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%
FYE — 2011	-46.38%	2.11%	-1.80%	5.53%	-4.18%
January - 2012	14.08%	4.48%	8.01%	3.40%	7.07%
February - 2012	7.47%	4.32%	5.44%	2.53%	2.39%
March - 2012	-1.80%	3.29%	4.20%	2.01%	2.56%
April - 2012	0.29%	-0.63%	-1.46%	0.01%	-1.54%
May - 2012	-6.51%	-6.01%	-7.19%	-6.21%	-6.62%
June - 2012	3.90%	4.12%	3.81%	3.93%	4.99%
July - 2012	3.60%	1.39%	0.15%	1.00%	-1.38%
August - 2012	5.72%	2.25%	4.34%	0.63%	3.33%
September - 2012	2.79%	2.58%	1.61%	2.65%	3.28%
October - 2012	0.50%	-1.85%	-4.46%	-2.54%	-2.17%
November - 2012	-6.39%	0.58%	1.11%	-0.54%	0.53%
Year to Date	24.21%	14.96%	15.55%	6.61%	12.34%
Inception to Date	20.29%	43.24%	41.83%	34.11%	41.84%

* 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. The indices included above are presented only to provide a general indication of U.S. Stock market performance for the periods indicated and not as a standard of comparison because they are unmanaged, broadly based indices.

NOVEMBER 2012 RESULTS

The Fund broke it's five month winning streak, coming in down -6.39%. We were beaten by the four general stock market indices we compare ourselves against. On the month, the NASDAQ was the best performer: up 1.11%.

Turning to the year-to-date, the Fund is up 24.21%. Here we are well ahead of the stock market indices. The top stock index is the NASDAQ Comp, which is ahead 15.55% in 2012. The laggard of the group is the Dow Jones up 6.61%. The Fund's Inception To Date return dipped to 20.29%, still trailing the market indices over the 37-month period.

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SECTOR PERFORMANCE

The five-month long rally in the Leveraged Debt markets ended with a bang in November. As we discussed last month, the increase in High Yield Bond, Floating Rate Loans, BDC Common Stocks and BDC Notes had begun to fade from mid September. Nonetheless, we were guardedly optimistic at the end of October because all the fundamentals (corporate liquidity, EBITDA trends, non-performing loans, cash flow to debt service ratios, etc.) were at the best levels since the Great Recession.

Nonetheless, in the wake of the election, the markets reversed themselves very sharply. How sharply? Let's review what happened with the most volatile sector we invest in: BDC common stocks. In a two-week period, BDC stock prices dropped nearly 10% from month high to low. In one day, the market dropped -5.3% and in two consecutive days -5.7%. Those are sector wide changes. A number of individual stocks dropped more than -10.0% in one day. The market stabilized in the latter half of the month, and was down on average only -2.0%. However, our own investments in BDC common stocks were mostly down by higher percentages than the sector averages, as we were positioned principally in stocks with greater upside, but also greater downside risk. Two investments (Horizon Financial and Prospect Financial) were down over -10% in November versus the October closing price.

Admittedly, the volatility was lower in other sectors, and fully justified our new strategic approach to reduce volatility risk that we've adopted all year. The Floating Rate Loan sector, which accounts for 12% of the Fund's investments at cost, performed as expected. Our biggest investment in this group- Exchange Traded Fund BKLN-dropped -1.4% from high to low intra-month, but was down only -0.5% on the month. More problematic, though, was the price performance of the Floating Rate Closed End Funds, which use up to 50% leverage to increase returns, and are almost as volatile as BDC common stocks. We saw high to low movements in the month of 5.0% or more. Still, by November month end of the 3 Floating Rate CEFs we still owned, 2 were down versus October (-1.0% and -2.7%) and one was up slightly.

Likewise, our investments in BDC Notes fared very well in the mid-month period when all assets dropped sharply in value as concerns about the "fiscal cliff" reached their initial paroxysm. BDC Note investments accounted for 26% of the Fund's net assets at October 31, 2012 and 31% at the end of November. Our investment in Ares Capital's 2042 Notes, for example, dropped -1.6% from low to high, but ended the month down just -0.2%. Of the 10 BDC Note investments we owned at month end October, 4 saw their prices go up and 6 down. However, percentage price movements, with one exception, were under 1.0% on the month.

WHAT WE DID

When the stock market dropped sharply in the days after the election, the Fund Manager decided to temporarily switch the portfolio to a far more "risk off" profile than we've had since June 2012. We were concerned that the very extreme nature of the price drops amongst our more volatile investments (which include BDC common stocks, Floating Rate Closed End Funds and High Yield Closed End Funds) might continue if concerns about a "fiscal cliff" created recession were to worsen in the weeks ahead. This is a similar risk mitigation approach we undertook in the late spring regarding the Euro-zone crisis. Now as then we don't believe the worst is going to happen. We're optimistic that the Obama Administration and the Republicans will arrive at a deal sufficient to keep the U.S. economy growing at 2.0% or more in 2013. Nonetheless, we believe our principal mandate is capital preservation, and given our leveraged nature, we need to be safe rather than sorry.

DE-LEVERAGE

We de-leveraged the portfolio by selling assets. In terms of gross assets (both Long and Short) we reduced the portfolio by 10%. However, we also changed the mix of Long and Short investments, so out Net Long Position by November 30th was down by 13%. The bulk of the investments sold during the period were our most volatile, higher risk investments. Thanks to months of a bull run, we were able to sell most of the investments at a Realized Gain over cost, and the majority within 3 - 5% of their 52-week highs. We also trimmed a number of our less volatile investment positions, both to take some profits when investments were trading close to 52-week highs and to reduce single position concentrations. Like everyone else in America we opted to harvest a portion of our gains before the higher capital gains rates next year. In fact, we booked one-fifth of our YTD capital gains for 2012 in November.

DE-RISK

We "turned over" 40% of the portfolio in November, and re-invested two-thirds of the proceeds principally in lower yield, lower volatility investments: High Yield Bond ETFs, Floating Rate Loan ETFs and BDC Notes. We also boosted our short positions. We began the month of November with a modest amount of short positions, (equal to 12% of corresponding Long positions) which are in place to generate gains to partly offset losses if and when markets turn down. In November, this did not provide much solace or do any damage. We began the month with 2 short BDC common stocks positions. On a Realized basis, we made a very small profit, as we closed out more winning positions than losers. We ended the period with 4 short positions in BDC stocks, and 1 short against High Yield Bonds.

Risk-wise, we have not only reduced total leverage, and total Net Long Leverage, but we've increasingly skewed the portfolio composition towards the lowest risk assets. Or put another way, by the end of November, out Net Long higher risk/higher volatility investments had dropped 55% from the level at October 31st. Worthy of note, we managed to makes these major shifts in portfolio composition in a very short period of time. Our strategy in recent months of increasingly diversifying the number of our investments to ensure we are able to

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move out when we need to. To quantify the above: we had 25 different investments in portfolio at December 2011, and 44 as of November 1st, 2012.

LOOKING FORWARD

Like everyone else, we are waiting on the resolution of the "fiscal cliff" to evaluate the medium term positioning of the Fund for 2013. As usual, we are planning for a range of outcomes. We are assuming that prices will increase/decrease 1% for the less volatile assets and 5% up or down for the most volatile in the rest of December in our state-of-the-art financial model. On the downside, at time of writing, we've reduced our Net Long investments to just 2.0X the Fund's equity from our standard 3.0x, a 33% reduction. Moreover, we've cut our riskiest investments to under 25% of total net assets. So even a very sharp drop in asset prices brought on by the "fiscal cliff", or for other reasons, would only have a limited impact on our returns. We've also set relatively tight Stop Loss prices on most of our investment positions should there be a sudden downdraft in stock prices, which should keep losses in check. Our pro-forma model suggests the Fund would be down only a modest 3% under our Downside case.

On the upside, we're optimistic that the swoon in the higher risk-higher reward investments that caused our Unrealized Losses in November will reverse in December as optimism about the "fiscal cliff" resolution (or even an actual deal). Even in today's wait and see environment many of the stocks, which dropped by above average percentages last month, are on the comeback trail. Our Biggest Loser Horizon Financial is up 2.2% MTD. Ditto for our Biggest Loser Silver Medalist Prospect Capital, which also announced an 8% increase in its monthly dividend a few days ago. We expect the remaining sector's asset values will grow modestly, if the news is good. Overall, the top end of our December model shows a 6.0% monthly gain in the Fund's equity.

For those of you interested in an up to the minute status report, we can tell you that all the sectors are performing within our range parameters: BDC common stocks are down -2.0% , and BDC Notes -0.5%, but high yield bonds and floating rate loans are up 0.4% and 0.6% respectively. We estimate that the Fund is up 2.5% on the month so far (helped by dividend/interest income, but net of fees and expenses).

DOWN THE ROAD

That's our short-term range. If we take a longer-term approach to the upside analysis, our financial model calculates in real time what would be the maximum gain on the portfolio if all assets we owned reach their Realizable Values. Overall, the entire portfolio asset values would increase by 6.1%. over today's levels. That translates into a potential 19% gain on the Fund's equity.

That does not include any gains we might make from utilizing the Fund's untapped liquidity. Because we have de-leveraged, we have substantial unused borrowing capacity. Just investing in higher risk-higher returns assets equal to 1.0x our equity, and assuming a 15% average upside (we get that number from the average difference between Realizable Value and current prices across our entire investment universe) would further increase our gains, to reach a potential 25% increase in the Fund's equity. These pro-forma numbers do not take into account any dividend/interest income, or offsetting fees and expenses.

CONCLUSION

As we write this, there are dueling press conferences going on between Republican and Democratic leaders and no visible deal of a fiscal bargain in Washington. We are very comfortable with our November decision to de-leverage and de-risk the portfolio. Since we made the shift the markets have been relatively flat, so we've neither missed a rally or been subjected to a material pullback. From a credit standpoint, this is the "safest" portfolio we've had in months, or maybe in our history. Should we get a major market meltdown, the Fund will experience further losses short term, but we expect them to be much more modest than they would have been with the risk profile we had before the change we made. More importantly, we will be very well positioned with our unused availability, and liquid lower-risk asset base to take advantage of far lower prices for leveraged debt assets which, in many cases, were beginning to reach full value in the past few months.

If we get a deal and a rally (there is no guarantee that one will follow the other, but we'd be surprised), our liquidity and portfolio positioning should allow us to enjoy outsized returns. Bring it on Washington!

NEWSLETTER

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

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