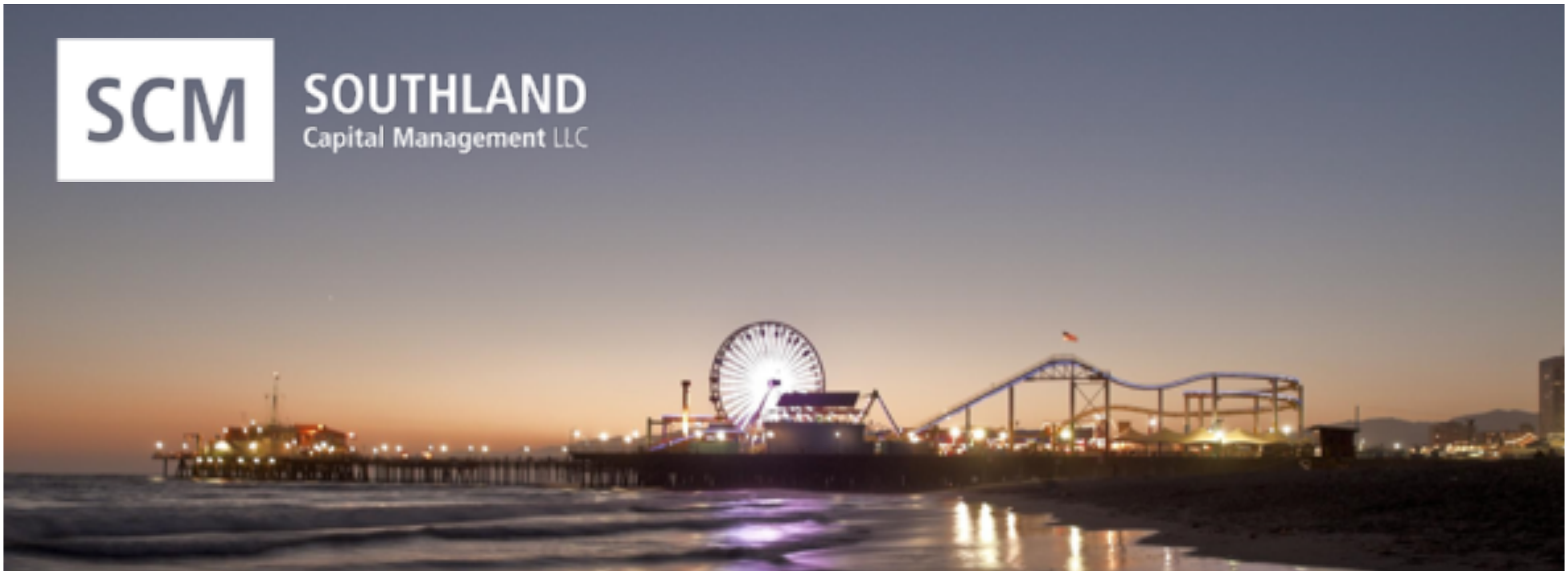

Month	BDC Fund II*	HFRI EHI	S&P 500 TR	Dow Jones
FYE - 2009	4.37%	2.92%	6.04%	7.37%
FYE - 2010	73.04%	10.04%	15.06%	11.02%
FYE - 2011	-46.38%	-8.38%	2.11%	5.53%
FYE - 2012	28.21%	7.41%	16.00%	7.26%
FYE - 2013	13.20%	14.33%	32.39%	26.50%
January - 2014	2.30%	-0.73%	-3.46%	-5.30%
Inception to Date	**43.77%**	**26.98%**	**84.72%**	**61.64%**
1/1/12 - Date	**38.04%**	**21.91%**	**48.28%**	**28.50%**

* 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

JANUARY 2014 RESULTS

The Fund was up 2.30% in January 2014, the fifth positive month in a row. All the other indices (1), we compare ourselves with were down, as investors pulled back over concerns about developments in the emerging markets. The worst performer was the Dow index down -5.30%, the S&P 500 -3.46%, and the new HFRI "hedge fund" index was down -0.73%.

Inception To Date (52 months), the Fund is up 43.77%. Thanks to the stock market bull run in 2013, we lag the S&P500, which is up a remarkable 84.72% over this period. The Dow Jones is up 61.63%.

However, the Fund is well ahead of our "hedge fund" peers as the HFRI index is up just 26.98% over this extended period.

(1) Note about indices: We are using the opportunity of the new year to make a number of changes to the indices we use in the monthly Performance Report Newsletter. To provide greater variety, we are deleting the use of the Russell 2000 & NASDAQ, keeping the S&P 500 and the Dow Jones, and adding an index of "hedge funds". This is the Hedge Fund Research Index or HFRI Index, which aggregates the returns of 2,000 U.S. hedge funds.

POST 2012 PERFORMANCE

We're pleased with the Fund's results, both in the last month, and since inception. However, we believe the results achieved since January 2012 are the best reflection of how BDC II is currently operated, both in term of returns and minimizing volatility. As you know, 25 months ago we made critical changes to our investment management strategy, which we've detailed in previous Newsletters.

In that subsequent period, the Fund is up 38.04% (an 18% annual return). By this metric, we are still lagging the red hot S&P 500, which is up 48.27%. (Not to sound like sour grapes but we should point out that the S&P annualized return over 25 months is 3x higher than their average annual return over the past 10 years). If we have yet kept up with the S&P 500, we should point out that the Fund is well ahead of the Dow Jones result of 28.49% over this shorter period, and with an even bigger lead over the HFRI Index return of 21.91%.

Month	BDC Fund II	HFRI	S&P 500	Dow Jones
Jan 2012 to Date	38.04%	21.91%	48.28%	28.50%

VOLATILITY DRASTICALLY DOWN SINCE 2012

Returns are very important, but so is the amount of volatility, the ups and downs in the Fund's value that investors notice every month when they open their statement. We'd like to highlight how much less volatile the Fund has become since 2012, thanks to the very deliberate changes made in our investment management approach. To measure volatility, finance types talk about an investment's "standard deviation".

Investopedia defines the term: “Standard Deviation is a statistical measurement that sheds light on historical volatility. ..a volatile stock will have a high standard deviation while the deviation of a stable blue chip stock will be lower."

Before 2012 our Standard Deviation (or SD) ranged between 29.6% & 45.9% a year, & averaged 31%. By any measure, that's high & became too high for either the Manager or the investors to tolerate. After we changed our investment management approach, SD dropped to 19.8% in 2012. Last year, SD dropped again: to 12.6%. That's in line with the average SD of the S&P 500, even though the Fund is leveraged.

Another sign that we've greatly reduced volatility in the past 2 years: the Fund's "Downside Deviation", which measures the maximum percentage an investment goes from high to low in a period, has also dramatically dropped. In 2011 the drop was a gut wrenching 32.3%. In 2012 we cut the drop to 10.6% & in 2013 to just 9.5%.

There are many other ratios that institutional investors use to measure risk and return : Sharpe Ratio, Sortino Ratio, and so on. We're happy to share these with any one interested. All point to great improvements over the past 25 months, as we've lived and learned.

The fundamental take-away, though, should be that we have managed to achieve very high mid-teen net investment returns since 2012 while drastically reducing the Fund's volatility. Hopefully, we are not done. We are still targeting annual returns north of the 18% achieved per annum since 2012, while simultaneously seeking to further reduce investment volatility with various initiatives which we'll discuss in future Newsletters.

JANUARY 2014 MARKET RECAP

Back to what happened to the markets in the first month of the year. Just when the investor consensus was that long term interest rates would be rising in 2014, and that the stock markets would continue the impressive price gains achieved in 2013, everything went the other way. The 10 Year Treasury dropped throughout the month: from 3.02%, to 2.7%. Virtually all the stock markets, led by the emerging markets, went south. The S&P 500 dropped from the first business day of January, accelerating in the second half. Even worse was the performance of emerging market stocks, down -4.4%. There was much talk of a market "correction" underway: technically a drop from high to low of 10%, and the possibility of even worse up ahead, stoked by concerns about a global growth slowdown. As a result, bond investments, the red headed step child of investment portfolios in 2013, fared well in the month. Generally speaking, the longer the maturity of the bonds involved, the bigger the return.

NEW IN 2014: BDC FUND II AND INDUSTRY SECTOR PERFORMANCE

We spend a lot of time reviewing data metrics at month's end about the publicly traded non-investment grade investments we invest in. We're looking for investment insights & trying to work out-with the benefit of hindsight-what we did right and where we went wrong. Thanks to data generated by PartnersAdmin, our crack independent administrator, we are able to determine the contribution to our monthly income of every investment and debt sector in which we are invested. This "Attribution Report" calculates all price changes, income received, capital gains/ losses & all expenses on every investment we make, & aggregates the result by sector.

We've been crunching the Attribution Report data for a year now. In January 2014, we added three new externally generated indices, each which shows the "total return" of the three main sectors in which we are involved: Business Development Companies, High Yield Bonds and Floating Rate Loans.

Combining the Fund's Attribution Report and the new sector indices will allow us to give you an overview of sector performance every month from now on.

Month	BDC II	WF BDC Index	BarCap CHY	S&P/LSTA
January '14	2.30%	-0.6%	0.70%	0.62%

Here are the highlights for January:

BDC INVESTMENTS OUT-PERFORMED

Here's a fascinating fact that reflects well on the Fund's portfolio management. In January: the poorest performing of the 3 main sectors we invest in was BDC common stocks. As measured by the Wells Fargo Business Development Company index, the $30 billion sector was down -0.6%. However, the Fund achieved the highest return of all our sectors in BDC common stocks with a 0.8% return (9.9% annualized) in the month, thanks to interest income received and buying and selling the right investments. According to the Attribution Report, BDC Common Stocks accounted for 30% of the Fund's return.

Moreover, the Fund was also successful with a number of short positions in the BDC sector, when we believe a stock has become over-valued. Selling short earned us half as much as BDC long positions, or 15% of the Fund's return. We've been increasingly shorting BDC common stocks in recent months, with increasing success. Last month, 3 short positions, all closed out for a gain, boosting earnings.

Wait, there's even more: In January, the Fund also generated a positive 0.6% return from our BDC Notes investments, which benefited from the decrease in long term interest rates.

Summing up, our investments in BDC Common Stocks (long and short, and including both individual stocks and ETFs) and BDC Notes contributed nearly two-thirds of our gross income in January.

ALL OTHER SECTORS POSTED A POSITIVE PERFORMANCE

According to the **Barclays High Yield Bond** index, the sector was up 0.7% in the month. Our High Yield holdings are weighted towards short term instruments so the Fund's January performance was more modest. Still, the Attribution Report shows our High Yield Bond investments, held in both Closed End Fund and Exchange Traded Fund instruments, earned a return of 0.4%, and contributed 15% of our total return.

The **Floating Rate Loan** sector-as measured by the S&P/LSTA 100 index-was up 0.6%. This was encouraging as the sector was the laggard amongst the 3 main non-investment grade debt sectors we invest in during 2013. We expected a bounce-back in this sector in January and we were heartened by the result. The Attribution Report shows the Fund's Floating Rate Loan sector investments contributed a 0.6% return in January , exactly in line with the sector at large.

The smallest gainer in January (but still in the black) were our investments in publicly traded Private Equity companies, which had been up hugely in 2013, and were a major contributor to our positive results in the last quarter of 2013. In January this sector was up only marginally in price terms (using our own internally generated index as a third party calculation does not yet exist). The sector started out the year very strongly but dropped back as concerns about a stock market correction heightened.

Overall, the Fund had positive contributions from every sector in January, despite a very choppy market. Across the universe of stocks that we invest in, as many were down in price in January, as were up. Given the market conditions, we could not have hoped for a better start to the year.

NEW AND IMPROVED IN 2014

With the onset of the new year, we've also revamped **Southland Capital Management's** website (www.southlandcapitalmanagement.com), which contains a great amount of information about the managers, BDC Fund II and the investment opportunity in this $2 trillion corner of the markets. We've integrated our popular online publication, the **BDC Reporter,** into the SCM website to give existing and prospective investors a full picture of what we do, and why. We encourage you to check out the revised websites, and sign up for our daily digest of investment news.

INTRODUCTIONS PLEASE

Our goal in 2014 is to get the word out to more "accredited investors" about BDC Fund II, which will benefit both them and existing investors as operating expenses will be spread over a bigger base. We are halfway to the Fund's maximum size. If there is anyone you know who might be interested in our mix of hands-on fund management, high returns, ability to withdraw distributions monthly and friendly service, please direct them to our website, or the BDC Reporter. Or, better yet, have them call **Bill Hansen at 800-579-1651.**

NEWSLETTER

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

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