



BARAC CAPITAL MANAGEMENT, LLC

January 2, 2018

Dear All,

This is the Fund’s twentieth regular quarterly report to provide updates on the Partnership’s performance. The Partnership’s Fund administrator, Fund Associates, LLC, is also generating monthly investment reports for each Partner, by directly and independently accessing the Fund’s electronic brokerage data.

For the three-months ending December 31, 2017, the Barac Value Fund L.P. (the “Fund” or “Partnership”) delivered net returns of 6.9% (after the deduction of management fees) versus a return of 4.1% for the benchmark¹.

Since the Partnership’s inception (on July 14, 2011), the Fund has returned 86.2% (after deducting management fees) versus a return of 80.7% for the benchmark, resulting in relative outperformance of 556 basis points.

Gross and net annualized returns for the Fund since inception amounted to 11.3% and 10.1%, respectively, versus a return of 9.6% for the benchmark.

	Barac Value Fund Returns		60% S&P TR/ 40% Barclay's Agg.
	Gross %	Net %**	
2011*:	(4.40)	(4.40)	(0.39)
2012:	19.65	19.65	11.31
2013:	27.60	26.16	17.56
2014:	11.72	10.04	10.62
2015:	(2.02)	(3.47)	1.28
2016:	7.63	6.01	8.31
2017:	16.33	14.58	14.35
Q4 2017:	7.26	6.85	4.12
Since inception:	100.05	86.19	80.63
Annualized:	11.32	10.09	9.57

*2011 and inception performance is from the fund's inception on July 14th, 2011

** No management fee was charged until April 2013, so gross and net results are the same until that date.

** From 4/2013 through 12/2017, the net results reflect the deduction of: (i) an annual asset management fee of 1.5%, accrued monthly.

** As of 1/2018, this management fee has been reduced from 1.5% to 0.95%.

Performance figures include the reinvestment of dividends and other earnings as appropriate.

***Q4 2017 performance is preliminary and has not yet been verified by the fund administrator.

PAST PERFORMANCE IS NO INDICATION OF FUTURE RESULTS.

¹ See appendix, at the end of the letter, for details on the benchmark and the underlying comparative methodology.

THIS IS NOT AN OFFERING OR THE SOLICITATION OF AN OFFER TO PURCHASE AN INTEREST IN THE BARAC VALUE FUND, LP (THE “FUND”). ANY SUCH OFFER OR SOLICITATION WILL ONLY BE MADE TO QUALIFIED INVESTORS BY MEANS OF A CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM AND ONLY IN THOSE JURISDICTIONS WHERE PERMITTED BY LAW.

Fourth Quarter Performance

For the fourth quarter ending December 31, 2017, returns for the Fund amounted to 7.3% on a gross basis and 6.9% on a net basis (after management fees), compared to 4.2% for the benchmark. The Funds quarterly performance also outperformed both the benchmark's equity² (up 6.6% quarter-to-date) and fixed-income³ (up 0.4%) subcomponents.

As always, it is important to re-state that the Fund's returns were generated without leverage (either direct or effective leverage through options), without taking highly concentrated positions, and while conservatively holding substantial cash and/or Treasury bond positions. I also continue to "put my money where my mouth is" and most of my liquid net worth also remains invested in the Fund along with the other Partners.

It should also be noted that going forward (as of January 1, 2018) the Partnership's management fee was reduced from 1.50% to 0.95%/annum⁴. This brings the Fund's fees in-line with Barac Capital's new separately-managed-account offering (launched in April of 2017), which is important in the interest of fairness and consistency. I believe that high fee levels continue to be one of the most value destructive components of the investment management industry (particularly for hedge funds) and I intend to keep ours below industry norms.

Performance Commentary

The Fund's outperformance for the quarter was driven by individual security selections. Top individual contributors for the period included Roku (+88.0% from entry price to quarter-end), Under Armour (+25.0% from entry price to quarter end), Home Depot (+16.5%), and Target (+11.7%). The only two negative return performers for the quarter were Adidas (-11.8%) and AMC Networks (-7.5%).

The contribution of Roku was particularly strong. The Fund purchased shares of Roku October, following an earnings report which gave me more optimism in the company's growth prospects. More specifically, it gave me more confidence in Roku's ability to monetize their leading operating system for "over-the-top" television (viewing which doesn't require a cable/satellite subscription: e.g. Netflix, Hulu, etc.). Subsequent to this purchase, investor sentiment for the company improved substantially and the share price increased by about 88% (as measured at the end of the quarter).

While I remained optimistic on Roku's prospects and believed the company's shares continued to offer good value, I also believed that the recent price runup had somewhat reduced the attractiveness of the share's risk/reward dynamics (as more speculative growth was priced into the stock). For this reason, and in order to re-adjust position sizing, the number of shares held by the Fund was subsequently reduced by about 50% (at price levels 65% above the Fund's entry price).

While Roku was the largest contributor to quarterly performance, the Fund's other positions also performed well during the quarter and the Fund would have comfortably outperformed its benchmark without any contribution from Roku. As of the end of the quarter, Roku accounted for approximately 2.2% of the Partnership's Assets-Under-Management ("A.U.M").

² All domestic equity references are as measured by the S&P 500 total return index.

³ As measured by the Barclays Aggregate index.

⁴ The fee change has also impacted how historic net returns are reported. See the "2018 Fee Reduction" section of the appendix for details.

Outlook and Positioning

As of the end of December, the Partnership remained underweight equities (at 58% of A.U.M. versus 60% for the benchmark) and fixed-income (at 36% of A.U.M. versus 40% for the benchmark) and held a cash balance of 6% of A.U.M. In order to mitigate against credit and interest rate risks, all of the Fund's fixed-income positions remain in U.S. Treasuries with a maturity of less than 5 years.

I do remain generally cautious with regard to "risk assets" (stocks and corporate bonds). This is more a result of market risk factors rather than concerns with respect to current equity valuation multiples. At the end of the quarter, I believe that the equity risk premium remains reasonable -- with a forward earnings' yield on the S&P 500 index of 5.0% versus a 2.4% yield for 10-year Treasuries.

What does concern me, however, is the earnings part of the price/earnings equation and the increasing risk that some of the contributors to current (high) profit margins could come under pressure. Earnings' levels now reflect low interest rates (and low credit spreads), low wage growth, and the positive wealth effect of 8 years of rising stock prices and home values.

As we approach full employment and some of the government's pro-growth policies come into effect, there is a heightened risk of wage pressure and increased interest rates with increased inflation. Furthermore, current valuations appear to incorporate little with respect to geo-political risks at a time when there is much political change and uncertainty. It also warrants bearing in mind that if/when the business cycle does turn (and assets prices fall), a resulting "reverse wealth effect" could exacerbate the impact of a cyclical downturn.

For all of these reasons, the Partnership remains more defensively positioned than its benchmark (which, itself, reflects a conservative asset allocation). This is reflected in the fact that 42% of the Fund's A.U.M. are either in cash or U.S. Treasuries with maturities of less than 5 years⁵. While a defensive positioning has somewhat constrained performance returns over the past year, I am willing to sacrifice some upside potential as capital preservation remains paramount to the Fund's investment strategy.

To be clear, the Partnership's defensive positioning is in place in order to mitigate against market risks and not based on the expectation for an imminent fall in equity prices. In fact, I believe that the current uptrend in the equity market could continue for a while. Furthermore, I believe that the Fund's equity holdings include idiosyncratic value opportunities (for specific stocks) that are superior to those of the equity markets as a whole.

Thank you to everyone for your interest and support and please let me know if there are any questions you may have that I haven't answered. The next quarterly report will be for the quarter-ending March 31st, 2018 and the next subscription period for the Fund will be on January 31st.

Sincerely,

Ted Barac
Managing Member of Barac Capital Management, LLC

⁵ As of December 31, 2017.

Appendix:

About The Benchmark:

As a multi-asset fund whose objective is to seek investment opportunities across different asset classes (e.g. stocks, bonds, etc.), the benchmark used for the Fund is a mix of 60% attributed to the S&P 500 index (including dividends paid) and 40% attributed to the Barclays aggregate bond index. The S&P 500 is a commonly used index of 500 U.S. large capitalization stocks while the Barclays aggregate index is a commonly used index of U.S. high-grade bonds.

The reason for using this specific benchmark is because it is comprised of two very commonly followed indexes for the two major investment classes (stocks and bonds) in the 60%/40% ratio mix, which has been a common allocation ratio recommended for long-term investors. In addition, both of these indexes can be easily purchased through low-fee and highly-liquid index funds, providing an easy alternative for investors. Long-term outperformance versus these indexes is necessary to justify an investment in the Fund and, therefore, this is the yardstick to which the Fund will be compared.

To be clear, the benchmark is chosen only to provide an easy and simplistic comparison to how one's investments might have performed if invested in low-fee index funds allocated in the commonly prescribed mix of 60%/40% (equities/bonds). The Fund does not endorse or make any attempt to follow such an allocation and in periods when I view equities as substantially over-valued, the equity allocation may be much less than 60% and vice-versa. In addition, the Fund will also hold other asset classes, outside the scope of the benchmark, which may include cash, small-cap. equities, foreign equities, and high-yield bonds, among others. Overall, the investment strategy of the Fund is about finding the best value across different asset classes and geographies while sizing positions to best optimize risk/reward.

2018 Fee Reduction:

As of January 1, 2018, the Partnership's management fee was reduced from 1.5% to 0.95%/annum. This brings the Fund's fees more in-line with Barac Capital's new separately-managed-account offering (launched in April of 2017), which is important in the interest of fairness and consistency. As a result of this change, the net performance figures now reflect actual numbers and no longer incorporate a pro-forma adjustment to add hypothetical fees for the period from inception to April 2013 (a period when no fees were actually charged).

This change was done in order to most accurately reflect actual historic net returns and because of the fact that after removing these pro-forma hypothetical adjustments, the actual net historic results still conservatively overstate the management fee rate (in aggregate since inception) relative to the on-going 0.95%/annum rate.