July 15, 2021

Dear Partner,

Updated results, net of all fees, for the Hirschmann Partnership (the "Fund") are shown below:

	Class A Return	Class B Return	S&P 500 Index	MSCI World Index	Gold Miner Index	GDXJ Index	Gold (US$)
Q4 2014	-2.2%	-2.2%	4.9%	1.0%	-13.3%	-28.3%	-2.2%
2015	27.0%	24.8%	1.4%	-0.5%	-24.8%	-19.1%	-10.4%
2016	47.1%	44.7%	12.0%	7.9%	54.3%	73.0%	9.1%
2017	-12.6%	-12.6%	21.8%	22.8%	12.2%	8.2%	12.6%
2018	-23.0%	-23.0%	-4.4%	-8.4%	-8.5%	-11.0%	-1.5%
2019	63.3%	63.3%	31.5%	28.1%	40.4%	40.4%	18.3%
2020	52.1%	64.4%	18.4%	16.3%	23.7%	30.4%	25.1%
H1 2021	-21.9%	-21.9%	15.3%	13.2%	-5.6%	-13.8%	-6.9%
Q3 2021	5.2%	5.2%	1.5%	0.9%	3.3%	0.0%	3.5%
YTD 2021	-17.9%	-17.9%	17.0%	14.2%	-2.5%	-13.8%	-3.6%
Cumulative	**150.8%**	**162.2%**	**152.7%**	**107.8%**	**75.0%**	**52.5%**	**51.1%**
Annualized	**14.5%**	**15.3%**	**14.6%**	**11.4%**	**8.6%**	**6.4%**	**6.3%**

MSCI Index is Developed Market Standard (Net w. USA Gross). Gold miner indices are NYSE Arca and GDXJ Total Return. Returns are as of July 15

The Fund's market value declined in H1. However, the decline seems due to temporary issues that have not significantly reduced the intrinsic value of our gold mining equities (GMEs). Thus I remain extremely confident that the Fund will rebound and outperform all its benchmarks (in the table above) over the long-term. The Fund's long-term risk remains very low due to our GMEs' low valuations, costs and debt.

In H1, bubbles continued to inflate. The US price-to-rent ratio surpassed its 2006 peak,[1] and US equities' cyclically-adjusted price earnings ratio increased to 38x, which is higher than it has been for 99% of recorded history. Meanwhile US government (USG) debt remains at levels that have almost always led to government default, even in developed nations. Never in the last two centuries has the world had simultaneous massive bubbles in its largest asset class (bonds), biggest equity market (the US) and two largest real estate markets (China and the US).

When the USG inevitably defaults, it will almost certainly do so through high inflation, rather than outright failure to pay. As during the 1970s Great Inflation, sustained high inflation should cause bond yields to soar. Soaring bond yields would in turn crush equity and real estate valuations. Therefore, any major inflation increase, including this year's surge, could be the beginning of the end of the bubbles. Markets remain unconcerned, but markets failed to anticipate both the 1970s inflation and 1980s disinflation. When one of the bubbles eventually pops, gold prices should skyrocket and the Fund should appreciate more than 5x.

Portfolio Detail

Our portfolio is summarized below:

Security	[redacted]	Portfolio Weight Jun-21	Portfolio Weight Dec-20	H1 '21 Return Contribution	Price / Intrinsic Value	[redacted]	[redacted]
GME S	[redacted]	27.1%	30.5%	-10.4%	22.5%	[redacted]	[redacted]
GME C1	[redacted]	13.7%	13.8%	-4.5%	21.4%	[redacted]	[redacted]
GME G2	[redacted]	11.4%	8.1%	0.6%	26.0%	[redacted]	[redacted]
GME A	[redacted]	11.1%	7.9%	-0.7%	38.8%	[redacted]	[redacted]
GME R	[redacted]	9.9%	7.7%	0.2%	19.8%	[redacted]	[redacted]
GME N	[redacted]	9.3%	7.6%	-2.1%	26.1%	[redacted]	[redacted]
GME D2	[redacted]	9.2%	9.6%	-1.6%	21.6%	[redacted]	[redacted]
GME C2	[redacted]	8.4%	9.9%	-3.3%	34.7%	[redacted]	[redacted]
GME D1	[redacted]	Sold	4.2%	-0.2%	N/A	[redacted]	[redacted]
Total GME		**100.0%**	**99.4%**	**-22.0%**			
UK Co.	[redacted]	Sold	0.6%	0.0%	N/A	N/A	N/A
Cash		0.0%	0.0%	N/A	100.0%	N/A	N/A
Total		**100.0%**	**100.0%**	**-21.9%**			

Prices are as of June 30. Returns exclude performance allocation. GME C and GME D have been renamed GME C1 and GME D1 respectively

As discussed below, the temporary [redacted] issues encountered in H1 have not significantly reduced our GMEs' intrinsic value.

GME S ("S") declined after the [redacted] While [redacted] and lower gold prices have reduced S' intrinsic value by ~10%, S' [redacted]% H1 stock price decline was almost certainly an overreaction. [redacted] S' large discount to intrinsic value should narrow dramatically when it soon [redacted]

GME C1 ("C1") declined [redacted] C1's discount to intrinsic value remains very large as investors seem overly-focused on [redacted]

GME C2 ("C2") declined because [redacted]
C2's long-term risk remains low due to [redacted]

GME D2 ("D2") and GME N ("N") declined, likely due to lower gold prices and [redacted] Insiders bought a large amount of N's shares in H1.

[redacted]

[redacted]

[redacted]

China [redacted]

China's real estate and public infrastructure sectors are extremely overbuilt, due to a real estate bubble and a decade of debt-financed stimulus spending. In the long-term, these sectors should collapse, regardless of the Chinese government's short-term moderating policies discussed above. While it is impossible to precisely time the collapse, it seems near due to the duration and magnitude of the sectors' boom. [redacted]

Overbuilding

China's ratio of real estate value to GDP is at least triple that of the US and Europe.[2] Price to rent ratios in major Chinese cities are now roughly triple the ratios in New York, Los Angeles and San Francisco.[3] Apartments in major Chinese cities sell for a similar price per square foot as in San Francisco, although San Francisco's per capita disposable income and construction cost per square foot is ~10x higher.[4]

High Chinese real estate valuations have encouraged severe overbuilding. China has one of the world's highest housing vacancy rates[5] and photos of ghost cities abound. China now has similar floor space per capita to Western Europe even though Western Europe has similar population density and ~5x higher per capita disposable income. China now also has eleven of the world's twenty tallest buildings while the US has just two.[6]

China's public infrastructure is similarly overbuilt. According to a 2015 IMF estimate, China's infrastructure had a book value of 217% of GDP compared to 67% and 74% of GDP for the average developing and developed economy respectively.[7] Since 2015, China's infrastructure investment has continued to outpace the rest of the world. For example, in 2019, China invested 5.5% of GDP in transport infrastructure compared to 0.7% for OECD countries.[8] China has ~40% and ~60% of the world's wind turbines and high-speed rail, although it comprises only

15% of world GDP.[9] China has ~50% more expressways than the US despite roughly equal land area and vehicle quantity.

Debt

Overbuilding has consequences: additional infrastructure and real estate have diminishing impact on GDP. (The less a new apartment or rail station is used the less it boosts GDP.) Thus China has had to borrow and build progressively more to generate a given amount of GDP. During 2020-21, China is on track to issue more than $6 of debt for every $1 of GDP growth, compared to a less than $2 to $1 ratio in 2003-08.[10]

China's skyrocketing debt is likely nearing its limit. China's total debt to GDP ratio is now ~335% — roughly 3x the ratio that triggered recent debt crises in other developing countries.[11] (Developing countries are the relevant comparison because China is a developing country and debt crises have historically occurred at much lower debt levels in developing countries than in developed ones.)[12]

Bulls argue that China can keep borrowing rapidly due its unique economic system. In fact, there is nothing unique about asset bubbles, economic interventionism or excessive investment (i.e. construction). In the past, pundits made wildly optimistic extrapolations of similar investment-led booms in the 1960s USSR, 1980s Japan and 1990s Asian Tigers. However, all stagnated (e.g. the Lost Decade) or had severe crises (e.g. the 1997 Asian financial crisis). China should be no different.

[redacted]

Infrastructure and real estate account for nearly half of Chinese GDP.[13] If those sectors tank, China's growth would be crippled. Global growth would also plunge since China accounted for ~70% of global growth from 2016-20.[14] That in turn should increase gold prices. [redacted]

Other

In April, I was [interviewed again] by Palisades Radio regarding gold, our GMEs and my investment outlook.

I continue to be the Fund's second-largest investor and continue to have most of my net worth invested in the Fund.

The Fund's next letter is scheduled for mid-January. However, I may provide performance updates before then.

Account statements should be sent this week. Partners will also receive logins for the [Fund's new investor portal], which will allow secure access to account and tax documents.

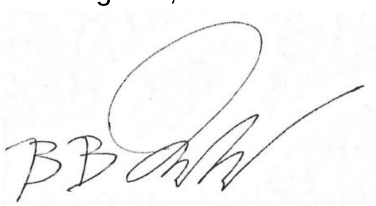
The Fund continues to strive for tax efficiency and has yet to incur any significant short-term capital gains. Tax estimates should be distributed in October and December.

I also 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.

We remain open to new investors, so feel free to distribute the redacted version of this letter.

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 Hirschmann
Managing Partner

Endnotes

[1] Source: “House Prices Surpass Housing-Bubble Peak on One Key Measure of Value” by W. Emmons
[2] Source: Nikkei Asia, World Bank, Zillow, Andy Xie, Wikipedia, “Peak China Housing” by Kenneth S. Rogoff and Yuanchen Yang. This calculation uses nominal GDP rather than PPP GDP
[3] Source: Numbeo
[4] Source: Statista, Cumming, CEIC Data, BEA, Hirschmann Capital estimates
[5] Source: “Peak China Housing” by Rogoff and Yang
[6] Source: Council on Tall Buildings and Urban Habitat
[7] Source: “Estimating the stock of public capital in 170 countries” by the IMF. Infrastructure is defined as public capital
[8] Source: OECD
[9] Source: Environmental and Energy Study Institute. Includes existing mileage and mileage under construction
[10] Source: Institute of International Finance, Wall Street Journal, World Bank, Hirschmann Capital estimates
[11] The average total debt to GDP ratio was not more than ~120% for recent developing economy debt crises in Argentina, Egypt, Kenya, Pakistan, Turkey and Ukraine
[12] See https://en.wikipedia.org/wiki/Debt_intolerance
[13] Source: Andy Xie, World Bank, The Economist, Hirschmann Capital estimates, “Peak China Housing” by Rogoff and Yang. Includes activities related to infrastructure and real estate investment rather than just construction activities. See Rogoff for more detail on the methodology used for estimating activities related to real estate
[14] Source: World Bank. This estimate uses PPP GDP rather than nominal GDP

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.

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