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%
Year to Date	-28.36%	-1.77%	-2.77%	0.31%	-6.54%
Inception to Date	29.38%	19.86%	21.53%	19.57%	23.15%

* 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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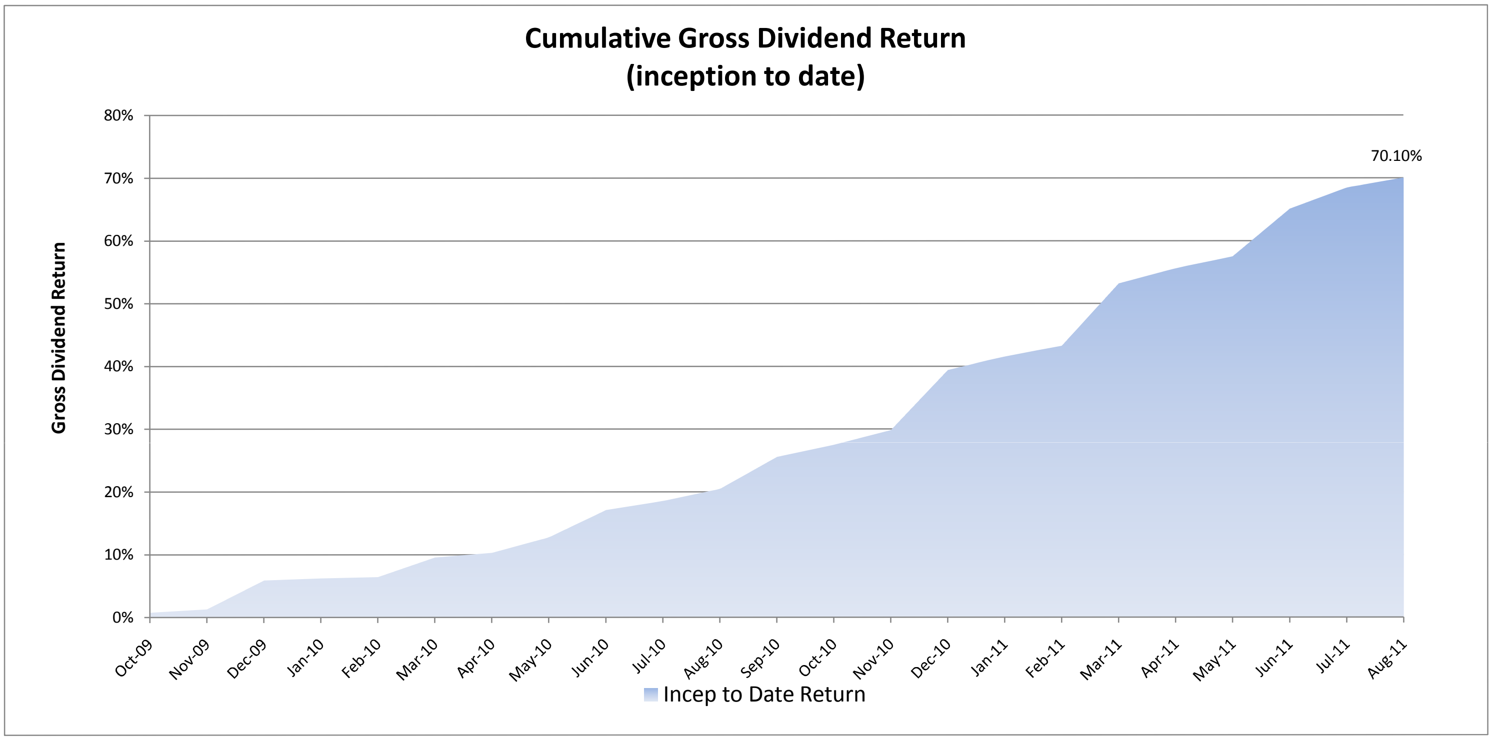
AUGUST 2011 RESULTS

August 2011 was a fourth down month in a row for BDC II, reflecting the pull-back in stock prices over the same period for all the indices. We were down 11.59% for the month. The headline risks included the potential Italian default and the debt cap ceiling extension as well as increasing concerns about a new recession. Given the cocktail of market concerns, the financial sector (which the BDC sector is a component of) was especially hard hit.

All the indices were down in August, in a relatively tight range. Outside of BDC II, the poorest performing index was the Russell 2000 DRI (with re-invested dividends), down 8.70%. The “best” performing index was the Dow Jones, down 4.36% for the month.



For the eight months year-to-date the Fund continued into negative territory: -28.36%. The other indices returns for the last eight months ranged from .31% (Dow Jones) to -6.54% (Russell 2000 DRI). 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 29.38%. That's still ahead of the number two performer, which is the Russell 2000, up 23.15%. At the back of the pack is the venerable Dow Jones index, up 19.57% over the 22 months under discussion.

CASH ON CASH RETURN

After a few months of markets in retreat, the Fund's all-in returns cannot but be negatively affected (given our use of leverage and participation in a relatively volatile market segment). At these times we get some satisfaction from reviewing the aggregate Cash on Cash Return metric of BDC II. The data reminds us that **BDC II continues to generate a very steady and predictable stream of income even during times of market turmoil.** August 2011 helped the Cumulative Gross Dividend Return reach 70%. That was an improvement from the July inception-to-date return of 68%. **With the Fund's second year anniversary in sight, we're hoping the Cash on Cash return will reach close to 72.0% by September 30, 2011.**

OUTLOOK FOR THE REST OF 2011 UPDATED

The Fund Manager officially changed its outlook for the U.S. economy from expansion to uncommitted in August. (For a full discussion existing investors should read the CIO Newsletter). We cannot be certain that the U.S. economy will not swing into a recession in the next 12 months. On the other hand, it's equally possible that the economy will continue to expand. Given that the BDC industry - with its thousands of investments in private companies of every size in every region of the country - is very susceptible to the economic climate, the Manager's view on future conditions are a critical factor in the management of the Fund.

Currently, the Manager is adopting a defensive approach until economic and political conditions clarify. In practical terms this means that the Fund will seek to be fully hedged for the foreseeable future by the use of inverse ETFs. The full hedging policy was implemented in mid-August at the height of the extreme market volatility, and has been maintained ever since, regardless of short term market conditions.

Moreover, the Fund reduced leverage levels during August in order to have spare borrowing capacity to take advantage of investment opportunities in this unsettled environment. Traditionally times of high stock price volatility are of great benefit to a long term investor like BDC II as investments can be booked at bargain prices, promising yields 20-30% higher than just a few weeks before. Even if a recession does follow in the months ahead these new purchases allowed the Fund to dollar cost average down the portfolio. **We were able to boost the yield on the existing portfolio investments at cost above 11.0%, which is the highest level since 2009.**

WE expect to be able to continue to increase the average yield on the Fund's assets in the months ahead as there are numerous buying at yields north of 12.0 - 13.0%, and the opportunity to sell off certain lower yielding existing investments. We believe the market has already priced in the possibility of a moderate recession in the current price level, so that the downside (should there be an actual economic swoon) is limited.

At time of writing, the Manager has reviewed the second quarter 2011 financial performance of every BDC we tracked, and been struck by the continued absence of many of the early warning signals of a impending economic slowdown compared with 2007 and early 2008. The outlook for BDC earnings (as validated by the analyst consensus) remains for higher profitability in 2012 than in 2011. Admittedly a number of earnings estimates have been reduced in recent weeks, but many others have seen the analysts increase their earnings estimates.. Either the analysts are too optimistic or the market for BDC stocks is "oversold".

Our company by company review of quarterly SEC filings has not turned up any increase in non-performing loans. The companies on our Buy List appear to be averaging non-performing loans equal to 2% of investment assets at fair market value, in line with the credit experience in the junk bond and syndicated loan markets. We've detected no increase in NEW non performing loans, and point out that most BDCs have no non-performing loans at all, suggesting that the bulk of troubled assets added during the last economic expansion have been refinanced, sold or restructured in the two busy years since the official end of the last recession.

The analysis of the BDC filings also showed that debt levels (as measured by debt to equity at FMV) remain very modest). In aggregate, debt to equity is below 0.3: 1.0 amongst our 22 Buy List companies. In late 2007 and early 2008, as the economy was slowing down, debt to equity levels were at least 2 to 2.5x higher. Then came the Lehman bankruptcy which sharply reduced asset valuations and caused many BDCs to default under their loan agreements and to have debt to equity levels break the 1.0 : 1.0 barrier.

Whatever does happen in the months to come, a repetition of the liquidity crises of 2008-2009 appears very unlikely. Besides the lower leverage in absolute terms most BDCs on our Buy List have taken the precaution of loading up their balance sheet with long term debt capital which is not marked to market in the same manner as was the case 3 years ago, and comes with looser covenants.

We've also looked for a trend of BDCs beginning to write down existing portfolio investments. Last time around this proved to be a very useful indicator of bad debt problems down the road. Again, the overall picture in the second quarter of 2011 has been principally of asset written-up or left unchanged.

Should a recession occur, we are reassured that the BDC sector is in the best fiscal shape possible, which should mitigate the impact of the inevitable bad debts and lower income that a shrinking economy inevitably results in. As part of our underwriting discipline we invest only in BDCs that our credit analysis suggests will not have to reduce their distributions by more than 25% once the full impact of a recession has been absorbed. To be careful, in the last couple of weeks we've systematically calculated for each company in our portfolio what we expect their dividend to look like in the event of a moderate recession. The bottom line is that our projections currently anticipate a less than 10% drop in total distributions as a result of a possible shrinking economy, and most of those theoretical cuts should be several quarters away.

If we're right, the Fund would still be boasting a portfolio yield above 10.0% should a moderate recession occur. Another Great Recession would have a more harmful impact, and is more difficult to assess at this stage.

UPSIDE OUTLOOK

To be even handed, let's discuss the outlook if the economy should remain in growth. We expect that if the uncertainties about Europe's fiscal crises were removed and the outlook for the U.S. economy firmed, stock prices should reverse course. As we've mentioned, the BDCs are trading at PE multiples substantially below their norms. If PE multiples increased from the current 8.9X to, say, 11x, the BDC market would increase by nearly 25%.

For the Fund, which due to its leverage, has been punished by falling stock prices, this would cause a major reversal of fortune. In theory a 25% increase in stock prices would increase Unrealized Appreciation by 75% (if fully levered and we shared in the uptick). Theoretically that would cause BDC II 's equity value to reach record levels. Moreover, the Fund would be able to borrow more against its assets in order to invest in BDC investments which could increase net investment income by as much as 50% from today'e levels.

However, given the Manager's current "defensive approach," it's unlikely BDC II would be able to time the market just right and abandon its hedging to take full advantage of this theoretical run-up in BDC prices. We would hope, though, to participate in at least the latter half of any bull market.

NEWSLETTER

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

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