

# 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%
April - 2010	4.66%	1.58%	2.64%	1.40%	4.20%
<b>Year to Date</b>	<b>22.53%</b>	<b>7.05%</b>	<b>8.46%</b>	<b>5.57%</b>	<b>11.97%</b>
<b>Inception to Date</b>	<b>27.88%</b>	<b>13.51%</b>	<b>15.96%</b>	<b>13.35%</b>	<b>15.41%</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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## APRIL 2010 RESULTS

*We had a very good month in April: up 4.66%. Once again, we handily beat All the indices we measure ourselves against. Year-to-date we are up 22.53%. Inception-to-date, the fund is up 27.88%, nearly twice greater than all the indices we compare against.*

**These performance numbers are net of all fees and expenses including management and performance fees.**

## CHECK OUT OUR NEW BDC REPORTER WEBSITE!!

[bdcreporter.com](http://bdcreporter.com)

We just completed the new look for our BDC REPORTER website. The website has been fully re-imagined, with the help of crack website designer Steve Howells. The New BDC Reporter has a new stand alone address, a new look, and more streamlined access to over 100 analytical articles, all written in-house. In addition we have new sections: Breaking News where we keep up with the latest developments as they occur; Analysis & Commentary where we undertake in-depth review of companies we track, and a live informational Calendar where we post BDC earning conference call schedules and announcements. Also added to keep anyone interested up to date are RSS feeds, eMail notification and

Twitter alerts. The site is completed so please check it out.

Feel free to provide us with any feedback about the look or the content of the new site. We're all ears.

## DIVIDEND ROUND UP

The Dividend Scorecard for the first quarter of 2010 is now complete. Of the 22 BDCs we track (we added Solar Capital but not yet TCRD), all have made distribution announcements. As the Scorecard below shows only 2 companies cut their dividends and only 1 of those was on our Buy List for BDC II.

DIVIDEND	SCORECARD
INCREASED	4
UNCHANGED	16
DECREASED	2

Of the 4 companies increasing their dividend, all were on BDC II's Buy List.

*We were encouraged to see MCG Capital (MCGC) renew paying a dividend after a two-year hiatus.*

At time of writing only 2 BDCs continue to suspend regular dividend payments, and *we're confident that within a quarter or two all 22 BDCs will be*



## NEW SCM WEBSITE COMING!

Now that we've upgraded our BDC Reporter website, we've turned our attention to the SCM website. The website is currently closed for renovation. We are aiming to make it a gateway. Sections include: general information on SCM; A registration for "accredited investors" to access fund information; and the exclusive investor only page, which will contain oodles of information about SCM's activities, just a click and password away. *This will be one of the most exclusive websites on the web....* We should be up and running in the next couple of weeks.

**back to paying out distributions.** Once new BDC TCRD (see the story on Page 1) gets up and running the universe of BDCs paying a distribution could be up to 23 companies.

### CRISIS? WHAT CRISIS?

As we put this newsletter to bed (as they say in the publishing business), the stock market is swooning due to concerns about the Greek debt crisis. Virtually all the stocks in our portfolio have dropped in value from the levels reached at the end of April 2010.

Of course, we're as concerned as anyone that the crisis is a harbinger of a global economic crisis and recession. However, we're not ready to run for the exits yet. In fact, with several million dollars of un-invested capital due to SCM's decision to increase margin borrowing from 2:1 to 3:1 a few weeks ago, we have the dry powder to make some very attractive purchases at yields not seen in months.

Supporting our confidence are the earnings reports for the first quarter of 2010 from about one-third of all the BDCs we track.

***The trend is almost universally pointing to healthy balance sheets, higher earnings per share, bad debts under control (albeit not dropping sharply either) and management confidence in the outlook for 2010 and 2011.***

We aim to be buyers at this time and increase BDC II's prospective income and yield materially, while keeping an eye on developments in the world arena.

### WHAT THE FUTURE HOLDS

SCM's humble opinion, which is subject to change if circumstances warrant, is that the U.S. economy is in the early stages of an economic recovery, similar to the cycles, that began in 1993 and 2003. We expect this latest cycle to last several years, and expect to see continuing improvements in the credit market, lower corporate defaults and a resurgence of private equity. Of course, the recovery could be stalled or derailed by the European sovereign debt crisis, but we don't think so.

For the Business Development Company industry, if the business cycle proceeds as expected, market

conditions should be highly favorable in the early years. The BDC industry aggressively de-leveraged their balance sheets during the Great Recession, sharply reduced operating expenses and trimmed dividends. As a result no BDC filed for bankruptcy, and many were able to continue making distributions to shareholders even during the worst of times. That has not gone unnoticed in the public markets. In recent months the more successful players bought up weaker BDCs and billions of dollars of new capital have been raised to take advantage of the perceived lending opportunities to come.

The BDCs are still cleansing their portfolios of troubled loans booked in the go-go years and the process should continue through 2010. However, most of the players in the industry are already taking advantage of their revamped balance sheets to expand their loan portfolios. Moreover, the capital structures of the new deals being made are far more conservative than in the pre-recessionary period, and the pricing is more generous for the BDC lenders.

We expect that Leveraged Buy-Out ("LBO") activity, which is the main financing activity of the BDC industry, will double or triple in the years ahead. We're encouraged by the knowledge that private equity firms have been sitting on billions of dollars in investor capital, but have been stymied by the economy. Moreover, many of the alternative sources of financing that the PE groups tapped during the last cycle are no longer in business, which means the BDC industry will face less competition.

We expect that dividends for virtually every BDC will stabilize at current levels, and, in many cases, increase. We are encouraged by the knowledge that in the last cycle all the BDC companies were able to maintain or increase their dividends for the entire 2003-2007 period because of the strong economy. Several BDCs that were seriously impacted by the Great Recession and were forced to suspend dividend payments should renew their payouts. We expect all 24 BDCs in the market today will be paying a regular dividend by year-end 2010.

We expect that the favorable market will result in an expansion of the number of Business Development Companies as new companies go public. That development appears to be already underway. Solar Capital (ticker: SLRC) went public in February and THL Credit (ticker: TCRD) a few weeks later. We expect there will be several more BDC wannabees in the years ahead, as the market remains intent on finding lower risk, dividend-paying vehicles. This will aid investor's diversification and continue the process of making the BDC model more familiar to professional and retail investors. That ultimately aids liquidity and increases market multiples.

Of course, nothing lasts forever and every successful market ultimately brings on additional entrants, sees pricing drop and risks increase. However, we believe there are several years to go before the decline of this latest cycle starts to occur. In the interim, investors in the industry have a multi-year opportunity to benefit.

## NEW BDC: THL CREDIT

In February, we added a new BDC to the universe of BDCs that we follow. Solar Capital Ltd. (NASDAQ: SLRC). Now, just a couple of months later, THL Credit announces it's public offering on April 21st. THL Credit, Inc. (NASDAQ: TRCD) announced the pricing of its initial public offering of 15,307,692 shares of its common stock at a public offering price of \$13.00 per share on April 21, 2010. Venerable private equity firm Thomas H. Lee owns THL Credit. The company is a blind fund, which means that TCRD will be adding new investments in the months ahead, starting at zero. The Company's common stock started trading on The NASDAQ Global Select Market under the symbol "TCRD" on April 22, 2010.

## FED KEEPS RATES LOW

The Federal Reserve said the U.S. economy continues to strengthen, but that the slack left over from the recession is still so large that it expects interest rates to stay near zero for an "extended period." The Fed said the labor market is beginning to improve but still-high unemployment is keeping a lid on consumer spending. After its two-day meeting, the Fed said it was in no rush to tighten policy, sticking to its forecast that economic slack, low inflation and stable inflation expectations should call for record-low rates for "an extended period." Central bankers said there was no timeframe to "extended period." The Fund has been borrowing at a rate under 1.2%. ***Given that the yield on the BDC assets we invest in are at 10.8%, the net margin between income and interest expense is above 9.6%. The net yield at 3:1 leverage before fees, expenses and appreciation is 30% !!***

## NEWSLETTER

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

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Accredited Investors:

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