BARAC CAPITAL MANAGEMENT, LLC

January 17, 2017

Dear All,

This is the Fund's sixteenth 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, 2016, the Barac Value Fund L.P. (the "Fund" or "Partnership") delivered net returns of 2.25% (after deducting fees and expenses) versus a return of 1.10% for the benchmark[1], resulting in relative outperformance of 114 basis points.

Gross and net annualized returns for the Fund since inception amounted to 10.43% and 8.77%, respectively.

| | 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 |
| **2015:** | (2.02) | (3.47) | 1.28 |
| **2016:** | 7.63 | 6.01 | 8.31 |
| **Q4 2016:** | 2.64 | 2.25 | 1.10 |
| | | | |
| **Since inception:** | 71.99 | 58.35 | 58.16 |
| **Annualized:** | 10.43 | 8.77 | 8.75 |

*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.

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

**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.

## Quarterly Performance

For the most recent quarter ending December 30, 2016, returns for the Fund exceeded the benchmark by 154 basis points on a gross basis and 115 basis points on a net basis after management fees. Outperformance for the quarter was driven by individual security positions and an underweight position in bonds.

Top individual stock performers included Netflix (+25% for the quarter), Charles Schwab (+25% from quarter beginning to position exit), and Amerco/U-Haul (+14%). The worst individual stock performers included CVS Health (-11%), Adidas AG (-10%), and Entravision (-8%).

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 remains invested in the Fund along with the other Partners.

## Performance Commentary

Domestic equities[2] delivered a solid 3.8% return over the course of the quarter (bringing their year-to-date return to 12.0%). The bond sub-component of the Fund's benchmark[3], on the other hand, fell by 3.0% as a result of increased bond yields (e.g. the yield on the benchmark 10-year Treasury increased from 1.61% to 2.45%).

Given the Fund's underweight position in fixed income, the underperformance of bonds contributed to the Partnership's outperformance during the quarter. Individual security positions also contributed to the outperformance as the Fund's best performers more than offset the impact of the laggards.

Some notable trades during the quarter included the exit of positions in Ralph Lauren, Charles Schwab, and Wells Fargo, following a nice run-up for these stocks during the quarter. The Fund also sold out of all domestic equity index exposure that was held long enough to qualify for long-term capital gains taxation. Valuation and market risk considerations were the catalysts for exiting these index positions.

Historically, when the Fund's individual stock positions were fully allocated and I didn't want any more concentration risk (but wanted additional U.S. equity exposure), broad index exposure was sometimes purchased through low-fee diversified index funds. This is no longer the case, today, as I don't see such broad market exposure as optimal at current valuations. Nonetheless, some limited domestic index exposure does remain because of tax considerations.

For tax efficiency reasons, security sales are always done with an eye towards targeting holdings of over one year. While there are obviously many other factors to consider when making any trade, tax efficiency through the realization of lower-taxed long-term capital gains is always a consideration. Ideally, a position is held for multiple years so that taxes are also deferred for a considerable period of time. Of course, such a holding period is not always possible because valuation issues can arise that trump tax considerations. Nonetheless, I do believe that the Fund's longer-term value investment strategy allows for greater tax efficiency, relative to more high-frequency trading strategies.

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[2] All domestic equity references are as measured by the S&P 500 total return index.

[3] As measured by the Barclay's Aggregate Bond index.

**Outlook and Positioning**

The Partnership ended the fourth quarter with its most defensive investment positioning since the Fund's inception. Over the course of the quarter, cash increased to 30% of assets-under-management ("A.U.M."; from 16% at last quarter-end) while equity exposure decreased to 41% (from 62%) and bond exposure increased to 30% (from 22%).

There were several reasons for the allocation changes. As mentioned before, high-grade bond yields increased considerable over the quarter -- on speculation about the future increases in federal debt and inflation that could result from Donald Trump's economic policies. With substantially higher bond yields, I believed that interest rate and inflation risks had become more appropriately priced into certain parts of the bond market and this warranted an increase in the Fund's bond allocation.

To be clear, I still believe that longer-dated bonds remain overpriced and, to mitigate both credit and interest rate risks, all of this quarter's fixed-income purchases were in U.S. Treasuries maturing within approximately 5 years. While shorter maturity Treasury yields still weren't overly attractive (e.g. the 5-year ended the quarter yielding 1.93%), I believed that they had increased to a level sufficient to offer reasonable value. This, combined with their diversification benefits, warranted a more substantial allocation to the fixed-income asset class. It should be noted, however, that even after the bond purchases made during the most recent quarter, the Fund remained underweight fixed-income (at 30% of A.U.M. at quarter-end versus 40% for the benchmark).

Domestic stock valuations went the opposite way from bonds and ended the quarter up 3.8%[4] on the expectation that the President-elect's policies could lessen regulatory burdens and favorably impact businesses. As I stated in the last quarterly letter, I believe that the market is not adequately pricing-in the uncertainties and risks surrounding these policies. This is particularly true when considering that stocks were not particularly cheap going into election night. As such, I used the rally as an opportunity to sell some equity exposure and cash held by the Fund increased to 30% of A.U.M. at the end of the most recent quarter (from 16% at the prior quarter-end).

It should be highlighted that the increase in cash was driven by valuation and market risk considerations and not any attempt to try and time the inherently unpredictable short-term moves of the market. More specifically, I didn't feel that the market was sufficiently incorporating market risks, including the "tail risk" (i.e. low likelihood events, but ones which could have severe negative consequences) surrounding some of the current political and economic uncertainties.

Going forward, I ultimately expect to reallocate this cash into more income and wealth-producing assets as valuations and market risk dynamics shift enough to warrant such a re-allocation. 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.

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, 2017 and the next subscription period for the Fund will be on January 31st, 2017.

**Sincerely,**

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

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[4] As measured by S&P 500 total return index.

## 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.