January 17, 2020

Dear Partner,

In H2 2019, the Fund appreciated 75.0% v. 10.9% for the S&P 500. 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 Miner Index	Gold (US$)
Q4 2014	-2.2%	-2.2%	4.9%	1.0%	-13.3%	-2.2%
2015	27.0%	24.8%	1.4%	-0.5%	-24.8%	-10.4%
2016	47.1%	44.7%	12.0%	7.9%	54.3%	9.1%
2017	-12.6%	-12.6%	21.8%	22.8%	12.2%	12.6%
2018	-23.0%	-23.0%	-4.4%	-8.4%	-8.5%	-1.5%
2019	63.3%	63.3%	31.5%	28.1%	40.4%	18.3%
Cumulative	**100.8%**	**94.1%**	**82.4%**	**56.4%**	**45.1%**	**25.4%**
Annualized	**14.2%**	**13.5%**	**12.1%**	**8.9%**	**7.3%**	**4.4%**

MSCI World Index is Developed Market Standard (Net with USA Gross). Gold Miner Index is NYSE Arca Index.

Over the Fund's first ~5 years, it has easily outperformed all its benchmarks and I expect it to outperform by far more over the next 5. Indeed the Fund should appreciate more than 500% if any of the bubbles in bonds, China, US equities or US real estate burst. In addition, unlike nearly all other funds, the Fund continues to charge no management fee and be tax-efficient (see Tax below).

This remains an excellent time to invest in the Fund. Our gold-linked securities (GLS) continue to trade at extreme discounts to their intrinsic value (see 2018 year-end letter) and remain extraordinarily undervalued relative to gold, bonds, equities, real estate and gold mining ETFs. These opportunities exist partly due to our fund's nimble size, which allows us to invest in niches where most funds can't. Finally, the Fund will continue to increase its GLS diversification (see 2017 year-end letter), which should reduce future volatility.

Our strategy continues to require sometimes suffering underperformance as the price of long-term outperformance. Thus, although I am extremely optimistic about the next few years, we should remain patient.

Portfolio Detail

The portfolio is summarized on the table below. Our GLS should continue to outperform gold over the long-term due to their low valuations and operating leverage (see 2017 year-end letter).

		Portfolio Weight		H2 '19 Return	Price /		
Security	[redacted]	**Dec-19**	**Jun-19**	**Contribution**	**Intrinsic Value**	[redacted]	[redacted]
GLS S	[redacted]	43.1%	27.2%	33.4%	20.4%	[redacted]	[redacted]
GLS M2	[redacted]	10.8%	5.4%	10.0%	100.1%	[redacted]	[redacted]
GLS C2	[redacted]	10.4%	Not Held	6.3%	58.9%	[redacted]	[redacted]
GLS O	[redacted]	6.2%	5.8%	3.2%	56.6%	[redacted]	[redacted]
GLS M	[redacted]	6.1%	31.1%	19.0%	103.0%	[redacted]	[redacted]
GLS C	[redacted]	5.4%	1.5%	6.1%	6.5%	[redacted]	[redacted]
GLS D2	[redacted]	5.4%	5.2%	1.8%	24.1%	[redacted]	[redacted]
GLS A	[redacted]	4.3%	Not Held	-1.7%	19.6%	[redacted]	[redacted]
GLS N	[redacted]	2.5%	5.1%	-1.8%	8.8%	[redacted]	[redacted]
GLS G2	[redacted]	2.0%	0.2%	-0.2%	14.4%	[redacted]	[redacted]
GLS D	[redacted]	1.4%	3.3%	-1.5%	23.2%	[redacted]	[redacted]
GLS L	[redacted]	Sold	0.3%	0.0%	Sold	[redacted]	[redacted]
Total GLS		**97.7%**	**85.1%**	**74.7%**			
UK Co.	[redacted]	2.3%	8.1%	0.7%	54.8%	N/A	N/A
CCC	[redacted]	Sold	6.8%	-0.1%	Sold	N/A	N/A
Total		**100.0%**	**100.0%**	**75.3%**			

Prices are as of Dec. 31. Returns exclude op. ex. CCC means counter-cyclical China-related company. GLS I is now named GLS N.

GLS S ("S") more than doubled in H2 as it [redacted] S may double or triple [redacted]

GLS M ("M") and M2 ("M2") are now trading near my conservative intrinsic value estimates. I have been reducing M to buy more undervalued GLS and to fund a redemption (the Fund's first). I expect to reduce M2 once we can sell it at long-term capital gains rates.

To fund the redemption, I also reduced our UK investment and sold our counter-cyclical China-related company (CCC). Hence 98% of the Fund is now invested in GLS. That seems prudent because the bubbles' acute age suggests they will end soon.

GLS C ("C") has [redacted]

Tax

There are differences in the *timing* of taxes and cash distributions for ETFs and the Fund. ETF capital gains are recognized only when the ETF is sold. Fund partners pay annual tax on their share of the Fund's realized gains. Thus, for an ETF, tax is back-ended, while, for the Fund, tax is spread over time. In contrast to ETFs, for which cash to pay taxes is immediately available from the ETF sale proceeds, the Fund does not distribute cash to pay tax and thus partners must use cash outside the Fund or redeem cash from the Fund. (In 2020, the Fund plans to distribute draft K-1s in October, not just December, to facilitate tax planning.)

For both ETF shareholders and Fund partners, cumulative mark-to-market (MTM) gains will equal tax gains.[1] Nevertheless, in some years, the Fund's tax gains may exceed its MTM gains and there were years in which there were tax gains although MTM returns were negative. As discussed further below, this is a *timing* difference.

That leads us to tax loss harvesting: the sale of securities with MTM losses to offset realized capital gains and thereby reduce current year tax. The securities sold should be replaced with securities that have equivalent or better risk and return. In other words, loss harvesting is sensible if it doesn't harm a portfolio's expected performance.

Although the Fund harvested some losses in December, more extensive loss harvesting would have been unwise. Of the Fund's tradeable securities, S and GLS N ("N") had the Fund's largest MTM losses during 2019 and were trading at extremely large discounts to intrinsic value. [redacted] In my opinion, had I harvested S and N's MTM losses, I probably would have been unable to find acceptable substitutes. Had I harvested S' loss mid-year, we would have missed out on S doubling in H2.

Please consider that loss harvesting doesn't eliminate tax – it only defers it. In other words, if the Fund had sold S and N, there would have been no S or N MTM loss to realize in future years and thus future tax would be higher. The value of this tax deferral is usually small, particularly in times of low interest rates, and is diminished by loss harvesting's transaction costs. See endnote for an example.[2] Tax deferral is a lame reason for preferring ETFs given that the Fund has vastly outperformed its ETF benchmarks.

The Fund has been careful about minimizing short-term tax gains and other costs. While most hedge funds and many mutual funds saddle clients with large short-term capital gains, the Fund's gains have all been long-term. While many hedge funds and virtually all financial advisors charge non-deductible management fees, the Fund has none.

Other

We are currently open to new investors, so feel free to distribute the redacted version of this letter. We plan to publish redacted versions of our confidential past letters soon.

I am the Fund's largest investor and 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. To view Tweets without creating a Twitter account, see this article.

I plan to be in Los Angeles through at least February.

Partners will receive several items over the next six months:

- Account statements should be sent this week. [redacted]

[redacted]

- 2019 tax documents should be sent by March
- The Fund's audited financial statements should be sent by May
- The Fund's next letter should be sent in mid-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 Hirschmann
Managing Partner

Endnotes

[1] A Fund partner's lifetime tax income will slightly exceed their MTM income due to the non-deductibility of Fund operating expenses. However, those are small (~0.3% of assets) and should decline further as a percent of assets.

[2] The following example illustrates that transactions costs impact the value of tax loss harvesting.

Let's assume the Fund had $10M in assets, used harvesting to defer $1M in realized gains for a year, and that Fund partners had 30% capital gain tax rates. The partners would defer tax of $300K. At a 6% annual interest rate, that would generate interest income of $18K ($13K after-tax), which would have increased taxable partners' Fund investment value by 0.13% ($13K divided by $10M).

Now, to harvest a $1M loss and defer $1M in realized gains, assume the Fund sold $1.5M in securities, replaced them with another $1.5M and paid 0.3% commissions (roughly average [redacted]) and a bid-ask spread cost of 0.5%. Transactions costs would reduce the Fund's value by 0.24%, which would exceed the tax deferral value.

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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