July 12, 2016

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
Q4 2014	-2.2%	-2.2%	4.9%	1.0%
2015	27.0%	24.8%	1.4%	-0.5%
H1 2016	72.3%	65.2%	3.8%	0.9%
Cumulative	**114.0%**	**101.6%**	**10.5%**	**1.3%**
Annualized	**54.4%**	**49.3%**	**5.9%**	**0.8%**

As a reminder, the share classes are identical except for their performance allocation. For Class A, the performance allocation is 25% of the profit above a 6% hurdle rate. For Class B, it is 33% of the profit above the S&P 500 return. Neither has a management fee.

Less than 0.3% of mutual funds and hedge funds beat the S&P 500 by more than 5% per year over the last decade.[1] Thus the Fund's initial annualized outperformance (54.4% v. 5.9%) seems unsustainable over a decade.

That said, I remain extremely optimistic about the next five years. None of the bubbles in bonds, China or US stocks have burst, and if any of them do, the Fund is likely to reap a windfall far larger than its initial gains. Further, the Fund's patient clients and flexible strategy will probably continue to be major advantages.

Market Update

Most markets continue to seem dangerously overvalued:

- Developed world government (DWG) bond prices remain absurd. In fact, ~50% (~$12 trillion) of them have negative yields[2] (i.e. investors are paying to lend money) even though most DWGs seem extremely likely to default through high inflation.[3] For example, an investor that pays €100 for an Irish 5 year bond will at best receive less than €100, including all coupons and principal over 5 years, even though the bonds are extremely risky (e.g. Ireland needed a bailout in 2010 to avoid default).

- China continues to gorge on debt. For example, the amount of China's bank loans has more than doubled since surpassing the amount of US bank loans in 2010.[4]

- The S&P 500's median market capitalization to corporate sales ratio is the highest ever. The S&P 500 would need to fall ~60% to return the ratio to its historical 50-year mean.[5]

- Since the data series began in 1970, the US median home price to median household income ratio is the highest ever except for the 2003-08 housing bubble. That is, the ratio is higher than it has been for ~90% of the time since 1970.[6]

Fire and Finance[7]

History shows that both forest fires and economic crises are inevitable. In recent decades the US has averaged ~120,000 fires per year and a recession every ~4 years.[8] Since they are inevitable, should we try to suppress them or allow them to occur naturally?

For most of the 20th century, US forest managers thought fires should always be suppressed.[9] Starting in 1935, the US government advocated extinguishment of all fires by 10 am the next day.[10] By the 1940s, over 8000 fire lookout towers had been built and Smokey Bear was warning that "Only YOU can prevent forest fires."

Policy changed as we learned that suppression increases the severity of future fires by causing tinder to accumulate. (The 1988 Yellowstone fire burned 44 times more land than any previous recorded Yellowstone fire.)[11] Fire is now a key management tool in many US forests.[12]

There has been no such change of heart about economic crises. For the past 30 years, we have been zealously fighting crises with bailouts, deficit spending and monetary stimulus (i.e. lower interest rates). Rate cuts were used in response to the 1987 stock market crash, 1990-91 recession, 2000-02 dot-com crash and 2007-09 recession. US bailouts aided the S&Ls (1980s-1990s), Continental Illinois (1984), Mexico (1994) and Long-Term Capital Management (1998).

Unfortunately, as with fire suppression, economic crisis suppression seems to greatly increase the severity of future crises. This is mainly because crisis suppression encourages reckless behavior by investors and borrowers.

- Crisis suppression fuels stock and real estate bubbles because low rates temporarily make such assets seem more valuable. The bigger the bubble, the bigger the eventual burst and the resulting decline in wealth and spending. Thus, the Bank of Japan's low-rate policy after Japan's 1985-86 recession fueled its 1986-91 stock and real estate bubbles. When these burst, two decades of falling output and wages ensued.

- Crisis suppression causes debt to buildup because low rates encourage borrowing and bailouts encourage careless lending. When the inevitable crisis occurs, debtors must curtail spending sharply, intensifying the crisis. Thus, the Fed's low-rate policy after the 2001 recession increased mortgage borrowing and fed the more severe 2007-09 recession. Central banks' low-rate policies following the 2007-09 recession have filled the debt powder keg to its highest levels ever. Global debt to GDP has risen from its ~120% 150-year historical mean to ~200% during the housing bubble to 250% today.[13]

- Crisis suppression also discourages financial firms from creating financial firebreaks that protect against others' defaults. Hence, in recent crises, a single potential default has often threatened the entire financial system (e.g. Long Term Capital Management,

Fannie Mae, Lehman Brothers, AIG, Royal Bank of Scotland, European PIGS, etc.). Today's extreme global debt levels undermine claims that new regulations have reduced such contagion risk.

For the first time in more than 30 years, governments will probably be the source not the savior of the next crisis. As DWGs have suppressed crises their solvency has steadily declined (e.g. government debt has soared) and many now seem highly likely to default.[14] If lenders think a government is likely to default, it can't suppress crises. Government bailouts lose credibility and the central bank can't keep rates low. A "death spiral" can result, as has recently occurred in Greece and Brazil: a government debt crisis torpedoes the private sector, which in turn worsens the government debt crisis. Thus, crisis suppression may have made a cataclysm inevitable.

Portfolio

Below is a breakdown of the Fund's 2016 gross return (i.e. before the performance allocation):

Category	Return
Gold-Linked Securities (GLS)	94%
Countercyclical China-Related Companies (CCCs)	4%
UK Company	-3%
Cash	0%
2016 YTD Gross Return	**95%**

As expected, the GLS appreciated as gold appreciated. I continue to expect gold to rise in the long-term because: (i) gold remains below its long-term average valuation, using the Fund's proprietary valuation method, albeit much less so than in December; and (ii) gold will probably benefit from greater concern about default, inflation and equity risk.

Although the Fund's UK investment remains promising, it has declined slightly in value since we purchased it ~18 months ago. The decline underscores that the Fund will often not produce favorable results immediately. Although Brexit has caused commotion, it probably will not have much long-term impact on our UK investment.

The Fund's portfolio is summarized below:

Category	July 2016 Weight	January 2016 Weight
Gold-Linked Securities (GLS)	86%	70%
Countercyclical China-Related Companies (CCCs)	6%	20%
UK Company	3%	10%
Cash	5%	0%
Total	**100%**	**100%**

The Fund's high GLS concentration increases the chance of the Fund experiencing a temporary loss. However, the high concentration seems more than justified by the GLS' extreme potential upside and the very low probability of long-term loss even if gold declines substantially.

Although the CCCs allocation has been reduced, I continue to expect the Fund to benefit substantially if China slows further, which seems highly likely.

In May, the Fund fully exited an investment for the first time. That investment had more than doubled in the year that we held it. Confidentiality remains critical since the investment is similar to an existing one. More generally, I plan to discuss one or more of our exited investments once confidentiality ceases to be critical.

Other

I continue to hold the majority of my net worth in the Fund. In contrast, only 17% of mutual fund managers have more than $1mm invested in their fund.[15]

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

The Fund's operating expense ratio (i.e. bookkeeping, audit and other expenses divided by assets) now approximates that of a low-cost index fund (i.e. ~0.20%). Because Fund operating expenses are generally fixed, the operating expense ratio should fall as the Fund grows.

In 4Q 2016, the Fund's office will move to Santa Monica. Please remember my overhead (e.g. rent, salary and research costs) are not charged to the Fund.

Partners will receive their next letter and account statement in 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

[1] Source: Vanguard, Lipper. Mutual fund data is based on 2003-2013. Hedge fund data is based on 2004-2014.
[2] Source: Bloomberg, Financial Times
[3] For more on this topic, please see the Fund's July 2015 presentation and 2015 year-end letter.
[4] Source: Yardeni Research, Inc.
[5] Source: Standard and Poor's.
[6] Source: Census Bureau, James Parsons.
[7] Ashwin Parameswaran and Mark Spitznagel have previously compared fire suppression to economic crisis suppression. Spitznagel was probably first to use Yellowstone as an analogy for failed economic crisis suppression.
[8] Source: United States Department of Agriculture, National Bureau of Economic Research
[9] Source: Natural Resources Defense Council
[10] Source: National Park Service
[11] Source: National Park Service
[12] Source: *Forest Ecosystems*
[13] Source: BAML, Federal Reserve, Bureau of Economic Analysis, Census Bureau. US debt is used as a proxy for global debt from 1810-1950.
[14] For more on this topic, please see the Fund's July 2015 presentation and 2015 year-end letter.
[15] Source: Cerulli Associates. This is based on the top 50 mutual fund firms by assets.

Legal 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, bonds, commodities and derivatives. An investment in the Fund should be considered a long-term investment.

The information contained herein reflects the opinions and projections of the General Partner on the publication date. The opinions and projections are subject to change without notice at any time. The General Partner does not represent that any opinion or projection will be realized. All information provided is for information only and is not investment advice or a recommendation to purchase or sell any specific security. The General Partner has an economic interest in the securities discussed in this document, but the General Partner's economic interest is subject to change without notice. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data presented.

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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 and MSCI World. Reference to an index does not imply that the Fund will have returns, volatility or other characteristics similar to the index. The indices only contain equities while the Fund may invest in other securities. The Fund is significantly more concentrated than the indices and may experience higher volatility. You cannot invest directly in the indices.

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