

# SOUTHLAND CAPITAL MANAGEMENT, LLC

Month	BDC Fund II*	S&P 500 TR	Nasdaq Comp	Dow Jones	Russell 2000 (DRI)
Year Ending 2009	4.37%	5.49%	6.91%	7.37%	3.49%
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%
April - 2010	4.66%	1.58%	2.64%	1.40%	5.66%
May - 2010	-19.28%	-7.99%	-8.29%	-7.92	-7.59
June - 2010	-6.78%	-5.23%	-6.55%	-3.58%	-7.55%
<b>Year to Date</b>	<b>-7.80%</b>	<b>-6.65%</b>	<b>-7.05%</b>	<b>-6.27%</b>	<b>-1.95%</b>
<b>Inception to Date</b>	<b>-3.78%</b>	<b>-1.01%</b>	<b>-0.62%</b>	<b>0.63%</b>	<b>1.85%</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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#### FEDERAL RESERVE KEEPS RATES LOW

The Fed continued it's "extended period" language to keep rates low.

#### DIVIDEND ROUND UP

Dividend Scorecard for the 2Q met internal projections.

#### NEW SCM WEBSITE

After extensive renovation, the SCM website is scheduled to open this month.

## JUNE 2010 RESULTS

The correction which began in May, continued in June, but at a slower pace. For the month, BDC II returned -6.8% (versus -19.3% last month). An increase in Unrealized Depreciation was partly offset by the Fund's highest month of dividend receipts in our 9 month history. Moreover, we continued to opportunistically sell certain positions for Realized Gains, notwithstanding the sagging market.

Nonetheless, BDC II's performance versus the five indices we compare ourselves to was nothing to write home about, as we finished second to last, with a lower loss than the Russell 2000, which dropped -7.8%. Overall, though it was a bad month for all indices as even the best performer - the Dow Jones - was down -3.6%.

As a leveraged fund we expect to swing sharply from the front of the pack (just two months ago) to the back (based on the 2010 YTD results). As the old cliché goes, leverage is a two edged sword. We could hedge our portfolio (although

there is no direct way to do that), but the result would be substantially lower absolute returns. Instead, we prefer to invest for the long term, and focus on maximizing the dividend paying capacity of the Fund. Barring a double dip recession, we expect the stock prices to bounce back in the months ahead (more on that in a second).

Speaking of dividends, Partners Admin, which is the independent firm preparing our monthly results, confirms that *the Fund has received distributions equal to 18% of average paid-in capital since inception*. As we've picked up the pace of investing in recent months that percentage has increased. In fact, *in the last quarter the annualized dividend income as a percentage of average paid-in capital annualized at 32%*. That's because we continue to be leveraged at around 3:1; borrowing rates are at or below 1.25% and the portfolio is achieving an average yield north of 10%.

As a result, and all the afore mentioned results notwithstanding, we're very sanguine on BDC II's prospects. All of

our portfolio companies are performing at or above expectations, all but one company has maintained or increased their distributions, and we've been able to use the market drop to make a few strategic purchases to boost our aggregate yields. *On a pro-forma basis, we estimate a new investor would receive an annual return from dividends alone of 24% AFTER all interest, expenses and SCM's fees.*

### MONTH TO DATE RESULTS

For what it's worth, our internal calculations (not confirmed by Partners Admin) show that (through July 9th) *the recent bounce back in the market has allowed the Fund to MAKE UP ALL THE LOSSES racked up in May and June.*

More importantly, *we estimate that the return from dividends alone will generate net returns (after interest, expenses and all fees) in the 25-28% range over the next 12 months for the investors in the Fund.*

### FED TO KEEP RATES LOW

We've played this tune before: we expect the Fed to keep rates low for the foreseeable future. We write the same thing every month, and July 2010 is no different. The evidence of a slow recovery that we've all been hearing about all month has only increased the likelihood that the Fed will continue to keep short term rates at bargain basement prices. The Fund will continue to benefit by borrowing from Goldman Sachs at around 1.25%.

### DIVIDEND ROUND UP

*The Dividend Scorecard for the second quarter of 2010 remains highly encouraging, and supports our confidence.* Of the 22 BDCs we track, 19 have made distribution announcements. As the Scorecard shows, there has only been 1 company announcing a decrease in its

distribution level, 4 have announced increases and 14 are unchanged. In aggregate, the BDCs managed a slight increase in dividends over the prior quarter.

### DIVIDEND SCORECARD

ACTION	REPORTED
INCREASED	4
UNCHANGED	14
DECREASED	1

The company which cut its dividend was Prospect Capital (PSEC), which switched from a quarterly pay-out to a monthly (which we prefer), but took the opportunity to cut the dividend by 25%.

We'd been expecting the reduction for months (and had been saying so on our blog in the BDC Reporter). As a result, the reduction had no impact on our projected earnings or our investment strategy.

Looking forward we're optimistic that American Capital (not in the fund) and GSC Investment, which are the only two BDCs with suspended dividends, will resume payments in the second half of 2010. Also, the newest BDC owned by buy-out giant Thomas H. Lee should begin making distributions this quarter or next. Elsewhere, we expect half a dozen other BDCs to increase their pay-outs in the next 6 months as additional capital raised in the past year begins to be effectively deployed.

### NEW SCM WEBSITE

After updating our BDC Reporter website, we decided to upgrade our SCM home website. Please look for the new site to open this month.

## NEWSLETTER

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

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Accredited Investors:

Please contact us for login information. Currently closed for renovation. Should be open in 2 weeks.

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