July 26, 2024

Dear Partner,

Below are updated results for the Hirschmann Partnership (the “Fund”). In H1 2024, the Fund returned 35.7% v. 15.3% for the S&P 500.

	Class A Return	Class B Return	S&P 500 Index	MSCI World Index	Gold Miner Index	Junior Gold Miner Index	Gold (US$)
Q4 2014	-2.2%	-2.2%	4.9%	1.0%	-13.3%	-28.0%	-2.2%
2015	27.0%	24.8%	1.4%	-0.5%	-24.8%	-19.2%	-10.4%
2016	47.1%	44.7%	12.0%	7.9%	54.3%	75.1%	9.1%
2017	-12.6%	-12.6%	21.8%	22.8%	12.2%	6.2%	12.6%
2018	-23.0%	-23.0%	-4.4%	-8.4%	-8.5%	-11.3%	-1.5%
2019	63.3%	63.3%	31.5%	28.1%	40.4%	42.2%	18.3%
2020	52.1%	64.4%	18.4%	16.3%	23.7%	30.9%	25.1%
2021	-23.7%	-23.7%	28.7%	22.2%	-9.4%	-21.0%	-3.6%
2022	-53.0%	-53.0%	-18.1%	-17.9%	-8.6%	-14.3%	-1.2%
2023	42.6%	42.6%	26.3%	24.2%	10.6%	8.6%	14.1%
H1 2024	35.7%	35.7%	15.3%	11.9%	9.7%	11.3%	12.7%
Cumulative	**112.1%**	**121.7%**	**231.5%**	**153.6%**	**80.3%**	**46.4%**	**92.1%**
Annualized	**8.0%**	**8.5%**	**13.1%**	**10.0%**	**6.2%**	**4.0%**	**6.9%**

MSCI Index is Developed Market Standard (Net w. USA Gross). Gold Miner Index is NYSE Arca. Junior Gold Miner Index is MVIS Global. As of June 30

After an update on our gold mining equities (GMEs), I discuss the prospects for a US recession. As discussed in the prior letter, I expect a recession to trigger a US government debt crisis, involving high inflation and defaults.

The bubbles continue. The US housing bubble appears vulnerable with affordability near an all-time low[1] as months-of-supply surge.[2] In July, the US equity bubble reached record valuations relative to sales[3] and replacement cost.[4] At the same time, core inflation has remained above 2%, which could limit the Fed’s ability to prolong the bubbles with rate cuts. Weakness in either equities or real estate should exacerbate a debt crisis.

[redacted] A debt crisis should cause [redacted], driving up gold prices and our GMEs.

Portfolio Detail

The Fund's portfolio is summarized below:

Security	[redacted]	Portfolio Weight Jun-24	Portfolio Weight Dec-23	H1 '24 Return Contribution	Price / Intrinsic Value	[redacted]	[redacted]
GME C1	[redacted]	52.3%	49.4%	36.4%	75.8%	[redacted]	[redacted]
GME G2	[redacted]	11.5%	7.0%	7.6%	40.0%	[redacted]	[redacted]
GME N	[redacted]	6.4%	11.1%	-2.3%	21.6%	[redacted]	[redacted]
GME A	[redacted]	6.3%	7.2%	-3.9%	N/A	[redacted]	[redacted]
GME C2	[redacted]	6.3%	8.7%	-0.3%	70.2%	[redacted]	[redacted]
GME S	[redacted]	4.6%	6.6%	-0.6%	1.4%	[redacted]	[redacted]
GME F	[redacted]	4.5%	1.8%	-0.5%	5.8%	[redacted]	[redacted]
GME E	[redacted]	2.7%	0.7%	-0.4%	4.5%	[redacted]	[redacted]
GME O2	[redacted]	2.5%	3.0%	-0.4%	16.3%	[redacted]	[redacted]
GME D2	[redacted]	1.6%	2.4%	-0.1%	20.0%	[redacted]	[redacted]
GME C3	[redacted]	1.1%	1.2%	0.2%	35.9%	[redacted]	[redacted]
GME G3	[redacted]	0.4%	0.4%	0.1%	29.5%	[redacted]	[redacted]
Total GMEs		**100.2%**	**99.4%**	**35.7%**			
Cash		-0.2%	0.6%	0.0%	100.0%	N/A	N/A
Total		**100.0%**	**100.0%**	**35.7%**			

Prices are as of Jun. 30. Returns exclude performance allocation. GMEs are listed in descending portfolio weight order.

GME C1 ("C1") appreciated due to favorable drilling results at its new, high-margin deposit. In addition, as a possible precursor to [redacted]. Due to C1's increased valuation and portfolio weight, I reduced the Fund's C1 shares by 24% in H1.

GME G2 ("G2") appreciated after favorable drilling results. Exploration will continue in H2. In H1, insiders bought 6% of G2.

GME N ("N") declined after announcing a merger with a smaller gold mine developer, whose project has more exploration potential. As of June 30, the combined entity's market capitalization was only [redacted], despite having no debt and assets of: [redacted].

The H1 decline in GMEs F, E, O2, C3 and G3 reflects the continued underperformance of gold mine developers relative to producing gold mines. For example, since 2021, a North American gold mine developers index has underperformed the GDX, which includes only gold producers, by 54%.[5] Indeed GME E is trading for C$5 per gold resource ounce vs. ~C$300 for the largest GDX components.[6] Developers' underperformance should more than reverse over the next few years as gold prices improve, producers acquire developers and developers enter production.

GME A ("A") declined in H1 after raising more equity and slightly missing production guidance. On July 1, A declared bankruptcy—two months after projecting that it would earn high margins in Q2. While details are still emerging, it seems A's lender forced A into bankruptcy to prevent further increases in the lender's counterparty exposure from A's gold hedges. (As gold prices increased, A's mark-to-market liability to the lender on its hedges increased.) In July, the Fund has appreciated more than 8% despite A's zero valuation. Unlike A, none of the Fund's other GMEs have debt or hedging.

Recession Risk

A US recession remains likely because the labor market has weakened since I warned of a recession in January. A weaker labor market reduces consumer confidence and spending. The unemployment rate's three-month average has risen 0.47% above its fourteen-month low. The last eleven times that has happened, a recession has occurred.[7]

Bulls don't seem worried by the unemployment rate increase. Their view is that rapid labor supply growth, rather than a rise in layoffs, is driving the increase in the unemployment rate. As Bill Dudley noted, that isn't convincing: unemployment rate increases accurately predicted three recessions during 1970-80, the most recent prior period of rapid labor supply growth. Similarly, unemployment rate increases in other countries have accurately predicted recessions[8] despite many periods of rapid labor supply growth.[9]

Initial unemployment insurance claims, a measure of layoffs, are rising more quickly than at the start of 4 of the 8 last US recessions.[10] Private sector job openings have continued to fall. Manufacturing job openings and average weekly hours have rebounded, but manufacturing's share of employment is only 8%.

Due to the high recession probability, I have increased the Fund's exposure to GMEs that should appreciate dramatically in a crisis. For example, GME E might appreciate more than 50x if gold returns to its 1980 peak valuation. Since such GMEs have a greater risk of underperforming if gold does not appreciate, they were previously a smaller portfolio allocation.

Other

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. Partners' account statements will be uploaded shortly to the administrator's portal.

In March I was interviewed by Julia La Roche.

At mid-year, the Fund had 31 clients (i.e., limited partners).

Tax estimates should be distributed in October and December. The Fund continues to focus on tax efficiency and has yet to incur any significant short-term capital gains. Unlike more than 99% of hedge funds,[11] the Fund has no non-deductible management fees.

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,

Brian Hirschmann
Managing Partner

Endnotes

[1] Source: https://www.atlantafed.org/center-for-housing-and-policy/data-and-tools/home-ownership-affordability-monitor
[2] See here for the definition of "months of supply". Source: https://www.redfin.com/news/data-center/
[3] Source: https://dqydj.com/sp-500-ps-ratio/
[4] See here for a replacement cost valuation explanation. Source: https://smithers.co.uk/q_faqs/us-cape-and-q-chart/
[5] Source: First Mining Gold July 2024 Presentation
[6] This is a capitalization-weighted average of Newmont, Barrick and Agnico Eagle. Newmont's copper resources are not assigned any value.
[7] See schannep.com. The recession signals are only triggered if the three-month unemployment rate average has stopped increasing relative to its fourteen-month low for at least four months. In other words, the signals are only triggered if an expansion has occurred since the prior recession
[8] As shown in the table below, recessions have consistently occurred in other countries when the three-month unemployment rate (UR) average has increased relative to its fourteen-month low. For example, the last seven times the three-month average of the German UR has increased 0.53% from its fourteen-month low, a German recession has occurred.

Country	UR Increase Threshold	Study Period Start	Total UR Triggers	Total Recessions	Prediction Accuracy
Australia	0.57%	1982	5	5	100%
Canada	0.71%	1970	7	7	100%
Germany	0.53%	1973	7	7	100%
Japan	0.21%	1971	11	11	100%
New Zealand	0.61%	1988	5	5	100%
UK	0.54%	1975	5	5	100%
Total / Average	**0.49%**		**40**	**40**	**100%**

I consider the 2006 UK UR increase an early warning for the Great Recession rather than a false positive. For Australia and Canada, UR increases coincide with either domestic or US recessions. For the other four countries, UR increases coincide with domestic recessions. The recession signals are only triggered if the three-month average of the UR has stopped increasing relative to its fourteen-month low for at least one month in Japan and at least seven months in the other five countries. In other words, the signals are only triggered if an expansion has occurred since the prior recession
[9] Below are examples of rapid labor supply growth in the above UR study period:

Country	Period
Australia	1985 - 1990
Australia	2005 - 2009
Australia	2017 - 2019
Canada	1977 - 1981
Canada	2002 - 2003
Germany	1980 - 1981
New Zealand	1991 - 1996
New Zealand	2014 - 2019

[10] Source: Federal Reserve. Initial claims (not seasonally adjusted) rose 9% and 5% year-over-year in the weeks ending July 13 and July 20. That exceeds their growth rate at the start of the recessions in 2007-08 (3% y/y), 1990-91 (2%), 1981-82 (-31%) and 1973-75 (-5%)
[11] Source: Guy Spier. See Zero Management Fees – The Survey

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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