January 30, 2024

Dear Partner,

Updated results for the Hirschmann Partnership (the "Fund") are shown below. In H2 2023, the Fund returned 81.2% v. 8.0% 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%
Cumulative	**56.3%**	**63.4%**	**187.5%**	**126.6%**	**64.4%**	**31.5%**	**70.4%**
Annualized	**4.9%**	**5.4%**	**12.1%**	**9.2%**	**5.5%**	**3.0%**	**5.9%**

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 December 31

After an update on our gold mining equities (GMEs), I discuss why a US recession seems likely and should trigger a US government (USG) debt crisis, involving high inflation and defaults.

[redacted]. A USG debt crisis should cause investors to [redacted], driving up gold prices.

Portfolio Detail

The Fund's portfolio is summarized below:

Security		Portfolio Weight		H2 '23 Return	Price /		
		Dec-23	Jun-23	Contribution	Intrinsic Value		
GME C1		49.4%	27.8%	57.0%	54.7%		
GME N		11.1%	7.4%	10.7%	31.9%		
GME C2		8.7%	4.4%	4.1%	81.4%		
GME A		7.2%	9.4%	2.8%	32.1%		
GME G2		7.0%	3.1%	8.6%	40.0%		
GME S		6.6%	15.0%	-4.2%	2.2%		
GME O2		3.0%	5.0%	0.1%	18.9%		
GME D2		2.4%	8.8%	1.3%	21.0%		
GME F		1.8%	3.8%	-0.8%	6.8%		
GME C3		1.2%	2.9%	-0.9%	29.4%		
GME E		0.7%	1.8%	-0.5%	7.5%		
GME G3		0.4%	0.8%	-0.1%	25.5%		
GME R3		Sold	9.4%	3.1%	Sold		
Total GME		**99.4%**	**99.8%**	**81.2%**			
Cash		0.6%	0.2%	0.0%	100.0%	N/A	N/A
Total		**100.0%**	**100.0%**	**81.2%**			

Prices are as of Dec. 31. Returns exclude performance allocation. GMEs are listed in descending portfolio weight order.

GME C1 ("C1") appreciated due to . C1, however, is still undervalued, currently trading at ~2.5x annual earnings projected based on the . C1 has no debt and has already . Nevertheless, I am evaluating whether to reduce our investment in C1 due to its increased valuation and high portfolio weight.

GME N ("N") appreciated after . At year-end, N's market capitalization was only , although N has no debt and has assets of .

GME G2 ("G2") appreciated after . . In H2 insiders bought of G2 and bought .

GME C2 ("C2") appreciated . Although C2 is less undervalued than the Fund's other GMEs, it has superb , high margins, no debt and substantial cash. C2 should appreciate further as its .

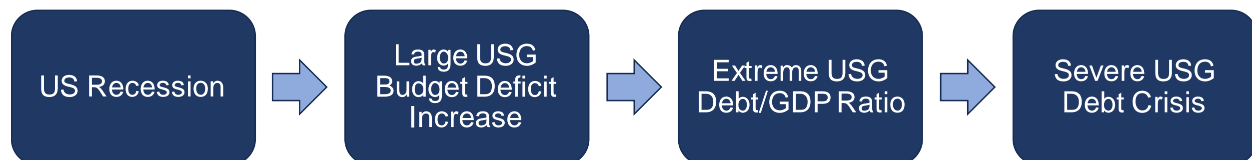
GME A ("A") appreciated after . A is

currently trading for only 1-2x expected ████ earnings and is thus undervalued even if ██████ ████████.

The Fund exited its GME D2 investment once the gain was classified as long-term. The Fund earned a ~90% return.

The outlook for GME S ("S") ██ ██ ██ ██ ██ ██.
Assuming ██████████████████████, the Fund's cost basis is ~20% of S' intrinsic value. S accounted for ~80% of the Fund's 2021-23 decline.

Recession & Debt Crisis[2]

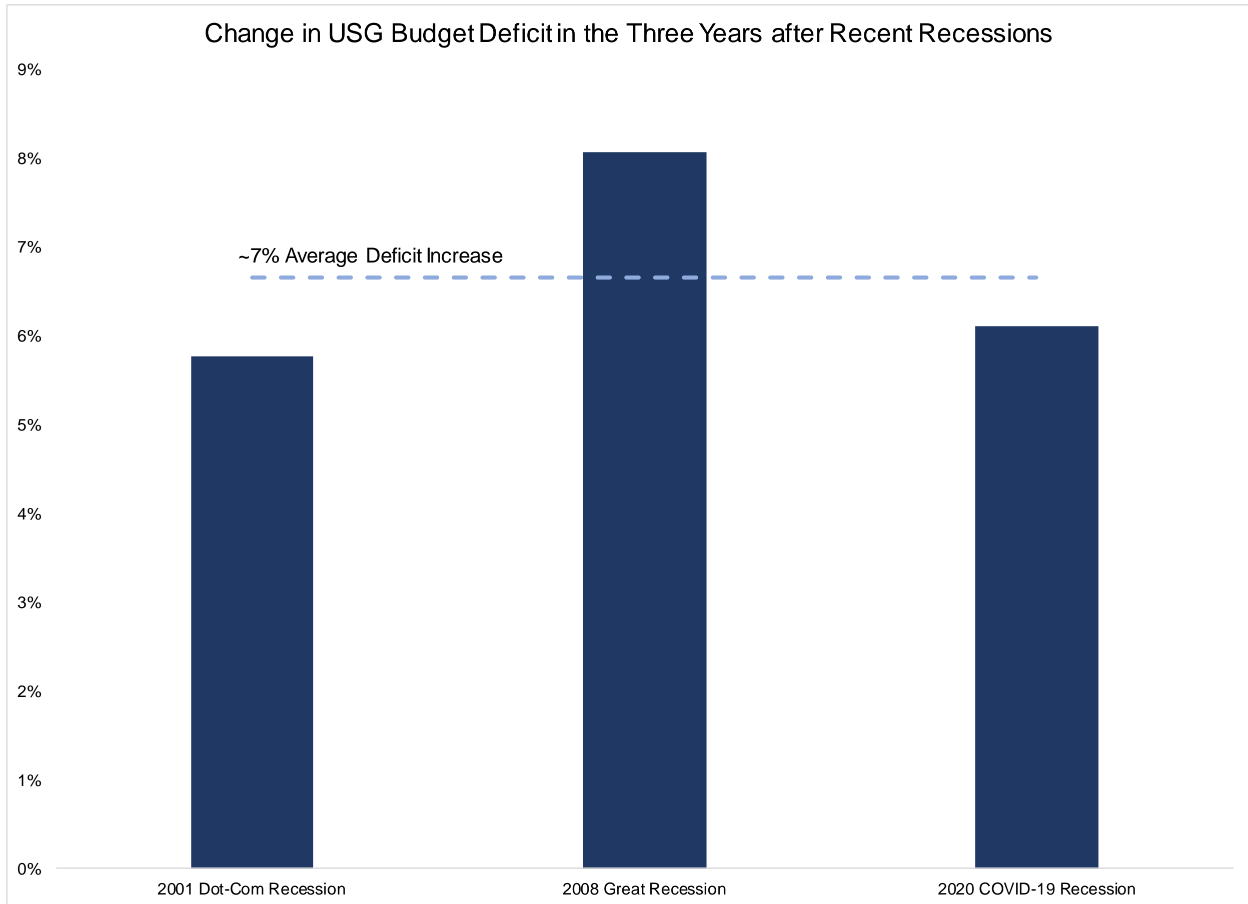


US Recession

A recession seems likely because metrics, each of which predicted the last eight recessions (with no false positives), indicate that is the case. These metrics include the yield curve,[3] Leading Economic Index[4] and the Leading Labor Index.[5] Although unemployment increased only slightly in 2023, other data (e.g. hires, job openings, part-time work, average hours worked, etc.) suggest the labor market is weakening as it did before prior recessions. The recession will likely be due to the delayed impact of the recent 525bps Fed Funds rate increase, which can no longer be offset by pandemic stimulus. Like most recessions, I expect this one to include slower economic growth and inflation-adjusted declines in equities and real estate.

Deficit Increase

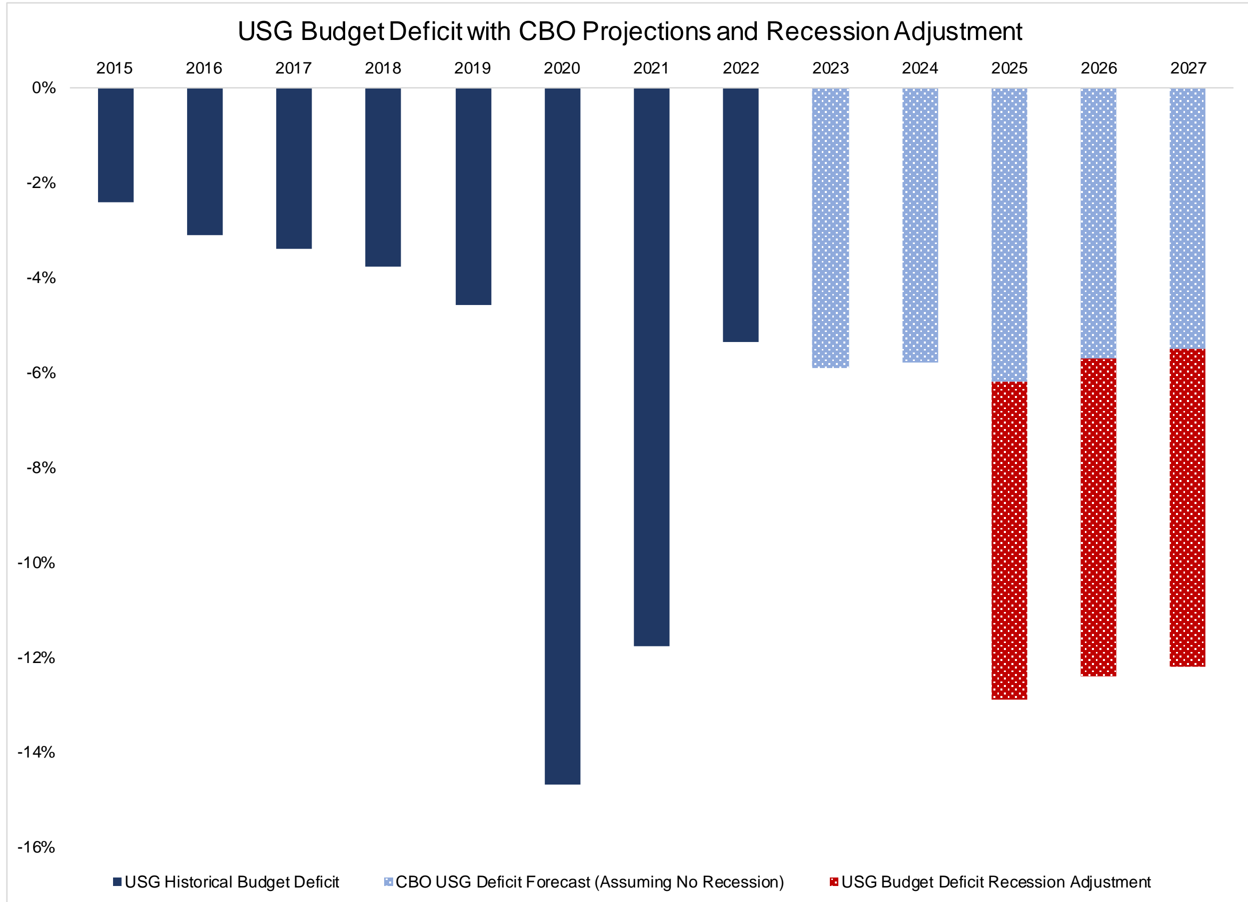
As shown in the chart below, after the most recent US recessions, the USG budget deficit increased by an average of ~7% of GDP per year.[6] [7] For example, the 2008 recession increased the deficit from ~1% of GDP in 2007 to ~9% in 2009-11. (Although recent recessions lasted only 9 months on average, deficits remained high for several years due to aggressive stimulus and gradual economic recovery.)



The most recent Congressional Budget Office (CBO) forecast predicts that a recession will not occur and that the deficit will remain at ~6% of GDP until 2027. Accordingly, the CBO projects a ~1% unemployment increase (from 3.6% in 2023 to 4.6% in 2025-27) while unemployment increased ~3% after recent recessions.

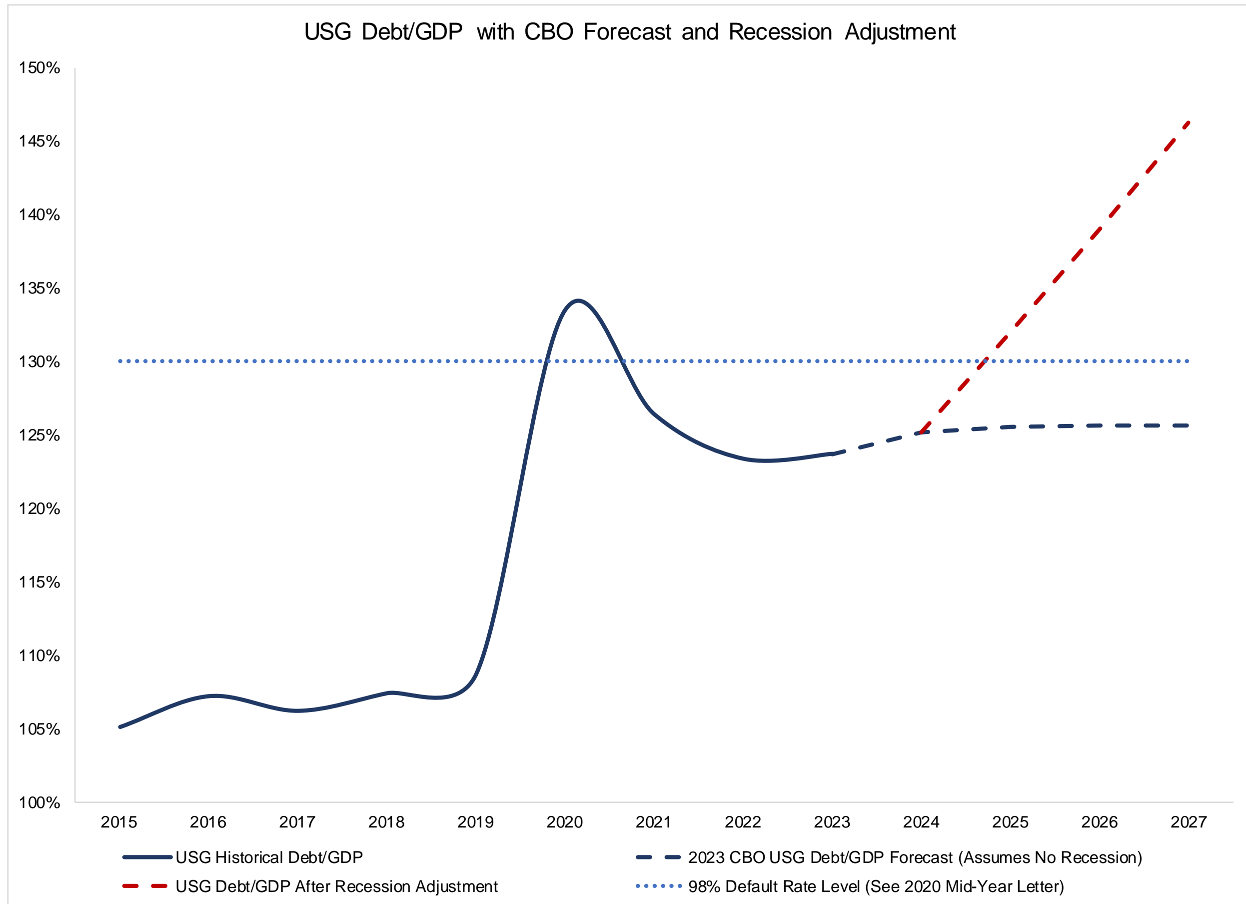
The CBO, however, has been consistently overoptimistic, mainly because it invariably assumes that recessions will not occur. In 2000, the CBO projected that there would be no recession and, fantastically, that the USG would pay off nearly all its publicly-held debt by 2010.[8] In 2007, the CBO again projected that there would be no recession and that debt/GDP in 2017 would be ~50% (less than half its actual level).

To show the potential impact of a 2024 recession, I increase the CBO's 2025-27 annual deficit forecast by ~7% (see chart below) because that was the increase after recent recessions.[9] Thus the annual deficit might rise from ~6% to ~13% after a 2024 recession.



Extreme Debt/GDP Ratio

The ~13% annual budget deficit from 2025-27 would increase the debt/GDP ratio from the current ~124% to ~146%, in contrast to the CBO's optimistic projection of 126% (see chart below).[10] I simply take the CBO's projected debt and add the additional debt that must be issued each year to fund the ~13% budget deficit.[11] I have not altered the CBO's optimistic GDP, unemployment and interest rate projections.



Debt Crisis

The ~146% debt/GDP ratio, projected above, should unravel financial markets. When debt/GDP is high, government debt tends to grow faster than a government's ability to pay. When investors realize that, they dump the government's bonds and trigger a crisis – e.g. a default. Hence, as discussed in my mid-year 2020 and year-end 2021 letters:

- Since 1800, 51 out of 52 governments with debt/GDP exceeding 130% have defaulted
- Since 1991, all 18 other governments with deficits exceeding 11% of GDP and debt/GDP exceeding 110% defaulted within two years

A USG default will not result in outright failure to pay. Rather it should result in skyrocketing inflation and interest rates, as lenders realize the USG must print money to pay its debt, just as the governments of Argentina and Turkey have recently done. (Fiscal austerity should be ineffective because it lowers growth, which worsens the budget deficit – see year-end 2016 letter.) As rates rise, the first-ever simultaneous US equity and real estate bubble should burst, magnifying the debt crisis. The Fed should be powerless to end the crisis because, if investors think a government will default through inflation, rate cuts only cause more inflation (see year-end 2016 letter). Contrary to optimistic market expectations, the next recession could easily 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-July. However, I expect to provide performance updates before then. Partners' account statements will be uploaded shortly to the administrator's portal.

In August I was interviewed by Palisades Gold Radio.

In 2023 one client redeemed from the Fund. At year-end the Fund had 31 clients (i.e. limited partners).

K-1s are scheduled for February. 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,[12] 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] . 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% debt/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.

[2] The budget deficit analysis in this section was inspired by slides 20-21 in this Doubleline Capital presentation. Note that Doubleline overstates the size of the budget deficit increase after the 2020 recession

[3] Source: Fed. See "Probability of U.S. Recession Charts". The 8 prior yield curve inversions have been followed by recessions

[4] Source: Conference Board. See "The composite business cycle indexes pre- and post- benchmark revisions". The 9 prior Leading Economic Index declines have been followed by recessions

[5] Source: RecessionAlert.com. See "8 Factor Cyclical U.S. Labor Index vs. Unemployment Rate". The 8 prior Index declines have been followed by recessions

[6] When calculating the change in the USG's budget deficit after recent recessions, I use the change in the *primary* budget deficit rather than the change in the *total* budget deficit. The primary budget deficit excludes interest payments. Thus historical primary deficit changes exclude the historical benefit from declining interest rates. That matters because interest rates may fall much less in the next recession than in recent recessions

[7] For the 2001 recession, I calculate the deficit change between 2000 and 2002-04. For the 2008 recession, I measure change between 2007 and 2009-11. For the 2020 recession, I measure the change between 2019 and 2020-22.

[8] Source: CBO. In January 2000 the CBO projected that the USG's 2010 net debt would be only 6% of GDP. Net debt includes all publicly-held debt but excludes debt held in government accounts, such as the Social Security trust fund. In my letters, I nearly always refer to gross debt, which includes the debt held in government accounts. See "#4" in my year-end 2016 letter for why gross debt is more relevant

[9] Similarly CBO projections prior to recent recessions underestimated the budget deficit by ~6.4% for the three years following the recessions

[10] Source for "USG Debt/GDP with CBO Forecast and Recession Adjustment": Fed, IMF, CBO, HC estimates, National Statistical Service of Greece

[11] I also include the additional interest expense that would result from a higher USG debt balance

[12] 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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