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%
FYE - 2012	28.21%	16.00%	15.19%	7.25%	16.34%
January - 2013	6.08%	5.18%	4.06%	5.77%	5.96%
February - 2013	1.45%	1.36%	0.57%	1.40%	1.33%
March - 2013	2.42%	3.75%	3.40%	3.73%	4.62%
April - 2013	2.85%	1.93%	1.88%	1.79%	-0.37%
May - 2013	-6.58%	2.34%	3.82%	1.86%	4.00%
June - 2013	-0.28%	-1.34%	-1.52%	-1.36%	-0.51%
Year to Date	5.61%	13.84%	12.72%	13.78%	15.86%
Inception to Date	31.13%	64.54%	60.37%	53.50%	70.18%

* 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.

JUNE 2013 RESULTS

The Fund recorded a small loss (down -0.28%) in a turbulent month for the markets, but we were the best performer against all the major stock market indices we compare ourselves against, all of which had miserable months performance-wise. The runner up was the Russell 2000, down -0.51%. The S&P and Dow Jones were down virtually the same at -1.34% and -1.36%, with the NASDAQ down the most at -1.52%.

Year-to-date, the Fund is at the back of the pack compared to the stock market indices because of the May drop for all credit instruments, whereas regular common stock prices hit post-recession record levels. Nonetheless, we are still up +5.61% year to date, where many other credit related sectors such as Treasury bonds, investment grade bonds and utility investments gave up all their 2013 returns on concerns about higher long term rates.

Inception to date, which amounts to 45 months, the Fund is up +31.13%, after all fees and expenses. Our long term performance remains below the performance of the stock market indices, which have boomed since experiencing huge losses in the Great Recession. We continue to be optimistic the Fund will, over time, match or exceed the results of all the indices. The

subject is discussed at great length below.

We continue to take comfort from the performance of the Fund since our change in strategy in January 2012. In this regard, we refer you to the chart we introduced in last months' newsletter. We asked PartnersAdmin, our independent administrator, to calculate the Fund's returns for the past 18 months and compare the results against the stock indices. BDC II remains up 28.10% in the period, beating the Dow and only slightly lagging the other 3 indices.

Month	BDC Fund II	S&P 500	NASDAQ Comp	Dow Jones	Russell 2000 DRI
Jan. 2012 to Date	28.1%	32.05%	30.65%	22.03%	34.79%

LET'S TALK DRAWDOWNS

A couple of investors have expressed concerns about the Fund's "volatility" in recent weeks, and what it might mean to the long term performance of the Fund. Understandably, worry was expressed about the relatively sharp drop in the Fund's value in May. This was what the industry calls "drawdown." Barclays hedge describes it this way: "A drawdown is defined as a loss of equity from a peak to valley in a single month or period of consecutive months."

Understandably, a sharp "drawdown" from one month to the next is regarded by an investor looking at their statement from Partners Admin as a "loss" and therefore a bad thing. That's strictly true, especially if you chose that moment to sell your investment in the Fund, which would crystallize that "loss." Understandably, investors would like to see a consistent, month-to-month, increase in the value of the Fund (if not all their investments). Our difficult task in this newsletter is to explain that is unlikely to happen in this investment or any other (outside of a short term CD or money market investment). The good news is that volatility, while psychologically hard to handle, has no bearing on the Fund's long-term performance.

DRAWDOWN IS NOT PERFORMANCE

Drawdown is a constant in all financial markets, and always has been, but it tells us nothing about the future. Academic studies have shown that there is no correlation between the return an investor will achieve in any given year and the amount of volatility/drawdown experienced in the short term. Investors have experienced record-breaking results at times of very high market turbulence, and very low results when volatility was minimal. And vice versa.

Let's use the performance of the markets in 2013 as an example. It's true that if we look at the very near term, stock price volatility has been high, and has been accompanied by major price drawdowns in many sectors. There is general unanimity that the rock and rolling of the markets began with the comments made by Chairman Bernanke on May 20th about a possible reduction in the amount of quantitative easing, which caused long term interest rates to jump by 59% in a few weeks. It was the sharpest run-up in Treasury yields in such a short time in history, and impacted all the markets, both domestic and global, as well as both credit and equities.

Let's look at the impact on the venerable Dow Jones Index. The Huffington Post pointed out: "From May 24 to June 24, the Dow Jones Industrial Average had nine 100-point losing days in the space of a month." The maximum drawdown in that period was -4.9% in a period of less than 3 weeks. Yet, the Dow Jones is up 13.8% in the first half of 2013. Even High Yield Bonds, which saw prices drop at a pace not seen since 2008 in May and June, are still positive for the year. In fact, the leading High Yield ETF today is still trading higher today than it's 2012 price. When dividends are taken into account, the ETF is having a very good year.

BDC II VOLATILITY VS. PERFORMANCE

The results of our own Fund can be used to demonstrate that there is no connection between volatility/drawdown and longer-term performance. BDC II has been around for 45 months, and we've had up months two-thirds of the time and down one-third, pretty much in line with how the S&P has performed. We've experienced sharp drawdowns, even after we modified our strategy in late 2011. Last year, we had 2 drawdowns above -6%, but still recorded a gain on the year of +28% in 2012.

MANAGING VOLATILITY

We don't want to give the impression that we are not disturbed when markets gyrate wildly, or that we do not seek to manage the Fund's volatility as best we can. In fact, we're like a cat on a hot tin roof most of the time, because big swings in stock prices are happening most of the time. Investors get a monthly snapshot, but there are intra-month swings as well. To quantify for you the amount of volatility we have to contend with we calculated that **Ares Capital**, the leading BDC and a first rate company which has consistently maintained or increased

earnings and dividends through the life of the Fund, experienced 16 drawdowns of -5% or greater in the past 45 months. The biggest drawdown lasted a month and was -15.5%! Because the Fund is leveraged, changes in market prices are further amplified.

We've highlighted in earlier Newsletters how we seek to minimize volatility where we can with sector diversification (investing in a mix of High Yield Bonds, Floating Rate Loans, BDC Notes and BDC common stocks, each with different volatility characteristics), investment diversification (investing across 100+ different investments, and limiting single name exposure to a maximum of 5% of equity), and proactively sizing the portfolio to market conditions (selling assets during market downturns to reduce leverage).

Frankly, we are very pleased with the results that we achieved in minimizing volatility in May and June. The Fund was very well positioned for the dramatic change in market conditions that began May 20th. We had deliberately built up increasingly large positions in Floating Rate Loans and BDC common stocks in the months before, and reduced our High Yield Debt exposure. As many analysts and commentators have since reported, that was a prescient call. **Barron's** on July 11th said "Citi credit strategists take a look at the leveraged-loan landscape today and see an oasis amid drought-plagued corporate bond markets: While other fixed income asset classes are hemorrhaging capital and suffering their largest price declines in a few years, the leveraged loan market has served as a lonely bright spot. Since the end of April, loans have dropped only -0.30%, versus the -2.77% and -5.09% plummets for HY (High Yield) and IG (Investment Grade bonds) respectively. For the most part, loans are fulfilling their role as an oasis within the rate-weary fixed income market."

Likewise, the BDC sector has held up well through the market gyrations, down a modest -3.8% in the two months between April 30th and June 30th. When distributions are taken into account, the drawdown was even lower. (In July, BDC stock prices have continued to rise, wiping out any losses incurred in the May-June period).

Moreover, we were able to actively buy and sell sectors and positions during the market turmoil to reduce volatility. As discussed in last month's Newsletter, in May we were able to jettison most of our High Yield Bond holdings at or close to their record highs. In June, our decision to buy more high dividend paying BDC common stocks paid off both in a high level of distributions and capital appreciation, which contributed to the month's break-even result.

By comparison with many other hedge funds that specialize in debt investments, our drawdown has been relatively modest, even when you consider our use of leverage. If you look at year to date performance, the Fund's results shine even brighter. Reuters wrote an article on July 5th with the headline "A cruel, cruel summer for U.S. credit funds." The article detailed some of the impact of high volatility on several well-known hedge funds. " Blue Crest's BlueTrend fund saw one of its feeder funds register a -16.9 percent slump from May 17 to June 28. Bridgewater's All Weather fund is down -6.49 percent year to date, and Tudor Investment Corp, the $11.6 billion hedge fund firm founded by Paul Tudor Jones, saw its $283 million Tudor Tensor Fund lose -4.5 percent in June, and is down roughly -2.2 percent for the year."

CONCLUSION

Price volatility, and drawdowns of -5% or more, are a fact of life in the world of stock market investing. Events of the past few weeks have shown that even asset classes considered as "safe" such as Treasuries, investment grade bonds, utility stocks etc. are not immune to major swings in value. There's a revealing article in Barron's which appeared today (July 25), which summarizes research about the popular "low volatility" funds which Wall Street has been selling to investors seeking calmer seas. The research shows (using data back to 1973) that, perversely, one-fifth of the time "low volatility" funds are MORE volatile than the S&P.

The Fund is no exception to the ups and downs of the market. The Manager, though, will always seek to mitigate short-term volatility, as was proven in the most recent instance, and with considerable success. Investors, though, should take even greater comfort that volatility and short-term drawdowns in the Fund's value have no relationship to long-term performance, as have been proven repeatedly in our ever lengthening history, and by the markets over time.

HOW WE LOOK AT PERFORMANCE

We encourage both existing and prospective investors, whether short term results are "good" (two-thirds of the time) or "bad" (one-third of the time), to avoid drawing any long term conclusions therefrom. Instead we'd like to share with you our own approach to evaluating the Fund's potential performance over the long term. This is not an academic issue for us. We have virtually our entire net worth invested in the Fund, as well as

major investments from an ex-wife, a mother, a sister, a son, and two nieces. We should also add that we are aiming high, as we'll explain.

In our minds, the critical element in the long term success of the Fund comes from the extraordinarily high income received from our Leveraged Debt investments. Over time, while the value of our portfolio will swing back and forth with market conditions, dividend income will steadily accumulate, and that can be withdrawn or reinvested.

CASH ON CASH RETURNS TO DATE

However, the full impact of that high and steady level of income can only be realized over time. Thankfully, though, the Fund has been in operation for nearly 4 years now, and we can quantify what level of income a long term investor can realize from real-life examples.

An investor who initiated an investment in the Fund on January 1, 2012, (18 months ago) has received total dividends equal to 40% their initial capital contribution.

An investor who initiated an investment on September 30, 2010 (33 months ago) has received total dividends equal to 60% their initial capital contribution.

The initial investors in the Fund back on October 1, 2009 (45 months ago) have received total dividends in excess of 120% of their initial capital contribution.

We can say with some confidence that when we reach the fifth anniversary of the Fund on September 30 2014, the initial investors will have received dividends equal to 150% of their initial capital contribution.

More speculatively, we project that over a ten year time frame an investor will receive dividends equal to 200% - 250% their initial capital contribution.

SWINGS AND ROUNDABOUTS

Of course, all that dividend income is only one component of an investor's overall return, called the **Total Return**, which effectively is what PartnersAdmin independently calculates for all of us every month. There are management fees and expenses and changes in the value of the investments (Realized and Unrealized Gains) which have to be considered. That's where volatility comes in. The swings have been dramatic in our history. In 2009-2010, Realized and Unrealized Gains were huge, twice the size of our Dividend Income and ten times our Operating Costs. Of course, that reversed in 2011, as we've discussed at great length in earlier newsletters. Since 2012, Realized and Unrealized Gains are in excess of Realized and Unrealized Losses and all Operating Costs. In aggregate, though, the Fund remains in the red when Realized and Unrealized Losses are considered, and even more so when you factor in expenses. What we are making on the swings (Dividend Income) we are losing some of (Realized Gains and expenses) on the roundabout.

However, we would like to point out, for what it's worth, that we project that if the existing portfolio increases to the Realizable Value we have estimated for every investment, the potential gain is equal to 40% of our current equity and greater than our aggregate Realized Losses. Currently, the principal components of that potential gain are from expected price appreciation of our Floating Rate Loan investments and BDC common stocks. When and if short term interest rates rise, we expect both sectors to be major beneficiaries. We may be months or years away from harvesting those gains but in the interim the Fund continues to generate ever more dividend income, like a steady running tap filling up a bucket.

HIGH HOPES

Over the long term, we are seeking to buy and sell Leveraged Debt stocks to, at least, generate sufficient Realized Gains to cover all the Operating Costs of the Fund. If achieved, that would mean that all the gross dividend income received would represent a true gain.

It's an ambitious goal because if we prove successful the Total Return (after all fees and expenses) should be in excess of +20-25% per annum over many years. We compare our objective with that of other long term investors to provide a context. Recently, **Pensions & Investments**, using public filings ranked the top ten returns of pension funds invested in private equity over a ten year period. The best annual return over a decade was 13.6% by the Pennsylvania State Employees pension. Even if we achieve half our target return, the Fund should be one of the top performers in any asset category. We strongly believe that the role of an investment fund like ours is to aim for extraordinary returns if an investor is prepared to make a long term commitment (preferably 5 years or more), and is willing to live with the inevitable month to month volatility.

Do we have the ability to both harvest dividend income equal to 20-25% our capital every year, while navigating the ups and downs of the Leveraged Debt markets to generate gains sufficient to cover or exceed our Operating Expenses? We think so, and we have our money where our mouth is, but there are no guarantees. We take some comfort that if we had navigated the Euro-crisis of 2011 better, using the strategies we have since developed, the Fund's Total Return would be closer to 70% than

the 31% Inception To Date. We are also reassured that there have been 4 major drawdown periods in the BDC sector in the subsequent 18 months alone, with an average drawdown of -8.25%, and we are still way up in the period, both in Total Return terms (i.e. the performance calculated by PartnersAdmin) and in Realized + Unrealized Gains less Operating Expenses (i.e. our idiosyncratic way of keeping score).

We are equally certain that there will continue to be wide swings in our Total Return as markets will always be volatile. At times, when markets are buoyant, the result will be price appreciation and a rise in the Fund's value as occured in January, and the opposite when markets are in retreat, as they were in May. Time here, though, is on the side of the long term investor as with every passing month dividend income received accumulates, and diminishes the relative impact of swings in the portfolio. The longer you invest in the Fund, the greater the proportion of your total return that will come from those double digit, steady dividend distributions.

PERFORMANCE **UPDATE**

At time of writing on Thursday July 25th, the Fund's performance is back in positive territory, with 3 of 4 sectors up on the month. BDC common stocks are up 2.7% in July, High Yield Bonds (where we have a few positions purchased after the sector crashed) are up 1.6%, and Floating Rate Loans 0.5%. Only BDC Notes are down: -0.8%. Our internal calculation (which has not been reviewed by PartnersAdmin) indicates the Fund is up +4.3% on the month-to-date. Of course, these results will change, for better or worse, by the month end.

The Fund continues to have plenty of capacity to add investments, as we are leveraged at only 2.6x equity at time of writing. If and when we are fully invested, changes in our portfolio mix and increased yields suggest our pro-forma portfolio yield will be around 23.0% per annum over the next 12 months. We remain optimistic about the prospects for capital appreciation in the medium term from our investments in Floating Rate Loans, BDC common stocks and certain High Yield investments. (Our BDC Notes are breaking even, but pay a 7% average dividend and most are rated investment grade). If all our investments reach their Realizable Value, we estimate the Fund's assets would appreciate by 16% on average, which would result in a 40% increase in our equity value.

We remain very comfortable with credit quality metrics across the sectors we invest in. Actual defaults and prospective defaults continue to be well below long term averages in all sectors, and recovery rates on the few loans that do default are very high.

NEWSLETTER

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

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