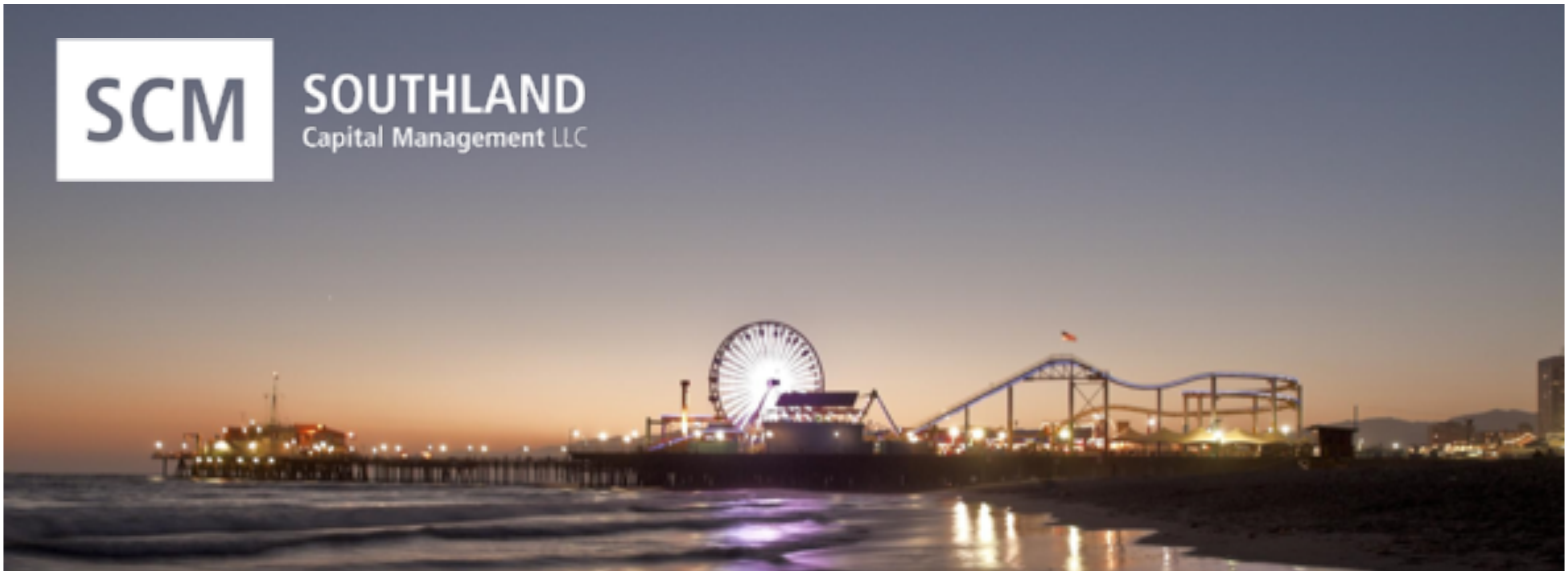

Month	BDC Fund II*	HFRI EHI	S&P 500 TR	Dow Jones
January - 2015	-3.53%	-0.62%	—3.00%	—3.69%
FYE - 2014	-12.52%	2.26%	13.69%	7.52%
FYE - 2013	13.20%	14.33%	32.39%	26.50%
FYE - 2012	28.21%	7.41%	16.00%	7.26%
FYE - 2011	-46.38%	-8.38%	2.11%	5.53%
FYE - 2010	73.04%	10.45%	15.06%	11.02%
FYE - 2009	4.37%	2.92%	6.04%	7.37%
Inception to Date*	**18.67%**	**29.34%**	**111.00%**	**76.74%**
1/1/12 - Date**	**16.99%**	**24.18%**	**74.60%**	**45.88%**

* 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.)

January 2015 Results

We're writing this month's Newsletter in a Good News-Bad News format. You will have to read till the end to get the Good News, because we're going to start with the Bad News. In the first month of the new year, the BDC Sector continued to unsuccessfully search for a "bottom" in prices, following six months of the same in the latter half of 2014. At year-end 2014, BDC prices were down -15% from July 1st, with half the companies trading in "Bear Market" territory (at least -20% off their high), and only 20% of companies generating a positive Total Return in the past 12 months. 2015 began well for a week. Then prices turned down again on January 8th, and reached a new low in mid-month. At that point the BDC Sector was down -18% in price terms over year end 2013 (and -4% down in the first fortnight of this year), and at a level not seen in three years or more. (We've been keeping month end price records for every stock and sector we track since 2011, so we know).

By the end of January, BDC Common Stock prices-was down -3% from the 2014 year-end level.

MISERY HAD COMPANY

Likewise, other forms of non-investment grade credit such as High Yield Bonds and Floating Rate Loans mostly dipped in the first two weeks of the month and failed to recover by month's end. (As we began the year we had only modest exposure to the High Yield sector and none whatsoever to Floating Rate Loans, but we mention them because most of the time non-investment grade credit trends tend to move in unison). The reason for the continued softening in prices? One never really knows, regardless of what you read in the papers or hear on the business channels, but the generally accepted culprits were ever-lower oil prices; continued concerns about European deflation as the ECB threw the monetary kitchen sink to seek to revive the union's economy and geo-political concerns about the Middle East, Ukraine etc. Most global markets were down, which was cold comfort.

WARRANTED OPTIMISM?

All the above notwithstanding, we remained bullish that the non-investment grade debt sectors were closer to a bottom than a top. As a result, we maintained relatively wide exposure to BDC common stocks-even adding to positions through the month when individual stock prices reached "bargain" levels, while selling others. Moreover, we added moderately to our High Yield Bond exposure. (Floating Rate Loan yields are not competitive on a risk-adjusted basis, so we continued to stay away as we have for months). Given that prices were down in BDC Common Stocks and High Yield Bonds in January that hurt the Fund's results in the month, and that's the Bad News.

Month	BDC Fund II	HFRI EHI	S&P 500TR	Dow Jones
Jan 2012 to Date	16.99%	24.18%	74.60%	45.88%

GOOD NEWS: NOTES

The Good News comes in several installments. First, notwithstanding the terrible price performance of all other non investment grade credits, the Fund's exposure to BDC Notes has been a bright spot, both in January and for the past 3 years. We are invested in a broad array of issues - many rated investment grade - and all are performing very well. Over the past 3 years BDC Notes have remained virtually unchanged in value in aggregate, while yielding a consistent 7% dividend. As we write this, our entire BDC Note portfolio is valued by the market at 99.9% of our aggregate cost. This sector has become the Fund's biggest exposure, as we have trimmed back outstandings elsewhere. Yet, we've maintained our discipline about keeping our exposure to short and medium term Notes, avoiding the potential swings in value that could occur should long term interest rates EVER recover. Going forward, the Fund's BDC Notes investments promise to generate very consistent income with very little volatility under virtually any imaginable scenario.

GOOD NEWS: THE RALLY IS ON

Second, the credit markets appear to be bouncing back one week into February. High Yield Bonds (measured by the biggest Exchange Traded Fund HYG) is up 1.9% since mid-January; the energy-focused ETF with the ticker HYLD (and one of our positions) up 1.0%, and the BDC Sector

up 5.3%. The breadth of the rally is very encouraging 77% of BDC stocks are trading at prices above their 50 Day Moving Average (i.e. going up). In the past few days over 90% of all BDC stocks have been increasing in price. Virtually every stock and High Yield investment we own is trading above their January and December 2014 level.

GOOD NEWS ABOUT THE BOTTOM LINE

The third part of the Good News is that the Fund is benefiting greatly from this latest rally, thanks both to our exposure to BDC Common stocks on the books at the end of January and new purchases made with our liquidity (generated by selling positions in January and before). On a smaller scale, we are benefiting from old and new High Yield investments made in January. (BDC Notes, too, are slightly higher). If our pro-forma calculations are correct on our Spreadsheet, the Fund's gain to date in February is over 6% already, enough to wipe out January's loss twice over.

Of course, this rally could peter out or reverse itself. However, we are as optimistic as we've been in weeks after reading all the tea leaves. Earnings season has begun in the BDC space and write-downs due to oil exposure or otherwise have so far been very minimal, even in BDCs with substantial energy portfolios. Moreover, BDC management have been saying that higher spreads on new loans (thanks to all that market turmoil) should result in higher earnings in 2015. We have seen analysts raising projected earnings for 2015 and 2016 for a multitude of companies big and small. Furthermore, we are taking comfort from an across the board increase in Floating Rate Loan, High Yield and Private Equity prices, suggesting an industry-wide "risk on" trend is developing, notwithstanding continued uncertainty about the direction of oil prices. Likewise, 10 Year Treasury yields, after reaching record lows, are ticking up - a sign of increased investor appetite for risk.

UPSIDE POTENTIAL

The final bit of Good News is that there is plenty of room for BDC stock prices (and certain High Yield Bonds) to increase if conditions prove favorable. Prices would increase by over 15% if the BDC Sector as a whole returned to the level of July 1 2014. Moreover, BDC yields are at 3 year highs-averaging 12% in our portfolio. Even if we limit ourselves to investing only a third of our assets in BDC Stocks, and the rest in BDC Notes and High Yield Bonds, the Fund has the potential to achieve a 30%-40% return after expenses (but before management fees) in 2015. That would recoup last year's poor performance - caused by the huge drop in non investment grade debt values in the second half of 2014 - as well as post an above average return over the two year period.

A FINAL WORD TO OUR INVESTORS

We imagine that many of you must be worried or exhausted in the last several months. The Fund's results in the short term have been mediocre compared to most other investments (except for oil). As an investor ourselves we understand the concern. However, we want to point out that being a Sector Fund, in that we invest in a specific industry (Business Development Companies) and are leveraged to boot, an unusually high degree of volatility comes with the territory. Moreover, we are hostage - up to a point - to the fortunes of our chosen industry focus. When the BDC Sector gets sick, we get a cold. (We get mild pneumonia when Floating Rate Loans and High Yield Bonds and Private Equity Asset Managers are also down).

We hope you will take comfort, though, from the manner in which we have diversified the portfolio at times like these. Back in 2011 our exposure to BDC Common stocks,

leveraged up to 3x, made any pull-back in prices very painful, and very quickly. Since then, reducing exposure to BDC Common Stocks and mixing in BDC Notes and other forms of debt has mitigated losses during unexpected market downswings. (In fact, we've made a positive return on our BDC Notes every year we've owned them). Moreover, we have been very aggressive about selling down some or most of our positions when markets have turned south; while simultaneously keeping capital available for re-investment opportunities. Calling the exact top and bottom of markets is very hard and we've had a few missed calls (mostly being long in early December), but we've also had a number of great calls. Over the long term these will even out and allow us to minimize, but not eliminate, losses during sector downturns and amplify gains during upturns (thanks to leverage and being deliberately in the right place at the right time). As we've shown above, if we are right about the ultimate direction of the BDC Sector our gains should greatly exceed our recent losses.

We would like to say plainly that don't believe the BDC sector-despite last year's drop, is in a secular decline or that prices will remain at the lows we've seen in recent weeks, even if there is another temporary "leg down" for some reason. As we've explained above, we are optimistic that in the medium term (2015-2016) the sector will be reversing some or all it's losses. If we are right, as the numbers above show, the Fund should be highly profitable. The beauty of the BDC II model, and what makes us different from most other funds, we don't need prices to rise to have a Very Good Year. Because of the high yield nature of our investments, dividend/interest income alone, assuming no asset price increases for the rest of the year,are sufficient to ensure a return above 20% after all expenses. However, if our optimism is mis-placed (we are Laker fans so we know how that can happen) we believe our daily scrutiny of the markets and our ability to sell stock positions decisively should help us preserve capital-even in a second year of BDC stock price shrinkage.

NEWSLETTER

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

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