



# BARAC CAPITAL MANAGEMENT, LLC

August 4, 2016

Dear All,

This is the Fund's fourteenth 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 June 30, 2016, The Barac Value Fund L.P. (the "Fund" or "Partnership") delivered net returns of -0.91% (after deducting fees and expenses) versus a return of 2.37% for the benchmark<sup>1</sup>.

Gross and net annualized returns since inception amount to 10.14% and 8.49%, respectively.

	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
2014:	11.72	10.04	10.62
2015:	(2.02)	(3.47)	1.28
YTD 2016:	1.10	0.33	4.52
Q2 2016***:	(0.54)	(0.91)	2.37
Since inception:	61.55	49.87	52.64
Annualized:	10.14	8.49	8.89

\*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.

PAST PERFORMANCE IS NO INDICATION OF FUTURE RESULTS.

<sup>1</sup> 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.**

## Quarterly Performance

For the most recent quarter ending June 30, 2016, the Fund returned -0.54% on a gross basis and -0.91% on a net basis (after fees), versus 2.37% for the benchmark. Underperformance for the quarter was driven by individual security positions and an underweight position in bonds (as fixed-income performed well during the quarter).

Top individual stock performers included Adidas A.G. (+23% for the quarter), Union Pacific (+10%), and Amerco/UHAL (+5%). The worst individual stock performers included Gap (-28%), Target (-15% for the quarter), and Charles Schwab (-10%).

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 holding substantial cash balances. I also continue to "put my money where my mouth is" and most of my net worth also remains invested in the Fund along with the other Partners.

## Performance Commentary

As interest rates continued to fall (and bond values increased) over the course of the quarter, the Fund's relative performance was again constrained by an underweight position in fixed-income. During the second quarter, the yield on the benchmark 10-year Treasury fell from 1.79% to 1.49% and the bond sub-component<sup>2</sup> of the Fund's benchmark increased by 2.2%. Domestic equities<sup>3</sup>, on the other hand, delivered a solid 2.5% return after a roller coaster ending that saw abrupt losses following the "Brexit" vote essentially vanish by quarter-end.

The Fund's two worst individual equity performers had a substantial negative impact on the Fund's quarterly performance. Gap fell by 28% and was a material holding for the Partnership (comprising 2.6% of assets under management "A.U.M." going into the quarter). Target was not only the second worst individual performer (down 15%) but was also the Fund's largest individual stock position (at 4.9% of A.U.M. going into the quarter).

While the investment theses for these two positions are beyond the scope of this letter, I believed that both of these share price declines (relating to disappointing results) were overreactions and I subsequently added to both positions. These decisions worked out well, as both stocks have performed well during the most recent month and since purchase.

Over the course of July, Gap and Target increased by 22% and 8%, respectively -- contributing to the Fund's substantial outperformance for the month and for the beginning of the third quarter. The Fund was up 3.9% in July (net)<sup>4</sup> and also outperformed both the equity and debt sub-components<sup>5</sup> of the benchmark during the month.

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<sup>2</sup> As measured by the Barclay's U.S. Aggregate index.

<sup>3</sup> As measured by the S&P 500 TR (including dividends).

<sup>4</sup> July results have not yet been verified by the fund administrator.

<sup>5</sup> As measure by the S&P 500 TR (including dividends) and the Barclay's U.S. Aggregate indexes, respectively.

## **Outlook and Positioning**

With the yield on the 10-year Treasury now even further below the Fed's target inflation rate and the dividend yield of the S&P 500, I believe that interest rates are in serious bubble territory. As with all bubbles; however, I believe that predicting the bottom is impossible.

While longer-term U.S. Treasury yields may remain low for some time, I strongly believe that the risk/reward for these debt instruments is very poor. Furthermore, at current low yield levels, the opportunity cost of sitting on the sidelines (with either cash or shorter maturity Treasury positions) remains somewhat limited.

Because of all of these factors, my highest conviction investment decision is for an underweight position in longer-term high-grade bonds. I waited out my bearish views in both the tech bubble that ended in 2000 and the housing bubble that ended in 2008 (both were also frustratingly long-lasting bubbles!) and I believe that the interest-rate bubble will also end badly.

Despite a 6.2% increase for the S&P 500 equity index from March through July, I continue to believe that domestic stocks remain modestly attractive when considering current earnings valuation multiples and forward growth expectations. Relative to high-grade bonds, I also believe that domestic stocks are particularly attractive.

The Partnership remained substantially underweight fixed-income at quarter-end (21% of A.U.M. versus 40% for the benchmark) and very slightly under-weight equities (59% of A.U.M. versus 60% for the benchmark). 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.

Given my bearish long-term view for bonds and the continued risk of a material pull-back in the equity markets, I continue to believe that a substantial cash position is prudent. This is particularly true when considering the "tail risk" surrounding all of the current political uncertainty (e.g. potential "Brexit" fallout and the U.S. elections). As such, cash held by the Fund amounted to 20% of A.U.M. at quarter-end.

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 September 30th, 2016 and the next subscription period for the Fund will be August 31st.

**Sincerely,**

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

## **Appendix:**

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**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.

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