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%
July - 2013	3.19%	5.09%	6.56%	3.96%	7.00%
August - 2013	-5.11%	-2.90%	-1.01%	-4.45%	-3.18%
Year to Date	3.41%	16.16%	18.90%	13.02%	20.03%
Inception to Date	28.39%	67.90%	69.16%	52.48%	76.31%

* 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.

AUGUST 2013 RESULTS

Summer time blues. The Fund, and all the other indices, were down in August. We were the worst performer at -5.11%, as even our modest leverage amplifies losses, but we were only slightly worse than the Dow at -4.45%, while the Russell 2000 was down -3.18% and the S&P down -2.90%.

Year-to-date, the Fund is up 3.41%. The Fund, and all yield investments, have been dealing with volatile market conditions since the May change in the Federal Reserve's taper policy, with two down months, one up month and one (essentially) flat. The general stock market indices, by comparison, have been on a tear, with the Russell up 20.03% on the year.

Inception to date, which amounts to 47 months, the Fund is up +28.39%, after all fees and expenses. Our long term

performance remains below the performance of the stock market indices.

Even when we are top of the table in any given month (which we were just 4 months ago), we like to point out that long term returns are what matters. In this regard, we refer you to the chart we introduced in the May newsletter. We asked PartnersAdmin, our independent administrator, to calculate the Fund's returns since January 1, 2012 (since implementation of new investment strategy), and compare the results against the stock indices (see chart below).

BDC II remains up 25.94% in the period, beating the Dow and slightly lagging the S&P.

Month	BDC Fund II	S&P 500	NASDAQ Comp	Dow Jones	Russell 2000 DRI
Jan. 2012 to Date	25.94%	34.75%	37.82%	21.22%	39.63%

IT'S BEEN A GOOD YEAR

We thought we'd grab you with the headline. How can the year-to-date through August be "good" with the Fund's returns so anemic by comparison with a) last year, b) the major stock market indices?

The answer is that we've performed very well in the credit space, which is having a very difficult year, and we've taken advantage of market conditions to pick up a slew of bargain priced investments, which should pay off in future periods. More on that below.

First, a recap of the misery that many credit investors have had to face in the past several months. From May, the prospect of the end of very low, Fed-induced, interest rates hit all the credit markets very hard. The 20+ year bond index is down -12%, the national muni bond index -8%, and investment grade bonds more than -6%. A muni or Treasury investor will need to clip coupons for more than 4 years, and an investment grade bonds investor 2 years, just to make back in interest what they've lost on the value of their "safe" credit investments. The U.S. bond market, the FT says, is on track to having it's worst year since 1981.

Now let's talk about our corner of the credit markets. Here the picture is much brighter on a relative basis. Through May 8th, all the Leveraged Debt sectors we invest in were up. Then the taper talk began, and the markets for all credit instruments, including Leveraged Debt, went south. As you'd expect, the worst hit segments were those with the longest dated, fixed rate loans. The biggest casualties were High Yield Bonds and longer dated BDC Notes, down over -5% and -8% respectively.

DODGING THE TAPER BULLET

Here's the good news: we dodged those bullets. We realized earlier than many other credit managers that the Fed's tapering would be bad news for long dated fixed rate bonds. The benefit of an actively managed Fund such as ours, where we spend every minute of the business day watching the markets, is that we can move quickly. Furthermore, we benefited from having a very diversified portfolio, which helps when you're eager to get out in a hurry. In a very short period, the Fund was able to sell ALL it's fixed rate, long term rate BDC Notes with a maturity over 10 years. Moreover, we were able to sell nearly all our High Yield bond positions before the market rout. These investments represented almost a quarter of the Fund's total investment holdings. We were able to do this while still booking a profit on virtually every investment.

If we were still in those long dated BDC Notes and High Yield Bond investments, we'd be feeling the pinch. For example, we had a major position in the 2042 Ares Capital Note with the ticket AFC. We bought the bond at $24.23 over a year and a half before. At April 30, 2013, AFC closed at $25.48. We exited our entire position in May and June at $25.06, a 3% gain over cost. Today that same stock trades at $22.99, or -5.1% below our cost.

We owned the leading High Yield Exchange Traded Fund with the ticker HYG at the end of April, with a cost of $93.72. We jettisoned the investment on May 23rd for $94.74 a share, or a 1% capital gain. A month later HYG was at $89.04, a -7% drop. That was the bottom, but at August 30th, HYG was still at $91.35, a -3.6% drop.

WHEN TO STAY AND WHEN TO GO

From May 8th to August 30th, the BDC sector (as measured by the BDCS Exchange Traded Note) was down -4.2%. The maximum drawdown (percentage drop from the high to the low in the period) was -7.2%. (Those are industry average. Individual stocks price volatility is often materially higher). Nonetheless, despite the thirty year storm in the credit markets since May, we have stuck with our BDC common stocks. In fact, we have added to our allocation to this sector, as we'll discuss.

SCM SOUTHLAND Capital Management LLC

We believe higher long term interest rates will ultimately benefit BDCs, notwithstanding the pullback in prices. Our thesis is that the bulk of BDC loan assets are tied to floating rates (LIBOR) which will eventually boost earnings as short term rates rise. Furthermore, the average life of the underlying loans is relatively short (under 3 years), and the yields at the high end of the spectrum, making them more attractive than virtually any other yield-producing asset class. Furthermore, where BDCs are concerned, substantial amounts of unused capital are available to deploy at higher rates, should the opportunity arise.

BUY LOW, SELL HIGH

Every investor knows you want to buy low and sell high. Since the late spring of this year, we had been fretting about the dearth of bargain buys in the BDC sector. It was not surprising as the sector saw prices rise 29% between the end of 2011 and May 8th 2013. The carnage in the credit markets, though, has opened up some opportunities, which we expect to benefit from in the not-too-distant future.

BARGAIN BUYING IN BDC STOCKS

Hard as it is to do, **we've been using these market swoons to buy BDC stocks investments trading at a discount of 10% or more from Realizable Value, as per our investment policy.** By doing so, the prospective capital gains down the road should increase, and the current portfolio yields move up as we are able to grab new investments at higher interest rates than was the case a few weeks ago. We calculate in real-time what all our investments have cost us, what they're worth and what they might be worth if they achieve our Realizable Value. At the end of August, we had 27 different BDC common stock investments, with a potential average appreciation of 16%. Ten investments were trading under 10% of Realizable Value, sixteen between 10-20% and one above 20%. If we achieved all the potential gains, we would increase the Fund's equity value by **18.5%!** And that's just in BDC common stocks.

ARE WE THERE YET?

However, we (and you) are always asking the perennial question: when are we going to see a turn in prices to validate our thesis, or will prices head even lower? Are we running back into the burning building? Can we catch a falling knife? Once we have run through all the stock market cliches, there is only one way to find out, which is to wait and see. (Also a cliche?). Nonetheless, here's an update at the close of business on Friday September 20.

September Update: Remarkably, and encouragingly, the BDC sector stock price has COMPLETELY recovered since May 8th. Today, the sector traded at exactly 100% of the price on May 8th, and only -2.5% below the sector's all-time high price set in March. Since the June 24th low, BDCs are up +7.6%. We're very encouraged by this performance. We're optimistic that still higher prices are in our future.

FLOATING RATE LOANS

We have also remained "bullish" about Floating Rate Loans. We invest in 2 types of vehicles which hold Floating Rate Loans: Exchange Traded Funds, which do not use leverage; and Closed-End Funds, which borrow 1/3rd of their capital. The former have very low volatility, but also very low yields (just under 5%). The latter have higher yields (7% and higher), but much higher volatility.

The ETF investments, using the same May 8 to August 30 timeframe we used previously, was down -2.3%. We're not terribly surprised or worried. The Floating Rate Loan asset class is the most popular Leveraged Debt sector and has seen positive fund inflows for 66 consecutive weeks. However, in the short run, new Floating Rate Loans are being issued at materially lower yields than High Yield Bonds, so prices have been relatively stagnant. When you throw back in interest received since May, the Total Return (Price Change + Interest Received) has been flat.

Where we've been surprised is how poorly Floating Rate CEFs prices have fared since peaking for the year in April. They invest in the same pool of assets as the ETFs, but they have universally dropped far more sharply. Using our 11 Buy List companies, aggregate prices have dropped by -7.0% between the end of April and August. Even when interest income is considered, we've incurred a (small) loss in the last 4 months.

FLOATING RATE UPSIDE

The irony is that the Floating Rate Loan sector remains our top pick for future capital gains. As we've discussed before, we have high hopes that the sector will catch a wave when short term interest rates rise. We've been adding to our positions, dollar cost-averaging, and waiting for a change in sentiment. What are we playing for? **We are projecting an eye popping 29% increase in Floating Rate Loan stock prices should the Feds Fund rate/ LIBOR move from 0.2% to 3.0%.** If we're right, waiting two

SCM SOUTHLAND Capital Management LLC

years while receiving 7% plus in distributions and potentially booking a huge gain down the road, is worthwhile.

SEPTEMBER TO DATE PERFORMANCE

Unlike BDCs, Floating Rate asset prices remain in the doldrums. The Exchange Traded segment is up +0.3%, but the Closed End Funds on our Buy List are down by -2.5%. We remain optimistic as most CEFs are trading at a big discount to Net Asset Value, which is rarely the case for long. We are waiting to buy more as prices bottom out.

CONCLUSION

The Fund, by selling out of long dated investments early on and by investing in segments of the credit markets that have proven almost immune to the dramatic run-up in long term yields, has avoided the “once-in-a-generation” losses that some credit investors have faced in recent weeks. We’ve seen lower prices as opportunities to shop for bargains. Yet, the Fund has plenty of dry powder, with assets to equity at 2.5x, versus our theoretical maximum of 3.0x. As always we have been receiving a very high, very steady distribution income equal to approximately 20.0% per annum. What’s more, if our Realizable Values should come to pass, we project the price appreciation would increase the value of our equity by over 50% (using September 20th data). Capital gains, if they happen at all, will be spread over multiple periods.

Look for us to continue booking Realized Gains when we can. We’ve already booked gains this year equal to 4% of our equity. That percentage could increase substantially if BDC stocks or Floating Rate Loan stock prices rise in the months ahead. In this way it’s been a ”good year” so far, considering the market conditions. We’re hopeful the last quarter of the year will be better in a more conventional way. We’re happy to report that at September 20th our internal numbers indicate the Fund is up over 4% in month-to-date, which would be a good down payment on the rest of 2013. However, temporary challenges like the debt ceiling debate could weigh on all markets. We shall be watching and taking advantage of opportunities to both buy and sell as the month plays out.

NEWSLETTER

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

Office

604 Arizona
SantaMonica, CA 90401

Tel: 800.579.1651

Nicholas Marshi
Chief Investment Officer

Email:
nmarshi@southlandcapitalmanagement.com

Bill Hansen
Chief Marketing Officer

Email:
bhansen@southlandcapitalmanagement.com

Visit Us @

www.southlandcapitalmanagement.com

Accredited investors:

Please contact us for login information

Follow our Blog at our newly designed site @ www.bdcreporter.com

Follow our articles @ www.seekingalpha.com/author/nicholas-marshi

Twitter us: @bdcreporter