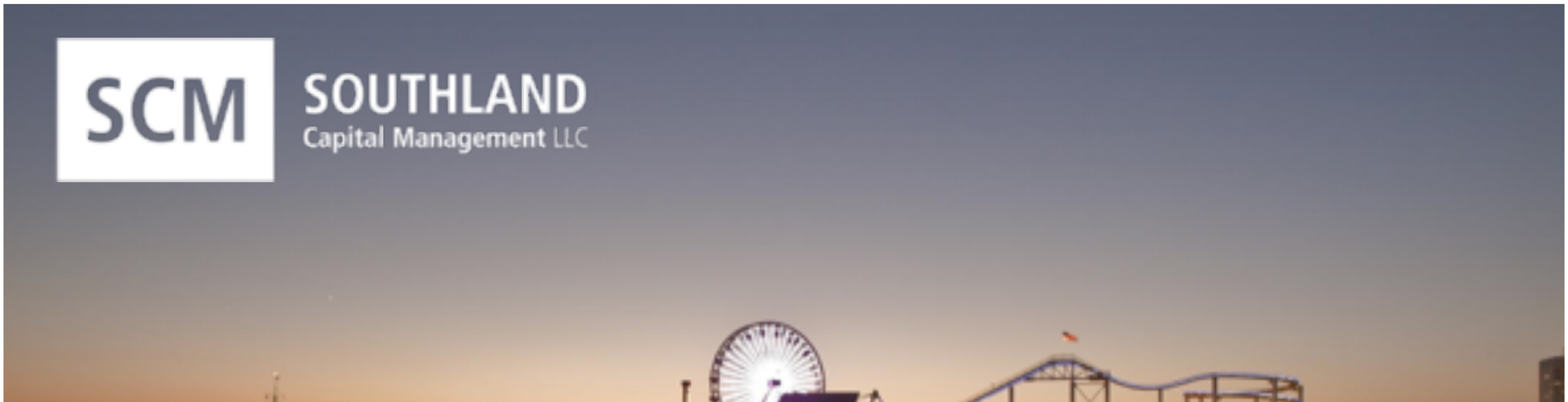


| Month | BDC Fund II* | HFRI EHI | S&P 500 TR | Dow Jones |
|---|---|---|---|---|
| FYE - 2009 | 4.37% | 2.92% | 6.04% | 7.37% |
| FYE - 2010 | 73.04% | 10.45% | 15.06% | 11.02% |
| FYE - 2011 | -46.38% | -8.38% | 2.11% | 5.53% |
| FYE - 2012 | 28.21% | 7.41% | 16.00% | 7.26% |
| FYE - 2013 | 13.20% | 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% |
| April - 2014 | -4.10% | -0.84% | 0.74% | 0.75% |
| May - 2014 | 0.33% | 1.23% | 2.35% | 0.82% |
| June - 2014 | 8.28% | 1.73% | 2.07% | 0.65% |
| **Year to Date** | **8.14%** | **3.32%** | **7.14%** | **1.51%** |
| **Inception to Date*** | **51.98%** | **32.09%** | **104.99%** | **73.25%** |
| **1/1/12 - Date**** | **44.37%** | **26.82%** | **64.53%** | **37.73%** |

* 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.)

## June 2014 RESULTS

What a difference a month makes… In June, the Fund was up 8.28%, out-performing all the other indices by a factor of four or more. The second highest performing index was the S&P 500, up 2.07%. The Dow Jones was at the back of the pack at 0.65%, and the Hedge Fund Index (HFRI EHI in the table above) was up 1.73%.

In one fell swoop, BDC II went from being the weakest performer in 2014, to the top. Y-T-D, the Fund is up 8.14%, outstripping the S&P 500 (which is having another very


good year), and is way ahead of the average Hedge Fund at 3.32%, and the Dow Jones (having a weak year so far) at 1.51%.

Inception To Date, which is 57 months, the Fund is up 51.98%, far ahead of our hedge fund cousins at 32.09%, but behind the two red hot stock market indices: the Dow Jones up 73.25% and the S&P 500 up 104.99%.

As regular readers know, we prefer to be measured from January 1, 2012 when the Fund altered it's investment policies to reduce volatility. In that shorter 30 month period (now longer than the pre-2012 history) the Fund comes in second. The S&P 500 has been the top performer at 64.53%, and BDC II is up 44.37%, after all fees and expenses. We are ahead of the Dow Jones, up 37.73%, and substantially ahead of the average hedge fund at 26.82%.

| Month | BDC Fund II | HFRI | S&P 500 | Dow Jones |
|---|---|---|---|---|
| Jan 2012 to Date | 44.37% | 26.82% | 64.53% | 37.73% |

## A WORD FROM THE CIO

Regardless of monthly or even annual shifts in the performance table, the Fund's long-term goal remains out-performing all the other indices by achieving a mid to high teens annual return. Unlike many other investment funds who trade-off above average returns for low volatility, the Fund targets high returns over the long run, and accepts (but never enjoys) moderate volatility in the short term, as we experienced through most of this year (we've been down -4.1% in a given month and up+ 8.28%). Nonetheless, volatility is substantially lower than in the pre-2012 period.

Double digit returns with single digit volatility is the Holy Grail of fund investing, which the Fund has been able to achieve for the past two and a half years. Going forward, our goal is to increase returns while simultaneously reducing volatility even more. More on this in the Conclusion to this Newsletter… First, though, let's discuss how the Fund performed by sector in June and Year-To-Date.

## INDUSTRY SECTOR PERFORMANCE

As a recap, the Fund invests in Lower Volatility-lower return non-investment grade debt sectors: High Yield Bonds, Floating Rate Loans and BDC Debt. These sectors generate an average yield below 6.0%, but the investments do not vary greatly in price (usually less than 10% in a given year from high to low). We hold Lower Volatility investments principally for the current yield, and with the benefit of the Fund's leverage we are able to achieve yields in the teens, if all goes to plan.

We also invest in two Higher Return-Higher Volatility sectors: BDC Common Stocks and Publicly Traded Private Equity Managers. However, we are called the BDC Fund for a reason, and the bulk of our higher-volatility investments are in individual or sector BDC investments. We limit our exposure to the very volatile, but very promising Private Equity sector to 20% of the Fund's equity at a maximum, and often much less. That's because Private Equity stocks can be very, very volatile in price terms, even more than BDC stocks, and we are committed to mitigating the big swings, which too great an investment in this sector would entail.

As a rule of thumb, the Fund seeks to have two-thirds of it's investments in a wide range of Lower Volatility investments (with no one sector accounting for more than 100% of the Fund's equity) and one-third in Higher Volatility investments, principally BDC common stocks.


However, we regularly shift allocations within the Low Volatility and High Volatility segments of the portfolio as different sectors and individual investments become better or worse bargains, according to our valuation metrics.

Moreover, we occasionally will increase the relative balance of the Lower and Higher Volatility portfolios, if risks or opportunities call for such a move. That was the case in June, as we modestly over-weighted our exposure to Higher Volatility investments, especially in BDC Common Stocks. The sector had been in drastic drawdown mode since February 24th, and was 11% down by May 15th. As we wrote last month, the sector began to rebound in the second half of May, and that trend continued in June.

The Fund, which had cut back exposure to the sector in the correction period, jumped back in from late May, and also upped our allocation to Private Equity. According to the BDC sector Exchange Traded Note, the sector was up 5.5% in June. The Wells Fargo Index, which includes both price movement and dividends received, was up 5.71%. In other words, the BDC sector was in boom mode. No wonder then that the Attribution Report shows the Fund's BDC stock investments contributed a gain of 6.3% of equity, or 72% of the overall gross gain for the month. For the Year-To-Date, the BDC sector has contributed a gain of 6.9% of equity, or 62% of the Fund's total profit.

Private Equity, which has been a bust for 3 months, also joined the party. We had a modest allocation, and the upward move was not as pronounced, but the Fund still made a 0.8525% gain. In total, the Higher Volatility sectors contributed 82% of the month's gain. Still, Year To Date, the Private Equity sector has caused the Fund a loss equal to -0.5% of equity. That's relatively modest, and not surprising. We did an analysis of the seven asset Managers we invest in, and 6 of 7 saw their share prices drop in 2014 versus year-end 2013, notwithstanding stellar results in the first 2 months of the year. We still see opportunity in the sector, but that's a story for another time.

| Month | BDC II | WF BDC Index | BarCap CHY | S&P/LSTA |
|---|---|---|---|---|
| June 2014 | 8.28% | 5.71% | 0.84% | 0.55% |

## LOWER VOLATILITY SECTORS

All the Lower Yield-Lower Volatility sectors had a positive June as well. The top performer were BDC Notes, which contributed a return equal to 0.8% of equity, after it's first negative month all year in May, explained in our last Newsletter. In 2014 the BDC Note sector, where investments are more illiquid but yields are higher, has contributed a 1.9% return in the first 6 months of the year (or 17% of total profits), even though our allocation to the sector is less than 50% of equity.

(Just for the record, we should point out that when you add the contribution of Higher Volatility BDC Common Stocks and Lower Volatility BDC Notes, they represent four-fifths of the Fund's gross profits in 2014 , which seems fair given our name. Furthermore, we believe the 8.7% gross return on equity our BDC investments have achieved in the first half of 2014 is even more impressive when you consider that the BDC sector as a whole is still down -1.7% in the period, notwithstanding the recent bounce back).

The second Lower Volatility sector best performer were High Yield Bonds, contributing 0.5% in the month, and 1.5% YTD, or roughly a fifth of gross income in the period. As has happened all year, bonds continued to benefit from long-term interest rates being flat or downward. The sector has not had a losing month all year. Floating Rate Loans-the safest but


lowest yielding sector-generating a 0.26 % return on equity in the month, and 0.17% YTD. Overall, Floating Rate Loan gains have accounted for just 5% of the fund's profits in 2014. That's nothing to write home about, but note the sector is slightly down (-0.04%) in price terms in 2014, and all investor gains have come from distributions. Based on the amount of capital we've allocated to this stable but very low yielding sector, our results are in line with the performance of the Floating Rate Loan index.

## CONCLUSION

Everything old is new again. In 2014 so far, we've had an upsurge in BDC Common Stock (and Private Equity) prices (January and February), followed by a downswing (March-April), a stabilization (May) and a rebound (June). We've had a series of these multi-month "roller coaster" movements all through the Fund's history (albeit 2011 was unusually bad). We will continue to have similar volatility of results: usually two positive months for every negative month. To throw out every cliché we can to make our point, it's a case of two steps forward, one step back (and sometimes vice versa). Which is why we encourage investors not to put too much importance on any one-month's performance, whether good (June) or bad (April).

Certainly, both existing and prospective investors will not be able to determine from recent short-term results what future performance might look like. It's like trying to guess the final score of a basketball game after watching the first four minutes of the first quarter. Believe me, if the Lakers are ahead at that stage you should not be betting the farm that a win is inevitable. Likewise, just because the Fund was down in March and April it does not follow June would follow suit.

Instead, we point you to the Fund's longer-term patterns, especially since January 1 2012 (we'd give anything to have 2011 back but that's not the way life and investing works). In the last 30 months you'll see what we expect will be the pattern for the future: multi-month swings from a high to a low. Looking at the chart of the BDC sector as a whole, we've counted no less than 8 swings in BDC sector stock prices of greater than 5% (some of them above 10%) in the past two and a half years, none of them lasting longer than 6 months, but none shorter than two months.

Two and a half years have passed too since the implementation of the Fund's new strategy, and we've achieved a 44% return, after all fees and expenses, notwithstanding the slings and arrows of market volatility. Just repeating that result in the next two and a half years (with much roller coaster movements along the way) suggests a potential 5-year return of 88% for entrusting us with your money. To put that into context, a "safe" investment in 5 Year Treasury Notes initiated on January 1 2012 will earn just over 4% in 2017 when cashed in. Even today, if you invest in a 5 Year Treasury Note, you'll walk away with a gain of only 8% in 2019.

## HIGH HOPES

Most "hedge funds" are delighted to offer investors returns in the middle single digits, and many institutional investors are eager to accept them. By contrast, BDC Fund II is aiming substantially higher for our investors.: namely two to three times more. If we get this right, investors who have a long-term perspective AND can face with equanimity the occasional single or multi-month streak of single digit downturns, should come close to doubling their initial investment every 5 years. Except for very illiquid, opaque and long term investments in Private Equity or Real Estate, there are few investments in today's low yield world, which are targeting the kind of outsized returns BDC Fund II seeks to offer.


## NEWSLETTER

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

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