

# 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%
July - 2010	24.42%	7.01%	6.90%	7.08%	6.87%
August - 2010	-8.14%	-4.51%	-6.24%	-4.31%	-7.40%
September - 2010	27.74%	8.92%	12.04%	7.72%	12.46%
October - 2010	8.15%	3.81%	5.86%	3.06%	4.09%
<b>Year to Date</b>	<b>45.56%</b>	<b>7.85%</b>	<b>10.50%</b>	<b>6.61%</b>	<b>13.58%</b>
<b>Inception to Date</b>	<b>51.92%</b>	<b>14.36%</b>	<b>18.14%</b>	<b>14.47%</b>	<b>17.98%</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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## OCTOBER 2010 RESULTS

October 2010 was a solid month for the BDC II Fund. *The month's net return (after all fees and expenses) was an 8.15% gain, more than double the next highest return from the other indices we track ourselves against.*

*Year-to-date after 10 months, BDC II is 45.56% ahead*, where most hedge funds and all the indices we compare ourselves against are in single digits or low double digits, notwithstanding the run-up in the stock market in October.

October represented our 13th month since the Fund's launch of business, which proved a lucky milestone, *with our Inception To Date return reaching 51.9%, three times higher than all the indices we compare ourselves against.*

## CASH ON CASH RETURN

Turning to the cash income generated by the Fund, which we've been commenting on in recent months, October continued the trend of steady returns. *Since inception, the net dividends received by the Fund, after all margin interest, expenses and management fees, reached 22.3% of capital invested.* We call this the Cash on Cash return. Last month, the Cash On Cash number was 21%.

## OUTLOOK FOR FUND

Obviously, the Fund's results have been outstanding, both in the short term, and since inception. The future, by definition, is always more uncertain, but we're encouraged by the outlook for the next 12 months. Because all the portfolio investments (with one exception) pay a

current dividend, SCM has considerable visibility as to what distributions will be received in the months ahead. We are benefiting from a de-leveraged BDC industry, with most companies that we invest in having considerable excess capital to put to work. As a result portfolio companies are likely to maintain or increase dividend payments for the foreseeable future. *Several companies raised their dividends in the past few days, and we are projecting 40% of our portfolio will increase its payouts in the coming year.*

We are also projecting continued low cost of capital as the Fed keeps rates at historic lows.

Let's just have a look at what BDC II might earn in the next 12 months using conservative assumptions, and without even assuming any growth in dividends or any change in the composition of our investment portfolio. Our principal assumptions are that we are fully invested at 3:1 debt to equity; the existing portfolio companies maintain their current dividend level unchanged; margin interest remains the same at 1.25%; and there is neither an increase or decrease in the most recent stock prices.

The resulting return, after deducting out expenses and management fees, is a

projected 23.8% gain for the Fund in the next 12 months.

### SCM BDC INDEX

We've been assembling publicly available data recently to take a big picture view of what's been happening to BDC stock prices. We have constructed an index of the stock prices of all 24 companies we track at month end for the past 6 months. We're calling this the SCM BDC Index.

October 2010 was an almost universally positive month for the 24 companies we track. 23 of the 24 companies increased their stock price at the end of the month over September 30th. Even the one company decliner was only 1 cent!

The Index shows the BDC industry has been up 2 months in a row. The Index was up 5.1% in October, and 8.1% in September.

Over 6 months, though, aggregate stock prices have increased only modestly: from \$297.6 at the end of April to \$301.9 at month end October. That's only a 1% increase, due to the market meltdown in May/June, caused by concerns over Europe, and fears about a double dip in August. As we write this though, stock prices are moving sharply higher.

	May 2010	June 2010	July 2010	August 2010	September 2010	October 2010
Total	\$264.90	\$259.00	\$275.00	\$265.60	\$287.10	\$301.90
Monthly Change	-11.00%	-2.20%	6.20%	-3.4%	8.1%	5.1%
Companies	24	24	24	24	24	24

## NEWSLETTER

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

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