July 27, 2023

Dear Partner,

Updated results for the Hirschmann Partnership (the "Fund") are shown below. In H1 2023, the Fund returned -21.3% v. 16.9% for the S&P 500. The Fund has rebounded 19.3% in July.

	Class A Return	Class B Return	S&P 500 Index	MSCI World Index	Gold Miner Index	GDXJ Index	Gold (US$)
Q4 2014	-2.2%	-2.2%	4.9%	1.0%	-13.3%	-28.3%	-2.2%
2015	27.0%	24.8%	1.4%	-0.5%	-24.8%	-19.1%	-10.4%
2016	47.1%	44.7%	12.0%	7.9%	54.3%	72.9%	9.1%
2017	-12.6%	-12.6%	21.8%	22.8%	12.2%	8.2%	12.6%
2018	-23.0%	-23.0%	-4.4%	-8.4%	-8.5%	-11.0%	-1.5%
2019	63.3%	63.3%	31.5%	28.1%	40.4%	40.5%	18.3%
2020	52.1%	64.4%	18.4%	16.3%	23.7%	30.4%	25.1%
2021	-23.7%	-23.7%	28.7%	22.2%	-9.4%	-21.3%	-3.6%
2022	-53.0%	-53.0%	-18.1%	-17.9%	-8.6%	-14.5%	-1.2%
H1 2023	-21.3%	-21.3%	16.9%	15.3%	4.7%	0.0%	6.2%
Q3TD 2023	19.3%	19.3%	2.0%	2.4%	2.3%	1.2%	1.3%
Cumulative	**2.9%**	**7.6%**	**171.6%**	**115.3%**	**59.2%**	**20.5%**	**60.7%**
Annualized	**0.3%**	**0.8%**	**12.0%**	**9.1%**	**5.4%**	**2.1%**	**5.5%**

MSCI Index is Developed Market Standard (Net w. USA Gross). Gold Miner Index is NYSE Arca. GDXJ is GDXJ Total Return Index. As of Jul. 27

In H1 the Fund's performance continued to be disappointing. However, the future looks very bright given the extremely low valuations of our gold mining equities (GMEs). Of our five largest GMEs,[1] two are trading for only ~2x projected earnings, one is trading for less than the value of its net liquid assets,[2] one is trading for 80% less than a recent takeover bid and one is trading for only 2% of intrinsic value. Unsurprisingly, in H1, insiders were buying at all five. Our GMEs are on average trading for ~$25 per gold resource ounce, which compares to ~$233 for major GDX ETF holdings.[3]

The bubbles in bonds, China, US equities and US real estate have taken longer than expected to deflate. However, the longer a bubble lasts the likelier it is to burst. A US recession, stubborn global inflation or rising US government (USG) deficits could be the catalyst that sends gold soaring (see Debt & Inflation).

Investors' [redacted]. If [redacted], gold should rise to more than $7000 and our GMEs should trade for more than $800 per gold ounce.

Portfolio Detail

The Fund's portfolio is summarized below:

Security	[redacted]	Portfolio Weight Jun-23	Portfolio Weight Dec-22	H1 '23 Return Contribution	Price / Intrinsic Value	[redacted]	[redacted]
GME C1	[redacted]	27.8%	24.6%	-2.9%	21.9%	[redacted]	[redacted]
GME S	[redacted]	15.0%	14.0%	-2.3%	2.0%	[redacted]	[redacted]
GME R3	[redacted]	9.4%	5.5%	2.1%	78.8%	[redacted]	[redacted]
GME A	[redacted]	9.4%	11.7%	-4.7%	26.2%	[redacted]	[redacted]
GME D2	[redacted]	8.8%	0.9%	-2.6%	32.0%	[redacted]	[redacted]
GME N	[redacted]	7.4%	13.8%	-8.0%	18.7%	[redacted]	[redacted]
GME O2	[redacted]	5.0%	3.8%	0.1%	15.3%	[redacted]	[redacted]
GME C2	[redacted]	4.4%	12.3%	-1.1%	62.1%	[redacted]	[redacted]
GME F	[redacted]	3.8%	3.4%	-0.5%	8.5%	[redacted]	[redacted]
GME G2	[redacted]	3.1%	3.3%	-0.4%	10.6%	[redacted]	[redacted]
GME C3	[redacted]	2.9%	2.2%	0.1%	24.6%	[redacted]	[redacted]
GME E	[redacted]	1.8%	1.9%	-0.5%	9.2%	[redacted]	[redacted]
GME G3	[redacted]	0.8%	1.2%	-0.6%	36.0%	[redacted]	[redacted]
Total GME		**99.8%**	**98.6%**	**-21.3%**			
Other Securities		N/A	N/A	N/A			
Cash		0.2%	1.4%	0.0%	100.0%	N/A	N/A
Total		**100.0%**	**100.0%**	**-21.3%**			

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

GME N ("N") declined because N is less likely [redacted]. However, [redacted] should [redacted] close N's discount to intrinsic value. [redacted], potentially generating annual cash flow equal to N's current market capitalization. [redacted]. N is trading for 80% less than a takeover bid it rejected in late 2021.

GME A ("A") declined after [redacted]. [redacted]. [redacted]. [redacted]. A is currently trading for only 1 to 2x the earnings expected after [redacted]. A is extremely undervalued even in the unlikely event it [redacted].

The stock price of GME C1 ("C1") declined in H1 after C1 [redacted]. [redacted]. C1, however, is still undervalued, currently trading at ~2x expected annual earnings based on [redacted]. There is additional potential upside from [redacted]

GME D2 (“D2”) declined after . . [4]

GME R3 was acquired for stock . The Fund earned a ~40% return in only six months. I plan to exit the investment in the merged entity in H2 once the gain is classified as long-term.

The outlook for GME S (“S”) . . . .[5] . Assuming , the Fund’s cost basis is ~20% of S’ intrinsic value. ; that is understandable given S’ potential upside.

Debt & Inflation

Gold should skyrocket as investors seek safety from soaring inflation caused by an inevitable USG debt crisis.

The US has a combination of high budget deficits, an extraordinary government debt to GDP ratio, high inflation and extensive government borrowing from foreigners. The combination of high budget deficits and a high debt/GDP ratio indicates that debt is growing faster than the ability to pay. High inflation indicates that the government is already defaulting through inflation. Foreign investors are flighty, tough to control with regulations and thus more likely to trigger a government bond crash.

The US is in very bad company. There are 21 instances of this combination of four factors since 1914. (See endnote for exact criteria.[6]) All 21 countries defaulted within 2 years, either through inflation, devaluation, or outright failure to pay. Their median average annual inflation over the subsequent four years was 18%. The USG is also vulnerable due to its short debt maturities[7] and the potential fiscal consequences of bursting bubbles in US equities and real estate.

Nor should the US take solace from the fact that the Japanese government debt to GDP ratio is higher. The Japanese government bond bubble persists largely because the government borrows little from foreigners and Japanese inflation accelerated less than a year ago. Even so, Japan is a potential time bomb. Government interest expense would consume the entire budget if the government’s annual borrowing costs rose from the current 0.7% to 5.9% (a level just 160bps above current 4.3% core inflation[8]).

The Bank of Japan (BOJ) has postponed a bond crisis by buying government debt worth more than 100% of GDP. However, the BOJ's policy has driven Japanese inflation-adjusted deposit rates to negative 3.3% − the lowest level in 50 years. If Japanese depositors pull deposits from banks to protect their purchasing power (as US depositors have done recently),[9] Japanese banks would be forced to pull deposits from the BOJ, causing the BOJ to raise cash by selling government bonds, printing currency or raising interest rates to increase deposits.[10] (The Fed, by the way, couldn't postpone a crisis by buying USG bonds on this scale due to the relatively smaller US banking system.[11])

To make matters worse, global government debt to GDP is also near an all-time high and triple the level during the 1970s inflation crisis.[12] Thus a government debt crisis in one country could trigger an even wider contagion than in previous government debt crises such as the 1982 Latin American debt crisis, 1997 Asian financial crisis or the 2009 European sovereign debt crisis.

For the first time in many decades, governments will probably be the cause not the cure of the next crisis. If investors think a government is likely to default through inflation, that government cannot suppress a crisis. Government bailouts and rate cuts would only cause more inflation. A "doom loop" can result, as has recently occurred in Argentina, Greece and Turkey: a government debt crisis torpedoes the private sector, which in turn worsens the government debt crisis. In the next crisis stimulus may not be an option and thus the next crisis has the potential to be the worst of our lifetimes.

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 expect to provide performance updates before then. Partners' account statements will be uploaded shortly to the administrator's portal.

Next month I am scheduled to be interviewed by Palisades Gold Radio for the fourth time.

The Fund continues to focus on tax efficiency and has yet to incur any significant short-term capital gains. Tax estimates should be distributed in October and December.

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] Excluding GME R3 since I expect to sell GME R3 soon (see Portfolio Detail)
[2] Cash and securities less liabilities (including tax liabilities)
[3] Major components of GDX include Newmont, Barrick and Agnico Eagle. Newmont's copper resources are not included. The Fund's average resource multiple excludes GME R3 (see Portfolio Detail). Resource multiples are current enterprise value divided by gold ounces. Those multiples illustrate the portfolio's equity upside better than multiples that include any expected future debt required to fund mine construction. However, multiples including future debt would better illustrate relative valuation at current gold prices. Regardless, using either method, the Fund's GMEs' multiples are substantially lower than the GDX components' multiples.
[4] [redacted]
[5] [redacted]. [redacted]. Brazil seems vulnerable to a global economic slowdown due to its high government debt and dependence on commodities exports to China (e.g. iron ore). In the early 1980s, a US recession and rising US interest rates triggered a Brazilian government debt crisis that led to hyperinflation and "a lost decade". Compared to then, Brazil's government debt is much higher (48% gross debt to GDP in 1980 v. 88% in 2023) and its commodity-dependence is much greater. If the global bond bubble bursts and China's growth continues to weaken, it could be disastrous for Brazil.
[6] Country criteria were: (i) gross debt to GDP greater than or equal to 120%; (ii) budget deficit greater than 5% of GDP for each of the last two years; (iii) a cumulative current account deficit over the last five years (as a simple indicator of foreign borrowing); (iv) cumulative inflation of 10% or more over the last two years; (v) no major capital controls; and (vi) central bank foreign exchange reserves less than 70% of GDP. Data before 1950 was missing for some countries and thus the study may be expanded later. Primary sources: IMF, Bank of England, Rogoff and Reinhart
[7] The average maturity of USG debt issued by the Treasury is only ~5 years. The Fed has also issued ~$4tn of floating-rate debt (i.e. excess reserves)
[8] Japanese core inflation excludes fresh food and energy. This is often called "core-core inflation". Source: Statistics Bureau of Japan
[9] See "Bank deposit flight and the US money-market fund supremacy" by Euromoney.
[10] The BOJ's bond purchases have been primarily funded by floating-rate deposits, which are also known as excess reserves. If Japanese consumers pull deposits from Japanese banks, then Japanese banks should need to raise cash by redeeming their deposits at the BOJ. (Banks' deposits at the BOJ are more liquid than banks' loans or bond holdings)
[11] Over the last decade central bank bond purchases have been primarily funded by borrowing at floating rates from domestic banks. Printing currency has been a less significant funding source. Since US bank assets are smaller than Japanese bank assets as a percent of GDP (~74% vs. ~170%), the Fed's potential borrowing from banks (and thus its potential bond buying) is much smaller as a percent of GDP.
[12] Source: IMF

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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