Month	BDC Fund II*	S&P 500 TR	Nasdaq Comp	Dow Jones	Russell 2000 (DRI)
FYE — 2009	4.37%	5.49%	6.91%	7.37%	3.49%
FYE — 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%
July - 2011	-17.77%	-2.03%	-0.62%	-2.18%	-3.61%
August - 2011	-11.59%	--5.43%	-6.42%	-4.36%	-8.70%
September - 2011	-14.20	-7.03	-6.36	-6.03	-11.21%
October - 2011	-6.45%	10.93%	11.14%	9.54%	15.14%
Year to Date	-42.50%	1.30%	1.19%	3.26%	-4.46%
Inception to Date	3.85%	23.61%	26.48%	23.08%	25.89%

* 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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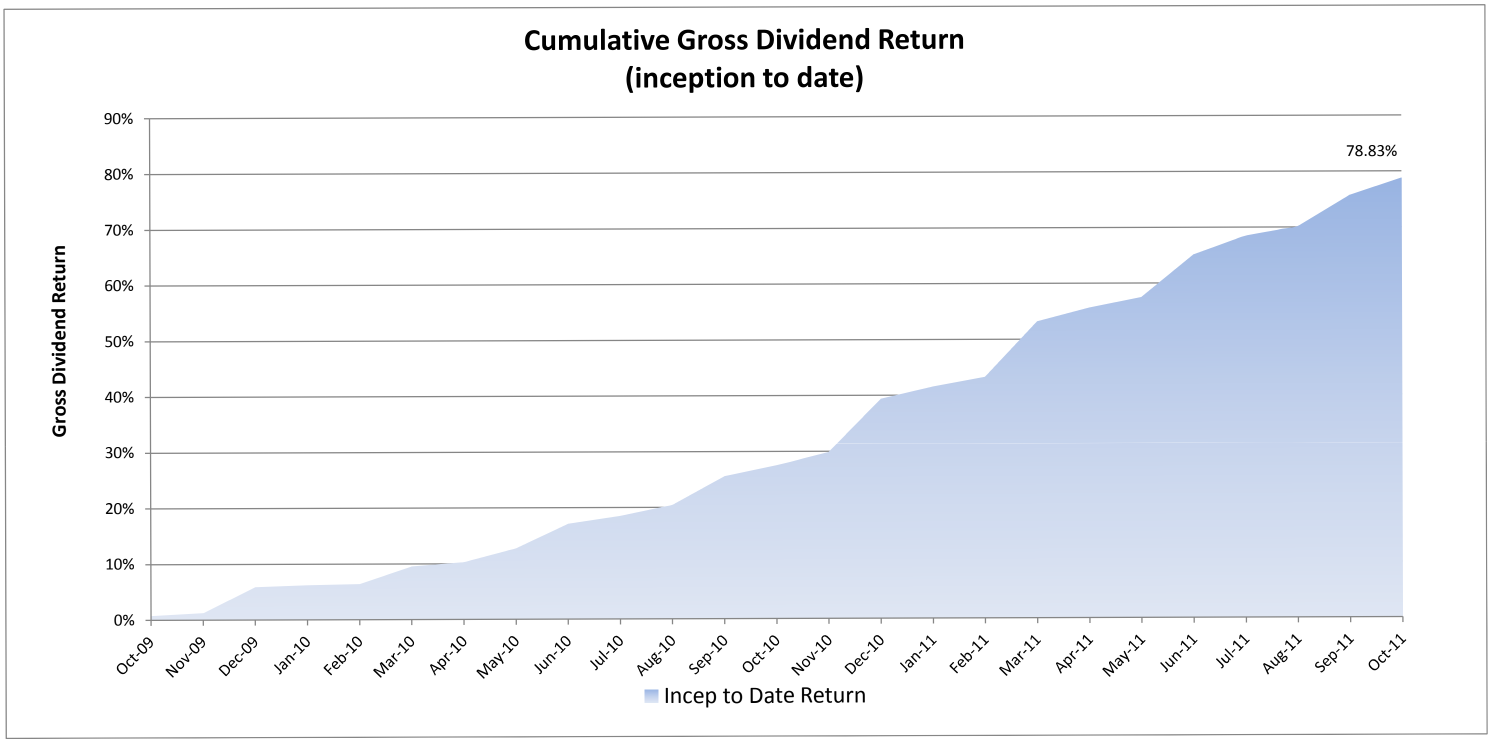
OCTOBER 2011 RESULTS

October was a sixth down month in a row for BDC II. The market hit new lows in early October, but bounced back in the weeks that followed. The Fund was down 6.45% for the month as we remained "hedged" for most of the period, and reverted only to being long in the last several days of October.

All the indices we compare ourselves were up in October. Outside of BDC II, the poorest performing index was the Dow Jones, up 9.54%. The "best" performing index was the Russell 2000 (DRI) up 15.14% for the month. For the ten months year-to-date the Fund continued into negative territory: -42.50%. The other indices returns for the last ten months were in a range from -4.5% (Russell



2000 DRI) to 3.3% (Dow Jones). The Fund's leverage continues to act as a double edged sword, multiplying returns on the upside and on the downside compared to the unleveraged indices.

The Fund's return since inception in October 2009 remains in the positive column, up 3.85%. That's behind the other indices closely bunched from up 23.1% (Dow Jones) to the Nasdaq Comp, up 26.5%, over the 24 months under discussion.

CASH ON CASH RETURN

Twenty-five months after the Fund's launch, the Gross Dividend Return continues to climb. **At the end of October 2011, the Fund reached a Cumulative Gross Dividend Return of 78.8% since inception.**

BDC SECTOR: IIIQ 2011 EARNINGS SEASON UNDERWAY

If you looked only at what's been happening to the stock prices of most BDC companies in recent months you might have expected the earnings releases currently underway for the third quarter to be disappointing. Every BDC's stock price is down from their 52 week highs, at an average of around 30%, but with some well known names down by over 50%.

Well, we have some surprising news for you with 27 of the 34 BDCs and related finance companies we track having already reported: **financial performance is good and in most cases getting better**. Of course, there are a number of benchmarks for determining financial performance, and deciding how things are going. After reviewing the earnings releases for all 27 reporting entries, listening to many Conference Calls and reading whatever 10-Qs that have been released to date, we put each company's results into one of three categories: very good, good and poor. **The Very Good category includes BDCs whose recurring earnings per share were significantly above prior quarters and/or analyst expectations, and which also held the line on credit quality and maintained ample liquidity. To date 10 of the 27 companies reporting are in this category. Of the 10, 8 are on the Fund's Buy List and in the portfolio.**

Here are a few examples of Very Good Performance: lower middle-market BDC Main Street Capital increased Net Investment Income by 10% over the prior quarter, and 7% on a per share basis. Compared to a year before, Main Street's Net Investment Income is up 110%, and 57% on a per share basis. Even in the midst of the current dislocation, Main Street raised additional equity, and increased Revolver borrowing capacity. No new bad debts were added to the 2 on the books. MAIN recently raised its dividend, but we expect a further increase in the weeks ahead.

Technology BDC Horizon Technology Financial's third quarter recurring earnings per share were unchanged from the prior quarter, but the Company raised the dividend pay-out by 12.5% in the period to be in line with profits. Net Asset Value increased in the period as the Company's technology investments held their value at a difficult time in the market. Horizon has no non-performing loans, and liquidity in the form of cash and unused Revolving capacity equal to more than 50% of the value of the current portfolio.

Upper-middle market BDC Ares Capital surprised the market by increasing total investment assets and boosting recurring earnings per share by 26% over the prior quarter. Despite substantially lower asset values in the market because of the European crisis, Ares maintained Net Asset Value essentially unchanged. The Company increased the dividend by 3%, after ten quarters in a row of unchanged distributions. Non performing loans in absolute dollars crept up slightly from two new bad debts inherited from the Allied Capital acquisition, but Ares returned two previously non-performing loans to accrual status. The Company remains under-leveraged with net debt to equity at just half of the maximum allowable under the BDC regulations.

We could go on and on, but **the common threads are that all the Very Good performers increased their dividend (with one exception) and that credit quality remained excellent and none of the BDCs reported any loans booked in the post Great Recession period going onto non-accrual and all had liquidity sufficient to increase investments 25% or more over current levels.**

The 14 Good Performers typically maintained their earnings and dividend levels, and continued to have sufficient liquidity to continue business as usual whether we have an expanding or shrinking economy in the quarters ahead.

For example, Jim Cramer's favorite BDC Solar Capital announced recurring earnings per share in September just 3% lower than in the prior quarter, and at 95% of the dividend. Again, Solar Capital had no non-performing loans and has paid an unchanged distribution since going public a year and a half ago. The Company is under-leveraged, with net debt to equity at just 0.3: 1, suggesting higher earnings and dividends in the future. The Analyst Consensus for 2012 is for recurring earnings of $2.47 versus $2.28 achieved in the IIIQ and above the $2.40 annual dividend liability.

Another upper middle market BDC, BlackRock Kelso was expected to see Net Asset Value drop due to the impact of the European crisis on market values of loan assets. Instead NAV was unchanged in the quarter from the June result. Moreover, the Company's recurring earnings increased slightly as BlackRock increased net investment assets by 5%. There was no increase in bad debts and the Company's debt to equity remains low at 0.4 to 1.

You get the picture. All these companies managed to maintain their dividends unchanged in the period (with two exceptions who raised their pay-outs); all have capital to spend and all are expected by the analyst community to report higher earnings in 2012 than 2011.

12 of the 14 Good Performers are on BDC II's Buy List. The two exceptions are a BDC which specializes in equity investments and whose yield is too low, and a newer senior loan oriented BDC, which also does not meet our yield criteria.

There were 3 Poor Performers in the quarter: American Capital, MCG Capital and Saratoga Investment. American Capital's results were weighed down by write-downs on European debt values and by two new non-performing loans left over booked before the Great Recession. As has been the case for years, American Capital paid no dividend. MCG Capital maintained its dividend but paid the distribution largely out of capital as earnings were impacted by restructuring costs; substantial write-downs were taken on its largest investment; the CEO resigned (or was pushed) and the possibility of a default emerged on one of its debt facilities. Saratoga Investment had an unexpected write-down of a long standing loan, but continued to post decent earnings. Unfortunately, the Company continued not to pay a dividend. **None of the above companies are on BDC II's Buy List.**

With earnings season almost over, we've had a very useful and up to date window into what's happening in the BDC sector. It is clear to us that the drop in stock prices of recent month has little to do with the expected performance of the companies in this field should the U.S. continue to enjoy even modest economic expansion. The market is pricing in a potential recession brought on by Europe or some other exogenous event. No one can rule out that possibility, including us. However, judging by the results to date we continue to be comfortable that most of the BDCs will be able to remain in a "business as usual" mode through any economic environment thanks to their under-leveraged capital structures; "clean" credit portfolios assembled in the last two and a half years and ability to offset any credit losses by deploying untapped capital and increasing loan spreads. Our own proprietary, company by company, projection of the likely earnings of BDCs on our Buy List after taking into account the impact of a Recession show current earnings dropping by only 15% from the current level. What's more, we estimate that the market value of our portfolio post hypothetical recession will be higher than today once the "fear discount" from the European uncertainty is finally removed.

NEWSLETTER

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

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