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%	3.4%	7.07%
February - 2012	7.47%	4.32%	5.44%	2.53%	2.39%
Year to Date	22.60%	9.00%	13.89%	6.01%	9.63%
Inception to Date	18.73%	35.81%	39.79%	33.35%	38.42%

* 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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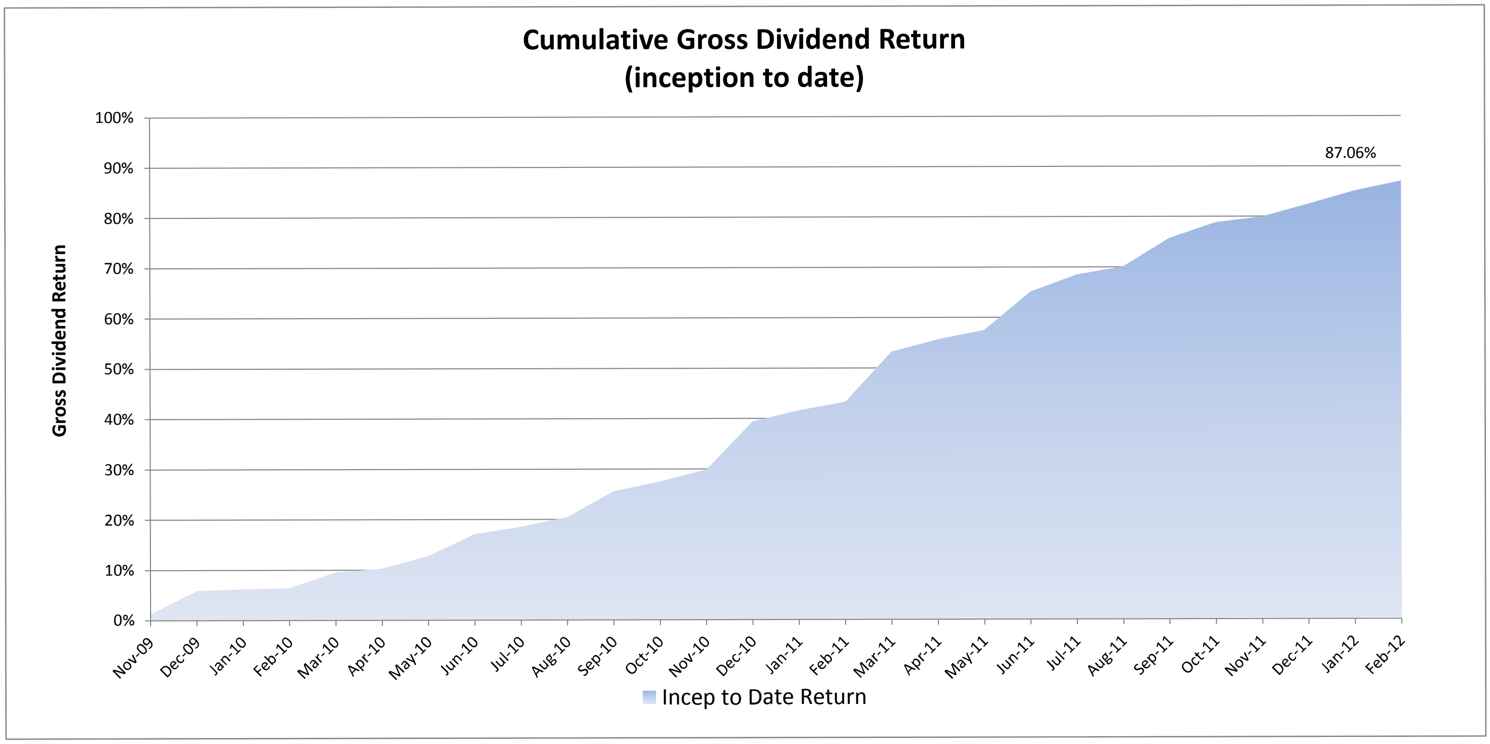
FEBRUARY 2012 RESULTS

February 2012 was a good follow-up month to January for BDC II: up 7.47% for the month. The Fund was ahead of all the indices we compare ourselves to for the second month this year. The closest index was the NASDAQ, which was up 5.44%, and the laggard was the Russell 2000 up 2.39%. We should also note that we've been informally tracking the Fund's performance against the only BDC Exchange Traded Fund (ticker: BDCS), which is based on a Wells Fargo index of sector performance. In February 2012, the BDCS was up 3.3%. Our own Buy List of 22 companies (increased from 19 last month as we expanded the list of companies which meet our criteria for liquidity, creditworthiness and minimum yield) was up 2.1%. The Fund's outsized return for February compared to all the above can be attributed to our use of leverage, which went up and down during the period with the outlook for the market, but averaged around 2:1. BDC stock prices were choppy through February. There was a jump early in the month, with the first half of month high reached February 3rd. The market dropped in the middle of the month, but began to ramp up February 14th and peaked for the period on February 28th, before dropping slightly on the leap day.

Year-to-date BDC II is up 22.6%, nearly twice the level of the smoking hot (and unleveraged NASDAQ Composite), and nearly four times the 6.01% achieved by the Dow Jones.

Skipping to the more meaningful inception to date returns, the Fund is up 18.73%, 29 months after its launch. That return is only half of the return achieved by the other indices, which range from 33.35% (the Russell 2000) to 39.79% (the NASDAQ Comp, with dividends reinvested). The Fund's returns lag due to the impact of the May-November 2011 decline (versus a bull market that has lasted from December 19th, 2011 through February 29,2011 and counting) and the negative impact of leverage that amplifies losses. In the absence of a BDC index that covers the entire period, we compared the Fund's result to the performance of the Financial Sector ETF (ticker XLF), which was up just 3.4% for the 29 month period, according to data on Yahoo Finance.



CASH ON CASH RETURN

Two years and 5 months after inception, **the Gross Dividend Return reached 87.06%.** To remind any new readers, the Gross Dividend Return tracks the total dividends received by an investor in the Fund from its inception expressed as a percentage of their original investment. Expressed in numeric form, an investment of $1,000 at October 1, 2009 in the Fund would have received $870 in dividends through the end of February this year. We are highly confident the Fund will reach the 100% return milestone well before the third anniversary of the Fund. The Cash on Cash Return underscores our oft-stated view that an investor with a long term perspective can count on the dividend paying capacity of the Fund to offset temporary swings in BDC market values. If our current cash flow generation keeps up, we project the Gross Dividend Return could exceed 200% over a 5 year period.

PERFORMANCE 2012 TO DATE AND OUTLOOK

February 2012 was the second full month of the rally in BDC stock prices that began December 19th. As we showed on Page 1, though, stock prices have not been going up in a straight line. In the first half of February there were renewed concerns that Greece would not sign the final debt agreement with the EU, IMF and private creditors. The VIX (or "fear gauge" for the market) jumped 22% between February 3rd and February 15th; with the index briefly piercing the psychologically important 20.0 level a couple of times. Even though we didn't believe Greece would default at this late stage, we did reduce our holdings of BDC common stocks just in case the spike in the VIX augured an unexpected market reversal. Through the second half of February we upped our investment in common stocks but not to the prior level in an abundance of caution.

Now, as last month, we ask the $64,000 question: will the "rally" continue? One of the factors that will affect what happens is whether BDC stock prices are perceived as under-valued now that macro considerations are temporarily on the back burner. We believe that the data supports the view that the sector provides good value. Last month we noted that some BDC prices trade at multiples of earnings 10-25% below historical levels. This continues at time of writing. Specifically, of the 22 Buy List companies we track: 5 are trading at or above fair market values, 6 are trading at between 90-100% of fair value and 11 are still trading at a discount of up to 20%.

Certainly the sector's stock prices have not yet matched the levels reached before the drop-off that began in the second half of 2011. Using the BDCS as a proxy, we said last month that it's current stock price would have to increase by 12.6% to reach its April 29, 2011 high. At the end of February, BDCS was still 12.2% off last April high point. Our own data, using the 22 Buy List companies, suggests BDC prices will have to rise another 14.8% to reach their prior 52 week high, or 9.6% to match the levels of February 2011, before the European crisis took center stage.

We remarked last month that industry financial performance has been encouraging, despite the difficult market conditions of the second half of 2011. At this point all the companies we track have reported earnings through year-end 2011. And we calculate that 16 increased earnings over the prior quarter, and 6 decreased. Of the latter only two reported materially lower earnings (Apollo Investment and MCG Capital-both of whom were known to have company-specific problems). Moreover, capital raising by BDCs has continued at a frenetic pace.

Besides several more companies raising add-on equity, half a dozen BDCs have been able to raise medium term unsecured debt at favorable rates, as well as expand existing bank revolving credit facilities, both in dollar terms and by maturity. Even smaller BDCs that had been unable to tap the public markets have been successful. **The result is ever improving balance sheets and "dry powder" available for investing. To quantify that last point, after reviewing the liquidity of every company on our Buy List, we determined that two-thirds have liquidity (in the form of cash or unused borrowing capacity) in excess of 20% of their existing portfolio size. A few BDCs have capital available sufficient to allow them to increase 30-50% without raising another dime.**

The analysts continue to be almost universally bullish. Our review of all the latest earnings estimates for the year ahead indicate estimates have been raised on the level previously projected in 14 of 22 cases. With the exception of Apollo and MCG Capital, all the BDCs are expected to achieve higher profits in 2012 over 2011. This would extend the sector's earnings winning streak to 3.5 years by the end of 2012.

To date this month the market has been choppy and the Buy List stocks and the BDCS at March 16th were essentially unchanged over the end of February. Nonetheless, for all the reasons given above, we remain optimistic that the "rally" should continue, albeit in fits and starts. **By our estimate, should the current stock prices of our portfolio reach their Realizable Value (which is our estimate of Fair Value) we could record a 16% gain. Given that the Fund is using 2x leverage for common stock investments, the resulting equity gain for BDC II's investors would be 32%, everything else being equal.** We take some reassurance from the fact that the VIX has reached a very low level compared to recent months ($14.47 on March 16th). However, we recognize that the recent spike in Treasury rates might affect BDC stock prices if the market treats them like bonds (when rates go up, bond prices tend to go down); and any sudden shock out of Europe or the Middle East could stop the rally in its tracks. However, given the significant upside and the Fund's ability to change direction very quickly if required, we are going into the second half of March with an overweight position in stocks (2;1), while retaining significant debt holdings to diversify our exposure.

NEWSLETTER

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

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