

# SOUTHLAND CAPITAL MANAGEMENT

Month	BDC Fund II*	S&P 500 TR	Nasdaq Comp	Dow Jones	Russell 2000 (DRI)
October - 2009	-10.05%	- 1.86%	- 3.64%	0.00%	- 6.79%
November - 2009	7.45%	6.00%	4.86%	6.51%	3.14%
December - 2009	7.95%	1.93%	5.81%	0.80%	8.05%
January - 2010	- 0.71%	- 3.60%	-5.37%	- 3.46%	- 3.68%
<b>Inception to Date</b>	<b>3.62%</b>	<b>2.22%</b>	<b>1.17%</b>	<b>3.66%</b>	<b>0.05%</b>

\* 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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The Fund experienced a - 0.71% return for the first month of 2010.

### DIVIDEND NEWS

We list all the dividends announced in the month. Good news !

### PAGE 2 BDC BIDDING WAR?

Ares Capital and Prospect Capital battle it out for Allied.

### EARLY EARNINGS NEWS

Only two BDCs have reported earnings for the period ended December 2009. We have the results.

### SCM WELL POSITIONED AFTER MARKET MELTDOWN

Plenty of dry powder and strong average yields.

## FIRST MONTH OF 2010

January came in like a lion, with virtually every BDC in the portfolio increasing in value in the first two weeks of the new year. The final two weeks of January saw the gains of almost 6%, erased as the market gave back, ending the month up 0.71%.

## DIVIDEND NEWS

Here are all the dividend announcements for the companies we track since the beginning of the new year. Remember we do not necessarily invest in all the companies we track:

**Compass Diversified (CODI)**- Announced an unchanged dividend of \$0.34 for the quarter ended December 31, 2009.

**Fifth Street Finance (FSC)**- Announced an increased dividend of \$0.30 from \$0.27 in the prior quarter for the quarter ending March 31, 2010.

**Gladstone Capital (GLAD)**- Announced an unchanged dividend of \$0.21 for the quarter ending March 31, 2010.

**Gladstone Investment Corporation (GAIN)**- Announced an unchanged dividend of \$0.12 for the quarter ending March 31, 2010.

**Kayne Anderson Energy (KED)**- Announced an unchanged dividend of \$0.30 for the quarter ended December 31, 2009.

**PennantPark Investment (PNNT)**- announced an increased dividend of \$0.26 from \$0.25 in the prior quarter for the quarter ended March 31 2010

**Pioneer High Income Trust (PHT)**- Announced unchanged monthly dividends of \$0.1375 for January and February 2010.

**Pimco High Income Fund (PHK)**- Announced unchanged monthly dividends of \$0.122 for January and February 2010.

**SPDR Barclays High Yield ETF (JNK)**- Announced a dividend of \$0.346 for the month of January 2010, slightly down from \$0.362 in December 2009.

DIVIDEND	SCORECARD
INCREASED	2
UNCHANGED	6
DECREASED	1

## BDC BIDDING WAR

Following the historic news last year that not one but two BDCs were being bought

by other BDCs (Prospect Capital bought Patriot Capital and Ares Capital offered to buy Allied Capital), we can now report we have the first contested BDC acquisition. Interestingly all the parties are the same. Just a couple of weeks before Ares Capital's offer to buy Allied Capital was to go to shareholders for a vote, Prospect Capital made a counter offer. Given that Prospect had only just completed the acquisition of Patriot Capital in early December, this came as a shock to the markets. Allied Capital's Board, though, rebuffed Prospect's advances not once but twice. The second time Allied wrote a stinging response to its would-be suitor in which it made clear that there was no prospect (pun intended) of the company changing horses in mid-stream. As we write this, the proxy documents which the Allied Capital and Ares Capital shareholders will be voting on have been issued. We still expect Ares to buy Allied by the end of March 2010. What Prospect will do next-if anything-is unknown, but makes for great drama.

We've been writing extensively on this subject on BDC Reporter and Seeking Alpha. For more color on all the drama, and to read the damning riposte by Allied Capital's Board to Prospect Capital, check out [www.bdcreporter.wordpress.com](http://www.bdcreporter.wordpress.com) or [www.seekingalpha.com/author/nicholas-marshi](http://www.seekingalpha.com/author/nicholas-marshi)

## EARLY EARNINGS NEWS

It's early in the BDC earnings season. The books closed on December 31, 2009, and only two of the companies we track have reported. There were no great surprises where we are concerned.

### GLADSTONE CAPITAL (GLAD)

Gladstone Capital (GLAD) reported Net Investment Income Per Share essentially flat with the prior period at 21 cents, exactly equal to its dividend. The pay-out, which is paid out as 7 cents every month, has been unchanged for several periods after GLAD had to cut payments in half in mid-2009 when its existing lender

bailed on short notice and the Company had to sell assets in a hurry to stay solvent. Unfortunately, Gladstone is still in the process of fixing its balance sheet: applying for an SBIC license to borrow 10 year money from the government, talking to insurance companies about long term debt and renegotiating its Revolver, which expires in the spring. Assets are dropping rather than increasing, which will impact earnings in the next quarter or two.

### PENNANT PARK (PNNT)

By contrast, Pennant Park Investment (PNNT) reported Net Investment Income was up 20% over the prior quarter. The increase was aided by renewed lending of subordinated debt to middle market companies. Net Investment Income Per Share was flat at 28 cents a share for the period only because the Company issued a large number of new shares in September. PNNT, which is benefiting from a \$300mn Revolver at very low rates and which does not come up for renewal till 2012, is re-leveraging to take advantage of market opportunities. The Company also announced an increase of its distribution for the first quarter of 2010 to 26 cents from 25 cents in the prior period. That's 2 cents higher than the dividend as of September 2009. That's an 8.3% increase for 2010 over the September level.

*It's way too soon to draw any conclusions about the BDC industry's performance or outlook from these early birds. Look for more next month.*

### AFTER THE MELTDOWN

As we put this edition of the Newsletter to bed the stock market has dropped over 250 points, rolling back to November 2009 levels.

*The good news is that BDC II has plenty of dry powder because we closed several positions to be safe. Moreover, the portfolio is paying out an annualized yield of 11.2%, and our Buy List names-if we bought them today-are yielding 11.6%.*

## NEWSLETTER

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

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