SCM SOUTHLAND Capital Management LLC

Month	BDC Fund II*	HFRI EHI	S&P 500 TR	Dow Jones
November - 2015	0.90%	-0.07%	0.30%	0.32%
October - 2015	3.44%	3.01%	8.44%	10.06%
September - 2015	-0.74%	-1.90%	-2.47%	-1.47%
August - 2015	-2.30%	-2.62%	-6.03%	-6.57%
July - 2015	0.53%	-0.77%	2.10%	0.40%
June - 2015	-1.59%	-0.92%	-1.94%	-2.10%
May - 2015	-0.27%	1.30%	1.29%	0.95%
April - 2015	0.75%	2.04%	0.96%	0.36%
March - 2015	-0.46%	0.31%	-1.58%	-1.97%
February - 2015	5.79%	2.76%	5.49%	5.64%
January - 2015	-3.53%	-0.62%	-3.00%	-3.69%
FYE - 2014	-12.52%	2.26%	13.69%	7.52%
FYE - 2013	13.20%	14.33%	32.39%	26.50%
FYE - 2012	28.21%	7.41%	16.00%	7.26%
FYE - 2011	-46.38%	-8.38%	2.11%	5.53%
FYE - 2010	73.04%	10.45%	15.06%	11.02%
FYE - 2009	4.37%	2.92%	6.04%	7.37%
YTD - 2015	2.22%	0.23%	3.01%	0.88%
Inception to Date*	25.75%	30.45%	124.07%	85.13%
1/1/12 - Date**	24.45%	25.25%	79.85%	47.17%

* 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.)

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We apologize for this long sabbatical from our commentary on BDC II's performance. We've been counting on the monthly Investor statements and one-on-one communications to keep you apprised of the Fund's progress. However, that's not quite good enough so we're writing to bring the story up to date.

THOSE WERE THE DAYS

Let's have a look at the Big Picture, helped by the benefit of hindsight as the end of the year approaches. We can now see from the charts that the entire "leveraged loan" or non-investment grade credit debt market had two wonderful years between the end of the Euro-crisis in late 2011 and the first inklings that the Fed would be raising rates in the spring of 2013. The latter caused a "tantrum" by the markets, which many of you may remember because of that colorful expression. The Fed backed off for awhile, with the first interest rate hike delayed 2.5 years to just a few days ago.

ASK OT FOR WHOM THE BELL TOLLED

However, we can see now the credit markets peaked when the Fed tolled the bell the first time. The High Yield Bond market, as represented by the Exchange Traded Fund with the ticker HYG, which every commentator on CNBC uses as a proxy for all "junk bonds", reached its highest high way back on April 28, 2013. Floating Rate Loans hit their top a few days later on May 3, 2013. Our principal credit sector-Business Development Companies-reached its all time high at the same time. The party, though, was not quite over. The very highest point for BDCs was on November 25, 2013, up 1% from the spring.

HIGH PLATEAU

Then as now, though, what was unclear was the way forward for non-investment grade credit investments. Now we can see where the top was, where was the bottom? For the second half of 2013 and the first half of 2014, prices remained very close to the all-time highs throughout credit investing. High Yield Bonds in June 2014 were less than 1% off the 2013 apex. Ditto in Floating Rate Loans.

Business Development Companies-buoyed by a huge upsurge in popularity with investors-followed a similar path. In February 2014, the sector matched the November 2013 high. After a brief (but painful) downswing in the spring of last year for technical reasons (some Exchange Traded Funds dropped carrying BDCs in their indices), our sector bounced back in June 2014 to a high only 1.5% off the very highest level.

GOODBYE TO ALL THAT

Since then, though, and with many a false bottoms along the way, investors have forsaken non-investment grade credit investments, with an amazing ferocity. Just since July 1 2014, Floating Rate Loans have dropped -10.8% in price terms, High Yield Bonds -16.1% and the BDC sector -24.0%. Given that distributions from these three categories of non-investment grade debt were roughly 6%, 9% and 10.0% respectively over this period, the Total Return to investors has been negative everywhere one turns.

CONFUSION REIGNS

Adding to the confusion, the debt markets have been giving off mixed messages throughout the past 18 months. Yes, there has been a real increase in under-performing borrowers drawn from the energy and commodity mining sector as you'd expect with $35 oil, and China's industrial shrinkage that has been in the news. On the other hand, most everybody else agrees that credit performance in the non-energy sectors of the economy continues to be above average. Non-performing credits are way above historical averages, liquidity remains

strong, lenders remain eager to provide capital to borrowers (except for oil exploration!). The infamous rating agencies, such as S&P and Moody's, are projecting very low default rates through 2016. Fundamentals are a little worse than in 2012-2013, but prices are way worse.

GUT WRENCHING

As a result, the credit markets have been gripped by a series of roller coaster-like (sorry for the stale analogy) price rallies, followed by sharp drops, then another ascent, etc. Investors looking for a bottom have been fooled over and over again.

In the BDC space, we actually keep an official count of the rallies: we are on our ninth in 18 months as we write this. A drop to below the sector's prior lowest level has followed each BDC rally we've tracked. Within that time frame the BDC sector has lost a quarter of its market capitalization, and 30% since November 2013.

NOT JUST CREDIT INVESTMENTS

Misery loves company, so we point out that even the major stock market indices: the S&P 500 and Dow Jones indices, have also become jittery in recent months. For example, since peaking in July 2015, the S&P has gone through 4 such gyrations, and is now 5.4% down.

STAY CALM AND CARRY ON

However painful and unsettling for investors this "rattle and rolling" process is part of the normal multi-year trends in any market. (We would argue that investors have had a remarkably long period of gradually increasing asset prices since the end of the Great Recession). Ascertaining where we are in these long, unfurling cycles and what the risk and opportunity might be, is a permanent challenge.

LOOKING BACK

From the Fund's perspective, we can say that in 2014 we managed the downward trend in the non-investment grade credit very well all year-till December. Then we got hit on the side of the head by the drop in BDC/debt values when OPEC failed to stymie the then oil price decline at a meeting a year ago. The resulting drop in BDC prices hit us hard. We did unwind our BDC common stock positions as fast as we could but in a leveraged Fund the damage is almost instantaneous.

RE-THINK

However, we used the opportunity to re-assess our worldview. We came to the conclusion that we've stuck with all year that credit investments were headed for a secular (i.e. longer term) decline, and caution should be the watchword. We'd like to say this came to us on January 1st 2015 and we never wavered, but investing is more complicated than the view from the rear view mirror can express. Here is what we did "right" and what we did "wrong". (We are putting those words in inverted commas because today's good call can be tomorrow's disaster and vice versa.).

RIGHT: BDC NOTES

Throughout the year we increased the proportion of our investments in BDC Notes. These are publicly traded "baby bonds"-usually with 5 to 30 year maturities-issued by the very same Business Development Companies whose common stock we also invest in. The Notes yield between 6.0%-8.0% per annum, with interest paid monthly, quarterly or semi-annually. We are big fans because the Notes are debt obligations of the BDCs, and are senior in order of payment over the common shareholders.

Moreover, the BDC regulations require that every BDC maintain assets on its books AT ALL TIMES equal to AT LEAST 200% of all debt outstanding (including the Notes). If that 200% level is breached, a BDC cannot pay any dividends or borrow any more money until enough assets are sold and debt paid off to ensure 200% coverage is resumed. Any income generated-after expenses-is directed to growing assets or paying down debt. Either way, asset coverage should improve. This is "bad" for shareholders, but a great protection for Note holders.

THE BENEFIT OF BEING A LENDER RATHER THAN AN OWNER

No wonder many BDC Notes are rated "investment grade" and this asset class has never had a loss, a payment default or even a covenant breach. Some of the BDCs that have issued Notes have seen their stock prices up to 70% (!) in recent years, but their Notes have continued to trade at par, thanks to the built-in protections of the BDC format.

EARLY BIRD

Fortunately, the universe of Notes has grown exponentially since 2012, with two-thirds of BDCs having issued one or more issues. We were an early adopter, and have refined our investment approach over the years. We now own nearly 30 different BDC Notes, spread over two dozen BDCs. We've weighted ourselves towards shorter maturity bonds (to mitigate interest rate risk), and stayed away from the very weakest credits, just in case. We've seen a series of successful issues and full repayments on schedule by BDCs over the last 4 years (mostly early repayments).

WHAT'S TRENDING

How well has that worked out in 2015? Well, PartnersAdmin undertakes an Attribution Report, which mathematically calculates the contribution of every investment and every sector to our returns. This kind of data does not tell you much month-by-month, but is very useful for medium and long-term trends. Given we've not been undertaking a monthly blow by blow, the Attribution Report can provide some very useful lessons over the longer period of 2015 YTD.

BACK TO THE NOTES

According to the Attribution Report: our BDC Notes investments were a resounding success: the category was up 9 months in 11, and in aggregate achieved a 8.8% return on our equity in 11 months (before management fees). Virtually every Note we have invested in has generated a positive return.

BDC COMMON STOCKS

As a "hedge fund" we have remarkable flexibility to invest both "Long" and "Short". The Attribution Report demonstrates that we have been successful in 2015 investing in BDC common stocks, despite the terrible market conditions and the downward trend. We've made very few traditional BDC common stock investments through the year, based upon our concern about where the market was headed. We've also "shorted" the BDC sector, as a whole or through individual stocks. Unlike the steadiness of the BDC Notes, monthly results vary but over 11 months we're UP 3.8%, and with a much lower use of capital than in the Notes.

ASSET MANAGERS

As Howard Marks of buy-out giant Oaktree likes to say, what you don't invest in is as important as what you do. We like to believe that with our eyes glued to the screen and with constant attention focused on all the credit markets we have a better than average chance of avoiding the minefields, or at least tip toeing around them.

We had a modest but lucrative exposure in prior years to publicly traded "private equity" Asset Managers, which were highly profitable to the Fund when the handful of players in this segment increased in price 50% and 150% between the end of 2011 and 2014. In 2015, though, we became concerned that the Good Days were behind us and avoided investing in any of the companies. At the beginning of the year this decision seemed ill advised as several players reached new highs. (The biggest player-Blackstone Group-reached an all-time high in May, a whopping 210% over the price at 12-31-2011).

By the end of the year, though, we were universally vindicated: every company in this category was down in price by double-digit percentages. Of all the sectors we track, "private equity" Asset Managers recorded the biggest drop in 2015-a year when there was plenty of competition. The six companies in our universe were down -29% on average in price. Blackstone ended the year -12.5% down. Even Howard Marks' Oaktree (of the quote above) could not avoid being down -10.2% on the year. Prices have rolled back to 2012 and 2013 levels.

NEW ASSET MANAGERS

In the interests of full disclosure, and not to give the impression that we believe we are psychic, we did make a minor mis-step in the Asset Management category. During the year several new asset management companies went public. We were intrigued because the new entrants were not Private Equity firms, but companies whose principal source of income are the fees derived from the management of Business Development Companies. We were intrigued by the prospect of owning the very groups that received the hefty fees that BDCs pay, and made initial investments in a couple of players (Fifth Street Asset Management and Medley Management-which manage 4 BDCs between them) as well as in American Capital (ACAS), which has been planning for over a year to dump its BDC assets into a new company and become an official "asset manager" itself.

We quickly determined the newly public BDC-management companies were out of favor with the market, and exited both our new investments. (Fifth Street Asset Management has managed to drop 68% and Medley Management 51% since March, when we undertook our strategic retreat). As of November, according to Partner's Admin numbers, we made a -0.5% loss in the Asset Manager sector. We did sell our remaining position in ACAS for a gain in December and have not re-invested, so we're hopeful that we'll break-even for 2015.

FLOATING RATE LOANS

Traditionally, Floating Rate Loan Exchange Traded Funds represent the lowest risk (but also the lowest return) in non-investment grade credits. Most of the loans involved are to the biggest borrowers in the market and the instruments highly liquid and very stable in price. Floating Rate Closed End Funds-which invest in the same assets but utilize leverage-are more volatile but provide higher returns.

We perceived an opportunity in Floating Rate Loan investments early in the year. The Exchange Traded investments appeared to be a safe haven at a time when were becoming increasingly concerned about all types of credit. The Closed End Funds seemed to be good value

after dropping sharply in price for many, many months since the spring of 2013. Yields were high and price appreciation seemed a prospect. The Fund registered positive returns in this category in February through May.

However, in June there was a major shift down, as the clouds that had been gathering over debt investments grew even darker. (We should have been a novelist). We decided to close out our exposure to both Floating Rate Loan ETFs and CEFs. YTD at the end of June Floating Rate Loan ETFs were down -1%. As we write this, the situation has gotten much worse, with the main Floating Rate Loan ETF down a FURTHER -6.7%. The Floating Rate CEFs have dropped even more. In fact, the Floating Rate Loan sector as a whole has since dropped to levels not seen since 2011, or worse. Thanks to our early gains, our aggregate loss is an immaterial -0.1% of our equity over 11 months.

HIGH YIELD AND FLOATING RATE LOANS

Generally speaking, we pulled out of all High Yield Bond investments-both in the form of Exchange Traded Funds (ETF) and Closed End Funds (CEF) - in the first few months of 2015 and did not return. We had done poorly in this category in January, but bounced back and more in February, given back a portion of the gains in March and then decided: enough was enough. More or less across the board we came to the conclusion that the risk-return in "junk" was not appropriate, and bowed out.

This turned out to be a critical call. The High Yield Bond market went on to drop by nearly 15% in the months that followed, reaching a level just a few days ago not seen since May 2009! Thanks to that call, all of our High Yield Investments (with two exceptions discussed next) in the worst year for investors in this category for the past six were down just -0.25% through November.

INTEREST RATE HEDGING

All last year and this year the markets have been worried-and so have we-about the impact higher long-term interest rates might have on our portfolio. In an attempt to "hedge" that risk we made a relatively large investment in 2013 in a High Yield ETF whose price is supposed to increase when interest rates rise (typically bonds drop in price when rates rise). We took a "big bite" with a view to offsetting some of the loss in value that our BDC Note and High Yield Bond investments might incur where rates to rise.

Basically we bought "insurance" against a potential increase in interest rates that never occurred. Instead the "risk-free" rate (i.e. U.S. Treasuries) remained on the low side all year, even dropping to recession-levels at times. (Thank-you Europe and China). Moreover, our investment's price was dragged down by the increasing concern over credit risks in High Yield Bonds. The price of the ETF dropped through most of the year, with occasional pop-ups. We finally decided the cure was worse than the disease in October, and closed our position. Despite receiving a steady stream of dividends, net-net we lost -1.6%.

Strategically, we don't regret the decision to "hedge". Paying a insurance "premium" always feels like a waste of money-till you have a claim. However - in this case and with the benefit of hindsight - this instrument proved imperfect protector against higher rates (due to the admixture with credit issues). We won't be revisiting this method of "hedging" in the future. (Instead, we reduced our exposure to longer dated BDC Notes).

INVESTMENT IN PIONEER HIGH INCOME TRUST

Having patted ourselves on the back for "getting out" of the

Asset Management sector, Floating Rate Loans and High Yield Bond investments before the carnage in those markets set in-and having managed to make money in BDC Common stocks even as the sector dropped for a second year in a row (-16% for the year in price terms by mid-December)-and choosing to over-emphasize the only non-investment grade sector that was in the black in 2015 YTD (BDC Notes), we have to fess up to one "losing" investment in the year.

BEST IN CLASS

Back in February 2015, we invested in Pioneer High Income Trust (PHT) -a High Yield Bond Closed-End Fund-and have held and increased the position through the year. Over our many years in the leveraged debt space we have been in and out of this CEF, which has been around since 2002. We have a high regard for the investment team, and the Fund's long-term track record. Unlike many other "junk bond" funds, PHT was able to fully recover from the ravages of the Great Recession while maintaining its distribution unchanged. That's like a pitcher throwing a perfect game. In recent years, though, PHT has been very popular and so "expensive", so we stayed away.

However, in February of 2015 PHT's price dropped by 27% from its high, to a level not seen since July 2009 (ironically because of a cut in its dividend due to low interest rates). We initiated a position at this apparent "bargain basement price" and with a yield well in excess of 10.0% per annum. We've dollar cost averaged through the year (i.e. bought more at even lower prices), which has pushed up our yield even further. Our latest purchase is paying close to 15% per annum.

QUANTIFYING

Through November, though, price declines in our position (equal to about 4% of total assets) have outpaced the income we have received. To date, PHT has been our Biggest Loser (bringing our equity down -2.2%, and shaving a fifth of our returns to date).

CONTINUED INVESTMENT RATIONALIZATION

Much to our chagrin PHT has managed to drop as much in price since we began owning the investment as it did in 2015 before we stepped in. We've remained committed to the investment, taking comfort from management's proven experience through many cycles, a broadly diversified portfolio (350 bond issues) and the high current return. Despite this year's drop in price, PHT has achieved an Inception To Date Return of 8.7%, 60% higher than the average return of other HY CEFs in this category-a remarkable record. We continue to believe that a combination of a higher price and dividend income will ultimately result in a positive return for the Fund, probably in 2016. Given our confidence-albeit temporarily misplaced in a bear market for High Yield-we've avoided cutting and running. Time will tell if our patience and confidence will be rewarded.

CONCLUSION

We've thrown a lot of data at you, but here's the bottom line: BDC II has managed to knock out a positive return in the first 11 months of 2015 despite the worst market conditions for BDC Common Stocks, Asset Managers, High Yield Bonds and Floating Rate Loans in many, many years. With a couple of exceptions, we've known "when to hold 'em" and when to "fold 'em" through the year. As we write this, just under nine-tenths of our investments are in a diversified portfolio of BDC Bonds, the most stable, and most creditworthy instruments in the leveraged debt market all year, and the only sector that has not been in decline since 2013.

Not only have we been able to make money when many credit funds have been exploding (say a prayer for energy-focused debt funds), but we've been able to maintain relatively stable monthly results-both in up and down markets. Sometimes the BDC market has moved 7%-10% in a month, but the Fund's results have been much more stable. According to the Attribution Report, since we began our very cautious approach in the spring, our biggest monthly drop in value has been just -1.8%. At the same time, we are still able to achieve superior monthly returns too: +3.9% as recently as October.

If our next Newsletter we'll discuss the outlook for 2016 in detail. We'll provide a sneak peek here to say that we believe we're very well positioned to take advantage of any rally in non-investment grade debt should one occur (possible but not probable) because we have both unused borrowing capacity and the ability to swap out BDC Note investments for formerly beaten down opportunities elsewhere. If the bleak winter that has affected credit continues, our chosen portfolio remains almost bullet proof from a credit standpoint. In either case, our goal is to make a gain in "good" and "bad" markets.

HAPPY HOLIDAYS TO ALL & BEST WISHES FOR THE NEW YEAR!

BDC REPORTER REVAMP

We recently updated SCM's "BDC Reporter" with a new streamlined design (www.bdcreporter.com). We have been adding hundreds of subscribers to our Daily Newsletter, and have a readership that includes many of the industry insiders, journalists, as well as numerous institutional and retail investors. If you haven't checked out The BDC Reporter recently, we suggest having a look.

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