

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%
August - 2010	-8.14%	-4.51%	-6.24%	-4.31%	-7.40%
September - 2010	27.74%	8.92%	12.04%	7.72%	12.46%
Year to Date	34.60%	3.89%	4.38%	3.45%	9.12%
Inception to Date	40.47%	10.17%	11.60%	11.07%	13.34%

* 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.

CONTENTS

PAGE I

SEPTEMBER 2010 RESULTS

Fund has record breaking results.

CASH ON CASH RETURN

Cash on cash return reaches 21%.

Page 2

OUTLOOK FOR BDC INDUSTRY

Project higher dividend levels over next 12 months.

SEPTEMBER 2010 RESULTS

September 2010 was a remarkable month for the BDC II Fund in a number of ways. First, *the month's net return (after all fees and expenses) was a record breaking 27.7% gain, more than double the next highest return from the other indices we track ourselves against.* September was even higher than the 24.4% return we achieved in July.

Hedge Co .Net, a company which collects returns from thousands of hedge funds to create league tables, placed BDC II at the very top of the list for the month of September, which is an honor.

September also represented the first year anniversary of BDC II, and an opportunity to measure performance on a longer time scale. *If anything, the Fund's results are more impressive*

over 12 months than in September alone. Inception to date we have achieved a net return of 40.5%. By comparison, the closest index is the Russell 2000 (adjusted for dividend reinvestment) at 13.3% over the same time period.

Year-to-date after 9 months, BDC II is 34.6% ahead, where most hedge funds and all the indices we compare ourselves against are in single digits, notwithstanding the run-up in the stock market in September.

CASH ON CASH RETURN

Turning to the cash income generated by the Fund, which we've been commenting on in recent months, September continued the trend of steady returns, helped by the higher levels of distributions typically received in a quarter end month. *Since inception, the net dividends*

received by the Fund, after all margin interest, expenses and management fees, reached 21% of capital invested. We call this the Cash on Cash return. Last month, the Cash On Cash number was 16.4%.

OUTLOOK FOR INDUSTRY

Of course, the future is always uncertain. Nonetheless, we are highly confident entering BDC II's second year that we can maintain superior returns going forward. We are encouraged by the remarkable stability of the BDC industry in the past 12 months, as virtually every participant has strengthened their balance sheets, purged themselves of the bulk of their troubled assets and resumed lending as usual. We are tracking 24 different companies, of which 22 are paying a regular dividend (an increasing number are making distributions monthly). By year end we expect all but one BDC to be back in the dividend paying business.

Our proprietary database shows that the industry generated \$5.3 in dividends (calculated by adding together all dividends announced for the period) in the IIQ of 2010, up 22% from the IIQ of 2009. However, when we exclude three new BDCs from the calculations which were not in business back in the second quarter of 2009, the aggregate dividend is virtually unchanged over the past year: \$4.51 as of the IIQ 2010, compared to \$4.50 in the IIQ 2009. Given the highly uncertain environment of the past year, that's a highly stable performance in our book.

Looking forward a year our optimism is grounded in our projection that the industry in aggregate will increase aggregate dividend payments. We project the dividend for every BDC through the second quarter of 2011. Our estimates indicate 10 of the 24 BDCs will increase their payouts 4 quarters ahead, bringing the industry aggregate to \$6.3, a 40% increase. However, if we just compare the 21 companies which were active two years ago, the dividend total is \$5.21 or 15%. Currently we only anticipate one BDC cutting its dividend.

The double digit growth in dividend outlook is the result of i) BDCs which had suspended dividends resuming payments; ii) a number of BDCs with substantial unused capital deploying funds and increasing earnings. For investors in the Fund, assuming no change in the stock price over the period, we are hopeful that cash on capital returns will remain north of 20% in year two.

Although the current uplift in the market is causing virtually all BDCs to increase in price, we will continue to avoid investing in any BDC which does not meet our risk and return criteria. Our Buy List currently includes 15 BDCs, leaving 9 on our Don't Buy List. The reasons for the inclusion in the latter vary. For example, American Capital is a Don't Buy because the company does not pay a dividend; Medallion Financial because we are concerned the FDIC might forbid dividend distributions from its bank subsidiary to the parent (and so to the shareholders); THL Credit share trading volume is too low to provide the liquidity we prefer (plus the yield is too low).

NEW INVESTORS

We extend a warm welcome to the several new investors who have joined the Fund, both in September and October. Thanks to the new capital, and the portfolio value increase of recent weeks, BDC II has recently passed the \$20mn in assets mark. Assuming stock prices don't drop, the Fund may reach close to \$25mn in assets by the end of the month.

The good news for both new and existing investors is that we are still able to buy several BDCs from our Buy List at yields in excess of 10%, and in a few cases 11% or 12%. In fact, despite the rise in the markets in September, we believe the Fund may actually see its average yield increase in October over September levels as we sell off lower yielding assets for a realized gain. We anticipate being fully invested by mid-month, and expect that dividend income in the fourth quarter will reach record levels.

NEWSLETTER

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

Office:

1221 Ocean Blvd., Suite 208
Santa Monica CA 90401
Tel: 800.579.1651

Nicholas Marshi

Chief Investment Officer

Email:

nmarshi@southlandcapitalmanagement.com

Bill Hansen

Chief Marketing Officer

Contact: 760.485.1252

Email:

bhansen@southlandcapitalmanagement.com

Visit us @

www.southlandcapitalmanagement.com

Accredited Investors:

Please contact us for login information.

Follow our Blog at our newly designed site @

www.bdcreporter.com

Follow our articles @

www.seekingalpha.com/author/nicholas-marshi

Twitter us: @bdcreporter