July 26, 2024

Dear Partner,

Updated results for the Hirschmann Partnership (the "Fund") are shown below. 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 (USG) 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 USG 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 [redacted]. In addition, as a possible precursor to [redacted]. I reduced the Fund's C1 shares by 24% in H1 due to its increased valuation and portfolio weight.

GME G2 ("G2") appreciated after [redacted]. [redacted]. In H1 insiders bought 6% of G2.

GME N ("N") declined after announcing [redacted]. As of June 30, the [redacted] entity's market capitalization was only [redacted], although it has 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 [redacted]

[redacted]. In July, the Fund has appreciated more than 8% despite [redacted]. Unlike A, none of the Fund's other GMEs have debt.

Recession Risk

A US recession remains likely because the labor market has weakened since I warned of 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 11 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, when the labor force was also growing rapidly. 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 now 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 bounced, 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] Source: https://www.redfin.com/news/data-center/
[3] Source: https://dqydj.com/sp-500-ps-ratio/
[4] 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 average of the unemployment rate 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, in other countries, recessions have consistently occurred when the three-month average of the unemployment rate (UR) has increased relative to its fourteen-month low. For example, the last 7 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 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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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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