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%
FYE - 2011	-46.38%	2.11%	-1.80%	5.53%	-4.18%
FYE - 2012	28.21%	16.00%	15.19%	7.25%	16.34%
January - 2013	6.08%	5.18%	4.06%	5.77%	5.96%
February - 2013	1.45%	1.36%	0.57%	1.40%	1.33%
March - 2013	2.42%	3.75%	3.40%	3.73%	4.62%
April - 2013	2.85%	1.93%	1.88%	1.79%	-0.37%
May - 2013	-6.58%	2.34%	3.82%	1.86%	4.00%
Year to Date	5.91%	15.38%	14.46%	15.35%	16.45%
Inception to Date	31.49%	66.77%	62.84%	55.62%	71.06%

* 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. The indices included above are presented only to provide a general indication of U.S. Stock market performance for the periods indicated and not as a standard of comparison because they are unmanaged, broadly based indices.

MAY 2013 RESULTS

The Fund recorded it's first negative month all year: down -6.58%. We were not alone: all Yield-oriented investments across all markets were hammered by heightened concerns about higher long term rates, and the volatility index jumped 20%. All our Leveraged Debt sectors sold off after Bernanke's comments in late May, but to varying degrees (see our commentary below). There was a remarkable divergence between credit investments the equities market. The Russell 2000 was up 4.0%, the NASDAQ 3.82%, and the S&P 500 2.34% .

Year-to-date, the Fund fell to the bottom of the pack last month compared to the stock market indices because of the May move. We are up 5.91% year to date, while trailing the other indices by a wide margin. The YTD leader is the Russell 2000, reflecting the buoyant expectations in the stock market this year.

Inception to date, which amounts to 44 months, the Fund is up 31.49% , after all fees and expenses. The stock market indices remain well ahead of the Fund, with the Russell achieving a trifecta by being the leader of the pack with 71.06% returned.

Even when we are top of the table in any given month, we like to point out that long term returns are what matters. In this regard, we refer you to the chart we introduced in last months' newsletter. We asked PartnersAdmin, our independent

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administrator, to calculate the Fund's returns since January 1, 2012, and compare the results against the stock indices (see chart below). BDC II remains up 28.39% in the period, beating the Dow and slightly lagging the others.

Month	BDC Fund II	S&P 500	NASDAQ Comp	Dow Jones	Russell 2000 DRI
Jan. 2012 to Date	28.38%	33.84%	32.67%	23.72%	35.48%

WHAT HAPPENED IN MAY

All yield-bearing investments have benefited for months from the ever-declining interest rate environment, coupled with an improving economic outlook. Yield bearing investments; from credit instruments to dividend paying corporations, have set price records in the period. Certain high profile sectors such as High Yield Bonds reached their highest price levels and their corresponding yields the lowest, in American financial history just a few weeks ago.

The Fund, was more or less fully invested throughout the past 16 months and positioned to invest across several Leveraged Debt sectors, has reaped the benefits of the upward trend in prices. Here is the price appreciation performance of the four sectors we invest in from December 31, 2011 to April 30,2013:

BDC Sector	30.1%
BDC Notes	4.3%
Floating Rate Loans	9.5%
High Yield Bonds	6.1%

THE MAY CORRECTION

Everybody knows that nothing lasts forever, and record long term interest rates and investment asset appreciation are no exception. As you know, comments made by the Fed Chairman a couple of weeks ago caused the markets to envisage that an end to Quantitative Easing, and artificially low long-term rates, would occur sooner rather than later. The result was a massive selloff of any investment with a yield, all seen as a bond substitute." If long-term rates are going higher", the argument goes, "all these existing yield investments will be worth less in the future". The result was "Sell, Sell, Sell", as Jim Cramer says: an across the board selloff that left no yield investment untouched in a month where the stock market in general was reaching a new all-time high.

IMPACT OF THE MAY CORRECTION ON THE FUND

Of course, the drop in all yield assets has not spared the Fund in May. But, as we'll discuss, all the steps we've taken in recent months to mitigate interest rate risk greatly benefited our performance, and we very deliberately chose what sectors and investments we would sell, hold or buy in the month. You may be surprised to know that we are very pleased with how the portfolio performed in the month under very difficult market conditions. We faced the challenge of a major correction in the direction of interest rates, and a subsequent market wide reallocation of assets. We are left uniquely well positioned to take advantage of either a higher rate environment or a continuation of the low, low rate world we've known for 4 years.

PREPARING FOR AN INTEREST RATE SHIFT

First, though, a little recap: For the last 18 months (since implementing our revised risk management strategy) we have built a leveraged debt portfolio, with a mixture of fixed rate and floating rate obligations, with the intention of hedging ourselves against any sustained increase in long term interest rates. Nobody knew when the big interest move would come. We've been reading about a "bubble" in junk bonds since August 2012, even as the asset class reached never before seen price heights. Nonetheless, since early 2013 we have been increasing our proportion of Floating Rate Loan investments (both in the form of un-leveraged Exchange Traded Funds and moderately leveraged Closed End Funds). Moreover, we have increased our BDC common stock investments in recent weeks. In both sectors, the bulk of the assets are loans whose interest rates are floating, and will benefit from higher rates.

At the same time, for months we have been reducing our exposure to High Yield Bond investments with their fixed rate loans (both ETF and CEF), both because we were not receiving an appropriate yield and to protect against any price reductions that might occur were interest rates to suddenly increase. (As an illustration, in January the Fund had 16 High Yield investments, and by early May just 12. Today, just 1). Finally, we've maintained a significant investment in an Inverse High Yield Bond ETF for over 18 months, whose price goes up when High Yield Bonds go down, as additional protection against a rate spike.

At the beginning of May, 64% of our portfolio was predominantly in Floating Rate investments, and 36% (net of the Inverse ETF) in Fixed Rate. Furthermore, we had made a concerted effort, as mentioned in the last Newsletter, to minimize our "long-dated" fixed rate exposure, that is bonds with a maturity greater than 10 years, whose fair market price is more vulnerable to higher yields.

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Since early 2012, we have theorized that when long-term interest rates finally rise (after thirty years of heading downwards), the value of the Fund's Floating Rate assets would increase, and the value of the Fixed Rate assets would decrease. Given the 2:1 Floating: Fixed advantage, the Fund would ultimately benefit from higher interest rates. Furthermore, given our focus on maintaining very liquid positions and monitoring the markets constantly, we aimed to gild the lily by divesting ourselves (where possible) of fixed rate assets when the change in interest rate direction occurred, and bring the floating: fixed asset ratio to 5:1 or more.

MAY 2013 MARKET ACTION

So much for the theory, what happened in May? It's summed up by this blogger: "According to data provided by the U.S. Department of the Treasury, May saw both the lowest and highest 10-year Treasury yields of 2013. On May 1st, the 10-year constant maturity Treasury yield was 1.66%, the lowest level of the year. On May 31, the 10-year closed at 2.16%, the highest level this year."

"EVERYTHING WAS DOWN"

That's a 30% increase in Treasury yields in 30 days, and the impact on the market was dramatic. The market's initial reaction was to mark down any investment bearing a yield, whether large or small. The market made no distinction between "safe" investments and "risky" investments. Everything went down, as they do in any major market correction. Go over to Yahoo Finance and check out what happened to the most popular ETF holding long dated Treasuries with the ticket TLT. In May, **TLT dropped -7.0%**. (From the May high to low, the drop was **-8.2%**). TLT paid a yield at May 1st of 2.7%. In a few days, an investment in "safe as houses" U.S. Government credit wiped out 3 years of dividend income. Besides Treasuries, many other types of investments came in for a drubbing. Utility stocks are traditionally another safe haven for investors seeking to avoid risk. Check out the utility ETF **XLU**, which was yielding 3.1% on April 30th, which dropped **-9%**! Again, 3 years of income wiped out. Riskier Exchange Traded Fund investments were hit even harder. An investor darling over the past few years have been **Real Investment Trusts**, thanks to their 3.5% yield and investment in hard assets. The Vanguard REIT ETF VNQ was down **-6.0**%. From high to low the drop was **-11%.** We could go on and on and we shall but briefly: Mortgage REITS 'dropped -12%', Investment grade bonds dropped -3.5%, MLPs were down as much as -5%, Emerging Market bonds were also down -5%. Everything was down!

OUR SECTORS: DOWN BUT NOT MUCH

As to our sectors, we were generally pleased with the price performance on a relative basis: The least affected group through May 30, were the **Floating Rate Loan Exchange Traded Funds**, which we rate A due to their historically low volatility. Well, the 4 ETFs we invest in were down just **-0.01%**. When distributions are included this segment was up in the period. We did not buy or sell any more in the latter half of May.

Our other A rated, low volatility segment is **BDC Notes**. Most were down on the month, but the total draw down was a modest **-1%**, and all ended the month above their year end 2012 price still. We continued our long standing policy of selling some of the long dated positions where possible, just in case.

Our two most volatile segments are traditionally **Floating Rate Loan Closed End Funds** (because they typically use leverage to buy 1/3rd of their assets) and **BDC common stocks**. Both segments were down around **-3.5%** in May. We believe both segments remain good bets, as we'll discuss below. So we held our existing positions in virtually all cases, and added a number of BDC stock investments.

The **High Yield Bond** segment, which was the most vulnerable to the sudden rise in yields, was down **-4.5%**, as you'd expect as investors abandoned everything with a fixed yield only days after buying everything with a yield. The biggest un-leveraged High Yield Bond ETF **HYG** was down **-3.5%** on the month but **-5.0% from high to low**, because the junk bond market was soaring in the first week of May. However, we didn't wait around to participate in the carnage that followed. We had Stop Losses (which we call Profit Protectors because we set predetermined sales prices on certain instruments that we believe are fully valued) on our biggest, most liquid High Yield investments. We were out of virtually all our remaining High Yield investments early in the downdraft. Our top 4 High Yield Bond positions were exited at prices close to or even better than the prior month close, and all above our purchase cost. We're delighted to report that we managed to shift the Fund from exposure to any further declines in the High Yield sector without losing a dime (on a cost basis) and by selling our positions an average of just -1.7% off their 4 year highs.

Finally, our investment in the Inverse High Yield ETF was a winner in May, up 2% on the month, and over 3% from its lowest point in the period.

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WHY MAY WAS A "GOOD MONTH" FOR THE FUND

Remembering that we are a 3x leveraged fund, we are very pleased by i) the relatively modest drop in all of the sectors we are invested in during the major correction of May compared to all the other asset classes mentioned above; ii) our sector diversification resulted in a far lower draw down than could have occurred. (If we had been 3X in BDC common stocks, given our leverage, the Fund could have been down over -10%, and if we had been all in High Yield Bonds, we could have been down in the mid teens. iii) We were able to use Stop Losses, as we've been promising in our Newsletters, to sell out of the High Yield market shortly after it peaked, allowing for lower capital losses and de-leveraging the Fund. iv) We repositioned the Fund to be overweight in the sectors most likely to benefit from a higher interest rate environment. V) The Fund has very little remaining exposure to prospective future hikes in long term rates.

UPDATE FOR JUNE TO DATE

Early in June the price downdraft continued for the first couple of days. We sold out of our remaining less liquid High Yield investments for only a slight drop over May's close, and trimmed further our long dated BDC Notes. We added a few BDC common stock purchases when prices dropped to bargain levels. Since Thursday, June 6th, most of our sectors have begun to come back, and as we write this at the close on Tuesday June 11th, we estimate the Fund is slightly ahead for the June month-to-date, when dividends to be received are included in our ballpark estimate.

OUTLOOK

Forget for a minute about all the price movements of recent days, which are just part of what the markets do in anticipation of what might or might not happen, and let's focus on what we now own and the fundamentals involved. (We are going to bludgeon you with data, but that's what provides the Fund with a long term edge: a combination of bottom up analysis on every investment, sector and investment strategy, combined with all day monitoring of the markets). We are always happy to speak at greater length to any of our existing or prospective investors about any of the items mentioned here).

As we write this, we have rebalanced our portfolio to be 80% in Floating Rate assets, and only 20% in Fixed Assets. The Floating Rate assets consist of **BDC common stocks** (spread out over nearly thirty different companies) and **Floating Rate Loans** to the largest borrowers. The fundamentals in both these markets are as good as they've been in the past 4 years. The BDC sector has seen earnings and dividends continue to increase across the board over the past 12 months, and the analyst consensus is that 90% or more of the 37 players we track will increase earnings in the rest of 2013 and 2014. A third of BDCs have increased their dividends in 2013 and two-thirds are unchanged. Compare that to High Yield Bond funds, which have to contend with ever lower pay-outs as loan yields have dropped. Furthermore, the BDC sector has raised unparalleled amounts of new capital; both in the form of equity and debt in the last 12 months, much of which still sits unspent as new loan activity has been modest. As a result, BDCs have, on average, debt to equity of only 0.55 to 1.0, and the strongest balance sheets they have ever known. From a credit standpoint, bad debts are very low across the board. When we reviewed all 37 recent quarterly filings, we found that the industry had only a handful of new non-performing loans over the several thousand loans in portfolio. Most tantalizing for us are the still very high yields we are receiving: over 11% per annum at a time when yields for comparable investments in High Yield and Floating Rate loans are 4% - 4.5% lower. In aggregate BDC dividend income has been gradually growing for 4 years in a row, and there is no reason to believe that the trend will not continue for 2-4 years more.

The Floating Rate Loan investments we are in, both in the form of Exchange Traded and Closed End Funds, are also very attractive in many ways. These loans are to the largest, most sophisticated borrowers in the country. We are especially impressed for the moment by the credit quality in these investments. Remarkably, in the past 3 months, the top 100 Floating Rate Loans (according to a rating agency) have incurred no non-performing loans at all. The rolling 12 month of bad debts is very low by historical standards, and is expected to remain low. Moreover, we take comfort that in it's thirty years as a distinct asset class Floating Rate Loans have never had two losing years, and most of the loans are secured, and historic recovery rates on the loans that do get into trouble has been 80%. We have been big investors in the $1 trillion Floating Rate Loans for several quarters, well in advance of the crowd. In recent months, though, the sector has become very popular with Wall Street due to its relatively high yields, excellent credit metrics and liquidity.

Both BDC common stocks and the Floating Rate Loan sector will benefit once interest rates really do begin to rise. Today the base rate at which borrowers loans are set is LIBOR + 0.2%. Historically, average LIBOR has been at 5% or higher. One day,

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when the U.S. economy picks up steam and the Fed allows rates to rise to their "normal level", both sectors will enjoy huge increases in earnings on the same credit assets as they own today. This probably explains why a leveraged BDC company was down only -3.5% while an un-leveraged "safe" Utility stock was down -9.0% in May. The irony for the Fund is that, notwithstanding the draw down in May, we will be a great beneficiary of higher interest rates, and we are hopeful that this change will occur. We've crunched the numbers and project that the average BDC should see 20% or more in higher earnings and the average Floating Rate Fund 30% or more should LIBOR return to historical levels.

"PAID TO WAIT"

The problem is that neither we nor anyone else knows when the higher rates will occur. May's Treasury rate spike may have been a harbinger of things to come, or it may not. There have been 5 prior similar spikes in long term yields since 2009 as the credit markets try to get ahead of a rate increase, all followed by a pull-back within a few weeks. So the late May 2013 swoon could yet get notched up as another false start to the higher rate environment. A sustained increase in rates might come in six months, but it's possible that it might come two or more years out.

However, the Fund will be "paid to wait". At today's yields and asset mix, we should earn a gross yield of 23% per annum, with half our assets in BDC common stocks and Floating Rate Loan Closed End Funds, and the other half in Floating Rate Loan Exchange Traded Funds and BDC Notes. Thanks to our limited exposure to Fixed Rate assets (just 15% of the portfolio, and all in investment grade bonds with an average maturity of 5 years) we look forward to a higher interest rate environment, even if the price in the short term is increased market volatility. If interest rates stay down we win, if interest rates go higher we win more.

NEWSLETTER

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

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