State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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July 2, 2013

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in GSO Credit - A Partners, L.P.**

The New Jersey Division of Investment ("Division") is proposing a $150 million follow-on investment to the original $250 million investment in GSO Credit - A Partners, L.P. ("GSO Credit-A Partners" or the "Fund"). This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

The Division is recommending this investment based on the following factors:

Attractive risk-adjusted returns: Since inception, the Fund's strategy has been to invest in the "best ideas" generated across GSO's platform, primarily comprised of opportunistic long and short investments in both public and private non- investment grade corporate credit. Since March 28, 2012 the Fund has generated a Net Internal Rate of Return ("IRR") of 33.77%, which has resulted in about $80 million of net profits.

Market Opportunity: The proposed additional $150 million commitment will continue to be flexible and utilized for best ideas across GSO, as well as investing side-by-side with GSO Community Development Capital Group Fund, L.P ("GSO CDCG"). GSO CDCG has been created to provide acquisition and development capital to public and private residential homebuilders. GSO, across its platform, has already committed over $500 million to land-banking arrangements over the past nine (9) months, in which the Division has taken part in through GSO Credit-A Partners, L.P. (about $20 million) and is currently tracking to a 15% unlevered Net Internal Rate of Return ("IRR"). Please keep in mind, that if the land-banking opportunity does not materialize or is no longer attractive, the Division's additional commitment will be invested in more attractive opportunities given this flexible mandate.

Favorable environment: The Division has an opportunity to take advantage of the current market dislocation in providing capital to residential homebuilders, at an attractive point in the residential real estate cycle. Favorable supply/demand dynamics currently exist, with banks slow to re-enter the business and homebuilders in need of financing to build inventory as the residential real estate market recovers.

Strong early mover advantage/Experienced management team: GSO has committed over $500 million in land-banking arrangements and has several investments in the Fund's pipeline. Steven Benson will lead the origination and due diligence effort for GSO CDCG. Mr. Benson led

$3.5 billion of land-banking transactions for Acacia Capital from 2001-2006. Acacia was the largest provider of land-banking financing to US homebuilders. Well regarded in the industry, Mr. Benson has worked with large homebuilders, including Pulte Homes, MDC, Coleman Homes and Realen Homes.

Terms & Structure: The Division has proposed an investment of additional capital through our separate account to take part in the residential housing opportunity in addition to our current mandate based on the following:

- Continued flexibility: by adding to our existing structure, the Division will continue to allocate to the best ideas across the firm (for example - land-banking opportunities)
- Fee structure: The Division will pay a management fee of 85 basis points per annum and a 13% incentive fee with a 5% preferred return on the newly committed capital. This is a discounted fee structure compared to the dedicated commingled Fund (GSO CDCG) fees.
- It is likely that of the proposed $150 million commitment, the Division would only add $50 million of new capital, with the remaining $100 million being re-allocated from low-yielding investment grade real estate fixed income securities in CT High Grade Partners II LLC.

A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached.

Division Staff and its hedge fund consultant, R.V. Kuhns and Associates, Inc, undertook extensive due diligence on the proposed investment in accordance with the Division's Alternative Investment Due Diligence Procedures.

As part of its due diligence process, staff determined that the fund has not engaged a third-party solicitor (a "placement agent") in connection with New Jersey's potential investment.

We will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern the investment. In addition, the proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that the investment is authorized pursuant to Articles 69 and 100 of the Council's regulations. The GSO Credit - A Partners, L.P. will be considered a credit-oriented hedge fund investment, as defined under N.J.A.C. 17:16-100.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the Committee was held on June 26, 2013. In addition to the formal written due diligence report, all other information obtained by the Division on the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council's July 11, 2013 meeting.

Attachments

Fund Name: GSO Credit-A Partners, L.P. — July 2, 2013

Contact Info: Joseph Soares, 345 Park Avenue, New York, NY 10154

Fund Details:

Firm AUM ($bil.):	$55 billion
Strategy:	Credit-Oriented Hedge Fund
Year Founded:	2005
Headquarters:	New York
GP Commitment:	1.00%

Key Investment Professionals:

***Lou Salvatore**, Senior Managing Director of The Blackstone Group and Head of Portfolio Management of GSO Capital Partners. Mr. Salvatore focuses on coordinating all of GSO's Investment Committee functions as well as sourcing and investing capital in both public and private opportunities.*

***Jason New**, Senior Managing Director of The Blackstone Group and Head of Distressed Investing for GSO Capital Partners. Mr. New focuses on managing GSO's public investment portfolio with specific emphasis on stressed and distressed companies and on sourcing direct distressed investment opportunities.*

***Darren Richman**, Senior Managing Director with The Blackstone Group. Mr. Richman focuses on distressed and special situation investments, and is a member of GSO's Investment Committee.*

***Steve S. Benson**, CPA, Steve is a Senior Executive with 25+ years in leadership roles, being accountable for the successful operation of both publicly traded and privately held homebuilding companies. During his career, Steve has held senior management positions with both public and private companies, including positions as Senior Vice President of Operations, Chief Financial Officer, Chief Operating Officer and President. Steve has worked with large public builders, including Pulte Homes and MDC, as well as large, private homebuilding companies including Coleman Homes and Realen Homes. Steve Benson is not currently employed by GSO Capital Partners; rather, his firm will serve as a third-party consultant to GSO in respect of investments by GSO CDCG. He will not otherwise be involved in the Division's mandate.*

Investment Summary

The Division originally made a $250 million commitment to the Fund in March 2012. Since inception, the Fund's strategy has been to invest in the "best ideas" generated across GSO's platform, primarily comprised of opportunistic long and short investments in both public and private non- investment grade corporate credit. The proposed additional $150 million commitment may be committed, in its entirety, through GSO Credit-A Partners, to an investment in GSO Community Development Capital Group LP ("GSO CDCG"). To the extent that GSO CDCG is not pursued by GSO to the full extent of the Division's additional $150 million commitment, such commitment could be invested in other opportunities given this flexible mandate. By investing in GSO CDCG, the Division has an opportunity to take advantage of the current market dislocation in providing capital to public and private residential homebuilders at an attractive point in the residential real estate cycle. Favorable supply/demand dynamics currently exist, with banks slow to re-enter the business and homebuilders in need of financing to build inventory as the residential real estate market recovers. To the extent that any deployment would not limit the ability of GSO Credit-A Partners timely to fund GSO CDCG capital calls, any portion of the earmarked $150 million could be deployed in near term investment opportunities.

Existing and Prior Funds

Funds	Strategy	Returns
GSO Credit-A Partners LP	Credit	33.77% Net IRR (as of 5/31/2013)
GSO Capital Opportunities Fund, L.P	Mezzanine Debt	19.20% Net IRR (as of 3/31/2013)
GSO Capital Opportunities Fund II, L.P	Mezzanine Debt	30.20% Net IRR (as of 3/31/2013)
GSO Special Situations Fund, L.P.	Credit	24.04% Net Cumulative Return since inception (as of 5/31/13)
GSO Energy Partners - A, L.P	Real Assets	15.97% Net IRR (as of 3/31/2013)

IRR= Internal Rate of Return

Vehicle Information:

Inception:	2012	Auditor:	Deloitte & Touche LLP
Fund Size ($mil.):	$400 million (pro forma commitments including additional $150 million)	Legal Counsel:	Simpson Thacher & Bartlett LLP
Management Fee:	0.94% blended (1% on the first $250 million/.85% on the additional $150 million)		
Carry:	15% on the first $250 million/13% on the additional $150 million		
Preferred Return:	5%		

NJ AIP Program

Recommended Allocation ($mil):	additional $150 million	LP Advisory Board Membership:	N/A
% of Fund:	N/A	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

*This review memorandum was prepared in accordance with the State Investment Council rules governing the Alternatives Investment Program and the policies and procedures related thereto.