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%
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%
Year to Date	**15.70%**	**5.88%**	**4.88%**	**5.60%**	**5.21%**
Inception to Date	**108.94%**	**29.19%**	**31.09%**	**25.88%**	**38.63%**

* 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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FEBRUARY 2011 RESULTS

February 2011 was another bumper month for BDC II - the sixth monthly increase in a row, with a total monthly gain of 8.08%. During February the stock markets were volatile due to the ever-rising price of oil brought on by the multiple crises in the Middle East, but Business Development Companies share prices continued to advance, and dividend income remained stable. ***Our performance, as in every prior positive month before, was substantially above all the indices we compare ourselves against.*** Even the booming Russell 2000 Index (adjusted for dividend reinvestment) was still several percentage points behind at 5.48%. The lowest performer was the Dow Jones, which was up 2.81%.

On a year-to-date basis, BDC II is up 15.7%, which is nearly three times the second leading index over the two-month period (the Dow Jones ironically) at 5.6%. We've buried the headline, though, as they say in the news biz, because the most salient accomplishment achieved during February was breaking the 100% return barrier. ***From inception back in October 2009, BDC II has now returned (after all margin interest, fees and expenses) 108.9%!*** Or, put another, way, an investor who started out with us less than 18 months ago has more than doubled their original investment.

CASH ON CASH RETURN

The Cash On Cash Return that we've been highlighting every month continued its march upwards. ***Through February 2011, the return increased to 35.2%, after all fees and expenses, up from 34.3% the prior month.***

OUTLOOK FOR 2011 - REDUX

In the last Newsletter, we wrote: "we expect the main ingredients of BDC II's outsized success to remain in place". With another month under our belt, and the end of the first quarter of the year in sight, we remain optimistic for the year underway.

Let's review those ingredients again. First, there are the record low short-term rates, which are universally expected to remain in place through much of 2011. Even the most hawkish Fed governors are talking about eventually raising the Fed Funds rate to a maximum of 1.0% from 0.25%. We are expecting Fed Fund rates to remain at current levels through the summer and rise 0.25-0.5% by year-end.

The second ingredient is the yield on BDC II's existing portfolio. Here the news is even better than last month. ***Seven BDCs that we own in our***

portfolio have raised their distributions in recent weeks. This will increase our gross yield materially in the months ahead. Dividend increase percentages have ranged from 2% to 10%. Moreover, we believe that a couple more portfolio companies will announce increases to their payouts in March. If we're right, more than half the companies in the BDC II portfolio will record higher dividend levels. ***Looking a year ahead*** (we project dividends for every company we track), ***we foresee that four-fifths of our portfolio companies will increase their dividends over today's levels.***

Moreover, we are further hedging ourselves against an eventual increase in short term rates by emphasizing new portfolio investments in BDCs and senior floating rate Closed-End Funds which invest in floating rate loans. When and if short-term rates increase, so will our portfolio income. We're still in the process of calculating for every portfolio company what will be the pro-forma impact of an eventual substantial increase in short term rates. We're confident, though, that due to higher dividend payouts and our exposure to floating rate investment assets BDC II will be able to maintain the arbitrage between its margin borrowing cost and its portfolio yield. Currently the gap between what we earn (on a cost basis) and what we pay on our margin debt is 7.7%.

Along with higher earnings and dividends from portfolio companies, we are encouraged by the still improving balance sheets of virtually all the companies we track. In virtually every case all the key metrics which point to lower risk are improving: lower debt to equity, lower non accruing loans, lower Unrealized Losses, higher amounts of capital to invest. ***From a risk standpoint, we've never seen the BDC industry in such good shape.*** Partly this us due to companies fixing their balance sheets since the Great Recession by raising new equity and selling off/restructuring troubled loans and partly because the market for lending to middle market companies remains a lender's market, unlike the situation developing in the upper end. There, buoyed by huge inflows into junk bonds, yields are being pushed down and loan structures are returning to what was available in the 2006-2007 period.

Finally, then there's the outlook for stock prices. Last month we said we wouldn't be surprised if there wasn't a correction at some point. There was some volatility in February and early March (which we took advantage of), but prices have stayed up. Still, the stocks in our portfolio are still trading at a discount of about 20% to the Realizable Value that we have calculated for them. Those values assume a maximum value equal to 12.5x optimal earnings. However, we should note that Real Estate Investment Trusts are currently trading at 17X FORWARD earnings, so BDCs may have a substantial way yet to run.

As before, we cannot project what our all in-return will look like in the year ahead, and the stock market remains susceptible to unexpected geopolitical shocks (which we hedge ourselves against with ETFs which rise inversely to market direction). However, thanks to the steps we've taken to maintain the benefit of our income arbitrage, and the rigorous stock selection we impose upon ourselves (we're still only invested in half the companies we track), ***we feel confident that BDC II will be able to prosper in virtually any market environment.***

SCM INVESTOR ONLY PAGE

New this month, we are adding an investor only section to our website at www.southlandcapitalmanagement.com We will be issuing login information to investors this week. Also new to the site will be a blog by BDCII's Chief Investment Officer, Nicholas Marshi, in which he will discuss developments in the portfolio. We will also be setting up login information to access AT Web which PartnersAdmin will upload all historical information and statements on a monthly basis. It's all part of our commitment to transparency.

NEWSLETTER

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

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