Month	BDC Fund II*	HFRI EHI	S&P 500 TR	Dow Jones
FYE - 2009	4.37%	2.92%	6.04%	7.37%
FYE - 2010	73.04%	10.45%	15.06%	11.02%
FYE - 2011	-46.38%	-8.38%	2.11%	5.53%
FYE - 2012	28.21%	7.41%	16.00%	7.26%
FYE - 2013	13.20%	14.33%	32.39%	26.50%
January - 2014	2.30%	-0.99%	-3.46%	-5.30%
February - 2014	4.21%	2.85%	4.57%	3.97%
March - 2014	-2.63%	-0.24%	0.84%	0.83%
Year to Date	**3.80%**	**1.35%**	**1.81%**	**-0.72%**
Inception to Date*	**45.88%**	**29.58%**	**94.80%**	**69.45%**
1/1/12 - Date**	**39.66%**	**24.41%**	**56.35%**	**34.70%**

* 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.

**Represents investor with initial contribution of 1/1/12. (After revised investment strategy.)

March 2014 RESULTS

The Fund had the first negative month since August 2013, down -2.63% in March 2014. The “hedge fund” index (HFRI) was also down , but less sharply at -0.24%. The two stock market indices - the S&P 500 and the Dow Jones Index - were up by .84% and 0.83% respectively.

Year-to-date, the Fund remained the clear leader compared to the other indices. Up 3.80%. The closest index was the S&P 500 up 1.81%. The “hedge fund” index is up 1.35%. At the back of the pack is the Dow Jones, still in negative territory after 3 months: down -0.72%.

Since inception, four and a half years ago, the Fund is up 45.88%, substantially above the “hedge fund” average as

measured by the HFRI index at 29.58%.

However, BDC II's results trail the Dow Jones over this longer period, up 69.45% and the S&P 500 at 94.80%.

POST 2012 PERFORMANCE

We are now two and a quarter years away from the time when the Fund changed many of it's risk management policies to reduce volatility. March 2014 represented exactly the mid point in the life of the Fund in this regard. The results remain highly encouraging, and reassuring that we are on the right course. BDC II is up 39.66%, still trailing the S&P 500, up 56.35% over this time frame, but ahead of the Dow Jones Index at 34.70%, and far ahead of the HFRI at 24.41%. Over this 27 month period, the monthly average net return has been 1.5%, and 18% annualized, net of all fees and expenses.

Month	BDC Fund II	HFRI	S&P 500	Dow Jones
Jan 2012 to Date	39.66%	24.41%	56.35%	34.70%

INDUSTRY SECTOR PERFORMANCE

As we have done all year, we are using data generated by Partner's Admin Attribution Report to analyze the Fund's sectoral earnings performance and compare against external indices (where available). In March, performance varied widely across the five non-investment sectors we invest in. Fixed income investments (High Yield Bonds and BDC Notes) were up, while Private Equity, BDC common stocks and Floating Rate Loans were down, (but we made money "shorting" selected BDC common stock investments). Overall, though, the Fund incurred losses of -2.1% of equity, before accounting for management fees and expenses.

For the whole first quarter, though, we remain in positive territory, up 5.3%, with ALL THE SECTORS we invest in contributing varying degrees of profit: BDC common stocks (long and "short") 33% of profits, High Yield Bonds 27%, BDC Notes 21%, Floating Rate Loans 16% and Private Equity 3%.

Month	BDC II	WF BDC Index	BarCap CHY	S&P/LSTA
March 2014	-2.63%	-2.22%	0.24%	0.34%

BUSINESS DEVELOPMENT COMPANY EQUITY & DEBT

The Fund is invested in the BDC sector in various ways: long positions in individual stocks as well as in sector-wide Exchange Traded Funds, but also select "short" positions, where we project a stock will be dropping in value and in BDC Debt, where we have two dozen positions in publicly traded Notes.

Anyway, that mini diversification within the sector served us well in March, as we'll see. Down for the month were BDC common stocks. As the Wells Fargo index shows, the sector was down -2.22% on the month when price movement and dividend income are considered across three-dozen companies. The Fund's investments in BDC common stocks (our biggest single allocation of capital) recorded a -1.85%, return on equity in the month.

However, the Fund had another successful month "shorting" several investments in March. We were up +0.33%. Likewise, the BDC Notes had a third positive month in a row, as long term interest rates remained low. We were up +0.46% in this segment (up +1.08% YTD).

Overall, when all the segments are considered, our BDC investments were off 1.07%. Our BDC investments of all kinds accounted for 50% of the Fund's net loss in March. However, YTD BDC equity and debt, long and short, is a positive contributor to the Fund's superior results: 54% thereof.

PRIVATE EQUITY

The Fund began investing systematically in the publicly traded Private Equity asset managers in 2013, and we benefited most every month from higher prices across the board,. With their diversified portfolios of public and private funds, low borrowings and high distribution levels, Private Equity investments are a useful expansion of our investment universe.

We do not have an external index for Private Equity sector in which we invest. However our internal index, which only captures price changes, shows the sector up 30.2% in the last 12 months through February 2014, with only two down months in that period. Unfortunately, March 2014 saw that trend reversing. The sector was down -3.6%., with 6 of the 7 companies in our universe down in the period. Some price drops were even more dramatic than the average suggests. For example, **Fortress Investment Group** was down -14.8% in March.

We have recognized from the outset that Private Equity stock prices are volatile (the sector is the most volatile of the 5 we invest in), so the Fund typically keeps allocations low. Usually we limit our total exposure to 0.2x the Fund's equity, which translates into well under 10% of total investment assets. That limits potential upside, but keeps us from too much downside. That caution worked to our benefit in March. Although our Private Equity investments in the period reported a loss of -1.07%, that was substantially below where we would have been had we allocated more to the sector.

SCM chose to exit many positions during the month to minimize losses, and we maintained our policy of investment diversification. Still, Private Equity contributed 50% of the Fund's gross loss in March. YTD, though, Private Equity is still a net contributor to profits, but only 3% of the total.

FLOATING RATE LOANS

Judging by the external index we track, the Floating Rate Loan sector was up modestly in March: 0.34%. The index is up for the third month in a row in 2014, but in March all the increase came from interest received, and none from price increases as the sector.

We invest both in the un-leveraged segment of the Floating Rate Loan sector, through several Exchange Traded Funds, and in the leveraged Closed-End Fund segment, which is more volatile but pays a higher yield. We have been reducing our allocation to the latter for months, as we have lost our optimism that prices will bounce back after a dismal 2013.

Anyway, both segments were down for the Fund in March, but very modestly. Closed-End Funds were down -0.08%, and Exchange Traded instruments down -0.03%. Together, the Floating Rate Loan segment contributed just 5% to our loss in the month. Again, YTD Floating Rate Loan sector investing remains a positive contributor for us: 16% of total profits.

HIGH YIELD BONDS

The High Yield Bond sector has been confounding the markets all year, thanks to the weak level of long-term rates. The constantly watched 10 Year Treasury rate, which bust through the 3.0% yield barrier last year, has dropped back to a 2.6%-2.7% range. Dovish comments from the Fed, a harsh winter keeping GDP growth stunted and a troubled geo-political environment (thanks to the long playing Ukraine crisis) have conspired to keep interest rates low, which is very good for fixed rate bond instruments like High Yield Bonds.

The Barclays index shows the sector was up again, albeit modestly in March.

The Fund also saw a positive contribution from our un-leveraged and leveraged High Yield investments in March, helped by both interest received and slight price increases. The Attribution Report shows the Fund's High Yield Bond investments contributed 5% to March's earnings, and 27% YTD.

UP TO DATE

As we write this, the most volatile sectors we invest in (BDC common stocks and Private Equity) have been in drawdown mode for nearly two months; driven by profit-taking, technical factors, and market anxiety about the Ukraine. We've adapted and greatly reduced our exposure, both to mitigate downside risk and to take advantage of an eventual bounce back. The potential upside in these two sectors, which also pay the highest distributions, is as high as they've been in two years as stock prices are trading at substantial discounts to Realizable Value. Of course, the $64,000 question is when these sectors will turn. We don't know, but we're well positioned, with ample unused capital to deploy.

Of the three less volatile sectors, BDC Notes and High Yield Bond values continue to defy gravity and remain at elevated levels. We're not allocating materially more capital thereto, but we're not calling a top either. The analysts who have been predicting higher interest rates and a drop in fixed income values have been wrong for many months now. However, we have become concerned that Floating Rate Loan prices may be headed for a downward adjustment, and have greatly reduced our exposure to that sector, both the leveraged and un-leveraged investments. There are far better opportunities elsewhere.

We expect moderate to high volatility in market conditions, and our results, on both the upside and downside for the foreseeable future. However, the Fund, with it's ability to invest across five debt sectors and over 130 different publicly traded investments, and with the capacity to go both "long" and "short" and to leverage up or sell off on very short notice, has all the tools necessary to continue generating the 18% annual returns we've been achieving since 2012, regardless of temporary market weaknesses and disruptions.

NEWSLETTER

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

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