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%
Year Ending — 2010	73.04%	15.07%	16.91%	11.02%	26.85%
January — 2011	7.05%	2.37%	1.78%	2.72%	-0.26%
February — 2011	8.08%	3.43%	3.04%	2.81%	5.48%
March — 2011	-10.39%	0.04%	-0.04%	0.76%	2.59%
April - 2011	6.18%	2.96%	3.32%	3.98%	2.64%
May - 2011	-3.56%	-1.13%	-1.33%	-1.88%	-1.88%
June - 2011	-7.17%	-1.67%	-2.18%	-1.24%	-2.31%
Year to Date	-1.46%	6.02%	4.55%	7.23%	6.21%
Inception to Date	77.97%	29.37%	30.68%	27.81%	39.94%

* 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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JUNE 2011 RESULTS

June 2011 was a second down month in a row for BDC II. We were down 7.17% for the month, hurt by the global stock market pullback, which lasted almost till the end of the period. The headline risk was the potential Greek default and the prospective financial crisis and recession, which the markets were concerned, might follow. The Financial sector, which the BDC sector is a component of, was especially hard hit.

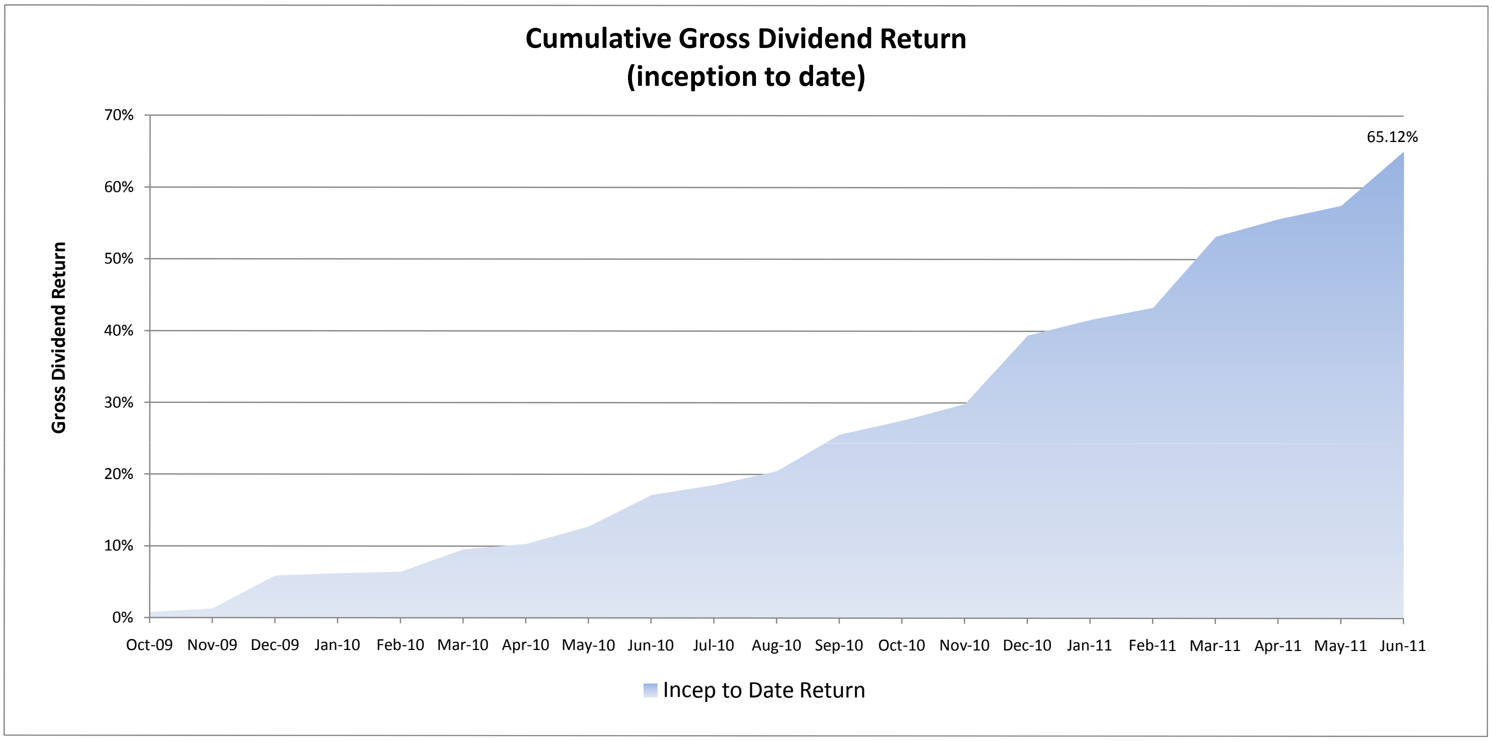
All the indices were down in June in a relatively tight range. Outside of BDC II, the poorest performing index was the Russell 2000 (with re-invested dividends), down 2.31%. The “best” performing index was the Dow Jones, down 1.24% for the month.

For the six months year-to-date the Fund fell into negative territory: -1.46%. The other indices returns for the last six months ranged from 4.55% (NASDAQ Composite) to 7.23% (Dow Jones).

Thankfully, the Fund’s return since inception in October 2009 remains strongly in the positive column, up 77.97%. That’s far ahead of the number two performer, which is the Russell 2000, up 39.94%. At the back of the pack is the venerable Dow Jones index, up 27.81% over the 21 months under discussion.

CASH ON CASH RETURN

After a couple of poor performance months as described above, we get some satisfaction from reviewing the aggregate Cash on Cash Return



metric. The data reminds us that while the stock prices of the Fund's investments may be fluctuating wildly with macro-economic concerns, **BDC II continues to generate a very steady and predictable stream of income.** June 2011 was a quarter end month, which helped the Cumulative Gross Dividend Return reach 62%. That was substantially above the May inception-to-date return of 57.52%. **With the Fund's second year anniversary in sight, we're hoping the Cash on Cash return will reach close to 70.0% by September 30, 2011.**

OUTLOOK FOR 2011 - JULY UPDATE

Thanks to the June stock pullback, a number of companies on BDC II's Buy List became available at prices and yields we have not seen in a year or more. Counter-intuitive as it must seem, we were delighted by the downward pressure on stock prices, which caused all the BDCs to come off their 52-week highs. Many companies traded at 20% or more off prices reached in the spring. For the Fund, June was a remarkable buying opportunity. We had just completed the first quarter earnings season, and had been reassured by the ever-improving condition of virtually every BDC's balance sheet and analyst earnings projections for this year and next which show almost universally higher profits than the current level. We'll discuss the actions we took to take advantage of double-digit yields for the Fund in the CIO Newsletter, which is circulated only to existing investors. We can report here that we were able to boost the yield on the existing portfolio above 10.0%.

Outlook-wise, the Fund continues to enjoy a broad range of buying opportunities. We calculate that the average yield on the stocks in BDC II's Buy List average 9.5%. Just a few months ago that metric had dropped to 84%. The boosted yield is due to lower prices, but also higher dividends and a changing mix of companies in the Fund's Buy List.

At time of writing, the market prices, though, seemed to have bottomed out in the last week of June. Buyers seem to have been drawn to the many bargains available in the BDC space, which has caused prices to rise for most of the BDCs we track. Nonetheless, we are encouraged that the companies on our Buy List are trading at just 9.5X forward earnings (we typically consider 12.5x a "full price" multiple for most BDCs). Moreover, the BDC II Buy List at June 30 was trading at a 22% discount to the Realizable Value that we project, suggesting that there is still room for a substantial stock price run-up, should the markets switch from pessimistic to optimistic.

We also note that the BDC Buy List, on average, is trading at only an 8% premium to Net Asset Value at June 30th. In fact, half of the companies on the Buy List (all of whom are paying current dividends) are trading at prices below their Net Asset Value. This metric, too, suggests that there is potential for stock price appreciation in the future. Of course, we don't know when the stock market might enter a bullish phase. We could have a stock snap-back or a third month of downward pressure.

INCOME OUTLOOK

Overall, we continue to be optimistic that the gross and net income of the Fund should continue to grow for the next 12 months. We are projecting that 13 of the 22 companies on the Buy List will increase their dividend in the next 12 months. We do have concerns about the sustainability of the current dividend level of 2 companies, but we expect only moderate dividend reductions when they do occur. Thankfully, we are able to buy both these companies at prices that reflect a potential dividend decrease. If we are wrong and these BDCs perform better than we have anticipated, the Fund's income should only improve. Currently we project that thanks to the Fund's 3:1 leverage and the high yielding BDC stocks available in the market, we should earn gross income of close to 28.0% per annum on new investments.

We also anticipate continuing to benefit from record-low borrowing rates from our custodian margin lender (Goldman Sachs Execution & Clearing) for an "extended period". The crisis in Japan, and the weakness in the U.S. and global economies that had the markets so worked up in June is translating into an even longer period of Fed interest rate "accommodation". We'd be surprised to see the Fed Fund rate go above the current level 0.1%-0.25% till sometime in 2012. As a result, Net Income after interest expense, administrator fees and management fees should continue to exceed 20%.

RISK-ADJUSTED RETURN OUTLOOK

We've been saying for several weeks now that we believe the BDC industry is generating the best risk-adjusted returns we've ever seen. Of course, yields are not at their highest levels ever. Those occurred in 2009 when there was serious concern across the financial community about both the financial condition of many BDCs and the U.S. financial system in general. In two short years, though, the capital markets activities, which the BDCs have undertaken to improve their balance sheets, have dramatically improved their risk profiles. Today every BDC we track is using substantially less debt than they were in 2007-2009, and the vast majority of companies have successfully matched the maturities of their assets (typically 3 - 5 years) with debt liabilities.

In the next few months we expect to see several new, well-capitalized BDCs to come to market and many existing players to raise both additional equity. We expect industry asset growth to continue for the rest of 2011. In the lower middle market, middle market and specialty segments of the BDC industry investment assets are growing at a pace equal to the 2005-2007 period. However, we expect 75% or more of the net asset growth to be financed by equity issuance rather than debt. As a result, the excellent risk metrics the industry currently enjoys should continue for the rest of the year, at least.

We should also point out that we expect several BDCs will benefit from the improving M&A environment and will get the opportunity to realize many of the equity investments made in the 2005-2008 period, but which have made little contribution to earnings in the last few years. These equity realizations will, in many cases, allow BDCs to re-invest proceeds into high yielding loan investments and boost recurring earnings per share.

On the other hand, if there is a sudden deterioration in the U.S. economy as some have been projecting, we take comfort from the risk profile of the companies on the Fund's Buy List which are well positioned to absorb an economic downturn without the forced de-leveraging, rights issues and unexpected refinancings which characterized the 2008-2009 period.

NEWSLETTER

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

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