

# Hirschmann Capital

January 13, 2018

Dear Partner,

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

|                   | <b>Class A<br/>Return</b> | <b>Class B<br/>Return</b> | <b>S&amp;P 500<br/>Index</b> | <b>MSCI World<br/>Index</b> | <b>Gold</b>  |
|-------------------|---------------------------|---------------------------|------------------------------|-----------------------------|--------------|
| 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%        |
| YTD 2018          | 7.7%                      | 7.7%                      | 4.3%                         | 3.9%                        | 2.7%         |
| <b>Cumulative</b> | <b>72.0%</b>              | <b>66.3%</b>              | <b>51.3%</b>                 | <b>38.4%</b>                | <b>10.5%</b> |
| <b>Annualized</b> | <b>17.9%</b>              | <b>16.7%</b>              | <b>13.4%</b>                 | <b>10.4%</b>                | <b>3.1%</b>  |

Returns are as of January 12, 2018.

The Fund underperformed in 2017, although it has partly rebounded in 2018. The underperformance doesn't change our main premise: our gold-linked securities (GLS) should appreciate dramatically over the long-term. However, it does suggest that I should further diversify our GLS holdings, which I am now doing.

## Gold-Linked Securities

As discussed in our [2015 year-end letter](#), I am bullish on gold, which is below its long-term average valuation using my proprietary method. Gold tends to benefit from market turbulence, such as the collapse of any of the late-innings bubbles in [bonds, China](#) and [US equities](#).

The GLS are gold mining equities. As gold rises, most gold mines should outperform gold as the mines can leverage their fixed costs. If a mine has a 10% profit margin and gold rises 20%, the mine's profits will triple if its costs remain constant.

However, fixed costs are a double-edged sword – most mines' profits will fall disproportionately if gold falls. Hence, the Fund owns [REDACTED]. Below I explain why the [REDACTED] GLS are cushioned against a gold price decline.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



## Hirschmann Capital

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Again, 2017 doesn't undermine our main premise. The Fund remains concentrated in a portfolio of GLS due to the portfolio's extremely high expected return and low probability of long-term loss:

| <b>Category</b>                             | <b>January<br/>2018<br/>Weight</b> | <b>July<br/>2017<br/>Weight</b> |
|---|------------------------------------|---------------------------------|
| Gold-Linked Securities (GLS)                | 83%                                | 87%                             |
| UK Company                                  | 10%                                | 6%                              |
| Countercyclical China-Related Company (CCC) | 7%                                 | 7%                              |
| Cash  | 0%                                 | 0%                              |
| <b>Total</b>                                | <b>100%</b>                        | <b>100%</b>                     |

### Other

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

The Fund continues to strive for tax efficiency and has yet to incur any short-term capital gains. Although the Fund declined in 2017, net long-term capital gains were ~7% of assets. That is because the Fund sold a GLS that had doubled – a realized gain more than twice our tax loss from the mine with production problems.<sup>1</sup>

Partners will receive several items over the next six months:

- Account statements will be sent this week
- Tax documents will probably be sent by March
- The Fund's audited financial statements will be sent by May
- The Fund's next letter will be sent in mid-July

I occasionally post articles relevant to the Fund on [Twitter](#).

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

<sup>1</sup> The Fund earned a positive return on the GLS with production problems even though that GLS resulted in a tax loss because that GLS was a larger position when it was appreciating than when it was declining.

## 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.

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. 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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