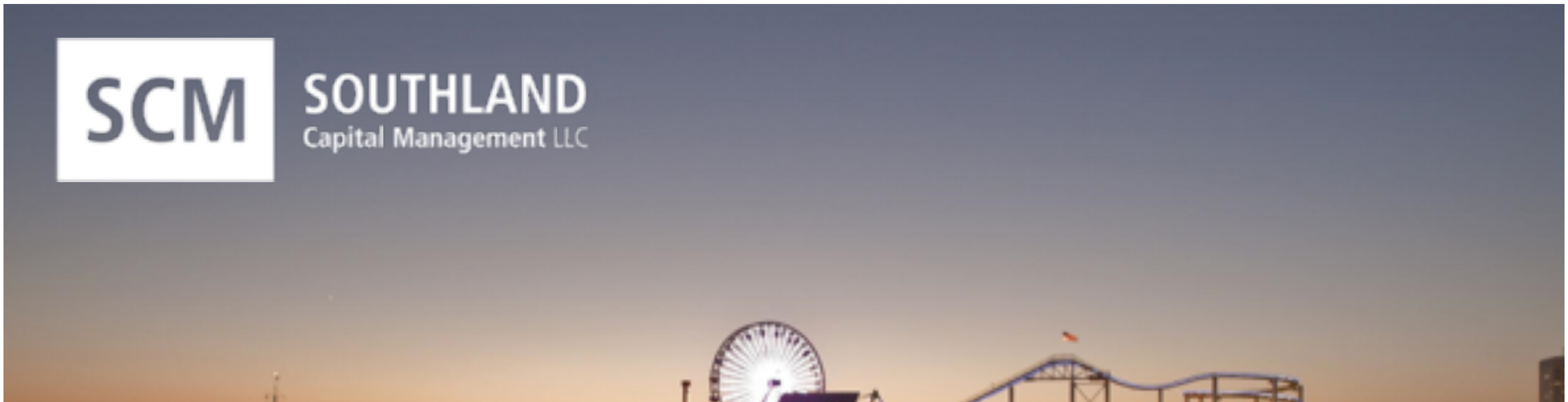

Month	BDC Fund II*	HFRI EHI	S&P 500 TR	Dow Jones
FYE - 2009	4.37%	2.92%	6.04%	7.37%
FYE - 2010	73.04%	10.45%	15.06%	11.02%
FYE - 2011	-46.38%	-8.38%	2.11%	5.53%
FYE - 2012	28.21%	7.41%	16.00%	7.26%
FYE - 2013	13.20%	14.33%	32.39%	26.50%
January - 2014	2.30%	-0.99%	-3.46%	-5.30%
February - 2014	4.21%	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%
Year to Date	**4.98%**	**3.90%**	**9.89%**	**3.15%**
Inception to Date*	**47.53%**	**32.83%**	**110.25%**	**70.54%**
1/1/12 - Date**	**40.94%**	**27.53%**	**68.76%**	**39.95%**

* 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.)

AUGUST 2014 RESULTS

The markets are whipsawing from month-to-month, causing wide fluctuations in the Fund's results. After a big +8.28% gain in June, BDC II "gave back" most of the increase in July, with a -5.88% loss. However in August, the Fund was up again: by +3.14%. We were just behind the Dow Jones Index, up +3.23%, and ahead of the Hedge Fund Index (HFRI), which was up on the month at +2.52%. The S&P 500 Index was the best performer in August: up +4.00%.

Year-To-Date, the Fund is up +4.98%. We remain substantially behind the S&P 500, which is up +9.89%, but ahead of the Dow Jones at +3.15% and the Hedge Fund Index at +3.90%.

Inception To Date, after 59 months, BDC II is up +47.53%, (or 9.7% per annum on average). We are substantially ahead of the HFRI, which is up +32.83% 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 +70.54% and the S&P 500 an incredible +110.25% in the nearly 5 years involved.

Month	BDC Fund II	HFRI	S&P 500	Dow Jones
Jan 2012 to Date	40.94%	27.53%	68.76%	39.95%

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 40.94%, after all fees and expenses, or 15.4% annualized. The Fund is substantially ahead of the "hedge fund" index, which is up 27.53%, and even slightly ahead of the Dow Jones, up 39.95%. However, the Fund trails the S&P 500 (as does most every other index in every asset class): up 68.76%.

INDUSTRY SECTOR PERFORMANCE

Whereas in July every sector we invest in (except for BDC Notes) was down, contributing to the above average loss, in August the reverse was true. Every segment was up, except for BDC Notes! We won't give you a blow-by-blow of every sector, but we will discuss a few highlights:

HIGH YIELD

In August, High Yield Bonds bounced back after a disastrous July, when price losses in this previously stable sector of the markets reached close to -3.0% in price terms. In an up trending stock market, High Yield Bonds experienced a remarkable reversal of fortune. All year the sector has been benefiting from lower than expected long term interest rates. Through June 25th, the principal High Yield Bond Exchange Traded Fund with the ticker HYG was up +2.7% in price terms on the year. Then a gradual drop in prices in late June and early July became a mini rout until the nadir on August 1st: a -3.5% drop, which wiped out all the price gains on the year, and more.

The Fund had a substantial position in High Yield Bonds, which has been a positive contributor to performance in every month of the year till July. Nonetheless, we were watching developments in the space very carefully and sold all of our investments (with one exception) in mid-month. As we wrote in the BDC Reporter at the time, we were concerned that the pull-back underway would worsen, and we were right. As a result we avoided at least half the losses that occurred in the second half of July.

Even more importantly, we invested back into the sector (albeit with a smaller overall commitment) on July 31st, just as prices reached their bottom. We calculated that we could both capture the monthly distribution (typically paid on the first day of the month) and benefit from any rebound in High Yield prices. We proved to be right, and our High Yield investments accounted for 1/7th of our gains in August. Furthermore, High Yield has contributed 20% of the Fund's gains Year To Date.

The saga of what happened in the High Yield sector over the summer underscores that the Fund's risk management strategies are working. We had mentioned in earlier Newsletters that we maintain tight Stop Losses on the lower yielding, but typically lower volatility, sectors such as High Yield Bonds. As a result, we managed to keep losses at half of what they could have been. Moreover, because we are constantly watching the markets, we were able to re-invest at a bargain price when many others were still fleeing.

BDC COMMON STOCKS

There was substantial volatility in High Yield Bond prices, but there was far more in the BDC sector. We're going to try and draw a multi-month picture to illustrate the conditions we have been facing. Using our equal-weighted index of the BDC sector, we calculate that BDCs were up +3.0% in June, as the major sell-off that had affected the sector since February reversed direction in mid-May, and continued through June. Given that BDC Common Stocks remains our largest sector by size of investment, we benefited greatly in June: up +6.3% when both price movement and distributions are counted.

However, we were overly optimistic as July began about the short-term outlook of our eponymous sector, as you will see by reading the conclusion of our June Newsletter.

Summer jitters about the Ukraine and the future directions of interest rates hit all markets hard in July, and the BDC sector was no exception. In price terms, the BDC sector went down -4.5% in the month: the biggest monthly drawdown on our records, which date back to November 2011! The monthly drop-off was even higher than the -4.4% we experienced in April. BDC prices (as reflected in the Exchange Traded BDC Note with the ticker BDCS) peaked on July 1st and dropped from there, and reached it's lowest level on the very last day of the month. A textbook "bad month" for any investor.

In the good old days before we adjusted our investment management we might have tried to hold on as prices dropped, on the assumption that the market would ultimately reverse course. In July, triple leveraged as we were once in BDC common stocks, that would have been disastrous and we would have been down -13.5% in price terms. Thankfully, even though we did not see the pull-back coming (after all, BDC common stocks were several percentage points off their earlier in the year highs on aggregate, and most of the players were still trading at Price To Earnings multiples in the single digits, and financial performance was excellent almost across the board thanks to a stronger economy), we were able to adapt. As per our risk management policies, we reduced our exposure to the sector (we were slightly over 100% of equity in BDC investments at the beginning of the month) as market conditions worsened. We took profits where we could, and realized losses where necessary to enhance liquidity and reduce exposure. (We experienced a -3.9% loss on our BDC equity investments in July, 70% of the Fund's loss overall in the months before expenses. Obviously not a great result, but given the size of the drop in the sector, not surprising. In August the BDC sector bounced back: up +2.1%. Notwithstanding July's setbacks, we used our liquidity to buy back in as the market turned and participated in the partial bounce back: up 2.2% before expenses, and 62% of the Fund's gain in August.

The point we'd like to make most strongly is that one month data tells you not only very little, but provides a false reading much of the time. Yes, the Fund was hit by the sharp pull-back in prices in July. On the other hand, the gain in the BDC space in June was even greater. Which one to believe? The answer is neither. We need a longer perspective. Take the last 3 months together, and we have a 4.7% return on equity in the BDC space. Year-To-Date, our BDC investments have returned 5.2% before expenses, 60% of the Fund's return 81% when BDC Notes are included).

Contrast that with a BDC sector that has been hard for investors all year. In eight months, BDCs have been up 4 months, and down 4 months. Overall, the sector is down -2.9% in price terms, and barely in the black on a Total Return basis. That's a lot of numbers to throw around, but we can sum it up this way: **In 2014, the Fund is making money in a sideways market.** In fact, looking over the great data we get from Partner'sAdmin about the contribution to earnings from all sectors, month by month, sector by sector and investment by investment, we have managed to make money in each of the sectors we invest in: BDC Common Stocks, BDC Notes, High Yield Bonds, and Floating Rate Loans. The only exception is the Private Equity Asset Managers, who've returned a negative 0.6% on our equity on the year. That sector is down -8.5% in price terms for the year, and all but one of the component investments are in the red on the year. Several PE companies are down -10% or more (Apollo Management is off -23%). We didn't get the memo that this would be a poor year (so far) for Private Equity, but thanks to our modest allocation to the sector (we recognized the high volatility was a risk) and our risk management, we've managed to keep our loss at a very moderate level.

Anybody can and should make money in an up-trending market. The trick is to be profitable when conditions are difficult. In 2014, besides the red ink in the BDC Common Stock sector, and Private Equity Asset Managers, the Floating Rate Loan sector is down -0.4% in price terms. Our High Yield Bond index is up less than 1.0%. (The big winner is the BDC Notes sector, up 4.5% in price terms in 2014, despite a drop in August. However, most of those gains have come in the longest date Notes with the most to gain from lower than expected long term rates, but we've kept our exposure to 10+ year debt to a minimum. Even with that BDC Notes have contributed a return of 1.93% in 2014 to equity).

LOOKING FORWARD

We don't know what the next few months will bring. We could have further sell-offs in the non-investment grade sectors we are invested in, like in July. Or we could have rallies, like in June. September's market performance to date does not provide many clues. All the sectors are down, but BDC Common Stocks are off just -0.2%. (High Yield is down again, but we've re-exited the space, just like in July).

Amazingly, we are ahead in August YTD 2014 over our performance last year at this juncture. In 2013, the markets and the Fund had a burst of good results in the last third of the year. That could happen again, or not.

Like any investment firm, we don't know much about what the future holds where the markets are concerned (despite the absolute conviction fund managers exhibit when interviewed on CNBC), but we do know that our risk management strategies and our extreme focus on these markets for the past decade provides the Fund the opportunity to do OK in a "bad" market, and very well in a "good" market. We point to the Fund's performance in 2012 as evidence of the latter when we were up 28% in a rebounding market, and to 2014 Year To Date's performance as evidence of the former.

NEWSLETTER

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

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