large position, it has [redacted], which are lower risk because [redacted] (Nevertheless, we have been reducing M as its discount to intrinsic value has declined.)

Bubbles

Red flags remain everywhere: the longest US expansion; the longest US equity bull market, a record global debt to GDP ratio, record central bank balance sheets,[2] record global negative-yielding debt, an inverted yield curve which almost always precedes a recession, the most lenient US corporate loan terms ever,[3] record algorithmic "cyborg" trading, the most global populism since WWII,[4] record US income inequality[5] and political polarization,[6] the biggest housing and infrastructure bubble ever (China) and the biggest US government deficit ever outside war or recession.[7] Equity and bond markets may seem calm now, but a 1929 US stock market crash chart shows how quickly that might change. Chillingly the cyclically-adjusted price earnings ratio (CAPE) is currently higher than on the eve of that crash. Bulls rationalize high asset prices by claiming rates will stay low, but, as previously discussed, that's suspect.

When investors inevitably come to their senses, the bubbles in bonds, China and US equities should burst and unleash the mother of all gold rallies. Our GLS intrinsic value estimates assume no gold price increase ever. Thus, if gold surges, the Fund's appreciation should make its underperformance since 2016 seem insignificant.

Other

I continue to have the majority of my net worth invested in the Fund.

I occasionally post articles relevant to the Fund on Twitter and less frequently on LinkedIn. To view Tweets without creating a Twitter account, see this article.

The Fund continues to strive for tax efficiency and has yet to incur any significant short-term capital gains.

Partners will receive several items over the next six months:

- Account statements will be sent this week
- In December, partners will receive a 2019 tax estimate (i.e., a preliminary K-1)
- The Fund's next letter will be sent in mid-January

The Fund's most important competitive advantage will always be its patient clients, so I greatly appreciate your continued support. Please contact me with any questions or comments.

Kind regards,
Brian

Endnotes

[redacted]
[2] As measured by the total assets of the Fed, ECB and BOJ. Source: Yardeni Research
[3] As measured by the share of US leveraged loans that are covenant-lite. Source: S&P
[4] Population-weighted vote share across select countries. Source: Deutsche Bank
[5] As measured by wealth share of top 0.01%. Source: https://www.nber.org/papers/w25462.pdf
[6] As measured by presidential approval spread between president’s party and opposition party voters. Source: Guggenheim
[7] As measured by the US government deficit as a percent of GDP. Source: Federal Reserve

Disclaimer

The Hirschmann Partnership LP (the "Fund") began operating on October 1, 2014. The Fund's principal objective is to achieve positive market returns primarily through fundamental analysis of small- and micro-cap equities in U.S. and foreign markets. Hirschmann Capital LLC (the "General Partner") seeks to achieve the Fund's investment objective by identifying equities that are trading at large discounts to actual value. The Fund invests primarily in small- and micro-cap equities in U.S. and foreign markets but also invests in other securities. An investment in the Fund should be considered a long-term investment.

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Performance results shown are for the Hirschmann Partnership LP and are presented net of all fees, including performance allocation, brokerage commissions and other operating expenses of the Fund. Net performance includes the reinvestment of all dividends, interest, and capital gains. The General Partner does not receive any asset-based management fees. For each Class A Limited Partner, the General Partner is allocated a performance allocation equal to 25% of the amount by which the increase in net asset value exceeds a 6% annualized hurdle rate. For each Class B Limited Partner, the General Partner is allocated a performance allocation equal to 33% of the amount by which the increase in net asset value exceeds the S&P 500 Index.

In practice, the performance allocation is earned annually or upon a withdrawal from the Fund. Because some investors may have different fee arrangements and depending on the timing of a specific investment, net performance for an individual investor may vary from the net performance as stated herein.

This document refers to indices such as the S&P 500. This does not imply that the Fund will have returns, volatility or other characteristics similar to the indices. The Fund's holdings may differ significantly from the indices' underlying securities. The indices have not been selected to be comparative measures of investment performance, but rather are disclosed since they are well-known indices. You may not be able to invest directly in the indices.

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