

# 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%
Year Ending - 2010	73.04%	15.07%	16.91%	11.02%	26.85%
January - 2011	7.05%	2.37%	1.78%	2.72%	-0.26%
<b>Year to Date</b>	<b>7.05%</b>	<b>2.37%</b>	<b>1.78%</b>	<b>2.72%</b>	<b>-0.26%</b>
<b>Inception to Date</b>	<b>93.33%</b>	<b>24.92%</b>	<b>27.22%</b>	<b>22.43%</b>	<b>31.43%</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.

## CONTENTS

### PAGE I

#### JANUARY 2010 RESULTS

January gain makes it 5 months in a row of positive returns.

#### CASH ON CASH RETURN

Cash on cash return increases to 34.30% since inception.

#### OUTLOOK FOR FUND

SCM's outlook for the BDC Industry and the Fund in 2011.

### Page 2

#### 4TH QUARTER DIVIDEND SUMMARY

SCM's reports on 4th Q dividends.

#### SCM ADDS CFO

SCM's adds Denise VanZago as our CFO.

#### ACTIVITY IN THE BDC SECTOR

We discuss the new BDC and new equity raising.

## JANUARY 2011 RESULTS

*BDC II began 2011 with another gain (7.05%), and once again bested all the indices we compare ourselves against. The closest index was the Dow Jones a distant second with a January gain of 2.7%, and the worst was the Russell 2000 DRI, which showed a slight loss for the period of 0.3%. As usual BDC II's gain was composed of both dividend income, as all portfolio companies maintained or increased their distributions, and stock price appreciation boosted by increasing confidence that a double dip recession is not in the cards, and default rates for leveraged loans will continue to drop.*

The Fund has recorded a gain now for five months in a row, and in each period has exceeded the returns of all the other indices. *Since inception in October 2009, which is sixteen months ago, BDC II has achieved an all-in return of 93.3%, triple the return of the second highest index, which is the Russell 2000 DRI and more than four times the lowest performing index (ironically the Dow Jones), which has returned 22.4%.*

## CASH ON CASH RETURN

Turning to the cash income generated by the Fund, January continued the trend of a steadily increasing return as a percentage of invested capital. In

December, the Cash On Cash return was 32.7%. *In January the number increased to 34.30%.* Cash on cash returns continue to increase in percentage terms thanks to the regular dividend payments being received. We remind our readers that all returns are net of margin interest, expenses of the Fund and our fees.

## OUTLOOK FOR 2011

February 2011 has begun on a positive note. At time of writing the Fund is up strongly again this month based on interim numbers and not adjusting for accrued dividends and management fees.

Looking forward through the first half of 2011, we expect the main ingredients of BDC II's outsized success to remain in place. Although long-term rates are up, Fed Funds (to which our margin rates are pegged) remain at record lows and the economic consensus is that the low level will continue at least until the summer. Moreover, yields on the existing portfolio should continue unchanged or increase as all our investments are projected by the analyst consensus and by our own projections to increase earnings in the next several quarters.

The wild card remains, as always, the direction of stock prices. There has been

a very healthy run up in prices in recent months. In our estimation a few stocks are even trading above sustainable levels, and we are not shy to take profits off the table where appropriate. Overall, though, with the analysts foreseeing higher earnings both this year and next, and our own proprietary calculations suggesting the portfolio in aggregate is trading at a roughly 20% discount to full value, there is still room for further capital appreciation. Of course, that's not a prediction and we wouldn't be surprised to see a market correction in the weeks ahead after months of unremitting gains. At this stage a pullback would be an opportunity for the Fund, as we have dry powder available.

#### FOURTH QUARTER DIVIDEND SUMMARY

Virtually all the dividend announcements for the fourth quarter of 2010 have been made by now, and the results compared to the third quarter of 2010, underscore our confidence in the stability of the BDC industry's ability to pay regular dividends at this stage in the economic cycle. Of the 23 BDCs we track, only 1 has not yet announced a dividend for the fourth quarter, and that's American Capital who has stated previously that it does not intend to pay a dividend for a while for tax reasons. Of the remaining 22 BDCs, we have eliminated Full Circle Financial, which is a new BDC, and can't be usefully used for comparison purposes. Finally, we've also chosen not to include in our numbers the dividend Saratoga paid in the fourth quarter to shareholders, as the bulk of the payment was in the form of additional stock. Once those preliminaries are taken into account, we can announce that 7 BDCs increased their dividends in the fourth quarter over the third quarter, and 13 were unchanged. No BDC reported a decrease in dividend payments. Overall, and as adjusted, dividends were up 7% over the last 3 months.

#### SCM ADDS CFO

We're delighted to announce the addition of a new member to the Southland Capital Management team. We've contracted with financial management firm Financial Integration to assist SCM. The financial consulting firm is headed by Denise VanZago who used to be the Chief Financial Officer of a private company the principals of SCM controlled until the business was sold to Franklin Electric. Ms. VanZago will serve in a similar capacity for SCM, and will be a critical element in the growth of our firm. Just in the month of January 2011 SCM has added several new investors and tripled equity under management, and further expansion is planned. Financial Integration will provide critical expertise in financial reporting to SCM, and will assist in a variety of administrative functions from performance monitoring to investor reporting. We want to give a warm welcome to Denise and her team, who have already launched into their new work.

#### ACTIVITY IN THE BDC SECTOR

There has been quite a bit of activity in the BDC sector already this year. Nicholas Marshi, our CIO, wrote and posted to the BDC Reporter that a new BDC has come to Market. We reviewed the initial Prospectus for *Medley Capital Corporation (ticker symbol: MCC)* and prepared some thoughts for publication. MCC went public and priced 11 million shares at a price of \$12.00 on January 20<sup>th</sup>. Since then the stock has traded higher to reach just over \$13 as we write this. We thought it might be useful to look at the Good, the Not So Good and Unknown about this new BDC. Please visit [www.bdcreporter.com](http://www.bdcreporter.com) for the full article. Also of note this year, three BDCs are raising new equity. Fifth St. Finance has raised \$126.5 million; Triangle Capital \$54.8 million; and PennantPark Investment Corp. \$99 million. The BDCs will utilize this money to repay outstanding debt and fund new investments.

## NEWSLETTER

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

#### Office:

1221 Ocean Blvd., Suite 208  
Santa Monica CA 90401  
Tel: 800.579.1651

#### Nicholas Marshi

Chief Investment Officer

Email:

[nmarshi@southlandcapitalmanagement.com](mailto:nmarshi@southlandcapitalmanagement.com)

#### Bill Hansen

Chief Marketing Officer

Contact: 760.485.1252

Email:

[bhansen@southlandcapitalmanagement.com](mailto:bhansen@southlandcapitalmanagement.com)

Visit us @

[www.southlandcapitalmanagement.com](http://www.southlandcapitalmanagement.com)

Accredited Investors:

Please contact us for login information.

Follow our Blog at our newly designed site @

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

Follow our articles @

[www.seekingalpha.com/author/nicholas-marshi](http://www.seekingalpha.com/author/nicholas-marshi)

Twitter us: @bdcreporter