

SOUTHLAND CAPITAL MANAGEMENT, LLC

Month	BDC Fund II*	S&P 500 TR	Nasdaq Comp	Dow Jones	Russell 2000 (DRI)
Year Ending 2009	4.37%	5.49%	6.91%	7.37%	3.49%
January - 2010	- 0.75%	- 3.60%	-5.37%	- 3.46%	- 3.68%
February - 2010	9.15%	3.10%	4.23%	2.56%	4.50%
March - 2010	8.07%	6.03%	7.14%	5.15%	8.14%
April - 2010	4.66%	1.58%	2.64%	1.40%	5.66%
May - 2010	-19.28%	-7.99%	-8.29%	-7.92	-7.59
June - 2010	-6.78%	-5.23%	-6.55%	-3.58%	-7.55%
July - 2010	24.42%	7.01%	6.90%	7.08%	6.87%
Year to Date	14.71%	-0.11%	-0.64%	0.36%	4.79%
Inception to Date	19.71%	5.93%	6.23%	7.76%	8.85%

* 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.

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NEW SCM WEBSITE

After extensive renovation, the SCM website opens this month.

JULY 2010 RESULTS

July 2010 was the best month in the relatively short history of BDC Fund II, with a 24% gain. We were way ahead of even the second highest comparable index: 7% for the Dow Jones. According to the Wall Street Journal on August 7th 2010, the average hedge fund achieved only a 1.9% return in the month. More tellingly, since inception ten months ago, BDC II has returned 19.7%, or double the second highest index (the Russell 2000, adjusted for dividend re-investment). In 30 days we made up all the negative returns racked up in May and June when the markets were concerned about the possible implosion of the European economies and a global double dip recession.

Our stellar performance notwithstanding, in an effort at plain speaking we want to take this opportunity to add an additional way of looking at BDC II's performance. We provide the returns table every month

because it's the standard way of keeping score in the hedge fund industry. However, we'd like to suggest that another useful metric is tracking what BDC II has generated in dividend distributions over time. Most hedge funds do not generate any ongoing income at all, so the industry doesn't bother to track the data. We are different in that the Fund generates substantial amounts of income from periodic BDC distributions, and provides investors with the option of withdrawing that income on a monthly basis.

We suggest that an investor should track dividends received (whether they are withdrawn or rolled back into the Fund) versus initial capital invested. We call this (as an homage to our real estate counterparts who use a similar approach) the Cash on Cash return. We asked PartnersAdmin, the independent firm that prepares BDC II's monthly results and returns, to generate the data on a monthly basis going forward, as well as calculating the results since the

launch of the Fund: both by month and cumulatively. The return is net of all interest and expenses, but not management fees.

For July, the Cash On Cash return was 1.2 %. For June, the return was 4.2%. The result was higher in June because that represents the end of a quarter when most of our investments announce their dividends. In the second quarter of 2010, the Cash On Cash return was 7.0% (which annualizes to 28%). ***Inception To Date, the Cash On Cash return is 17.0 % (annualized 20.4%).*** That's a lot of different numbers, but the bottom line is that the Fund's Cash On Cash return, aided by the still very inexpensive leverage we access with Goldman Sachs, is at very attractive levels. At time of writing (and with the caveat that this we are using internal data not validated by Partners Admin) we project our current portfolio will generate a Cash On Cash Return of 30% over the next 12 months.

FED TO KEEP RATES LOW

We'll keep this super short: Fed Fund rates (which is the benchmark we use to borrow from Goldman) have continued to stay at record low levels and may even drift lower.

DIVIDEND ROUND UP

We've closed the books on the second quarter of 2010 Dividend Scorecard. As the table shows, only 1 BDC decreased its dividend during the period, 4 posted an increase and 17 were unchanged.

The only decrease was attributed to Prospect Capital (ticker: PSEC), which skipped a couple of monthly dividends in an effort to bring payouts in line with earnings.

In aggregate, dividends were \$5.1 in the second quarter, just slightly up from \$5.0 in the first quarter.

To date in the IIIQ of 2010, 13 of the 22 BDCs have reported. 3 have increased their dividends, 9 were unchanged and 1 decreased. PSEC was one of the BDCs increasing their payment.

So far, the only dividend reduction has come from Fifth Street Finance (ticker: FSC), which also skipped a couple of months of dividends to bring earnings in line. The company will resume its prior \$0.32 a quarter dividend from the fourth quarter. Like PSEC, though, FSC has switched to monthly distributions, which we welcome. There are now 5 BDCs paying monthly, or about a quarter of the field.

For the third quarter, we are projecting aggregate dividends of \$5.0, mostly due to the temporary FSC reduction and no contribution from American Capital and Saratoga Investment Corp (previously GSC investment).

We expect the fourth quarter of 2010 to see the aggregate dividend up modestly as FSC resumes full payment and Saratoga resumes paying a dividend after two years. American Capital won't be paying out a cash distribution till 2012 in our opinion.

Overall, the industry is very stable from a dividend standpoint, despite several companies still working through bad debts. We'll need to see much of the additional capital raised in recent months deployed before a significant increase (which we define as more than 5%) in aggregate dividends will occur. However, the risk to the downside seems low under current market conditions.

DIVIDEND SCORECARD: IIQ

ACTION	REPORTED
INCREASED	4
UNCHANGED	17
DECREASED	1

NEW SCM WEBSITE

We have recently completed the remodel of our website. Our goal is to provide clear and comprehensive information in an easy-to-use format to all prospective investors interested in our company.

Please visit us at"
www.southlandcapitalmanagement.com

NEWSLETTER

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

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