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%
Year to Date	**6.61%**	**1.84%**	**0.96%**	**-1.54%**
Inception to Date*	**49.83%**	**30.20%**	**93.17%**	**68.05%**
1/1/12 - Date**	**42.71%**	**25.00%**	**55.05%**	**33.59%**

* 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.)

FEBRUARY 2014 RESULTS

The Fund was up again in February by 4.21%, and the sixth month in a row. For the month, the S&P 500 was the top performing index as common stock prices came roaring back after a loss making January: up 4.57%. However, the Fund out-performed the Dow Jones, up 3.97%, and the Hedge Fund Index, which was up 2.85%.

Year-To-Date, the Fund is out-performing the other indices: up 6.61%, substantially ahead of the HFRI index, which is up 1.84% over the first two months of the year. The S&P index was up 0.96%, and the Dow Jones still in the red, down -1.54%.

Inception To Date (53 months) BDC Fund II is up 49.83%, far higher than the average "hedge fund" at 30.20%. The Fund's results over the period still lag the Dow Jones (up 68.05%) and the S&P 500 with a remarkable 93.17% gain in this period. Impressive as the performance of the S&P

500 has been, we would point out that the average annual return over a 10 year time frame performance has been 7.3%, while the Fund's average annual gain (admittedly calculated over a shorter period) is 11.2%.

POST 2012 PERFORMANCE

As we say every month, notwithstanding all the above, we believe the results achieved since January 2012 are the best reflection of how BDC II is currently operated. Over the twenty six month period involved, the Fund is up 42.71%. We still lag the S&P 500, which is up 55.05%, but are ahead of the Dow Jones at 33.59%, and the HFRI index at 25%.

On an annualized basis, the Fund is returning 19.7%, in line with SCM's long term goals, and 2.7x higher than the average long term annual gain from investing in the S&P 500. Obviously, if the Fund's performance can be sustained, which is easier hoped for in a Newsletter than done, BDC II will be one of the highest performing "hedge funds" in the industry. No pressure.

Month	BDC Fund II	HFRI	S&P 500	Dow Jones
Jan 2012 to Date	42.71%	25.00%	55.05%	33.59%

INDUSTRY SECTOR PERFORMANCE

As we explained last month, we are using data generated from Partner's Admin Attribution Report, to analyze the performance of the different sectors we invest in during the month (see Table).

Month	BDC II	WF BDC Index	BarCap CHY	S&P/LSTA
February '14	4.21%	1.93%	2.02%	0.05%

BUSINESS DEVELOPMENT COMPANY EQUITY & DEBT

The BDC Sector was up 1.93% in February on a total return basis (price change and dividends), after a slow start to the year in January. The Fund's biggest allocation was to **BDC common stocks**, and benefited from the positive conditions, with a 2.08% gain in the month. Likewise, our small investment in BDC exchange traded notes, which Partner's Admin calculates separately, was up 0.08%.

We have been "shorting" certain BDC common stocks in recent months with great success. However, with the surge in BDC prices, we recorded a slight loss in the period (despite booking several Realized Gains in February) of -0.05%.

Like last month, **BDC Notes** contributed to the Fund's performance, but more modestly (just 0.064% versus 0.5505% in January) as long term interest rates were flat in the period, after dropping sharply (and unexpectedly) in the first month of the year (from 3.0% to 2.7% on the 10 Year rate).

Altogether, BDC common stock investments (long and "short") and BDC Notes contributed 47% of the Fund's gain in February.

PRIVATE EQUITY

We've been investing a relatively small amount of the Fund's capital in publicly traded **Private Equity** companies for the past 6 months. The sector's investments are paying increasingly large distributions, and the upside potential remains higher than most other sectors. However, the PE companies are highly volatile, so we limit the Fund's exposure to roughly 10% of total investment assets. Nonetheless, the

segment performed very well in February, with a 1.21% gain, after a very modest gain in January. Private Equity gains contributed 26% of the Fund's gain in February.

HIGH YIELD

Against all the predictions of market analysts at the beginning of the year, the **High Yield Bond** sector had another very positive month. The **Barclays High Yield Bond** index was up 2.02% in February alone, which is remarkable given that the annual interest yield is below 6%. The Fund has been maintaining a modest allocation to High Yield Bond Closed-End Funds, and a larger allocation to select exchange traded funds. The result was a gain in February of 0.92%, split 40/60 between CEFs and ETFs. Our High Yield investments contributed to 20% of the month's total return. Nonetheless, except for Private Equity, High Yield remains the sector with our smallest allocation in dollar terms as very few investments meet our minimum return criteria, and gains can be very quickly given back if and when long term interest rates rise.

FLOATING RATE LOANS

Of all the sectors we invest in, the weakest performer was **Floating Rate Loans**, up just 0.05%. It is an ironic situation because Floating Rate Loan investments continue to be highly popular, with an unprecedented 90 consecutive weeks of positive investor capital inflows. However, BDC and High Yield Bonds, with their higher dividend yields, appear to have outshone Floating Rate Loans in February.

The Fund, though, still reaped a decent gain from it's Floating Rate Loan investments. We have a major allocation to Floating Rate Loan Exchange Traded Funds, which have exhibited very little volatility in recent quarters. In February, this segment achieved a yield of only 0.0273%, as income earned was offset by a slight drop in market value.

However, the Fund's investments in Floating Rate Loan Closed-End Funds (the bane of our existence last year) performed far better. This segment yield was 0.3371%, even as we reduced our allocation thereto during the period.

Overall, Floating Rate Loans of one kind or another contributed 7% of the Fund's gain in February.

CONCLUSION

For a second month in a row, all the main sectors we invest in were up, and the Fund reaped the benefit with very high monthly results, accentuated by our use of leverage and successful stock selection. The 4.7% February gain annualized is a 56.4% annual pace, and cannot continue indefinitely. However, the diversification by sector has been a great boon. For example, if we had been in Floating Rate Loans alone in February, the Fund's returns would have been substantially more modest, even when taking into account our leverage. Ditto, last month for the Private Equity sector. Instead, we have exposure to 5 different sectors, which has allowed us each month to benefit to varying degrees.

LOOKING FORWARD

We are writing this at mid-month, with all the markets in retreat due to concerns about the Ukrainian crisis, and the apparent slow-down in China. The main stock market indices have given up all their 2014 gains, and the Fund's interim numbers suggest we are down on the month (but still ahead on the year). Of course, we don't know if we are in for a prolonged period of instability, or another short downswing followed by another run-up.

Looking beyond the short term noise, and thanks to the recent end of the "earnings season" for many of our investments where we gained many useful insights about fundamental trends, we remain confident about the outlook for non-investment grade debt investments, and our distinct

investment strategy. Yes, High Yield Bond and Floating Rate Loan investments are fully valued. As existing holders, we are benefiting from these assets popularity, but are not adding anything to our positions. Even if prices do rise, we don't want to allocate new money to investments yielding under 5% per annum.

However, there are numerous buying opportunities in Private Equity (a sector which has grown up just in the last year and which the market does not really know how to value, but which may be headed to ever higher highs), in BDC common stocks (where half of the universe of stocks we track are trading 10% or more off our Realizable Value, and where we are harvesting a yield north of 10% in an ostensibly low yield world) and in BDC debt (where virtually all issues are investment grade rated but pay very handsome yields).

Even more importantly: downside risks are limited. With interest rates low, the economy on low boil, and liquidity very high, the chances of a recession induced credit melt-down are low. Default rates are dropping still in High Yield, Floating Rate Loans and in the BDC sector. The Private Equity groups have record capital to spend, and essentially no debt. We've been seeing pressure on yields as lenders and buyers compete for deals, but not the irrational and unsustainable deal structures and investment free for all that characterized the periods just before the prior recessions.

We've had 6 months of consecutive positive results so we may be due for a pull-back in asset prices. However, short of a "black swan" event, peering forward into the future, we are confident the Fund will be able to continue both generating a gross yield in excess of 20% per annum, and achieving net appreciation in asset values. Even if we should have a "black swan" event, our investments remain highly diversified (spread across 70+ investments in 5 sectors) and highly liquid.

Except for a few of our BDC Note investments, we could go from fully invested to all-cash overnight should we choose. We doubt that will be necessary, and hope that we can focus on our goal of making BDC II one of the top performing "hedge funds" in the world over the long term.

NEWSLETTER

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

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