



**BARAC  
CAPITAL  
MANAGEMENT, LLC**

October 24, 2014

Dear All,

This is the Fund’s seventh 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 September 30, 2014, The Barac Value Fund L.P. (the “Fund” or “Partnership”) delivered gross returns of negative 1.05% and net returns of negative 1.42% (after deducting fees and expenses).

Since the Partnership’s inception (on July 14, 2011), the Fund has returned 45.42% (after deducting fees and expenses) versus a return of 39.07% for the benchmark<sup>1</sup>, resulting in relative outperformance of approximately 635 basis points.

The Partnership’s returns amount to gross and net annualized returns since inception of 14.06% and 12.35%, versus 10.80% for the benchmark.

	Barac Value Fund Returns		60% S&P TR/ 40% Barclay's Agg.
	Gross %	Net %	
<b>2011:*</b>	<b>(4.43)</b>	<b>(5.08)</b>	<b>(0.39)</b>
<b>2012:</b>	<b>19.69</b>	<b>17.87</b>	<b>11.31</b>
<b>2013:</b>	<b>27.61</b>	<b>25.68</b>	<b>17.56</b>
<b>Year-to-date:</b>	<b>4.59</b>	<b>3.41</b>	<b>6.70</b>
<b>Q3 2014:</b>	<b>(1.05)</b>	<b>(1.42)</b>	<b>0.75</b>
<b>Since inception:</b>	<b>52.68</b>	<b>45.42</b>	<b>39.07</b>
<b>Annualized:</b>	<b>14.06</b>	<b>12.35</b>	<b>10.80</b>

\*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.

September 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, 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 Commentary

For the most recent quarter-ending September 30, 2014, the Partnership returns were negative 1.05% on a gross basis and negative 1.42% on a net basis after fees, compared to a positive 0.75% return for the benchmark. Relative performance was constrained by a degree of exposure to the small-cap and European sectors of the equity markets (both sectors that substantially underperformed the large-cap S&P 500 index, upon which the benchmark is largely derived).

While the Fund's equity exposure is diversified across capitalization sizes and concentrated domestically, the underperformance for small-caps and European stocks was substantial enough to create a headwind for the Fund during the quarter. Going forward, I view(ed) the underperformance of these sectors as an opportunity and added both small-cap and European equity exposure during the recent October equity market "correction".

The longer-term performance for the Fund remains strong with gross and net returns since inception of 53% and 45%, versus a return of 39% for the benchmark. To put that in perspective, an investment of \$1,000 at inception delivered net returns of \$454 versus \$391 for the benchmark (16% more in net returns since inception in July of 2011). As usual, it is also important to re-emphasize that the Fund's returns were generated without leverage (either direct or effective leverage through options), without taking highly concentrated positions, and with the headwinds of holding substantial cash balances.

### The Forward View

Over the course of the quarter, benchmark 10-year Treasury yields remained broadly flat (decreasing from 2.52% to 2.51%) and there was a slight (0.17%) increase in the value of the bond index<sup>2</sup>. Large-cap equities, on the other hand, continued to trend slightly higher with the S&P 500 total return advancing 1.13% over the course of the quarter<sup>3</sup>. Small-cap equities fared much poorer, with the Russell 2000 index falling by more than 8% over the same period.

I added some bond exposure, during the most recent quarter (buying 5-year Treasuries), as the equity market was trading at near record highs and the equity risk premium compressed -- changing relative risk/reward dynamics for the two asset classes and justifying a small increase in bond exposure. As a result, bond exposure increased slightly from 8% of assets under management at the beginning of the quarter to 10% at quarter-end.

Despite the added allocation to bonds, I remain positive on equities relative to fixed-income and the Partnership remained substantially underweight fixed-income at quarter-end (10% of assets-under-management; AUM; versus 40% for the benchmark) and moderately overweight equities (68% of AUM versus 60% for the benchmark). Cash held at the end of the quarter -- held for the purpose of optionality, diversity, and overall risk management -- remained substantial and amounted to 21% of AUM at quarter-end.

I have often stated that I ultimately expect to reallocate the Partnership's cash into more wealth-producing assets as yields and valuations shift such to warrant such a re-allocation. A good opportunity to do just that occurred in the month subsequent to quarter-end (this month) when the benefit of holding a sizeable cash balance was realized. During October, the S&P 500 fell to levels almost 10% below the 2014 highs (almost 14% below for the Russell 2000 small-cap index).

Not only did the Fund's cash position buffer the impact of the equity market correction, but it also allowed the Partnership to put money to work at more attractive valuations. For a value investor, these types of corrections are often welcomed because of the attractive investment opportunities that they can provide. Reflective of the often

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<sup>2</sup> As measured by the Barclays U.S. aggregate index.

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

contrarian nature of the Fund's investment philosophy, much of the equity exposure added in October was small-cap and European equities (the very sectors that performed so poorly during the most recent quarter).

With respect to these asset allocations decisions (e.g. "overweight" stocks and "underweight" bonds) and for those that may be interested (I am guessing not many :-)) the general investment philosophy of the Partnership considers the following factors (in very abbreviated and general terms):

- 1.) **For stocks:** An analysis of market earnings' multiples in the context of my expectations for corporate earnings' growth and multiple expansion or contraction.
- 2.) **For Treasuries:** Interest rate levels relative to inflation expectations and resultant risk/reward considerations at different points on the Treasury yield curve.
- 3.) **For corporate and municipal bonds:** Credit spreads relative to bond default and loss-given-default expectations.
- 4.) **For hard-assets (e.g. real estate, commodities):** Current valuations relative to the prospects for long-term price appreciation based on macro-economic and other factors.

While a major focus of these quarterly letters is on these asset allocation decisions, it should be noted that most of my investment research is actually done at the individual security level. Given the diversified nature of the Fund, these analyses are numerous and beyond the scope of the Partnership's quarterly reports. Generally speaking; however, the individual stock research focuses on companies' net assets and discretionary free-cash-flow expectations relative to their market valuation. As someone with a background concentrated in bond research and corporate credit risk, I also focus extensively on the downside risks.

I believe strongly in these research and investment strategies (both for asset allocation and for the purchase of individual securities) and, as such, I have most of my own net worth invested along with the other Partners. Furthermore, while I believe that the Fund's historic returns have been solid, the objective is obviously to improve on this performance as the Partnership's investment strategies are allowed further time to play out.

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 December 31st, 2014 and the next subscription period for the Fund will be October 31st.

Sincerely,

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

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## **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.