BARAC CAPITAL MANAGEMENT, LLC

January 7, 2015

Dear All,

This is the Fund's eighth 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, 2014, The Barac Value Fund L.P. (the "Fund" or "Partnership") delivered net returns of 6.41% (after deducting fees and expenses) versus a return of 3.67% for the benchmark[1], resulting in relative outperformance of 274bps.

Since the Partnership's inception (on July 14, 2011), the Fund has returned 54.74% (after deducting fees and expenses) versus a return of 44.18% for the benchmark, resulting in relative outperformance of approximately 1,056 basis points.

The Partnership's returns amount to gross and net annualized returns since inception of 15.15% and 13.42%, versus 11.13% for the benchmark.

	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
Q4 2014:	6.82	6.41	3.67
Since inception:	63.09	54.74	44.18
Annualized:	15.15	13.42	11.13

*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.

December figures are preliminary and have not 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.

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Quarterly Performance Commentary

For the most recent quarter ending December 31, 2014, returns for the Fund exceeded the benchmark by 314 basis points (or 3.14%) on a gross basis and 274 basis points (or 2.74%) on a net basis after fees. Outperformance for the quarter was driven by individual security selections and a modestly overweight position in stocks (somewhat offset by a substantially underweight position in bonds).

Top individual stock performers included Entravision (+51% from initial purchase on 10/07/14 to quarter-end), Target (+21% for the quarter), Alaska Communications (+19% for the quarter to position exit on 12/05/14), and Best Buy (+16% for the quarter). The worst individual stock performers included Sprint (-20% for the quarter to position exit on 11/04/14). For those who may be interested, more details on the rationale for both the Sprint and Alaska Communications position exits can be found here: http://seekingalpha.com/author/ted-barac/articles

Over the course of the quarter, Treasury bond yields declined considerably and there was a 1.79% increase in the value of the bond index[2]. Large-cap equities, on the other hand, continued to trend higher with the S&P 500 total return advancing 4.93% over the course of the quarter[3]. Despite the limitations from holding substantial cash positions during the quarter (held to provide safety and optionality), the Fund's 6.41% net quarterly return not only outperformed the Fund's benchmark but also outperformed each of the benchmark's equity and debt sub-components.

The longer-term performance for the Fund remains strong with gross and net returns since inception of 63% and 55%, respectively, versus a return of 44% for the benchmark. I am also happy to report that the Fund reached the milestone of ending the quarter with assets under management (AUM) up over 100% since the Fund's inception in July of 2011 (primarily the result of the Fund's performance-driven growth).

As always, 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. 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.

The Forward View

With respect to fixed-income, there was considerable flattening of the Treasury yield curve over the past year. Over the course of 2014, 5-year Treasury yields declined by only 10bps (to 1.65%) whereas 10-year Treasury yields declined by 86bps (to 2.17%) and 30-year Treasury yields by 121bps (to 2.75%). Further to this flattening, I see much better risk/reward at the shorter end of the yield curve and I have allocated the Fund's fixed income exposure accordingly.

While 4 to 5-year Treasury yields aren't extremely attractive, I believe that they offer reasonable value and diversification benefits that warrant a modest allocation for the Fund. Beyond short-term Treasuries, I see very little value in fixed-income. I don't believe that corporate bond credit

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[2] As measured by the Barclays U.S. aggregate index.

[3] As measured by the S&P 500 total return index (including dividends).

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spreads are particularly compelling and I believe that longer-term Treasuries are in bubble territory. Going forward, I still expect that an eventual increase in interest rates will have a substantial negative impact on longer-dated bonds (because of their greater duration and also because I expect some future steepening of the Treasury yield curve).

As of year-end, investors were willing to take on the incremental interest rate and inflation risks of 30-year bonds for only 110bps (1.1%) of incremental compensation relative to 5-year Treasuries. To give you an idea of just how little margin of safety is embedded in that 1.1% premium, it would only take about a 6bps increase in 30-year Treasury yields (i.e. using year-end yields, going from 2.75% to 2.82%) for capital losses on such a bond position to wipe out the annual yield premium.

Furthermore, consider that only a 100bps (1.0%) increase in 30-year Treasury yields (e.g. using year-end yields, going from 2.75% to 3.75%) would result in close to a 20% capital loss on the position. These "safe-haven" long-term Treasury bonds bear substantial interest rate risks with yield compensation that appears woefully inadequate to me.

So why is anyone buying these long-dated Treasuries?

I believe that it is partly for the same reasons that investors buy during any asset bubble. Valuation considerations are trumped by the fact that the trend has been very good and because there's no clear catalyst for any imminent change with respect to long-term yields. Long-term Treasuries proved to be a fantastic investment in 2014 despite (what I considered to be) already low rates at the beginning of the year. Going forward, there are relative value considerations (e.g. long-dated U.S. Treasury yields are better than those of many European sovereign bonds) and low inflation/deflationary arguments supporting the case for owning long-term Treasuries.

With respect to the relative value argument, I believe that it is only relevant if you are taking both sides of the position (long one and short the other) and most long-term Treasury investors clearly aren't doing so or the divergence would have converged. To buy long-dated Treasuries simply because the yield is "the best of a bad bunch" or to believe that longer-term Treasury prices will be supported (over the long term) by today's relative value comparisons makes little sense to me.

With respect to long-term deflationary expectations, they may prove to be true, or inflation could stay at between 1% to 2%, or the Fed may realize their 2% inflation targets, or inflation could be much higher. I believe that economists and market strategists have proven to be poor prognosticators of such things and my crystal ball for inflation rates is fuzzy, as well. As such, I believe that investors should require long-term yields with a decent margin above what the central bank targets for inflation and a decent premium for the possibility that there could be some reversion to the mean with respect to interest rates over the longer-term.

As they stand today, I do not believe that long-term Treasury yields adequately compensate for these factors. While longer-term U.S. Treasury yields may remain low (or decrease) for some time, I strongly believe that the risk/reward for these instruments is very poor. Furthermore, at

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current yield levels, the opportunity cost of sitting on the sidelines (with either cash or shorter maturity Treasury positions) remains somewhat limited.

With respect to equities, I see them as fairly valued and no longer offering the substantial upside potential that they offered a couple of years ago. That said, I do believe that they remain reasonably priced and still offer better risk/reward than fixed income. Furthermore, I believe that there are select individual stocks that still offer substantial value. It also bears keeping in mind that the conclusion of a bull market doesn't usually occur when equities are at fair value (though, this is clearly not a reason for investing in the asset class in-and-of-itself).

Overall, I remain positive on equities relative to fixed-income and the Partnership remained substantially underweight fixed-income following quarter-end (12% of AUM as of 01/02/15[4]; versus 40% for the benchmark) and moderately overweight equities (67% of AUM as of 01/02/15 versus 60% for the benchmark). As discussed before, 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. Cash held by the Fund -- held for the purpose of optionality, diversity, and overall risk management -- remained substantial and amounted to 21% of AUM as of 01/02/15.

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 March 31st, 2015 and the next subscription period for the Fund will be January 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.

[4] For tax reasons, there were asset re-allocation trades that were deferred until the first trading day of 2015 (January 2, 2015). As a result, I believe that this is the most relevant date for quarterly AUM comparisons.

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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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