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%
Year to Date	**5.37%**	**-4.61%**	**-6.83%**	**-3.97%**	**-2.97%**
Inception to Date	**9.97%**	**1.15%**	**-0.39%**	**3.11%**	**0.79%**

* 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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AUGUST 2010 RESULTS

August 2010 was a down month for BDC II, with the Fund return at -8.14%. Nonetheless, we were very encouraged by the returns achieved, as hedging measures mitigated our loss and leaves the Fund very well positioned for the rest of the year. On a year-to-date basis, we continue to far outstrip all our comparables, with a 5.4% return after 8 months. By comparison, the second best return was set by the Russell 2000 index (adjusted for dividend reinvestment), which is a negative 3% for the YTD. When we look at our results since inception, BDC II is up 10% in 10 months, beating the Dow Jones over the same period at 3.1%. At time of writing in September, the market has moved up again and we are beginning to challenge the highs we achieved in May.

Getting back to the month of August and our discussion of hedging: the un-leveraged indices we compare BDC II were also down: in a range from -4.3% to -7.4%, that is only marginally better than BDC II, which uses leverage. We took risk mitigation measures that reduced the impact of the downward shift of the market. First of all, we continued our policy of selling some of our positions with the largest capital gains when the markets were tumbling, which both locks in Realized Gains and provides us an opportunity for enhancing the portfolio overall yield by buying the same stocks back at a later date at a lower price.

Second, we continued to be highly selective about which BDC stocks we invest in. Currently, we choose from a universe of 27 different companies, but have a Buy List of only 16. Excluded are BDCs that do not make dividend distributions; BDCs that are highly leveraged or have conflicts with their lenders and any BDC that does not pass our Recession Stress test.

Unlike the FDIC which only stress tests the banks once in a blue moon, we apply a constant test to the balance sheet of every BDC. We assume a recession would begin immediately and reduce the value of the fair market value of the assets of every company we track by 30%. If such a reduction would cause the company to default under its debt agreements and/or be forced to fire sale its assets (both of which are disasters for shareholders), they fail the test and go on our Don't Buy List. A lesson we learned from the Great Recession is to seek to avoid the BDCs with the weakest balance sheets who generally cut their distributions far more sharply than the more conservative companies.

Third, we have begun to hedge a portion of our portfolio using leveraged inverse exchange traded funds. These ETF positions result in gains when the BDC stocks are down, and vice versa. We use these hedges dynamically (i.e. on an occasional basis and for a relatively short period of time). This strategy was very successful in August, and resulted in substantial Realized Gains when we exited the positions.

CASH ON CASH RETURN

In the last newsletter we introduced a new metric with which to evaluate the performance of BDC II. We called this Cash On Cash Return, which refers to the amount of the dividends received by investors in the Fund as compared to their initial capital contribution.

We've made a small but critical change in how this is calculated. Initially we calculated the metric using dividend income net of expenses and margin interest, but not of management fees. However, we decided that to make the data more comparable with the regular return calculations, which are net of management fees, we'd add that extra deduction from this month on.

Partners Admin, which does the math, indicates the Cash On Cash Return since inception is 16.4% (19.7% annualized). Over the next twelve months, we estimate that our existing portfolio should generate a Cash on Cash Return of 21%.

NEW CASH ON CASH REPORT

Starting next month, existing investors in BDC II will receive, with their regular reporting package, a new report which will show their capital contributed, as well as net dividends earned, and how much of those dividends were distributed out to the investor and how much retained in the Fund. The report will be prepared by Partners Admin, and will show the data by month, and cumulatively.

UPDATE ON THE BDC UNIVERSE

We've been predicting for some time that the universe of Business Development Companies should increase. For investors the BDC format is conservative due to the 1:1 debt to equity limitation required by the 1980 Act, as well as tax efficient and provides a superior yield (around 10-11% on average) compared to utilities (2.9%), Real Estate Investment Trusts (4.6%), or energy master limited partnerships (7.0%).

For the managers who sponsor new BDC IPOs the format has wide investor acceptance after thirty years, multiple analyst coverage in most cases and a generous fee structure.

However, in late 2009 and early 2010, the BDC universe temporarily shrunk as bigger, better-capitalized competitors swallowed up Allied Capital and Patriot Capital. Since then, though, the industry has returned to its expansive ways. In the last few months, we've noted the launch of Solar Capital (SLRC), THL Credit (TCRD). The most recent entrant is Golub Capital (GBDC), which went public in May 2010, and recently published its first quarterly results. That brings the BDC universe that we track to 27 companies. We're guessing that the BDC industry will continue to add new players in the months ahead, and afford BDC II an ever-greater selection of potential high yielding, well capitalized investments.

NEWSLETTER

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

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