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%
Year to Date	**0.45%**	**0.30%**	**2.56%**	**0.03%**
Inception to Date*	**39.91%**	**28.23%**	**96.23%**	**70.72%**
1/1/12 - Date**	**34.93%**	**23.11%**	**57.51%**	**35.72%**

* 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.)

April 2014 RESULTS

The Fund had a second negative month, down -4.10% in April, as the two principal “high volatility” sectors in which we invest continued sharply down. The “hedge fund” index (HFRI) was also down, but less so at -0.84%.

The two stock market indices were up in April: the Dow Jones 0.75%, and the S&P 500 0.74%.

Year-to-date, the Fund is ever so slightly ahead, up 0.45%, thanks to the good start to the year in January and February. Two months up, and two months down…

We are still marginally out-performing the Hedge Fund Index, which has been down 3 months out of 4, and is up 0.30% on the year. The Fund is also ahead of the Dow Jones, which started the year very poorly, and is basically flat YTD. Only the S&P 500 is in clearly positive territory in 2014 so far, but only modestly with a 2.56% overall gain.

Inception To Date (after 55 months), the Fund is 39.31% up, beating out the Hedge Fund index at 28.23%, but way behind the two stock market indices over this longer, post-recession period. The Dow Jones is up 70.72% and the S&P 500 up 96.23%.

POST 2012 PERFORMANCE

From the Manager's perspective, the most useful data point from an investor's perspective is the Fund's performance from January 1, 2012 till today. With every passing month (we are now up to 28 months) the investment period is greater and a more appropriate measuring stick for a long term investment like BDC Fund II, and the performance reflects the substantial changes in risk management that we instituted at the end of 2011 which continue to this day. Anyway, in the Post 2012 period, the Fund is up 34.93%, substantially above the Hedge Fund Index at 23.11%, and is neck and neck with the Dow Jones, which is up 35.72% in this period. We remain behind what has been a red-hot performance for the S&P 500, up 57.51%.

Still, 28 months is not truly long term, and although we have achieved a 15% annualized rate in the 2012-2014 period to date, after all fees and expenses, we are aiming at an even higher return over a 5-10 year period. Notwithstanding the past couple of month's drawdown (which is typical for all markets) we continue to target a 15%-20% annual average return. At the top end of that range, and using simple math, the Fund aims to double an investor's initial capital every 5 years. Of course, the tax man will take some of that, and that kind of return is by no means certain and comes with much volatility in monthly results as we are currently experiencing. Nonetheless, the Manager's eyes remain fixed on the prize: achieving very high returns over the long run.

Month	BDC Fund II	HFRI	S&P 500	Dow Jones
Jan 2012 to Date	34.93%	23.11%	57.51%	35.72%

INDUSTRY SECTOR PERFORMANCE

The Fund invests across five different sectors, as we've discussed previously. Three of the sectors (High yield Bonds, Floating Rate Loans and BDC Debt) can be characterized as being lower risk-lower return investments. Although the yields on these investments are relatively low (thanks to the Fed's zero interest rate policy) in April, as throughout the year, the volatility of their stock prices was low and performance was good.

Roughly half the Fund's capital is invested in the High Yield Bond market-exclusively in un-leveraged Exchange Traded Funds-and that sector has been up all year. Ditto for BDC Notes, which is another sector where we have a diversified portfolio of holdings. Both sectors have been the beneficiary of the Big Story in the markets in 2014: the decline in long-term yields. At the beginning of the year every analyst and his dog were projecting higher LONG TERM interest rates in 2014. Of course, the opposite has occurred, with the famous 10 Year Treasury yield at an 11 month low as we write this.

Given that when interest rates go down, fixed rate instruments -like High Yield Bonds and BDC Notes-go up.

The Fund has benefited from that phenomenon by gaining both interest income and capital appreciation. For example, the best known “junk bond” Exchange Traded Fund with the ticker HYG, which his paying a yield north of 5%, has seen it’s stock price increase by 1.6% in the first 4 months of 2014.

Frankly, we can’t take any credit for projecting that interest rates would go down in 2014, rather than the universally anticipated up. Guessing the direction of interest rates is a chump’s game. You may win once or twice, get on CNBC and write a book, but eventually you’ll get it wrong. We have benefited here because of our post 2012 policy of diversifying our investments across different non-investment grade segments with differing interest rate characteristics. YTD, the Fund has achieved positive gains on BDC Notes (1.30% Return on Equity before Fees And Expenses), and 1.39% on High Yield (both Exchange Traded Funds and Closed End Funds).

Month	BDC II	WF BDC Index	BarCap CHY	S&P/LSTA
April 2014	-4.10%	-2.43%	0.55%	0.13%

FLOATING RATE LOAN ACTIONS

The Floating Rate Loan sector has performed less well in 2014. As the Table shows, the sector was up 0.13% in April, but that includes both price changes and income. In terms of price, the sector was down in April, as it has all year. During the month, we undertook two important strategic moves that affected performance. First, we decided to dispose of all our Closed End Fund investments in both Floating Rate Loans and High Yield Bonds. This segment of the market-although paying a higher yield- is also far more volatile in price than Exchange Traded investments, which do not use leverage. Instead, we decided to focus our investing in more volatile investments in BDC Common Stocks and Publicly Traded Private Equity, which we’ll discuss below.

Secondly, intra-month, we became concerned that even Floating Rate Exchange Traded investments might be in for a correction. (We won’t bore you with the details of why, but we did write about the subject on our website www.bdcreporter.com). The price of our principal Floating Rate ETF with the ticker BKLN dropped 0.85% in the first two weeks of the month, reaching a level not reached since August 2013. BKLN’s stock price has barely fluctuated for months as retail investors pumped new monies into the sector 95 weeks running. That streak ended in April, and prices began to slump. Our Risk Management policy is to exit any sector if we believe a lasting correction is underway. That’s why we focus so much of our energies on finding highly liquid stocks, so we can turn on a dime. Which we did, and we sold our entire position (equal to 20%+ of our total assets) in an hour. In this case, we were wrong, and the Floating Rate Loan sector bounced back. (We don’t regret the decision, as preservation of capital remains our lodestar, and as we’ll see below, the cost of the move was minor).

Because of these two actions, the Fund had a negative return on Floating Rate Loan investments in April. The loss in the lower volatility, ETF segment was -0.28% of equity, and -0.35% in Closed End Funds, as we sold all our holdings. Nonetheless, YTD, the Fund has achieved a positive return in the sector (0.22% of equity): below the results in High Yield Bonds/BDC Notes and below the sector as a whole, but only marginally.

HIGHER VOLATILITY SECTORS

All the damage in April (and March for that matter) came from the two sectors which have the highest yields and potential gains, but also the higher price volatility: BDC Common Stocks and Publicly Traded Private Equity.

With the benefit of three months hindsight, it's now clear the BDC sector began a "Correction" (when stocks drops by 10% or more from recent high to low) on February 24th. Between February 24 and the March low, the sector was down -5.2%. However, prices rallied at the end of March, but two further step-downs occurred in April. By the end of April, the sector was down -4.3% compared to March, and -8.0% from the February 24 high point. (Further drops occurred in May, bringing the total drawdown to Correction territory, as we'll discuss in the Update below).

DOWN BUT NOT BY MUCH

We recorded a -1.88% loss on our equity in the period, as calculated by Partner's Admin. That was almost the same as in March. (However, in March we had gains from BDC "shorts" which mitigated the loss). Yet, on a Year-To-Date basis our BDC stock investments have resulted in a loss of only -0.16%. Yet during that same fourth month period, the BDC sector (in price terms) is down -7.1%.

How have we kept BDC losses so muted? First, our Risk Management Policy is to sell down all or a portion of stocks when they become fully valued. So in the first two months of the year we sold many BDCs, which were reaching highs. As a result, when market prices dropped we had less or no exposure to stocks like Hercules Technology (HTGC), which dropped -17% from February 24 to April 30th.

Second, we reduced our allocation to the BDC sector, and to the more volatile sectors generally, as market conditions worsened. At the end of February, the Fund had allocated 150% of equity to Higher Volatility investments. By the end of April, we'd cut that exposure by more than a third.

Third, the Fund continues to receive dividend distributions even as stock prices drop, which helps Total Returns. That's why the Wells Fargo BDC index which we include every month to give the temperature of the market was down "only" -2.43% in April, because price movement and dividends paid are both considered.

Counter-intuitive as it may sound, we are delighted that we have endured two months of a BDC downturn, and managed to escape (so far) virtually unscathed. In the Good Old Days when the Fund was invested 3x in BDC common stocks our losses in April would have been nearly 4x higher. We have been very keen not to repeat the experience of 2011, and the performance of the last few months is the best evidence that our Risk Management policies work in a downturn.

Of course, we'd prefer it if markets only ever moved upward, or stayed flat so we could collect our dividends in peace, but that's not how the system works. About a third of the time-the long-term data shows-prices are dropping. It's the Manager's challenge to mitigate losses during the rainy days and keep capital available for the sunny days ahead.

PRIVATE EQUITY

We initiated systematic investing in publicly traded Private Equity stocks in 2013, and had considerable success. Even in the first two months of 2014, Private Equity contributed to the Fund's above average gains. However, there has been a drastic change in market sentiment in March and April. Within two months, the sector went into Correction mode: down -12% in stock price terms, and -8.7% in April alone. From their recent high to low most of the companies we track are in "Bear Market" territory: down more than 20%!

This often happens after a big run-up due to profit taking, but we remain optimistic. Nonetheless, we recognized the hyper-volatility of this sector from the outset and have a policy of investing no more than 20% of the Fund's capital at any time therein. During March and April, we gradually reduced our exposure to Private Equity even further (as low as 5% of our equity at one point) as we recognized that despite strong fundamentals, increasing distributions and analyst support,

the sector was in a serious retrenchment.

As with the BDC sector, by limiting our exposure and selling off positions as market conditions dictated, we recorded only a modest loss compared to what we could have absorbed had we been more heavily invested. Our Total Return was -1.3%, less than a sixth of what we would have lost had we invested 1.0X our equity in this sector. YTD our Private Equity investments have resulted in a loss of -1.1% the Fund's equity. Not nice, but hardly a body blow.

CONCLUSION

For April-as in March-diversification by debt segment has mitigated losses thanks to decent gains in BDC Notes and High Yield Bonds. Our conservatism hurt us in Floating Rate Loans, but only very modestly, and was the Right Thing To Do in light of our Shoot And Ask Questions Later capital preservation policy. Likewise, we have kept losses for the month modest given the very substantial drawdowns in both our High Volatility sectors: BDC Common Stocks and Private Equity. Remarkably, despite a BDC sector down 7% on the year and Private Equity nearly 10% in price terms, the Fund is still up on the year. As the Manager, we are far more proud of that performance than the big gains registered in the first 2 months of the year when all sectors were up.

MAY UPDATE

Given that we are writing this so late in May, we can report that BDC Common Stocks continued to trend down in the first half of May: down -2.5%, and reached a maximum drawdown of -11% since February 24th. That's the bad news. The good news is that the sector started to head upward in the second half of the month: up 2.8%. For May, BDC Common Stocks were marginally up: 0.2%, but the first positive month in the past 3. Still, the BDC sector is down -7.8% from the 2014 high at a time when most other forms of non-investment grade debt are at all-time highs. The Private Equity sector has not been as fortunate. Overall, the sector is down -3.0% on the month and all but 1 company is down in May. HOWEVER, since May 15th, the trend has been almost universally trending upward. Like in April, BDC Notes, High Yield Bonds and Floating Rate Loans have continued to perform well, as long term interest rates fell.

During May, we initially greatly reduced our exposure to Higher Volatility investments in case markets pulled back even further. As a result, our leverage reached the lowest level in two years as we maximized liquidity, and mitigated further losses. From mid-month we began to add back positions as the BDC and Private Equity markets turned, and re-invested in the Floating Rate Loan sector, while adding very modestly to High Yield Notes and BDC Debt, where appropriate.

Our internal calculation of May's performance suggests the Fund made a small profit in May, but we're not hanging our hat on that until Partner's Admin calculates the official numbers in a few days.

OUTLOOK

Nobody knows when markets will change direction. However, we believe the BDC Common Stocks and Private Equity sectors are substantially under-valued. If all the investments we hold reach their Realizable Value in the rest of the year, we calculate the Fund would achieve an 18% increase in value, offsetting Realized and Unrealized Losses to date 4x over. Add to that the stream of distributions being received, and the Fund could yet achieve a Total Return (after all fees and expenses) in excess of 20% in 2014. Ironically, we are more worried about the High Yield Bond and Floating Rate Loan sectors, which are trading at very high prices. A change in sentiment about the direction of interest rates could have a negative impact on their prices.

However, in keeping with our oft mentioned Risk Management policy, we are keeping a close eye on those investments and have established Stop Loss limits if prices drop more than 1%. **Capital preservation is Job 1, but we remain optimistic we can continue to generate long term gains in line with what we've achieved since January 1, 2012 as the opportunity arises. Patience and a long term view is the best way to achieve high returns in a world where the Fed has ground interest rates down to levels never before seen, and with no end in sight. Investing in debt through BDC Fund II during this very long, very slow, economic expansion will prove to be one of the best ways to achieve superior returns.**

NEWSLETTER

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

Office:
604 Arizona Ave.,
Santa Monica, CA 90401

Tel:
800.579.1651

Nicholas Marshi
Chief Investment Officer
nmarshi@southlandcapitalmanagement.com

Bill Hansen:
Chief Marketing Officer
bhansen@southlandcapitalmanagement.com

Visit us@
www.southlandcapitalmanagement.com

Accredited Investors:
Please contact us for more information.

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