

# Hirschmann Capital

July 15, 2022

Dear Partner,

Updated results for the Hirschmann Partnership (the "Fund") are shown below.

	<b>Class A Return</b>	<b>Class B Return</b>	<b>S&amp;P 500 Index</b>	<b>MSCI World Index</b>	<b>Gold Miner Index</b>	<b>GDXJ Index</b>	<b>Gold (US\$)</b>
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%	72.9%	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%	40.5%	18.3%
2020	52.1%	64.4%	18.4%	16.3%	23.7%	30.4%	25.1%
2021	-23.7%	-23.7%	28.7%	22.2%	-9.4%	-21.2%	-3.6%
H1 2022	-30.4%	-30.4%	-20.0%	-20.4%	-13.9%	-23.7%	-1.2%
Q3 2022	1.7%	1.7%	0.2%	-0.9%	-6.5%	-6.2%	-5.3%
<b>Cumulative</b>	<b>65.0%</b>	<b>72.5%</b>	<b>122.9%</b>	<b>75.2%</b>	<b>30.9%</b>	<b>-0.3%</b>	<b>41.3%</b>
<b>Annualized</b>	<b>6.6%</b>	<b>7.2%</b>	<b>10.8%</b>	<b>7.5%</b>	<b>3.5%</b>	<b>0.0%</b>	<b>4.5%</b>

MSCI Index is Developed Market Standard (Net w. USA Gross). Gold Miner Index is NYSE Arca. GDXJ is GDXJ Total Return Index. As of July 14

As explained below, the Fund declined in H1 after the market severely overreacted to two short-term issues: [REDACTED] and industry cost increases. The Fund's substantial 2017-18 decline was followed by its two best years and I would not be surprised if the current decline is followed by a similar rally. The Fund's large discount to intrinsic value<sup>1</sup> makes me confident that it will easily beat all its benchmarks over the long-term. As I've said before, periods of underperformance will always be necessary for long-term outperformance. Even Berkshire Hathaway stock has declined 50% several times.

Most importantly, the Fund's long-term risk remains low. The Fund has never had a realized loss<sup>2</sup> and our gold mining equities (GMEs) are protected from continued gold and cost fluctuations due to their substantial cash, minimal debt and low production costs. A rise in future revenues should easily offset any increase in mining costs and interest rates.

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## Portfolio Detail

The Fund's portfolio is summarized below:

Security	Portfolio Weight		H1 '22 Return	Price /		
	Jun-22	Dec-21	Contribution	Intrinsic Value		
GME S	27.0%	29.5%	-20.1%	8.7%		
GME C1	20.8%	12.0%	-3.4%	17.5%		
GME A	15.4%	12.5%	-1.1%	48.4%		
GME R	13.4%	6.1%	2.7%	17.3%		
GME N	9.2%	8.6%	-4.3%	15.2%		
GME C2	7.1%	7.4%	-5.0%	54.0%		
GME G2	3.2%	14.8%	1.5%	11.1%		
GME D2	0.8%	8.1%	-0.8%	N/A		
<b>Total GME</b>	<b>96.8%</b>	<b>98.9%</b>	<b>-30.4%</b>			
Cash	3.2%	1.1%	N/A	100.0%	N/A	N/A
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-30.4%</b>			

Prices are as of June 30. Returns exclude performance allocation. GME D2 intrinsic value is not meaningful after [REDACTED]

### GME S

[REDACTED]  
 [REDACTED]  
 [REDACTED]  
 [REDACTED]  
 [REDACTED] S plunged  
 [REDACTED] after [REDACTED] was announced even though [REDACTED] reduced S' intrinsic value by only a few percentage points.

[REDACTED]  
 [REDACTED]  
 [REDACTED] Were S to return to its trading price in [REDACTED] before [REDACTED], S' stock price would quadruple. (Gold prices are now ~40% higher, so S should appreciate even more.)

S' price may have also declined somewhat in H1 due to investor concern about temporarily higher mining and construction costs (see [Mining Costs](#) below). Even if costs stay high for several years, however, S' intrinsic value would only be slightly reduced.

### Other GMEs

GME C2 ("C2") fell after [REDACTED]  
 [REDACTED]  
 [REDACTED]  
 [REDACTED]  
 [REDACTED]  
 [REDACTED] While I still expect C2 to be a profitable





### Other

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

In January, I was [interviewed](#) by Palisades Radio regarding gold, inflation and the bond bubble.

The Fund's next letter is scheduled for mid-January. However, I may provide performance updates before then. Partners' account statements will be uploaded to the [administrator's portal](#) this week.

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](#).

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,

A handwritten signature in blue ink, appearing to read 'BH' with a large, stylized flourish above it.

Brian Hirschmann  
Managing Partner

Endnotes

<sup>1</sup> I define the intrinsic value of the Fund's GMEs as the estimated present value of the mines' future gold revenue, at current gold prices, less all costs, discounted at 14%.

<sup>2</sup> The Fund will inevitably have realized losses. Even Warren Buffett has had many realized losses.

<sup>3</sup> [Redacted]

<sup>4</sup> Nor can a [Redacted] justify N's decline. Assuming [Redacted] N's intrinsic value would decline by only ~18%.

<sup>5</sup> [Redacted]

<sup>6</sup> [Redacted]

<sup>7</sup> [Redacted]

<sup>8</sup> [Redacted]

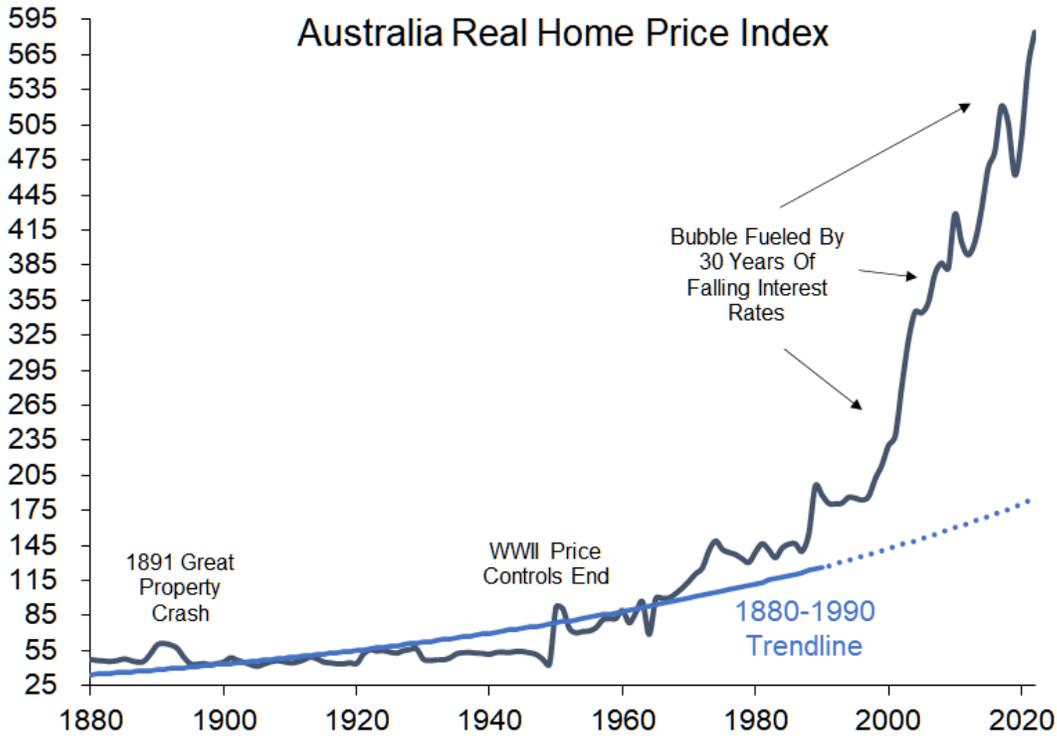
<sup>9</sup> [Redacted]

<sup>10</sup> [Redacted]

<sup>11</sup> [Redacted]

<sup>11</sup> [Redacted]

Unlike in the US, most Australian mortgages are floating-rate and thus the Australian housing bubble seems very vulnerable to rising interest rates.



Source: Nigel Stapledon, Australian Bureau of Statistics

<sup>12</sup> [Redacted]

<sup>13</sup> Appeared in the June 28, 2022, Wall Street Journal print edition as ["The Fed Can't Cure Inflation by Itself"](#)

<sup>14</sup> Examples of high government debt causing inflation include 1920s Germany, World War II Japan and present-day developing countries, such as Argentina, Turkey and Venezuela

<sup>15</sup> [Redacted]

<sup>16</sup> [Redacted]

<sup>17</sup> [Redacted]

## 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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