January 17, 2019

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 (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%
H1 2018	-7.1%	-7.1%	2.7%	0.6%	-3.8%
H2 2018	-17.1%	-17.1%	-6.8%	-8.9%	2.4%
YTD 2019	6.5%	6.5%	5.2%	5.0%	0.7%
Cumulative	**30.9%**	**26.5%**	**46.0%**	**28.1%**	**6.7%**
Annualized	**6.5%**	**5.6%**	**9.2%**	**5.9%**	**1.5%**

YTD returns are as of January 17, 2019.

Although the Fund declined again in H2 '18, this letter should assure you that a major rally is inevitable.

The Fund's strategy is to buy companies at large discounts to their intrinsic value and hold them until the discount narrows. (Intrinsic value is explained on the next page.) A frequent challenge is that the discount to intrinsic value initially widens or narrows slowly. Indeed, that's what's currently happening with the Fund. But I'm confident that the intrinsic values of our gold-linked securities (GLS), estimated extremely conservatively, are far above both our cost basis and current market values.

Portfolio Detail

In H2 '18, the Fund's return was again determined mainly by the GLS:

Security	[redacted]	Intrinsic Value / Cost Basis	Current Price / Cost Basis	H2 '18 Return Contribution	Portfolio Weight Dec-18	Portfolio Weight Jul-18	[redacted]	[redacted]
GLS S	[redacted]	219.4%	50.7%	9.6%	31.0%	15.0%	[redacted]	[redacted]
GLS M	[redacted]	169.7%	112.5%	-4.7%	19.2%	20.6%	[redacted]	[redacted]
GLS C	[redacted]	153.6%	23.1%	-20.2%	9.9%	27.3%	[redacted]	[redacted]
GLS X	[redacted]	250.0%	102.4%	3.0%	9.8%	4.7%	[redacted]	[redacted]
GLS I	[redacted]	195.8%	55.5%	-2.1%	7.0%	6.4%	[redacted]	[redacted]
GLS D2	[redacted]	418.5%	76.8%	-0.8%	3.4%	0.0%	[redacted]	[redacted]
GLS D	[redacted]	133.4%	37.8%	-0.7%	2.1%	2.4%	[redacted]	[redacted]
GLS L	[redacted]	185.1%	25.3%	-0.6%	0.9%	1.4%	[redacted]	[redacted]
GLS G	[redacted]	Sold	Sold	Negligible	Sold	3.4%	[redacted]	[redacted]
Total GLS				**-16.5%**	**83.3%**	**81.1%**		
UK Co.	[redacted]	260.2%	119.7%	0.4%	9.4%	10.7%	N/A	N/A
CCC	[redacted]	263.7%	117.6%	-0.8%	7.3%	8.2%	N/A	N/A
Total				**-17.0%**	**100.0%**	**100.0%**		

Prices are as of December 31 2018. CCC stands for counter-cyclical China-related company.

Analysis

Intrinsic Value

For gold mining companies, intrinsic value equals the present value of each mine's future gold revenue less production costs. We can estimate future gold revenue with reasonable accuracy because we invest only in mines where there has been extensive [redacted] drilling – not in exploration properties. Management gold production forecasts are accurate [redacted] of the time for [redacted] mines.

The intrinsic values used in the table above (shown relative to our cost basis and current prices) are extremely conservative. I assume no gold price increase ever and apply a conservative 14% discount rate to projected cash flows.[1] I also assume that [redacted] although this should prove highly conservative because [redacted]

Market Value vs. Intrinsic Value

Gold mining equities' market values can swing wildly before finally approaching intrinsic value. For instance, in 2014-15, [redacted] market value declined ~50% to a fraction of my estimated intrinsic value after it initially produced less gold than expected from its [redacted] gold mine. However, sentiment quickly reversed: [redacted] appreciated ~260% over the following year due to improved production and a higher gold price. Although similar volatility has contributed to the Fund's current decline, it also creates opportunities for us to buy GLS at large discounts to their estimated value.

All of our five past GLS eventually resulted in gains – large gains in all but one case – as our intrinsic value estimates proved sufficiently conservative.[2] We expect similar or better gains for the GLS we currently own. Below I discuss why we expect that for the three current GLS which have hurt our returns most.

GLS S

GLS S ("S"), the largest drag on the Fund's cumulative return, has declined due to [redacted] I estimate S' intrinsic value is more than twice our cost basis and expect S' discount to intrinsic value to narrow dramatically after [redacted]

GLS C

Two issues caused GLS C's ("C") ~72% decline in H2 '18, making it the second largest drag on our cumulative return. First, in H2 '18, [redacted]

However, neither issue has materially impacted C's intrinsic value. [redacted]

[redacted] (C's situation resembles [redacted] before [redacted] rallied.)

[redacted] Since [redacted], insiders (i.e. C's directors and largest shareholder) have bought its shares aggressively.

Therefore, after C plunged, we stopped selling it as part of our diversification strategy (see year-end 2017 letter) and instead bought more. If C's market value approaches its estimated intrinsic value, the Fund would appreciate more than 50%. Although buying more increased our portfolio's concentration, the risk of long-term loss seems minimal due to C's low valuation, the [redacted] and C's [redacted]

GLS I

GLS I, the third largest drag on our return, has declined since an [redacted] While the market appears to have panicked, insiders (i.e. executives, directors and largest shareholders) have bought 22% of GLS I's outstanding shares. The cost basis for our shares, mostly purchased after [redacted], is roughly half GLS I's estimated intrinsic value.

Bubbles

As noted above, our intrinsic value estimates assume no gold price increase ever. If the GLS are trading at large discounts to intrinsic value at current gold prices, imagine the Fund's potential appreciation if the bubbles burst in bonds, China or US equities. In December '18, the Fund appreciated 12% as the S&P 500 fell 9% and gold rose 5%. However, last month was probably only a brief preview of the looming crisis. Although the S&P 500 has declined ~9% from its '18 peak, it must fall another ~45% for its cyclically-adjusted price earnings ratio to return to its historical mean. While Chinese GDP growth has slowed, I expect it to get far worse considering China's still absurd construction, home prices and debt levels. Finally, although interest rates have increased slightly, they remain historically low – especially given that government debt to GDP ratios remain at levels that have nearly always led to default.

In sum, we continue to own businesses that are trading at discounts to their conservatively estimated intrinsic value. I am confident that, over the long-term, the discounts will narrow and we will outperform.

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.

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

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 am considering providing additional performance updates before July

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] The GLS' intrinsic values are calculated using a weighted-average capital cost, rather an equity capital cost, which makes the 14% discount rate even more conservative. See this brief article for more.
[2] Our year-end 2017 letter originally said a GLS had been sold at a loss. However, that was incorrect because the GLS' 2015-16 realized gain modestly exceeded its 2017 realized loss. The year-end 2017 letter has been corrected on our website.

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.

Securities discussed in this document may not remain in the Fund's portfolio when you receive the document and securities sold may have been repurchased. The securities discussed may not represent the Fund's entire portfolio. Do not assume any of the securities discussed were or will be profitable. Do not assume that future investment decisions will be profitable or will equal the investment performance of the securities discussed. Past results are no guarantee of future results. No representation is made that an investor is likely to achieve results similar to those shown. All investments involve risk including the loss of principal.

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.

This document is confidential and may not be distributed without the consent of the General Partner. This document does not constitute an offer or solicitation to purchase or sell any security or investment product. Any such offer or solicitation may only be made by means of an approved Confidential Offering Memorandum.