

Blackstone / GSO Long-Short Credit Income Fund
Form N-CSRS
September 06, 2012
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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: 811-22488

Blackstone / GSO Long-Short Credit Income 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, 2012 June 30, 2012

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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](#)

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Blackstone / GSO Senior Floating Rate Term Fund

Blackstone / GSO Long-Short Credit Income Fund

Manager Commentary

June 30, 2012 (Unaudited)

Economic Conditions and Leveraged Finance Market Update

Risk assets continued to grind higher in July as global growth concerns and mixed earnings reports were offset by policy speculation. The Credit Suisse Leveraged Loan Index (CSLLI) recorded the highest monthly return since January, returning +0.97% (5.53% YTD), while high yield returned 1.76% (8.54% YTD). In deference to the strong market environment, Credit Suisse increased its 2012 total return projection for high yield and loans to 8-11% and 5-8%, respectively.

The Fed continues to communicate clearly their intention to hold rates at exceptionally low levels at least through late 2014. Data has shown the recovery slowed and hiring remained tepid. The economy grew at a paltry 1.5% annual rate in the second quarter, and employers added just 80,000 jobs in June. Despite that rates remain low, investors are seemingly attracted to loans which, in addition to the free call on interest rates, also offer shorter duration and stable risk adjusted yield.

Strong technicals played a large part in fueling a recovery in the loan market, which came under pressure in May and early June due to Eurozone-related concerns. Secondary market loan prices improved as a result of this supply/demand imbalance. The forward calendar was relatively light during the month while inflows to bank loan and high yield mutual funds continued at a healthy pace. Demand was supported further by increased allocations to bank loans from pensions and other institutional investors and a strong demand for loans from high yield mutual funds and new collateralized loan obligations (CLOs). Issuers continue to focus on opportunistic refinancings, dividend deals and repricing transactions with little activity in the M&A and LBO space.

After Labor Day, we anticipate that a handful of recently announced leveraged buyout (LBO) transactions will come to market as investors begin to increasingly focus on U.S. elections, the U.S. fiscal cliff and Eurozone concerns. We believe investors are being compensated with spreads well above historical averages (594 bps vs. 449bps 20-year average) and par-weighted loan default rates below 1%.

Blackstone / GSO Senior Floating Rate Term Fund

Blackstone / GSO Senior Floating Rate Term Fund (BSL) 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 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.

As of June 30, 2012, BSL held just over 89% of its Managed Assets in first and second lien secured loans and approximately 5% in high yield bonds with the remainder in cash. BSL's investments included 165 obligors, diversified across 26 distinct industries – an average loan position represented 0.3% of Managed Assets and the top 5 industry groups represented 47% of total holdings of BSL. Diversification across industries was consistent with their respective representations in the U.S. economy as a whole and Healthcare and Pharmaceuticals, Technology and Telecommunications were among the top industry weightings. BSL had no exposure to some of the more volatile sectors of the economy such as homebuilders, property or real estate related businesses.

BSL outperformed the CSLLI during the six-month period ending June 30 (on both a Net Asset Value (NAV) and share price basis) and has also outperformed that benchmark since inception,

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Manager Commentary

June 30, 2012 (Unaudited)

based on NAV. Loans acquired with borrowings under BSL's long-term leverage facility were accretive to both interest earnings and market value increases in the investment portfolio. For more detail regarding the leverage employed, please see Note 9 "Leverage" later in this report.

We believe that BSL continues to be well positioned to take advantage of the buying opportunities for both new issue and secondary markets.

Blackstone / GSO Long-Short Credit Income Fund

Blackstone / GSO Long-Short Credit Income Fund ("BGX") 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 interest rates. BGX must hold no less than 70% of its Managed Assets in 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 the long strategy for a total 130% of BGX's net assets. BGX's short positions, either directly or through the use of derivatives, may total up to 30% of net assets.

As of June 30, 2012, approximately 78% of BGX's assets were invested, either directly or via a total return swap arrangement, in Secured Loans and 22% were invested in high yield bonds. In the aggregate, these investments represent 147 positions, diversified across 24 distinct industries, with an average position representing 0.7% of Managed Assets and the top 5 industry groups representing 47% of total holdings. BGX had no short positions as of June 30.

BGX outperformed the CSLLI during the six-month period ending June 30 and has also outperformed that benchmark since inception based on NAV. BGX continued to take advantage of opportunities in the primary market for Secured Loans as well as the new issue market for high yield bonds; both were very active through the first half of 2012. Since holding a short position in below investment grade rated credit instruments for long periods of time can be expensive in terms of the carrying cost of the short position, we have begun to position some short sale hedges into the portfolio where we have a specific view around near-term events that will impact the value of the instrument sold short. We believe this strategy continues to be more viable given the uncertain environment and the fact that investors are now more discerning as to their investments.

In Conclusion:

Despite potential headwinds, we remain comfortable that both the BSL and BGX portfolios have been constructed defensively and on balance, U.S. credit fundamentals are positive. Against this backdrop, we believe that investors are being adequately compensated for the risks.

GSO / Blackstone Debt Funds Management LLC

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Blackstone / GSO Senior Floating Rate Term Fund

Financial Data

June 30, 2012 (Unaudited)

BSL s Portfolio Composition

Sector Breakdown	
First Lien Secured Loans	83.02%
Second Lien Loans	6.10%
Senior Secured Bonds	0.76%
Sr. Unsecured and Sr. Subordinated Bonds	4.71%
Cash and Other Assets less Liabilities	5.41%

BSL s Moody s Rating Distribution**Portfolio Characteristics**

Weighted Average Loan Spread	4.80%
Current Dividend Yield	6.93%
Weighted Average Days to Reset	64
Average Position*	0.25%

Top 10 Holdings*

Univar, Inc., Senior Secured First Lien Term B Loan	1.45%
John Henry Holdings, Inc. (aka Multi Packaging Solutions), Senior Secured First Lien Effective Date Term Advance Loan	1.24%
Cincinnati Bell, Inc. (aka Broadwing, Inc.), Senior Unsecured Bond	1.17%
Advantage Sales & Marketing, Inc., Senior Secured Second Lien Term Loan	1.15%
Sedgwick Holdings, Inc., Senior Secured Second Lien Term Loan	1.14%
Smile Brands Group, Inc., Senior Secured First Lien Term B Loan	1.12%
Chrysler Group LLC, Senior Secured Tranche B First Lien Term Loan	1.12%
Hupah Finance, Inc., Senior Secured First Lien Initial Term Loan	1.11%
Sports Authority, Inc (aka TSA), Senior Secured First Lien Term B Loan	1.09%
Carestream Health, Inc. (aka Onex Carestream Finance LP), Senior Secured First Lien Term B Loan	1.08%
Top 10 Holdings	11.67%

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

Using current dividend rate of \$0.11/share and market price per share as of June 30, 2012.

** As a percentage of Managed Assets.*

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Financial Data

June 30, 2012 (Unaudited)

Top 5 Industries*

Healthcare and Pharmaceuticals	14.25%
High Tech Industries	9.49%
Services - Business	8.07%
Telecommunications	7.98%
Retail	7.47%

BSL Total Return

	3Month	6 Month	12 Month	Since Inception
NAV	1.08%	5.30%	5.13%	7.05%
Market Price	-2.83%	6.81%	-0.31%	4.26%
Credit Suisse Leveraged Loan Index	1.01%	4.52%	3.33%	6.10%

Total investment return is calculated assuming a purchase of a common share at the opening on the first day and a sale at closing on the last day of each period reported. Dividends and distributions are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment returns do not reflect brokerage commissions, if any.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, current dividend yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Holdings are subject to change daily.

Performance data quoted represents past performance and does not guarantee future results.

Credit Suisse Leveraged Loan Index is an unmanaged market value-weighted index designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. New issues are added to the index on their effective date if they qualify according to the following criteria: loan facilities must be rated *BB* or lower; only fully-funded term loan facilities are included; and issuers must be domiciled in developed countries. An index does not show actual investment returns or reflect payment of management or brokerage fees, which would lower the index's performance. Indices are unmanaged and should not be considered an investment. It is not possible to invest directly in an index. The performance of the index does not represent generally the performance of any investment.

* As a percentage of Managed Assets.

Annualized.

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Blackstone / GSO Long-Short Credit Income Fund
Financial Data

June 30, 2012 (Unaudited)

BGX's Portfolio Composition

[^] Includes 10.75% invested in Secure Loans through total return swaps.

Sector Breakdown*

Secured Loans [^]	77.96%	++ The Fund's Net Cash and Other Assets Less Liabilities includes amounts payable for investments purchased but not yet settled and amounts receivable for investments sold but not yet settled. At period end, the amounts payable for investments purchased but not yet settled exceeded the amount of cash on hand, and the Fund's Net Cash and Other Assets Less Liabilities therefore equaled -0.69% of the Fund's Managed Assets. The Fund uses funds from its securities lending program to settle amounts payable for investments purchased, but such funds are not reflected in the Fund's net cash.
High Yield Bonds	22.73%	
Net Cash and Other Assets		
Less Liabilities ⁺⁺	0.00%	

BGX's Moody's Rating Distribution

Portfolio Characteristics

Weighted Average Loan Spread	5.16%
Weighted Average Bond Coupon	8.77%
Current Dividend Yield	7.10%
Weighted Average Days to Reset	59
Average Position*	0.70%
Long Positions**	122.89%
Short Positions**	0.00%
Net Positions**	100.00%

Top 10 Holdings*

Armored AutoGroup, Inc. (fka Viking Acquisition, Inc. (aka Global AutoCare)), Senior Secured First Lien Term B Loan	1.68%
Hupah Finance, Inc., Senior Secured First Lien Initial Term Loan	1.67%
Carestream Health, Inc. (aka Onex Carestream Finance LP), Senior Secured First Lien Term B Loan	1.64%
Presidio, Inc., Senior Secured First Lien Term B Loan	1.64%
Drumm Investors LLC (aka Golden Living), Senior Secured First Lien Term Loan	1.63%
Fairway Group Acquisition Co., Senior Secured First Lien Term Loan	1.53%
Del Monte Foods Co., Senior Unsecured Bond	1.52%
Sorenson Communications, Inc., Senior Secured First Lien Tranche C Term Loan	1.49%
Sprouts Farmers Market Holdings LLC, Senior Secured First Lien Initial Term Loan	1.46%
Sensus USA, Inc. (fka Sensus Metering Systems), Senior Secured Second Lien Term Loan	1.28%
Top 10 Holdings	15.54%

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

Using current dividend rate of \$0.108/share and market price per share as of June 30, 2012.

** As a percentage of Managed Assets.*

*** As a percentage of Net Assets.*

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Blackstone / GSO Long-Short Credit Income Fund
Financial Data

June 30, 2012 (Unaudited)

Top 5 Industries*

Healthcare and Pharmaceuticals	12.63%
Retail	10.20%
Telecommunications	9.42%
High Tech Industries	8.15%
Services Business	6.49%

BGX Total Return

	Since			
	Inception			
	3 Month	6 Month	12 Month	
NAV	1.46%	6.65%	5.84%	4.99%
Market Price	1.68%	10.84%	-0.52%	0.23%
70% CS Leveraged Loan Index, 30% CS High Yield Index	1.18%	5.17%	4.54%	4.33%

Total investment return is calculated assuming a purchase of a common share at the opening on the first day and a sale at closing on the last day of each period reported. Dividends and distributions are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment returns do not reflect brokerage commissions, if any.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, current dividend yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Holdings are subject to change daily.

Performance data quoted represents past performance and does not guarantee future results.

Credit Suisse Leveraged Loan Index is an unmanaged market value-weighted index designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. New issues are added to the index on their effective date if they qualify according to the following criteria: loan facilities must be rated *BB* or lower; only fully-funded term loan facilities are included; and issuers must be domiciled in developed countries.

Credit Suisse High Yield Index is an unmanaged market value-weighted index designed to mirror the investable universe of the U.S. dollar-denominated high yield debt market. New issues are added to the index upon issuance if they qualify according to the following criteria: issues must be publicly registered in the United States or issued under Rule 144A with registration rights; issues must be rated *BB* or lower; the minimum amount outstanding is \$75 million; and issues must be U.S. dollar-denominated straight corporate debt, including cash-pay, zero-coupon, stepped-rate and pay-in-kind (PIK) bonds. Floating-rate and convertible bonds and preferred stock are not included; if an issuer has more than two issues outstanding, only the two most liquid issues are included in the index.

An index does not show actual investment returns or reflect payment of management or brokerage fees, which would lower the index's performance. Indices are unmanaged and should not be considered an investment. It is not possible to invest directly in an index. The performance of the index does not represent generally the performance of any investment.

* As a percentage of Managed Assets.

Annualized.

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Portfolio of Investments

June 30, 2012 (Unaudited)

	<u>Moody's Rating</u>	<u>Principal Amount</u>	<u>Market Value</u>
FLOATING RATE LOAN INTERESTS^(a) - 133.07%			
Aerospace and Defense - 1.54%			
Camp Systems International Holdings Co., Senior Secured First Lien Initial Term Loan, 6.500%, 05/31/2019	B3	\$588,235	\$597,794
Sequa Corp., Senior Secured First Lien Tranche 1 2011 New Term Loan, 6.250%, 12/03/2014	B1	2,317,690	2,325,420
TASC, Inc., Senior Secured Tranche B First Lien Term Loan, 4.500%, 12/18/2015	Ba2	1,607,204	1,579,744
			4,502,958
Automotive - 2.94%			
CCC Information Services, Inc., Senior Secured First Lien Term Loan, 5.500%, 11/11/2015	B1	645,606	645,606
Chrysler Group LLC, Senior Secured Tranche B First Lien Term Loan, 6.000%, 05/24/2017	Ba2	4,825,210	4,867,431
FRAM Group Holdings, Inc. (aka Autoparts Holdings), Senior Secured First Lien Term Loan, 6.500%, 07/31/2017	B1	2,359,273	2,279,648
Remy International, Inc., Senior Secured First Lien Term B Facility Loan, 6.250%, 12/16/2016	B1	801,329	803,332