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	0.33%	1.37%	2.35%	0.82%
Year to Date	**-0.13%**	**1.71%**	**4.97%**	**0.85%**
Inception to Date*	**40.36%**	**30.03%**	**100.84%**	**72.13%**
1/1/12 - Date**	**35.37%**	**24.84%**	**61.20%**	**36.83%**

* 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.)

May 2014 RESULTS

The Fund was up +0.33% in May, breaking a two-month losing streak. However, all the other indices we compare ourselves to were up even more, with the S&P 500 registering a strong month at +2.35%. The "Hedge Fund" index was up +1.37% (also following two negative months) and the Dow Jones was up 0.82%. On a Year-To-Date basis, the Fund was slightly under water at -0.13%, given the two negative months of April and May. As the BDC Common Stocks sector is down in price terms by -6.9% on the year, the Fund is holding it's own in a difficult market.

Still, we trail all the other indices in 2014, with the S&P 500 with the greatest lead at +4.97%. However the Dow Jones and the Hedge Fund index are only eking out a small gain on the year at +0.85% and +1.71% respectively.

From Inception-now 56 months-the Fund is up +40.36%. We are ahead of the Hedge Fund Index of our peers, up +30.03%, but trail the two stock market indices. The S&P 500 is up just over +100%, a remarkable amount. The Dow Jones is up +72.13%.

POST 2012 PERFORMANCE

Since January 1, 2012, when the Fund shifted it's investment strategy to mitigate downside risk-a period or 29 months-we are up +35.37%, well ahead of the HFRI at +24.84%, and very close to the Dow Jones at +36.83%. However, the S&P 500 continues to be the run away best performer in this shorter period too at +61.2%.

Month	BDC Fund II	HFRI	S&P 500	Dow Jones
Jan 2012 to Date	35.37%	24.84%	61.20%	36.83%

INDUSTRY SECTOR PERFORMANCE

Given that we are writing this Newsletter late, we will spare you too much of the sectoral blow-by-blow for May. Instead, here are a few brush strokes for anyone interested in keeping up on the evolving story:

Month	BDC II	WF BDC Index	BarCap CHY	S&P/LSTA
May 2014	0.33%	0.27%	0.92%	0.76%

Lower Volatility Sector Performance

Our lower volatility-lower return sectors performed well in May-with one exception. **High Yield** investments were up for the 5th month in a row, confounding everyone who expected an increase in long-term interest rates and a drop in prices. Likewise, **Floating Rate** Loans was also a positive contributor on the month, after stumbling slightly in March and April, and the sector only ever so slightly down on the year.

BDC Debt, though, was negative for the first time all year. However, that was almost all due to the price action in one investment, which we had purchased at a premium to par (and has given investors a very steady 7.0% return for the past three years), that was redeemed early at par in May. That resulted in a one-time loss, although over the lifetime of the investment we have made a very good return for what is an investment grade risk. Still, YTD, the BDC Debt sector remains the Fund's top performer, contributing a remarkable 50% of gross earnings, but representing only a fifth of total assets.

Higher Volatility Sectors Performance

As we mentioned up top, the BDC Common Stock sector-the bread and butter of the Fund and typically our biggest exposure-has been in "Correction Mode" (when prices drop more than 10% from high to low in a period) since February 24. With the benefit of hindsight, this surprising pull-back appears to be technical in nature, and related to the decision by a major stock market index sponsor to

drop inclusion of BDCs in May. As a reported 8% of all BDC stock is owned by the Exchange Traded Funds that track the said index, the result was that institutional investors immediately began selling off their BDC positions in anticipation of the May change. As they say, markets always anticipate.

Ironically, with the BDC sector down 11% on May 15th, as the actual dropping of the sector from the ETFs began, prices began to rise. On the month, the BDC sector was slightly up, as reflected in our results. BDC Common Stocks (including stocks shorted) were up 0.81% according to **Partner Admin's Attribution Report** (which counts both dividends received and price changes). That followed two down months. Most remarkably and notwithstanding the down BDC market (equal to 40% of the price reduction experienced during the Euro-crisis), the Fund's BDC Common Stock investments are up on the year, with a return equal to 0.65% of shareholder equity (before management fees).

Ruining the party in May was the performance of the **Private Equity Asset Manager** sector, which had been a big source of gains in 2013 and the first two months of 2014. The segment was down modestly in May, for a third month in a row. Losses were mitigated by our limited exposure (we cut back our investments by 50% or more) and a turnaround in stock prices that began late in May.

CONCLUSION

We know it sounds perverse to be upbeat when the Fund is trailing all the other indices in 2014, and our results are essentially flat over 5 months. Nonetheless, we are pleased with our performance. We've managed to withstand major pull-backs in the BDC Common Stock sector and Private Equity Asset Managers, the two components of our higher volatility-higher return portfolios. These investments represented more than half our total investments before market conditions changed.

In the past, a double digit "correction" in stock prices (the Asset Managers were actually in "Bear Market" territory-down over 20% at one point) would have resulted in the Fund being down by 25%-30%. We are actually up in gross return terms (2.1% YTD), and only negative (-0.13%) when fees are included.

That's a testament to our **sector diversification** policy. As our eggs were not all in the High volatility-High Return basket, we benefited from the positive performance of the High Yield, Floating Rate Loan and BDC Debt sectors. Also, we **sold down** our exposure to the BDC Common Stock and Asset Manager sectors as price conditions worsened, reducing exposure and creating liquidity with which to invest when and if a rebound should occur. At one point, we cut our riskier investments by nearly two-thirds. That temporarily reduced dividend income (mostly in April and May), but kept portfolio losses in check. Every investment manager wants to maximize **capital preservation**, and we were able to do so in spades. We kept the Fund's total drawdown at -5.7% (March and April) of equity despite very poor market conditions. For a triple leveraged Fund that's a very respectable number.

Now the challenge is to have the courage to re-invest all that capital taken "off the table" in the high volatility sectors during March-May to take advantage of any rebound in BDC Common Stocks and Asset Managers. We began to-reinvest in the last week of May, and boosted our exposure to High Volatility investments to 125% of equity at month end. Our next Newsletter will tell how that worked out in June …

NEWSLETTER

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

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