BARAC CAPITAL MANAGEMENT, LLC

May 15, 2017

Dear All,

This is the Fund's seventeenth 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.

This quarter's report will also provide a further update on performance for the month ending April 30th.

For the three-months ending March 31, 2017, the Barac Value Fund L.P. (the "Fund" or "Partnership") delivered net returns of 1.46% (after the deduction of management fees) versus a return of 3.95% for the benchmark[1]. For April of 2017, the Fund delivered net returns of 1.77% versus a return of 0.92% for the benchmark.

Gross and net annualized returns for the Fund since inception through April 30th of 2017 amounted to 10.51% and 8.85%, respectively.

	Barac Value Fund Returns		60% S&P TR/
	Gross %	Net %**	40% Barclay's Agg.
2011*:	(4.43)	(5.08)	(0.39)
2012:	19.69	17.87	11.31
2013:	27.61	25.68	17.56
2014:	11.72	10.04	10.62
2015:	(2.02)	(3.47)	1.28
2016:	7.63	6.01	8.31
YTD through April 2017:	3.78	3.25	4.91
Q1 2017:	1.84	1.46	3.95
April 2017:	1.90	1.77	0.92
Since inception:	78.49	63.51	65.93
Annualized:	10.51	8.85	9.12

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

**The net results reflect the deduction of: (i) an annual asset management fee of 1.5%, accrued monthly.

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

***April 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.

Year-to-date Performance

Year-to-date through April 30th of 2017, returns for the Fund amounted to 3.78% on a gross basis and 3.25% on a net basis after fees. Relative performance was constrained by an underweight position in equities, a sizeable cash balance held for much of the quarter, and a sizeable position in Target's shares (which fell by 23% Y.T.D.).

Top individual stock performers included Alaska Communications +40% (from position entry on February 13th to the end of April), Adidas AG (+28% Y.T.D.), the European small-cap ETF "IEUS" (+16%), and the German ETF "EWG" (+12%). The only two negative individual stock performers were Target (-23%) and Entravision (-11%).

As always, it is also 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.

Performance Commentary

Through the end of April, domestic equities[2] delivered a solid year-to-date[3] return of 7.16%. Given the continued strong performance of stocks during the period, the Fund's underweight position in equities constrained relative performance. Bond returns, on the other hand, were modestly positive. Year-to-date, the yield on the benchmark 10-year Treasury decreased from 2.45% to 2.28% and the bond sub-component[4] of the Fund's benchmark increased by 1.59%.

Target had a substantial negative impact on the Fund's performance year-to-date. Not only did the shares perform poorly (down 23% Y.T.D.), but Target was also the Fund's largest position going into their recent earnings report (accounting for about 6% of assets under management ("A.U.M.") at that time). So, what went wrong and what adjustments have been made following Target's results?

As I have discussed before, there are two potential reactions to share sell-offs like what happened with Target. You either believes that the sell-off is unjustified (in which case you typically should hold or add to your position) or you believe that the sell-off is justified. The former situation should be viewed as a long-term positive, as it allows you to acquire more shares at a more attractive price. Unfortunately, in this case I viewed the sell-off as justified and I subsequently reduced exposure to the company's shares.

Target's first quarter earnings report reflected growth trends and guidance that were worse than what I expected. Furthermore, while the long-term secular risks of on-line competition were largely reflected in Target's share price prior to their earning's report, I now believe that these risks are even greater than I had previously thought.

To be clear, while I now believe that execution risks for Target are greater and have reduced my position (to less than 3% of A.U.M.), I still view the company's shares as attractive (albeit, less so than before). I believe that Target has a solid plan to address their competitive challenges and I also believe that they have the tools and assets to emerge as one of the long-term bricks-and-mortar winners (who also stand to benefit from the demise of other/weaker competitors).

[2] All domestic equity references are as measured by the S&P 500 total return index.
[3] All "year-to-date" references are for the period ending April 30th, 2017.
[4] As measured by the Barclay's U.S. Aggregate index.

While execution risks are substantial, I believe that these risks are now more than adequately priced into Target's share price. The company's shares now trade at a forward price/earnings ratio (on substantially lowered earning's expectations for this year) of 13.8x with a dividend yield of 4.5% (versus 18.5x and 2.0%, respectively, for the S&P 500)[5][6].

Outlook and Positioning

The Fund remains more defensively positioned than what has been typical. As of the end of April, the Partnership remained underweight equities (at 58% of A.U.M. versus 60% for the benchmark) and was slightly overweight fixed-income (at 42% of A.U.M. versus 40% for the benchmark). The Partnership also currently holds a very low cash balance compared to what has historically been held by the Fund. Cash held by the Partnership amounted to less than 1% of A.U.M. at the end of April (versus 30% at the end of 2016).

As I have stated before, I always intended to reallocate cash into more income and wealth-producing assets as valuations and market risk dynamics shifted enough to warrant such a re-allocation. This is exactly what occurred in the year-to-date period ending in April.

An increased allocation into bonds…

A big allocation change (relative to prior years) was a move from being substantially underweight bonds to being slightly overweight. The reason for this change was because I believed that shorter-term maturity (4 to 5 year) Treasury instruments became a more attractive place to hold the Fund's defensive assets (rather than cash).

Yields on 5-year Treasuries reached 2.13% last quarter (after being as low as 0.91% as recently as July of last year). As a result of these increases, I believed that the risk/reward dynamics for these instruments improved considerably. This is true both on an absolute basis and relative to domestic equities -- which have moved in the opposite direction and are up over 16% since the same time last year.[7] These Treasury bonds also provide good diversification benefits and tend to be negatively correlated with the prices of stocks.

The allocation shift towards fixed-income had already began when Treasury bond yields increased substantially in the fourth quarter of 2016. Since then, the Fund's fixed-income allocation increased further (from 30% at year-end 2016 to 42% at the end of April). Importantly, it should be noted that these Treasury instruments bear no corporate credit risk and their shorter maturities mitigate interest rate risks.

Because I do remain concerned regarding interest rate risks, I am still very cautious on longer-term bonds and all of the Fund's current bond positions have maturities of less than 5 years. Furthermore, I believe that corporate credit spreads currently do not adequately compensate investors for the credit risks that they assume with these instruments. As such, the Fund also currently has no corporate bond holdings.

…and a partial re-allocation back into stocks.

The other major allocation shift for this year has been a partial shift back towards equities after considerably reducing exposure to that asset class in the fourth quarter of last year. Year-to-date, the Fund substantially increased its equity allocation (from 41% at year-end to 58% at the end of April). There were a number of reasons for this change:

To begin with, the very defensive positioning at year-end was a reaction to the year-end stock market rally that was driven by expectation that the President-elect's policies could lessen regulatory burdens and favorably impact

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[5] As of the most recent close of business on May 12, 2017.

[6] Forward earning's data is from Yahoo finance for Target and from the Wall Street Journal for the S&P 500.

[7] From July 6, 2016 to the most recent close of business on May 12, 2017.

businesses. As I stated at the time, I did not believe that the market was adequately pricing-in the uncertainties and risks surrounding these policies.

More specifically, I did not believe that market was sufficiently incorporating market risks, including the “tail risk” (i.e. low likelihood events, but ones which could have severe negative consequences) surrounding some of the political and economic uncertainties. This was particularly true with respect to trade policy and talk of high tariffs (and the resultant risks of a trade war).

While these issues are still of some concern, I am now generally more comfortable with these risks and the institutional checks-and-balances that are mitigating them. Furthermore, I believe that the equity-risk premium remains reasonable -- with a forward earnings’ yield on the S&P 500 index of 5.42% versus a 2.34% yield for 10-year Treasuries[8]. Finally, I believe that there are idiosyncratic value opportunities for specific stocks that are superior to those of the equity markets as a whole. For all of those reasons, I began adding back equity exposure in February of this year.

I still believe that temporarily sitting on the sideline with a reduced equity position during a period of heightened uncertainty was prudent from a capital preservation perspective. However, as with any insurance policy that doesn’t get utilized, there was no quantifiable benefit from employing these risk reduction measures and the impact on year-to-date performance was negative.

To be clear, while equity exposure for the Fund has increased, I do remain generally cautious with regard to “risk assets” (stocks and corporate bonds). For that reason, the Partnership remains more defensively positioned than its benchmark (which, itself, reflects a conservative asset allocation). This is reflected in the fact that over 45% of the Fund’s A.U.M. is now either in cash or U.S. Treasuries with maturities of less than 5 years[9]. Risk management remains of paramount importance to the Fund’s strategy, which focuses extensively on capital preservation and downside risk.

Thank you to everyone for your interest and support and please let me know if there are any questions you may have that I have not answered. The next quarterly report will be for the quarter-ending June 30th, 2017 and the next subscription period for the Fund will be on May 31st.

Sincerely,

Ted Barac
Managing Member of Barac Capital Management, LLC

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.

[8] S&P forward earning’s yield from the Wall Street Journal as of May 12th, 2017.

[9] As of the most recent close of business on May 12th, 2017.

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.