Blackstone / GSO Strategic Credit Fund
Form N-CSR
March 09, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: **811-22686**

Blackstone / GSO Strategic Credit Fund

(exact name of Registrant as specified in charter)

345 Park Avenue, 31st Floor

New York, New York 10154

(Address of principal executive offices) (Zip code)

(Name and address of agent for service)

Marisa Beeney

345 Park Avenue, 31st Floor

New York, New York 10154

Registrant s telephone number, including area code: (800) 831-5776

Date of fiscal year end: December 31

Date of reporting period: January 1, 2014 December 31, 2014

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Item 1. **Report to Stockholders.**

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Blackstone / GSO

Senior Floating Rate Term Fund (NYSE: BSL)

Long-Short Credit Income Fund (NYSE: BGX)

Strategic Credit Fund (NYSE: BGB)

1.877.876.1121 | WWW.BLACKSTONE-GSO.COM

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December 31, 2014 (Unaudited)

To Our Shareholders:

As we look back on 2014, it is striking how the year was filled with contradictions of consensus thought and unanticipated outcomes. From the high vantage-point of December 31, 2013, already caught in the grips of an icy winter that would weaken US GDP, the market expected interest rates to rise, European and Japanese economies to recover, and the price of energy to follow its then upward trajectory. Instead, the 10-year benchmark US Treasury, which was yielding over 3% on New Years Eve 2013 and expected to go higher, traded to a twelve-month low of 2.06% on December 16, 2014 and closed the year yielding 2.17%. The 10-year was a top performer in 2014, returning 10.72%.

Market consensus had the energy story wrong as well. With geopolitical risks rising for most of the year in oil producing regions from Nigeria across the Maghreb, Mesopotamia through the Gulf States, nearly no one imagined any significant down-leg in oil; but it happened! Oil, which started 2014 at just over $90/bbl for WTI and $110/bbl for Brent tumbled almost 50% by year-end 2014, closing at $53.70/bbl on WTI and $57.33/bbl on Brent. Driven by the slow-down in Europe, emerging markets, the North American fracking revolution, and OPEC battling for control of market share, oil markets are now nearly 2 million barrels per day over-supplied and it will take either time or a market event to bring back equilibrium.

Finally, the US dollar, which on New Year s Eve of 2013 closed $1.37 to the Euro, is once again King as it regained the throne at $1.14 to the Euro by year-end 2014 and continues to strengthen, with a total gain of 14% over 2014. Much of the forgoing has benefited US equities as the US has decoupled from other developed economies, as the S&P 500 index returned 13.97% during the year. For leverage finance, however, all of this did not translate well into performance as both loans and high yield bonds did not return their respective average coupons for 2014.

The decline in rates contributed to the about-face seen in the bank loan mutual fund flows during 2014; after taking in $62.8 billion of inflows during 2013, bank loan mutual funds saw $23.8 billion of net outflows during 2014. Coincidentally, high yield mutual funds saw the same amount of 2014 net outflows ($23.8 billion), though the majority of high yield outflows occurred during 3Q while loan outflows increased each quarter-over-quarter. Continued CLO demand did help offset retail outflows as 234 US CLOs totaling $131.9 billion came to market, surpassing the previous record of $94.1 billion set in 2006.[1] However, strong demand from the CLO market wasn t enough to support bank loan pricing. Average loan prices dropped almost 2.5% throughout 2014, falling from 98.29 on December 31, 2013 to 95.92 on December 31, 2014.[2] High yield prices fell even further over the same period, dropping 4.42 points.[2]

Total YTD Returns as of December 31, 2014

US Senior Loans (S&P/LSTA Leveraged Loan Index)	1.60%
US High Yield Bonds (Barclays High Yield Index)	2.45%
3-month Treasury Bills (BofA Merrill Lynch US 3-Month Treasury Bill Index)	0.04%
10-Year Treasuries (BofA Merrill Lynch 10-Year US Treasury Index)	10.72%
US Aggregate Bonds (Barclays US Aggregate Bond Index)	5.97%

US Investment Grade Bonds (Barclays US Corporate Investment Grade Index)	7.46%
Emerging Markets (Barclays EM USD Aggregate Index)	4.76%
US Large Cap Equities (S&P 500® Index)	13.66%

Sources: Barclays, Bloomberg, S&P/LCD

Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

The market was correct in its expectation of a strengthening US economic recovery, although not about the magnitude of the improvement or about the low level of defaults for 2014. A total of 28 companies representing $70.2 billion in high yield bonds and leveraged loans defaulted during the year, which marked the second highest year on record. We feel it is important to note that 77% of this amount is composed of just two borrowers. Excluding these issuers, total 2014 defaults were $16.0 billion, the lowest total volume since 2007. Loan and high yield bond default rates, excluding TXU s April default, ended 2014 at 1.70% and 1.63%, respectively, compared to year-end 2013 default rates of 1.67% and 0.63%, and respectively.

So what might be in store for loans and bonds next year? With the recent revision of US Q3 GDP to 5%, as well as the increase in US real GDP based on the advance estimate, and the likelihood that lower energy costs will lead to further gains in consumer spending and corporate profits (at least outside of the energy sector), the Federal Reserve s resolve to begin raising interest rates by mid-year would seem to be strengthened. Further, it appears as though the US economy has further decoupled from the rest of the world, as many economists have pointed out. While many concerns regarding the US economy remain, particularly around structural employment issues and wage growth, there are many signs that further improvements are coming. We look forward to continuing improvements broadly in the US and some recovery of energy prices, which would indicate to us that the recent sell-off, particularly in high yield, was overdone. Over the course of the year as market participants begin to focus in on the nearer-term reality of Fed action on rates, we would expect returns on loans to make their move, driven by positive flows back to the asset class and away from core fixed income that had an unexpectedly strong 2014.

At GSO / Blackstone, we value your continued investment and confidence in us and in our family of funds. Additional information about our funds is available on our website at www.blackstone-gso.com.

Sincerely,

GSO / Blackstone Debt Funds Management LLC

[1] *JP Morgan, February 2, 2015*

[2] *S&P/LSTA Leveraged Loan Index, Barclays U.S. Corporate High Yield Index*

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December 31, 2014
(Unaudited)

Fund Overview

Blackstone / GSO Senior Floating Rate Term Fund (BSL or herein, the Fund) is a closed-end fund that trades on the New York Stock Exchange under the symbol BSL . BSL s primary investment objective is to seek high current income, with a secondary objective to seek preservation of capital, consistent with its primary goal of high current income. Under normal market conditions, the fund invests at least 80% of its total assets in senior, secured floating rate loans (Senior Loans). BSL may also invest in second-lien loans and high yield bonds and employs financial leverage, which may increase risk to the fund.

Portfolio Management Commentary

Fund Performance

BSL outperformed its key benchmark, the S&P LLI, on a Net Asset Value (NAV) per share basis for the periods of three years and the life of the Fund since inception, though it underperformed for the periods of three months, six months, and one year. The share price of BSL also underperformed its benchmark over all of those periods due to market value fluctuations. The shares of the Fund traded at an average discount to NAV of -5.23% for the last twelve months ending December 31.

NAV Performance Factors[1]

The Fund s over-allocation to both Commercial Services (15.0% versus the benchmark of 8.6%) and Technology Hardware & Equipment (11.1% versus the benchmark of 7.5%) and under-allocation to Electric Utilities (4.2% versus the benchmark of 5.2%) were the top contributors to performance throughout 2014. Conversely, the Fund s over-allocation to both Retailing (9.0% versus the benchmark of 8.5%) and Energy (5.6% versus the benchmark of 4.1%) and under-allocation to Financials (0.5% versus the benchmark of 4.0%) weakened investment performance for the full year. Energy, which comprised 5.6% of the portfolio versus a benchmark weighting of 4.1%, was lackluster when compared to other sectors as oil prices declined by over 50% during the second-half of 2014. Notable contributors to performance, by issuer, included the Fund s 0% weighting in TXU, Seadrill, and Education Management Holdings, as well as an overweight to RBS and Vertafore. Key detractors to investment performance were concentrated in three Energy-related names, including Sheridan Production Partners, Swift Energy, and Templar Energy.

In October, BSL refinanced its existing leverage through a repayment of its Senior Secured Notes (the Notes) and Preferred Shares (the Preferred Shares) with borrowings under a new 364-day revolving credit facility. This refinancing plan modestly reduced the Fund s leverage but significantly reduced the Fund s cost of borrowing. The accelerated amortization of the deferred financing cost (a non-cash expense) associated with the original issuance of the Notes and Preferred Shares resulted in an $0.08 per share reduction of the Fund s NAV in October. However, the cost savings associated with the reduced cost of borrowing are expected to offset this one-time expense.

Portfolio Activity and Positioning

Over the past year, BSL reduced its exposure to Healthcare and Pharmaceuticals and Telecommunications, and increased its exposure to Retail and Energy, Oil and Gas companies. The Fund maintained a lower cash balance throughout the year and shifted some of its Senior Loan allocation into high yield bonds. BSL also increased its second lien loan allocation. BSL increased its overall exposure to credits rated B1, though the Fund did selectively increase its Caa-rated assets. BSL was successful in recovering some of the portfolio loan spread lost during 2014, increasing the average loan spread 31 basis points since June 30.

As of December 31, 2014, the Fund held just over 92% of its Managed Assets in bank loans, just under 6% in high yield bonds, and the balance held in cash and other assets. BSL s investments represented the obligations of 178 companies diversified across 28 distinct industries, with an average position size representing 0.49% of Managed Assets and the top five industry groups representing 45% of total holdings of the Fund. High Tech Industries and Healthcare and Business Services represent the Fund s top industry weightings.

[1] *Industries per the Global Industry Classification Standard*

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Blackstone / GSO Senior Floating Rate Term Fund Fund Summary

December 31, 2014 (Unaudited)

BSL s Portfolio Composition

BSL s Moody s Rating Distribution**

***For more information on Moody s ratings and descriptions refer to www.moodys.com.*

Portfolio Characteristics

Weighted Average Loan Spread^	5.16%
Weighted Average Bond Coupon	7.70%
Current Dividend Yield	6.45%
Weighted Average Days to Reset	68
Average Position*	0.49%
Leverage*	32.58%

^ *Spread over LIBOR inclusive of LIBOR floors.*

Using current dividend rate of $0.090/share and market price/share as of December 31, 2014.

* *As a percentage of Managed Assets.*

Top 10 Holdings*

US Foods Inc, Senior Secured First Lien Incremental Term Loan	1.50%
Avaya Inc, Senior Secured First Lien Extended Term B-3 Loan	1.25%
Compuware Corporation, Senior Secured Second Lien Term Loan	1.13%
Onex Carestream Finance LP, Senior Secured Second Lien Term Loan	1.13%
Sensus USA Inc, Senior Secured Second Lien Term Loan	1.11%
Sheridan Production Partners I-M LP, Senior Secured First Lien Tranche B-2 Term Loan	1.10%

Truven Health Analytics Inc, Senior Secured First Lien New Tranche B Term Loan	1.09%
Aspect Software Inc, Senior Secured First Lien Tranche B Term Loan	1.06%
Kronos Incorporated, Senior Secured First Lien Incremental Term Loan	1.06%
Sandy Creek Energy Associates LP, Senior Secured First Lien Term Loan	1.06%
Top 10 Holdings	**11.49%**

Portfolio holdings and distributions are subject to change and are not recommendations to buy or sell any security.

Top 5 Industries*^

High Tech Industries	13.00%
Services - Business	10.22%
Retail	8.59%
Healthcare and Pharmaceuticals	7.90%
Energy, Oil and Gas	5.40%

BSL Total Return

	3 Month	**6 Month**	**1 Year**	**3 Year**	**Since Inception**
NAV	-1.24%	-1.96%	0.38%	5.66%	5.73%
Market Price	-0.83%	-3.30%	-4.99%	3.80%	2.94%
S&P/LSTA Leveraged Loan Index	-0.51%	-0.98%	1.60%	5.46%	5.25%

** As a percentage of Managed Assets.*

Annualized.

^ *Industries per S&P*

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Blackstone / GSO Long-Short Credit Income Fund Fund Summary

December 31, 2014
(Unaudited)

Fund Overview

Blackstone / GSO Long Short Credit Income Fund (BGX or herein, the Fund) is a closed-end fund that trades on the New York Stock Exchange under the symbol BGX . BGX s primary investment objective is to provide current income, with a secondary objective of capital appreciation. BGX will take long positions in investments which we believe offer the potential for attractive returns under various economic and interest rate environments. BGX may also take short positions in investments which we believe will under-perform due to a greater sensitivity to earnings growth of the issuer, default risk or the general level and direction of interest rates. BGX must hold no less than 70% of its Managed Assets in first-and second-lien secured floating rate loans (Secured Loans), but may also invest in unsecured loans and high yield bonds. BGX may use financial leverage and derivatives in employing its long strategy for up to a total of 150% of net assets.

Portfolio Management Commentary

Fund Performance

BGX outperformed a composite weighting of the S&P LLI and the Barclays HYI (70% loans, 30% high yield bonds) on a NAV per share basis for the periods of three years and the life of the Fund since inception, though it underperformed for the periods of three months, six months, and one year. The share price of BGX also underperformed its benchmark over all of those periods due to market value fluctuations. The shares of the Fund traded at an average discount to NAV of -8.43% for the last twelve months ending December 31.

NAV Performance Factors[1]

The Fund s under-allocation in Materials (5.6% versus the benchmark of 9.2%) and over-allocation to both Retailing (10.9% versus the benchmark of 7.1%) and Technology Hardware and Equipment (8.9% versus the benchmark of 7.2%) were the top contributors to performance throughout 2014. Conversely, the Fund s over-allocation to Energy (11.8% versus the benchmark of 6.8%) and under-allocation to both Media (5.5% versus the benchmark of 9.6%) and Financials (0.0% versus the benchmark of 1.0%) weakened investment performance for the full year. Energy, which comprised 11.8% of the portfolio versus a benchmark weighting of 6.8%, was lackluster when compared to other sectors as oil prices declined by over 50% during the second-half of 2014. Notable contributors to performance, by issuer, included the Fund s 0% weighting in TXU as well as an overweight to RBS, Palace Entertainment, and Fibertech Networks. Key detractors to investment performance were, again, concentrated in a few Energy-related names, including Resolute Energy, Comstock Resources, and EXPRO.

At the end of July, BGX entered into a 364-day revolving credit facility, replacing its existing leverage of securities lending arrangements and swap arrangements. In preparation for this transition, the Fund s leverage decreased significantly to 11.9% of Managed Assets in June before increasing to 24.4% of Managed Assets through borrowings under the credit facility.

Portfolio Activity and Positioning

Over the past year, BGX reduced its exposure to Healthcare and Pharmaceuticals, Business Services, and Telecommunications, and increased its exposure to Retail and Energy, Oil and Gas companies. The Fund s cash balance fluctuated throughout the year depending on current market views, and BGX selectively allocated more of its portfolio to high yield bonds through a reduction of its holdings of Secured Loans. Similar to BSL, BGX increased its overall exposure to credits rated B1, though the Fund did selectively increase its Caa-rated assets. The portfolio was able to increase its spread 17 basis points from the end of 2013. In December, BGX amended its investment guidelines to allow the Fund to invest up to 150% of net assets in long positions, which as a result allows for additional leverage to be taken. This change became effective in January 2015.

As of December 31, 2014, over 78% of BGX s assets were invested in Secured Loans, 19% were invested in high yield bonds, and the balance held in cash and other assets. The Fund held a small position of 0.35% in the Ba3 rated tranche of a collateralized loan obligation. There were two short positions in the Fund as of December 31, both US Treasury futures. In the aggregate, BGX s positions represent the direct obligations of 181 companies diversified across 29 distinct industries, with an average position representing 0.47% of Managed Assets. The top five industry groups represented 45% of total holdings of the Fund.

[1] *Industries per the Global Industry Classification Standard*

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Blackstone / GSO Long-Short Credit Income Fund | Fund Summary

December 31, 2014 (Unaudited)

BGX s Portfolio Composition

BGX s Moody s Rating Distribution**

***For more information on Moody s ratings and descriptions refer to www.moodys.com.*

Portfolio Characteristics

Weighted Average Loan Spread^	5.30%
Weighted Average Bond Coupon	8.30%
Current Dividend Yield	7.57%
Weighted Average Days to Reset	61
Average Position*	0.47%
Long Positions**	129.33%
Short Positions **	-0.01%
Net Positions**	129.32%
Leverage*	24.39%

^ *Spread over LIBOR inclusive of LIBOR floors*
Using current dividend rate of $0.098/share and market price/share as of December 31, 2014.
* *As a percentage of Managed Assets.*
** *As a percentage of Net Assets.*

Top 10 Holdings*

Big Heart Pet Brands, Senior Unsecured Bond	1.64%
Onex Carestream Finance LP, Senior Secured Second Lien Term Loan	1.62%
Armored AutoGroup Inc, Senior Secured First Lien New Term Loan	1.54%
Kronos Incorporated, Senior Secured First Lien Incremental Term Loan	1.52%
US Foods Inc, Senior Secured First Lien Incremental Term Loan	1.46%

Monitronics International Inc, Senior Unsecured Bond	1.35%
Lineage Logistics LLC, Senior Secured First Lien Term Loan	1.33%
Expro Finservices SARL, Senior Secured First Lien Initial Term Loan	1.29%
Caesars Entertainment Resort Properties, Senior Secured First Lien Term B Loan	1.28%
Sensus USA Inc, Senior Secured Second Lien Term Loan	1.19%
Top 10 Holdings	**14.22%**

Portfolio holdings and distributions are subject to change and are not recommendations to buy or sell any security.

Top 5 Industries*^	
High Tech Industries	11.92%
Retail	9.92%
Energy, Oil and Gas	9.21%
Banking, Finance, Insurance and Real Estate	6.61%
Healthcare and Pharmaceuticals	6.51%

BGX Total Return

	3 Month	**6 Month**	**1 Year**	**3 Years**	**Since Inception**
NAV	-2.43%	-2.98%	-0.06%	6.78%	5.27%
Market Price	-5.30%	-9.25%	-6.86%	4.03%	0.48%
70% S&P/LSTA Leveraged Loan Index & 30% Barclays US High Yield Index	-0.65%	-1.53%	1.86%	6.35%	4.98%

* *As a percentage of Managed Assets.*
Annualized.
^ *Industries per S&P*

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Blackstone / GSO Strategic Credit Fund Fund Summary

December 31, 2014
(Unaudited)

Fund Overview

Blackstone / GSO Strategic Credit Fund (BGB or herein, the Fund) is a closed-end fund that trades on the New York Stock Exchange under the symbol BGB . BGB s primary investment objective is to seek high current income, with a secondary objective to seek preservation of capital, consistent with its primary goal of high current income. BGB invests primarily in a diversified portfolios or loans and other fixed income instruments of predominantly US Corporate issuers, including first-and second-lien loans (Senior Secured Loans) and high yield corporate bonds of varying maturities. BGB must hold no less than 80% of its Managed Assets in credit investments comprised of corporate fixed income instruments and other investments (including derivatives) with similar economic characteristics.

Portfolio Management Commentary

Fund Performance

BGB outperformed a composite weighting of the S&P LLI and the Barclays HYI (75% loans, 25% high yield bonds) on a NAV per share basis for the life of the Fund since inception though it underperformed for the periods of three months, six months, and one year. On a share price basis, the Fund also outperformed its benchmark over the past three months, though it underperformed over the periods of six months, one year, and the life of the fund since inception due to market value fluctuations. The shares of the Fund traded at an average discount to NAV of -8.71% for the last twelve months ending December 31.

NAV Performance Factors[1]

The Fund s over-allocation to both Technology Hardware and Equipment (11.6% versus the benchmark of 7.1%) and Insurance (3.3% versus the benchmark of 1.7%) and under-allocation to Materials (6.4% versus the benchmark of 9.3%) were the top contributors to performance throughout 2014. Conversely, the Fund s over-allocation to Energy (10.0% versus the benchmark of 7.3%) and under-allocation to both Media (6.7% versus the benchmark of 9.6%) and Banks (0.0% versus the benchmark of 1.2%) weakened investment performance for the full year. Energy, which comprised 10.0% of the portfolio versus a benchmark weighting of 7.3%, was lackluster when compared to other sectors as oil prices declined by over 50% during the second-half of 2014. Notable contributors to performance, by issuer, included the Fund s 0% weighting in TXU, Education Management, and Seadrill Holdings, as well as an overweight to Sorenson Holdings and Vertafore. Consistent with the other funds, key detractors to investment performance were concentrated in a handful of Energy-related names, including Templar Energy, Resolute Energy, and Energy XXI.

Portfolio Activity and Positioning

Over the past six months, BGB continued to decrease its exposure to Business Services and Telecommunications and increased its exposure to Retail and Banking/Finance companies. The Fund maintained a lower cash balance throughout the year. BGB increased its exposure to B1-rated credits, and transitioned some of its B2/B3-rated assets to

Caa credits, which we believe present attractive relative value on a risk-adjusted basis. The portfolio increased its average loan spread by 9 bps and its average high yield bond coupon 39 bps from the end of 2013.

As of December 31, 2014, approximately 70% of BGB s assets were invested in Senior Secured Loans, 26% were invested in high yield bonds, and the remainder was held in cash and other assets. In the aggregate, BGB s investments represent the direct obligations of 310 companies diversified across 31 distinct industries, with an average position representing 0.28% of Managed Assets. The top five industry groups represented 43% of total holdings of the Fund.

[1] *Industries per the Global Industry Classification Standard*

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Blackstone / GSO Strategic Credit Fund Fund Summary

December 31, 2014 (Unaudited)

BGB s Portfolio Composition

BGB s Moody s Rating Distribution**

***For more information on Moody s ratings and descriptions refer to www.moodys.com.*

Portfolio Characteristics

Weighted Average Loan Spread^	5.33%
Weighted Average Bond Coupon	7.83%
Current Dividend Yield	7.65%
Weighted Average Days to Reset on Loans	66
Average Position*	0.29%
Leverage*	32.66%

^ *Spread over LIBOR inclusive of LIBOR floors.*
Using current dividend rate of $0.105/share and market price/share as of December 31, 2014.
* *As a percentage of Managed Assets.*

Top 10 Holdings*

Smart & Final Stores LLC, Senior Secured First Lien Term Loan	1.06%
Viasystems Inc, Senior Unsecured Bond	0.98%
Pinnacle Operating Corporation, Senior Secured First Lien Term B Refinancing Loan	0.92%
Blackboard Inc, Senior Secured First Lien Term B-3 Loan	0.86%

Multi Packaging Solutions Inc, Senior Secured First Lien Initial Dollar Tranche B Term Loan,