



**BARAC
CAPITAL
MANAGEMENT, LLC**

July 2, 2018

Dear All,

This is the Fund’s twenty-second 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, 2018, the Barac Value Fund L.P. (the “Fund” or “Partnership”) delivered net returns (after the deduction of management fees) of 4.2% versus a return of 2.0% for the benchmark¹.

Since the Partnership’s inception (on July 14, 2011), the Fund has returned 90.8% (after deducting management fees) versus a return of 82.4% for the benchmark, resulting in relative outperformance of 837 basis points.

Gross and net annualized returns for the Fund since inception amounted to 10.9% and 9.7%, respectively, versus a return of 9.0% for the benchmark.

	Barac Value Fund Returns		60% S&P TR/ 40% Barclay's Agg.
	Gross %	Net %**	
2011*:	(4.40)	(4.40)	(0.39)
2012:	19.65	19.65	11.31
2013:	27.60	26.16	17.56
2014:	11.72	10.04	10.62
2015:	(2.02)	(3.47)	1.28
2016:	7.63	6.01	8.31
2017:	16.33	14.58	14.21
Q2 2018:	4.44	4.19	1.99
YTD:	2.97	2.48	1.00
Since inception*:	105.99	90.81	82.44
Annualized:	10.93	9.72	9.01

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

** No management fee was charged until April 2013, so gross and net results are the same until that date.

** From 4/2013 through 12/2017, the net results reflect the deduction of: (i) an annual asset management fee of 1.5%, accrued monthly.

** As of 1/2018, this management fee has been reduced from 1.5% to 0.95%.

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

***Q2 2018 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.

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Second Quarter Performance

For the second quarter ending June 30, 2018, returns for the Fund amounted to 4.4% on a gross basis and 4.2% on a net basis (after management fees), compared to 2.0% for the benchmark. The Fund's quarterly performance also outperformed both the benchmark's equity² (up 3.4% for the quarter) and fixed-income³ (down 0.2%) subcomponents.

Top individual contributors for the period included Under Armour (+47%), Roku (+37%), and Ralph Lauren (+22% to position exit). The worst individual stock performers included Stanley Black and Decker (-13%), Berkshire Hathaway (-6%), and Federal Express (-5%).

As always, it is 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

Outperformance for the quarter was driven by individual security selections and I am particularly pleased with this quarter's performance, in light of the Fund's conservative asset class allocation. More specifically, the Partnership remained more defensively positioned than its benchmark (i.e. underweight equities and overweight defensive assets) which, itself, reflects a conservative asset allocation.

Under Armour and Roku were the biggest contributors to outperformance. As discussed in the Q1 quarterly letter, I had substantially increased exposure to both of these names during the past quarter and these incremental investments have had a considerable positive impact on performance. Not only did the share prices of each of these companies increase substantially, but they were two of the Partnership's larger holdings.

I remain positive on the shares of both under Armour and Roku and did not reduce any exposure over the course of the quarter. The reason I remain bullish on these names -- despite the substantial increase in their valuations -- is because their share price appreciation has been supported by positive earnings reports and news flow which has justified higher valuation levels.

That said, Under Armour and Roku have now grown to account for 7% and 6%, respectively, of Fund assets-under-management (A.U.M.). Given the historic underlying volatility in the shares of these companies, and the relatively conservative targeted risk profile of the Fund⁴, this is towards the upper end of my (concentration) comfort level for the Partnership. As such, the positions will likely be trimmed following any substantial further valuation increases.

Over the course of the past quarter, I exited the Fund's position in Ralph Lauren at levels 71% above where the Fund re-initiated a position in the company early last year. I also further sold down the Fund's Target position after the shares had increased over 50% in less than a year and risk/reward dynamics have become less attractive.

² As measured by the S&P 500 total return index.

³ As measured by the Barclays aggregate bond index.

⁴ Separately-managed-accounts may have a higher or lower risk profile based on their individual objectives and risk tolerance.

Target was recently one of the Fund's largest positions; however, after reducing exposure over the past two quarters, it now only accounts for only about 1% of Fund A.U.M. While the full investment thesis for Target (from last year) is beyond the scope of this letter, I wrote a detailed analysis on it at the time. For those who may be interested, that analysis can be found here:

<https://seekingalpha.com/article/4038981-target-expect-pay-less-following-sell>

Other notable trades during the quarter included the exit of shares in Entravision and the initiation of a small position in Cirrus Logic. I also substantially increased the Fund's holding in medium-term Treasuries.

Outlook and Positioning

Yields on 5-year treasury bonds increased further over the past quarter (increasing from 2.74% to 2.85%) -- making their risk/reward dynamics (relative to domestic stocks⁵, which increased 3.4%) increasingly attractive. As such, I increased the fixed-income allocation from 40% to 45% of A.U.M. (versus 40% for the benchmark).

I do remain generally cautious with regard to "risk assets" (stocks and corporate bonds). This continues to be more a result of market risk factors rather than concerns with respect to current equity valuation multiples. At the end of the quarter, I believe that the equity risk premium remains reasonable -- with a forward earnings' yield on the S&P 500 index of 5.8%⁶ versus a 3.0% yield for 10-year Treasuries.

What continues to concern me, however, is the earnings part of the price/earnings equation and the increasing risk that some of the contributors to current (high) profit margins could come under pressure. Earnings' levels continue to reflect low interest rates (and low credit spreads), low wage growth, and the positive wealth effect of 8 years of rising stock prices and home values.

As we approach full employment and some of the government's pro-growth policies come into effect, there is a heightened risk of wage pressure and increased interest rates with increased inflation. Furthermore, current valuations appear to incorporate little with respect to geo-political risks at a time when there is much political change and uncertainty. It also warrants keeping in mind that if/when the business cycle does turn (and assets prices fall), a resulting "reverse wealth effect" could exacerbate the impact of a cyclical downturn.

For all of these reasons, the Partnership remains more defensively positioned than its benchmark (which, itself, reflects a conservative asset allocation). This is reflected in the fact that 46% of the Fund's A.U.M. are either in cash or U.S. Treasuries with maturities less than 5 years. While a defensive positioning has constrained performance returns over the past year, I am willing to sacrifice some upside potential as capital preservation remains paramount to the Fund's investment strategy.

To be clear, the Partnership's defensive positioning is in place in order to mitigate against market risks and not based on the expectation for an imminent fall in equity prices. In fact, I believe that the current uptrend in the equity market could continue for a while. Furthermore, I continue to believe that the Fund's equity holdings include idiosyncratic value opportunities (for specific stocks) that are superior to those of the equity markets as a whole.

Fund Dissolution

In April of last year, Barac Capital began offering separately-managed-accounts (S.M.A.) and the offering has been successful (with assets in these accounts now exceeding those of the Fund). I started offering the S.M.A.s in order to address some of the inherent disadvantages of a hedge fund structure. While I continue to believe that the

⁵ As measured by the S&P 500 total return index.

⁶ Forward earnings' data is from the Wall Street Journal for the S&P 500.

Barac Value Fund's terms are very attractive (within the confines of a hedge fund structure), there are still a number of inherent drawbacks for many investors, including:

- Limited control (e.g. ownership of a percentage of the Fund rather than complete ownership/control of your own brokerage account);
- A lack of individual customization;
- A regulatory requirement to be an "accredited investor";
- Contributions required in cash (potentially requiring other investment liquidations and a crystallization of capital gains);
- Limited liquidity (monthly only); and
- Partnership "K1s" for tax preparation.

Because the S.M.A. offering addresses these issues and is inherently advantageous (for investors), relative to an investment Partnership (and, in this case, the fees are the same), I see little on-going incentive for an investor to choose the Fund over this alternative relationship. As such, I am currently working with the Fund's accountant, broker, and administrator to dissolve the Fund in a tax efficient manner that won't crystallize the unrealized gains of the Partnership (via a dissolution in-kind). I expect this process to be wrapped up in the next couple of months.

As a result, the next quarterly letter will discuss the performance of the Fund from inception (to closure) as well as the performance of the S.M.A.s (in aggregate) since inception. Going forward, the quarterly letters will be similar to those of the past, with a performance commentary focused on client returns in aggregate (something about which I am very pleased, so far).

Thank you to everyone for your interest and support and please let me know if there are any questions you may have that I haven't answered.

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.

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

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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.

2018 Fee Reduction:

As of January 1, 2018, the Partnership's management fee was reduced from 1.5% to 0.95%/annum. This brings the Fund's fees more in-line with Barac Capital's new separately-managed-account offering (launched in April of 2017), which is important in the interest of fairness and consistency. As a result of this change, the net performance figures now reflect actual numbers and no longer incorporate a pro-forma adjustment to add hypothetical fees for the period from inception to April 2013 (a period when no fees were actually charged).

This change was done in order to most accurately reflect actual historic net returns and because of the fact that after removing these pro-forma hypothetical adjustments, the actual net historic results still conservatively overstate the management fee rate (in aggregate since inception) relative to the on-going 0.95%/annum rate.