



# BARAC CAPITAL MANAGEMENT, LLC

April 17, 2014

Dear All,

This is the fifth regular quarterly report to provide updates on the Fund'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 March 31, 2014, The Barac Value Fund L.P. (the "Fund" or "Partnership") delivered gross returns of 1.95% and net returns of 1.56% (after deducting fees and expenses), versus a return of 1.87% for the benchmark<sup>1</sup>.

Since the Partnership's inception (on July 14, 2011), the Fund has returned 42.82% (after deducting fees and expenses) versus a return of 32.78% for the benchmark, resulting in relative outperformance of approximately 1,004 basis points or 10.04%.

The Partnership's returns amount to gross and net annualized returns since inception of 15.76% and 14.02%, versus 11.00% for the benchmark.

	Barac Value Fund Returns		60% S&P TR/ 40% Barclay's Agg.
	Gross %	Net %	
2011:*	(4.43)	(5.08)	(0.39)
2012:	19.69	17.87	11.31
2013:	27.61	25.68	17.56
YTD 3/31/2014*:	1.95	1.56	1.87
Since inception:	48.83	42.82	32.78
Annualized:	15.76	14.02	11.00

\*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; (ii) transaction fees and other expenses incurred. Performance figures include the reinvestment of dividends and other earnings as appropriate.

February figures are preliminary and have not been verified by the fund administrator.

PAST PERFORMANCE IS NO INDICATION OF FUTURE RESULTS.

<sup>1</sup> See appendix 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.**

## Quarterly Performance Commentary

For the most recent quarter ending March 31, 2014, returns for the Fund broadly tracked the benchmark. More specifically, the Partnership outperformed the benchmark by 8 basis points (or 0.08%) on a gross basis and underperformed by 31 basis points (or 0.31%) on a net basis after fees. Relative performance was supported by the solid performance of individual security selections but was constrained by an underweight position in fixed-income (as bond investments performed well for the quarter).

While this is the fifth of five consecutive quarterly letters reporting outperformance versus the benchmark on a gross basis, it is the first to report net underperformance after fees (and net performance is what really matters). A flat or under-performing quarter is never desirable, but it is expected from time-to-time. The value investment philosophy of the Fund entails identifying and buying undervalued assets and holding them until they approach fair value. While I believe that identifying and holding under-valued assets reliably improves the odds of outperformance over all time periods, short-term price movements are inherently unpredictable.

While assets tend to migrate towards their fair value over time, cheap assets can become cheaper and expensive assets can become more expensive over shorter-periods -- as sentiment and market psychology can trump valuation fundamentals. Legendary value investor Benjamin Graham summed it up well when he said "In the short run, the market is a voting machine, but in the long run it is a weighing machine." As mentioned before, caution should be used when evaluating short-term performance and I hold the most conviction for the Partnership's investment strategy over the longer-term.

The longer-term performance for the Fund has been particularly strong, with gross and net returns since inception (in July of 2011) of 49% and 43% versus a return of 32% for the benchmark. To put that in perspective, an investment of \$1,000 at inception delivered net returns of \$428 versus \$328 for the benchmark (31% more in net returns over less than 3 years).

This demonstrates the long-term value that the Partnership has delivered and the absolute effect of the compounding of the Fund's historically<sup>2</sup> higher annualized returns. Going forward, the objective is obviously to improve on that performance (on both a cumulative and annualized basis) as the Fund's strategies are allowed further time to play out.

## The Forward View

Over the course of the quarter, benchmark 10-year Treasury yields declined by 31 basis points (from 3.03% to 2.72%) and lower bond yields, more broadly, led to an increase in the value of the bond index<sup>3</sup> by 1.84%. During the prior quarter, I had increased the Fund's fixed-income exposure to 6% of assets-under-management (from 1% at Q3 2013 and 0% at the beginning of 2013). This increase in fixed-income exposure reflected the improved risk/reward dynamics for the asset class following a substantial increase in bond yields during the course of 2013.

Despite increasing the Fund's bond exposure during the prior quarter, the Partnership remained substantially underweight in fixed-income during the most recent quarter (which hurt relative performance). Going forward, I strongly believe that risk/reward dynamics for the fixed-income asset class remain unattractive and current yields inadequately compensate investors for interest-rate and inflation rate risks. Furthermore, with 10-year Treasuries yielding only 2.64%<sup>4</sup> and credit spreads for corporate bonds not offering compelling value, the opportunity cost for sitting on the sidelines (with an underweight position for fixed-income) remains somewhat limited.

---

<sup>2</sup> Past performance is no indication of future results.

<sup>3</sup> As measured by the Barclay's U.S. aggregate index.

<sup>4</sup> As of 4/16/2014

**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.**

I continue to believe that equities remain reasonably priced when considering current earnings multiples and forward earnings growth prospects (and remain very attractive relative to fixed-income). I also continue to see corporate earnings upside from further improvements in both the unemployment and the housing price situations. Any such earnings growth should support equity valuations in the absence of any expansion of earnings multiples (as I see the magnitude for such multiple expansion as limited).

While compressing considerably during 2013, the equity-risk-premium (ERP) remains substantial ---- with forward earnings yields on the S&P 500 equity index of about 6.5%<sup>5</sup>, compared to 10-year treasury yields below 2.75%. I expect the ERP to tighten further over time -- primarily through widening bond yields -- which is why I remain modestly bullish on equities and bearish on fixed-income.

Given the absence of any substantial changes with respect to bond yields, equity valuations, or forward earnings growth prospects, I made no changes to the Partnership's fixed-income positions during the quarter (which remains at 6% of assets-under-management; AUM) and stock exposure remained similar (at 71% of AUM)<sup>6</sup>. In order to mitigate credit and interest rate risks, the majority of the Fund's fixed-income investments are in U.S. Treasuries and most of the positions have fixed maturities of less than 5 years. With respect to the Fund's equity exposure, approximately 7% is in foreign stocks with the remainder comprised of domestic equities.

While equity valuations remain modestly attractive, I again caution that the considerable run-up in equity prices over the past few years has reduced the attractiveness of the asset class on a risk/reward basis and increased the likelihood for a material pull-back (which I would view as temporary and a buying opportunity). For this reason, and for the purpose of more diversification away from the equity markets, cash held by the Partnership remained substantial at 22% of AUM.

Going forward, I ultimately expect to reallocate this cash into more income and wealth-producing assets as valuations shift such to warrant such a re-allocation. Now higher valuations in the equity markets also mean that individual security selection -- finding extraordinary idiosyncratic value opportunities for specific stocks -- remains of paramount importance to the Fund's investment strategy.

Details of the Fund's individual equity positions are beyond the scope of these quarterly letters. For those who are interested, however, I have written more detailed research reports on some of these individual positions for the financial website "Seeking Alpha". These articles can be found at the following website address:  
<http://seekingalpha.com/author/ted-barac/articles>

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 30, 2014 and the next subscription period for the Fund will be April 30th.

Sincerely,

**Ted Barac**  
**Managing Member of Barac Capital Management, LLC**

---

<sup>5</sup> As of 4/11/2014 (the forward estimates used are only released weekly)

<sup>6</sup> Unless stated otherwise, all allocation percentages are as of 03/31/2014.

**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.**

## **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.