


**SCM**
**SOUTHLAND**  
 Capital Management LLC

Month	BDC Fund II*	S&P 500 TR	Nasdaq Comp	Dow Jones	Russell 2000 (DRI)
FYE — 2009	4.37%	5.49%	6.91%	7.37%	3.49%
FYE — 2010	73.04%	15.07%	16.91%	11.02%	26.85%
January - 2011	7.05%	2.37%	1.78%	2.72%	-0.26%
February - 2011	8.08%	3.43%	3.04%	2.81%	5.48%
March - 2011	-10.39%	0.04%	-0.04%	0.76%	2.59%
April - 2011	6.18%	2.96%	3.32%	3.98%	2.64%
May - 2011	--3.56%	-1.13%	-1.33%	-1.88%	-1.88%
June - 2011	-7.17%	-1.67%	-2.18%	-1.24%	-2.31%
July - 2011	-17.77%	-2.03%	-0.62%	-2.18%	-3.61%
August - 2011	-11.59%	--5.43%	-6.42%	-4.36%	-8.70%
September - 2011	-14.20	-7.03	-6.36	-6.03	-11.21%
October - 2011	-6.45%	10.93%	11.14%	9.54%	15.14%
November - 2011	-7.08%	-0.22%	-2.39%	0.76%	-0.36%
December - 2011	0.36%	1.02%	-0.58%	1.43%	0.66%
Year to Date	-46.38%	2.11%	-1.80%	5.53%	-4.18%
Inception to Date	-3.50%	23.34%	23.46%	24.02%	25.43%

\* 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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## December 2011 Results

December we saw a return to the up side after seven months down for BDC II. The Fund was up 0.36% for the month. As we discuss at greater length in the CIO Newsletter that is sent to all our investors, the BDC sector was down for two-thirds of December, but rallied from December 19th, and ended up 0.7% in December over November.

Three of the four general market indices that we have been comparing ourselves since the inception of the Fund were up as well in December. The poorest performing index was the NASDAQ Composite, down 0.58%. The "best"

performing index was the Dow Jones up 1.43% for the month.

For the twelve months year-to-date the Fund ended in negative territory: -46.38%. The other indices returns for the last twelve months were in a range from -4.18% (Russell 2000 DRI) to 5.53% (Dow Jones). The Fund's return since inception in October 2009 is down 3.50%. That's behind the other indices which are bunched from up 23% to 26%. The Fund's focus on the financial sector and its use of leverage have depressed returns in the past 8 months, after causing outsized positive returns in the 18 months prior to the current crisis.

### CASH ON CASH RETURN

Twenty-seven months after the Fund's launch, the Gross Dividend Return continues to climb. **At the end of December 2011, the Fund reached a Cumulative Gross Dividend Return of 82.50% since inception. We expect the Fund will reach the milestone of having earned dividends equal to 100% of the initial investment before our third anniversary in October 2012.**

### CHANGE IN PRIME BROKER

During late December, and with short notice, the Fund changed its prime brokerage arrangement from Goldman Sachs Execution & Clearing ("GSEC") to Pershing, LLC. GSEC decided to discontinue all introducing broker business (which included our prime broker: MS Howells) and required all clients to move their accounts to other institutions. Apparently, GSEC had decided to terminate all brokerage relationships with clients with under \$100m in assets.

Our introducing broker, MS Howells, after reviewing multiple potential prime brokers, proposed to conduct their clearing operation for BDC Fund II through Pershing Prime Services ("PPS"), the leading American prime brokerage operation with over a trillion dollars of assets in custody.

Here's why PPS was chosen amongst at least half a dozen viable prime brokerage contenders. First and foremost, the Fund's assets are in very safe hands. PPS is a subsidiary of The Bank of New York Mellon ("BNYM"), which is the oldest banking corporation in the United States, tracing its origins to the establishment of the Bank of New York in 1784. Established in 2007 from the merger of Mellon Financial Corporation and The Bank of New York Company, Inc., BNY Mellon is a leading investment management and investment services company. Headquartered in New York, BNY Mellon has \$25.9 trillion in assets under custody or administration and \$1.2 trillion under management.

Furthermore, PPS (unlike GSEC) does not have a proprietary trading desk operating alongside its own prime brokerage unit and only operates as a service provider. This removes any credit risk concerns of the kind that affected Lehman or MF Global. We have also been impressed by the cutting edge technology which PPS offers its prime brokerage clients, which will allow the Manager better reporting in real time and at month end than was the case previously. PPS has reportedly spent over a billion dollars in the last 3 years on

technology upgrades. PPS has been working with MS Howells since the latter transitioned their prime brokerage business from Jefferies & Company in May of 2011, and are highly complimentary about the service and attention received since that move.

Finally, MS Howells and PPS have made the transition from PPS even easier by offering two materially lower expenses for the Fund. First, MS Howells has decreased the Fund's stock trading costs by 25% from 2 cents a share for every share bought and sold to 1.5 cents a share. This should save the Fund tens of thousands of dollars a year in expenses and should result in higher distributions. Second, PPS has reduced the margin borrowing rate from 1.0% over Fed Funds to 0.85%, or a 15% decrease. We expect the lower borrowing rate will benefit the Fund by approximately \$20,000 a year.

For all these reasons, we are comfortable with the switch to Pershing and look forward to capturing the cost decreases and passing them on to the investors. Already in January 2012 we should capture the full cost savings benefits of lower transaction and margin borrowing costs. If you want to read more about Pershing's Prime Brokerage operations, their website can be accessed at [www.pershing.com/prime](http://www.pershing.com/prime). Please call Bill Hansen for further information.

## NEWSLETTER

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

### Office

100 Wilshire Blvd., Ste. 950  
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

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

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