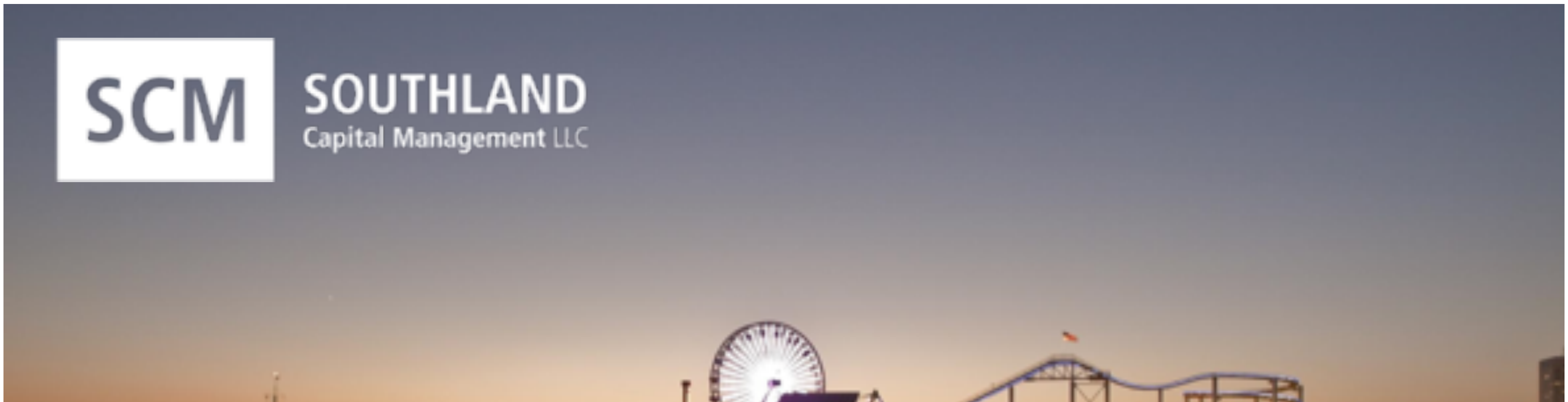

Month	BDC Fund II*	HFRI EHI	S&P 500 TR	Dow Jones
FYE - 2009	4.37%	2.92%	6.04%	7.37%
FYE - 2010	73.04%	10.45%	15.06%	11.02%
FYE - 2011	-46.38%	-8.38%	2.11%	5.53%
FYE - 2012	28.21%	7.41%	16.00%	7.26%
FYE - 2013	13.20%	14.33%	32.39%	26.50%
January - 2014	2.30%	-0.99%	-3.46%	-5.30%
February - 2014	4.21%	2.85%	4.57%	3.97%
March - 2014	-2.63%	-0.24%	0.84%	0.83%
April - 2014	-4.10%	-0.84%	0.74%	0.75%
May - 2014	0.33%	1.23%	2.35%	0.82%
June - 2014	8.28%	1.73%	2.07%	0.65%
July - 2014	-5.88%	-0.79%	-1.38%	-1.58%
August - 2014	3.14%	1.64%	4.00%	3.23%
September - 2014	-6.46%	-1.82%	-1.40%	-0.32%
Year to Date	**-1.81%**	**1.98%**	**8.34%**	**2.81%**
Inception to Date*	**38.00%**	**30.38%**	**107.30%**	**75.48%**
1/1/12 - Date**	**33.79%**	**25.18%**	**66.39%**	**39.50%**

* 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.

**Represents investor with initial contribution of 1/1/12. (After revised investment strategy.)

September 2014 RESULTS

After a positive +3.14% gain in August, the fund experienced the worst drawdown for the BDC sector this year, resulting in a -6.46% loss, tracking the small cap Russell 2000 index. The Hedge Fund Index (HFRI) was down -1.82%, with the S&P close behind at -1.40%. The best performer was the Dow Jones off only -0.32%.

Inception To Date, after 60 months, BDC II is up +38%. We are ahead of the HFRI, which is up +30.38% during this period, but behind the two stock market indices, which have been the biggest beneficiaries of the post Great Recession financial boom. The Dow Jones is up +75.48% and the S&P 500 up +107.25% in the 5 years involved.

The Fund's performance from January 2012, since changing investment strategy and risk management policies, is more reflective of what we believe BDC II can achieve over the long term. In the 32 months since the change in direction, the Fund is up 33.79%, after all fees and expenses. The Fund is ahead of the "hedge fund" index, which is up 25.18%. We fell behind the Dow Jones slightly, which is up 39.5%. However, the Fund trails the S&P 500 (as does most every other index in every asset class): up 66.39%.

Month	BDC Fund II	HFRI	S&P 500	Dow Jones
Jan 2012 to Date	33.79%	25.18%	66.39%	39.50%

INDUSTRY SECTOR PERFORMANCE

Here is the headline: September was a terrible month for the stock prices of publicly traded non-investment grade debt across the spectrum. Every sector in which BDC Fund II invests in was down on the month. Most of the rest of this Newsletter will be devoted to fleshing out and quantifying the month's miseries. However, we will end at the bottom with our Outlook for the rest of 2014, and why we remain cool, calm and collected.

First, though, let's review what happened in the month of September in our markets. Diversification-which we swear by usually-helped us only to create a range of losses. (We are writing this Newsletter in advance of getting the mountain of "performance attribution" data from Partner'sAdmin, so we're relying on our equally large volume of internal data on SCM's proprietary spreadsheet and data from Yahoo Finance). We will begin, though, with the exception to the rule:

BDC DEBT

The BDC Debt sector, which has been up all year, dropped -0.7% in price terms in September. However, when distributions received are considered, we expect any loss to be very minimal for the month. Year-To-Date, BDC Debt in toto is up 3.5% in price terms. Of the diversified basket of 20 investments we hold, two-thirds are up in price in 2014 and a third are down. Virtually all the investments are investment grade, with no downgrades throughout the year, and the bulk of the investments in short to medium term maturities. This is the only sector that we've been adding to throughout the year, and we are earning a 7.0% annual yield therefrom. This all thanks to the direction of long term rates which have famously remained unchanged or have tilted down all year.

Month	BDC II	WF BDC Index	BarCap CHY	S&P/LSTA
Sept. 2014	-6.46%	-5.43%	-2.09%	-0.96%

FLOATING RATE LOANS

The Floating Rate Loan sector had its worst single month performance for the entire year in September. In price terms, the leading Exchange Traded Fund (BKLN) is down -2.4% on the year. Three-quarters of that drop came in September. When distributions received are included Floating Rate Loans are still in black through the first 9 months of the year, but barely.

To our credit, we determined early in the year that the risk reward in Floating Rate Loan Closed-End Funds might not be appropriate. As we wrote in our April 2014 Newsletter we made a strategic decision to steer clear of this segment of the Floating Rate market. That turned out to be a good call as the investments we track (but no longer invest in) have dropped -5.8% between March and September.

We have retained exposure to the Floating Rate Exchange Traded Fund sector (no leverage and lower yield), which was only -0.5% down on the year in price terms in the first eight months of the year. We sold off most of our exposure in July, when we correctly “called” a drop in both the Floating Rate Loan and High Yield Bond markets. However, we re-invested in Floating Rate Loan ETFs a few weeks later when we believed a bottom had been reached. We proved to be wrong on that score, and sold out again in September following a modest loss. Currently we have no position in Floating Rate Loans, whether in Exchange Traded Fund or Closed End Fund form. “Fool me once, shame on you. Fool me twice…”

Nonetheless, on a Year-To-Date basis the Fund has achieved positive returns in our Floating Rate investments.

HIGH YIELD BONDS

For most of the year High Yield Bonds were defying all expectations and achieving very good returns. All that changed from June 25th when the sector dropped -3.5% through August 1st. A rally followed in August, with prices up two-thirds of the amount they had fallen.. Late in August and through September, though, bonds across the board had a catastrophic time. S&P reported that EVERY bond class they rate was down in September (investment grade, municipals, non investment grade etc.). In the High Yield arena, the key Exchange Traded Fund with the ticker HYG was down -2.4% in September, and the worst monthly drop in years. The September implosion brought HYG to a -1.0% loss in price terms for 2014 YTD. When dividends are included High Yield Bonds are up on the year, but barely as well.

The Fund’s performance in this volatile atmosphere was mixed. The good news is that we foresaw the drop in the High Yield market in late July and sold out of almost all our High Yield investments at the time, as mentioned earlier. We bought back in during August and benefited from the short-term bounce. When prices began to drop again, we jettisoned most of our positions very early in the month (September 5th). For example we were out of HYG at $93.3432. By the end of September HYG had dropped to $91.3600, saving ourselves a -2.1% , and only taking a -0.5% loss on a Total Return basis.

The bad news is that we retained a position in 1 High Yield ETF (HYHG) and bought back into 1 other ETF (HYLD) which we believed had bottomed in price. Both of these decisions did not pan out in the major downdraft of September. We eventually sold out of HYLD at a Realized Loss and retained HYHG through the month.

Mr. Market giveth and Mr. Market taketh away. Nonetheless, through the year the Fund-like with BDC Notes and Floating Rate Loans-is still slightly up in Total Return terms in the High Yield sector.

BDC COMMON STOCKS

The BDC sector has had a difficult time all year. Through August we had 4 up months and 4 down months, but the sector was down -4.9% on the year. We entered the month of September relatively optimistic about an upswing, but were disappointed. In fact, the BDC sector (as measured by the publicly traded Exchange Traded Note with the ticker BDCS) dropped another -5.0% in the month! In total, the BDC sector is down nearly -10% in 2014 YTD , and -10.7% from the high of the year on February 24th.

To give you a sense of the breadth of the pull-back in BDC fortunes here are some proprietary stats:

1. 39 of 41 BDCs we track were down in price in September versus August.

2. 33 of 41 BDCs we track are down in price on the year.

3. 9 of 41 BDCs we track closed September 2014 at their lowest level in the last 3 years.

4. 29 of 41 BDCs we track are 10% or more below their 52 week high.

5. Half of all BDCs we track are trading within 5% of their 52 week lows.

6. All but one of the 41 BDCs we track are trading at a price below their 52 week moving average.

7. In Total Return terms (price change and dividends received) the BDC sector is down about -4.5% Year-To Date.

RISK MANAGEMENT TO THE RESCUE

Notwithstanding this inauspicious environment (the sector has dropped 40% of the maximum drawdown registered in the 2011 Euro-crisis), we managed to mitigate losses in three ways:

First, we sold off numerous BDC positions early in the month as prices dropped rather than increased as we had expected. By doing so, the Fund saved itself from further losses of 3%-5% or more.

Second, we had placed a number of potential investments on a Don't Buy List months ago because we were concerned about their fundamentals or their relative price performance or both. As a result we avoided the -14% drop in MVC Capital (MVC) in September, the -11% drop at MCG Capital (MCGC) and the -9% drop in TPG Specialty (TSLX). In fact, the latter dropped -31% from it's June 11 high till today, while we have watched from the sidelines.

Third, we shorted a number of stocks, which we believed were over-valued, which offset a portion of the losses in our long positions. For example, we took a short position in Kayne Anderson Energy (KED) where we have made a 7% gain since the initial short in early September.

PRIVATE EQUITY MANAGERS

Since peaking in February, publicly traded Private Equity investments have fared very poorly. September was no exception, and the sector is down 14% in price terms on a Year-To-Date basis. All nine investments we track are down from their year-end price level.

We had been greatly reducing our modest exposure to this high volatility sector for months now. We began September with just 3 investments equal to less than 10% of the Fund's equity, and sold out of all three during the course of the month to fully eliminate our exposure.

FINDING THE BOTTOM

Selling is easy. Re-investing is hard. With the benefit of hindsight, it's clear that September was a bad month to be in BDC stocks or virtually anything else in our universe. However, we have to be alert to re-investing the Fund's liquidity as "bargains" open up. Finding the bottom of a stock price trajectory or of a whole sector is no easy task. Through the month of September we made a number of purchases of BDC stocks that had fallen to very low levels. In some cases we bought at the nadir. At other times, the stock prices dropped further later in the month. Only time will tell if we were prescient or were running back into a burning building.

CASH ON THE SIDELINES

Generally speaking, though, we were cautious and reduced the Fund's leverage through the month and created substantial liquidity available to re-invest in the future. By month's end, the Fund had sold out of all Private Equity and Floating Rate Loan investments and had only 1 High Yield Bond ETF on the books. Furthermore, we had substantially reduced our BDC Common Stock exposure, leaving only our BDC Note allocation unchanged.

WHY WE REMAIN CALM

Our Risk Management policies through the year have allowed the Fund to be slightly positive in return terms (before management fees) despite sharp to severe pullbacks in 4 of the 5 sectors we invest in. To recap Private Equity Managers are down 14%, BDC Common Stocks 10%, Floating Rate Loans 2% and High Yield Bonds 1% (in price terms). Despite being a theoretically triple leveraged Fund, we have materially mitigated our potential losses in such difficult circumstances.

OUTLOOK

We believe the non- investment grade markets will bounce back. In a nutshell: we point to the stable distributions in the BDC sector both past and future; the very low default rates of borrowers of all stripes across the debt universe; the spike up in yields brought on by the pull-back at a time when both short term and long term interest rates remain very low.

For weeks we've been hearing that the Fed will be raising rates (which would actually be a positive for the BDC sector), but the mood has changed due to Europe's weak economy and now "everyone" is predicting low rates for a long time. Short of an unexpected global recession brought on by the Europeans, the stage is set for the steady income from non-investment grade debt to return to investor favor. The Fund is positioned with both existing investments and unused liquidity to take advantage of any bounce back in the markets. We may be down (slightly, after management fees), but we are not out and many sectors we invest in are available at prices not seen in years. The Fund has the freedom to allocate resources to wherever the biggest upsides are.

On the other hand, we are not unaware that market conditions can get worse before they get better. We have noted the rise in the Volatility index in recent days, the huge losses in all the major indices (especially the Russell 2000, which is down over 10%). We are tracking prices closely, and thanks to the diversification of our portfolio, we have the ability to sell out of all our BDC Common Stock and our singular High Yield Bond investments in very short order if we become concerned that a "correction" in the markets should become a "bear market". We are prepared to de-leverage the Fund further, and sit on the sidelines if necessary. We don't have specific targets, but generally speaking if investment prices drop 1%-3% more, we will sell most of our investments and await better opportunities.

Our experience and the data tells us that we are more likely to see an upmarket by the end of the year than a further drop, but we are prepared to respond to either. If we get the former, and are not too shy to take advantage of the opportunity, the Fund could yet record a double-digit return in 2014 if prices bounce back half the amount they have dropped in 2014 to date. If we get the latter, we will aim to keep losses as low as possible while continuing to wait for a stabilization of the market.

We understand that these are difficult market conditions for investors, especially after years of positive returns in every asset class providing a false sense that markets head in only one direction. Be reassured that we are on top of the situation, ducking and weaving in an uncertain environment. Nothing goes down forever, and despite a very substantial pullback in prices, our losses are modest, which augurs well for how the Fund should perform when the winds change.

NEWSLETTER

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

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