

# SOUTHLAND CAPITAL MANAGEMENT, LLC

Month	BDC Fund II*	S&P 500 TR	Nasdaq Comp	Dow Jones	Russell 2000 (DRI)
January - 2010	- 0.75%	- 3.60%	-5.37%	- 3.46%	- 3.68%
February - 2010	9.15%	3.10%	4.23%	2.56%	4.50%
March - 2010	8.07%	6.03%	7.14%	5.15%	8.14%
<b>Year to Date</b>	<b>17.08%</b>	<b>5.39%</b>	<b>5.68%</b>	<b>4.11%</b>	<b>8.85%</b>
<b>Inception to Date</b>	<b>22.19%</b>	<b>11.75%</b>	<b>12.98%</b>	<b>11.78%</b>	<b>13.07%</b>

\* Fund's inception was October 1, 2009. Performance shown is net of all fees & expenses including management & performance fees. Past performance is not necessarily indicative of future performance. This material does not constitute an offer to sell (nor the solicitation of an offer to buy) interests in BDC Fund II, LP (the "Fund"). Offering is made by Private Placement Memorandum from a Principal only.

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## MARCH 2010 RESULTS

*We had a very good month in March: up 8.07%.* We added substantial new equity in the month which de-leveraged the fund for the first couple of weeks as we cautiously put the new money to work, in effect lowering our returns somewhat. Nonetheless, March went well for all our BDC investments and was helped by the receipt of the bulk of the quarter's dividend distributions.

We remain comfortable with the overall market environment, which is pointing towards stable or higher dividends and an improvement in earnings, bad debts and capital availability. Month to date in April (through Friday April 9th), the Fund portfolio is 4% ahead of March month-end.

Since the launch of the Fund in October 2009 six months ago, we are up a greater than expected 22.2%, nearly twice greater than all the indices we compare against.

*(Even though it's mentioned in small print in the Table above, we want to remind everyone that the returns given are net of all expenses and SCM's fees).*

## FED KEEPS RATES LOW

Federal Reserve officials repeated their pledge to keep the main interest rate near zero for an "extended period" and confirmed that emergency measures to prop up the housing market will end as planned this month. How low is low?

*The Fund has been borrowing at a rate under 1.2%. Given that the yield on the BDC assets we invest in are at 10.4%, the net margin between income and interest expense is above 9.2%.*

## NEW BDC ANNOUNCES IPO!

In February, we added a new BDC to the universe of BDCs that we follow. Solar Capital Ltd. (NASDAQ: SLRC, announced the closing of its initial public offering of common stock. A total of 5,000,000 shares of common stock were sold in this offering at a price of \$18.50 per share. The net proceeds of the initial public offering and concurrent private placement totaled approximately \$95 million. Solar expects to use substantially all of the net proceeds from this offering to make new investments in portfolio companies, for general working capital purposes and for temporary repayment of debt. The Company also announced the closing of its newly amended and restated \$270 million senior secured revolving credit facility. Three new lenders joined Solar Capital's existing lender group on this three year facility that matures in February 2013.

## BDC II AUM GROW

Assets Under Management (or "AUM") in the Fund have quadrupled since inception. We recently breached the \$10,000,000 threshold. In addition, we

are currently working on closing a large new offshore managed account for a family office that should add significantly to AUM.

## DIVIDEND ROUND UP

The Dividend Scorecard for the first quarter of 2010 shows that 16 of the 20 BDCs we track have made distribution announcements. (These numbers do not include Solar Capital, which went public in February 2010 (see related story on Page 1).

DIVIDEND	SCORECARD
INCREASED	3
UNCHANGED	11
DECREASED	2

Only 2 BDCs have cut their payout this quarter. By comparison a year ago, 7 of these 15 companies reduced their dividend.

We project that there will be no additional dividend reduction amongst the 4 BDCs that have not yet announced results. In fact, a BDC which has not paid a dividend for 2 years may renew making payments in the first quarter (MCG Capital).

## ARES CAPITAL ACQUIRES ALLIED CAPITAL

Allied Capital (ALD) shareholders approved the acquisition of the company by Ares Capital (ARCC) in late March 2010. Allied Capital was the oldest Business Development Company ("BDC") and the second company in this sector to be swallowed up by a more successful BDC. The merger went through on April 1, 2010. (Ares Capital is one of the Fund's portfolio companies. We did not hold any position in Allied Capital due to our concern - dating back to 2007 - at management's overly aggressive investment policy).

For SCM, the total number of BDCs tracked remains unchanged at 21 despite the disappearance of Allied Capital due to the February 2010 IPO of Solar Capital (SLRC), as mentioned on Page 1.

## GOLDMAN SACHS AUTHORIZES EXPANDED MARGIN BORROWING

Goldman Sachs, who serves as SCM's Prime Broker for the BDC II Fund, approved increased margin lending for SCM should it be required in the future. After reviewing the universe of BDC stocks that SCM tracks, Goldman offered to provide margin lending equal to 6.5x equity contributed, subject to a minimum investment of \$1.5mn. (By comparison, the Fund currently only utilizes 1x margin borrowing to equity contributed).

The principal benefit of this potential additional leverage is to take fuller advantage of the historically wide arbitrage between the yield on BDC investments and the cost of debt. As mentioned on Page 1, the net margin is approximately 9% before fees. On a pro-forma basis, a portfolio of BDC assets funded 20% with equity and 80% with margin debt could earn cash income of well over 40% even assuming no stock price increase. Of course, the downside is that a severe reduction in BDC stock prices could cause Goldman to require additional collateral or the sale of some portfolio assets to maintain required asset coverage.

As a result, SCM may offer in the future, managed accounts to investors interested in higher risk/higher return investing, and who are prepared to face the increased risk of loss that comes with the increased use of margin debt.

## LOOK FOR OUR NEW BDC REPORTER WEBSITE

We have been busy working on our new BDC REPORTER website. A new stand alone address, new look, easier access to information regarding the BDC Industry such as locating companies, dividends, news snippets and a calendar providing earnings, conference call or other announcements all at your fingertips. Also added are RSS feeds, eMail notification and Twitter alerts to new postings. We should have the site completed by the end of April, so please check it out then.

*SCM's goal is to become the most respected voice in the financial community about the BDC industry.*

## NEWSLETTER

Keeping investors and prospective investors updated on the activities of Southland Capital Management and BDC Fund II

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