

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% |
| November - 2010 | 4.81% | 0.01% | -0.37% | -1.01% | 3.47% |
| December - 2010 | 13.42% | 6.68% | 6.19% | 5.19% | 7.94% |
| Year to Date | 73.04% | 15.07% | 16.91% | 11.02% | 26.85% |
| Inception to Date | 80.60% | 22.02% | 24.99% | 19.20% | 31.76% |

* 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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HAPPY NEW YEAR!

Southland Capital Management would like to thank you for allowing us to be a part of your life. May the New Year be a time of joy, peace, health and prosperity for you and your families.

DECEMBER 2010 RESULTS

BDC II wrapped up 2010 (and its first full year) with another eye popping monthly gain: 13.4%. We were buoyed by a bullish stock market. Still, BDC II beat all the indices we compare ourselves against for a fourth month in a row and by a wide margin. The second

highest index was the Russell 2000 which was up 7.9%.

We ended the year with a record breaking 73% gain, of which we are very proud, given the difficult market conditions of 2010 which resulted in considerable stock volatility and investor uncertainty. Not to belabor the point, but BDC II greatly exceeded the results of all the other indices by a factor of three times or more.

Now with fifteen months of history, BDC II's return since inception in October 2009 is 80.6%. As they say, the numbers speak for themselves.

CASH ON CASH RETURN

Turning to the cash income generated by the Fund, December continued the trend of a steadily increasing return as a percentage of invested capital. In November, the Cash On Cash return was 23.7%. In December the number increased to **32.7%**. *An investor who committed an initial amount of capital when the Fund was launched would have received back a third of their original investment in the form of dividend distributions by the end of 2010. Remember that's after all costs and fees.*

We believe this metric continues to underscore the income producing capability of BDC II, and we have no reason to believe that the Cash On Cash return will not continue to climb in 2011. **We estimate that by this time next year the magic number will be closing on 60%.**

OUTLOOK FOR 2011

With stellar returns such as the ones we achieved in 2010, both investors and prospective investors may be wondering if BDC II can maintain such a favorable performance in 2011.

We cannot give any assurances, but we believe that many of the conditions which helped 2010's results should continue into 2011. Let's enumerate:

First, BDC earnings are expected to continue to improve. Earnings were on an upward trend in 2010, and should increase further this year. We added up the analysts consensus for 2011 for all BDCs we track, and found that earnings are expected to increase 20% (12% if you exclude BDCs launched in 2010). 21 of 23 BDCs are expected to increase their earnings, 1 is expected to be flat and 1 down.

If earnings remain on the upswing, then dividend levels should be stable or increase. We recently reviewed a survey of the BDC industry by a major equity research firm which came to just that conclusion: "Dividends should be stable

as pricing on new loans should help maintain or grow portfolio yields".

Second, BDC yields remain high. In 2010, the Fund benefited from being able to invest at yields which averaged 10.3%. Admittedly prices have risen through last year, but BDC II's Buy List stocks are still yielding 9.3% on average. Moreover, if volatility continues the Fund may have the opportunity to buy at even better yields.

Third, almost every economic commentator is predicting that the Fed will not be increasing short term borrowing rates in 2011, given the slow economic recovery. The Fund should benefit for another twelve months from borrowing at an all-in rate of under 1.5%.

Fourth, there's still room for further stock price increases in our estimation. We project a Realizable Value for every stock we track, which is our estimate of what the full price of each company should be (and when we might switch from being a buyer to a seller). Currently, the stocks on our Buy List are trading at 77% of their Realizable Price. This suggests we could see further price increases in the year ahead.

We should also point out that BDCs should continue in 2011 the trend of reducing their leverage risk. This is partly achieved by raising a preponderance of equity rather than debt to fund balance sheet growth. Two-thirds of BDCs raised new equity in 2010. Even more should tap the markets in 2011 thanks to the sector's good performance. However, BDCs are also extending the maturity of their borrowing agreements and laddering their maturities to avoid the liquidity crises which they faced in the Great Recession. The result for investors is less dividend volatility in the future, and lower risk.

We may not be able to return another 70% annual gain in 2011, but we remain convinced that the fundamentals are in place for another banner year for the BDC industry and for BDC II. We will keep you posted as the year plays out.

NEWSLETTER

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

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