State of New Jersey

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Governor

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Lt. Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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ANDREW P. SIDAMON-ERISTOFF
State Treasurer

December 8, 2011

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Blackstone Investments**

The New Jersey Division of Investment ("Division") is proposing investments in three commingled funds, **Blackstone Energy Partners ($150M), GSO Special Situations Fund ($100M), and Blackstone Capital Partners VI ($50M),** and four opportunistic separate accounts, **GSO Energy LP ($250M with a cap of $500M), GSO Credit Opportunities Fund (up to $250M) and BX-NJ Tactical Private Equity Opportunities LP and BX-NJ Tactical Real Assets Opportunities LP (tactical accounts will have a initial combined commitment up to $750M, with an aggregate cap of $1 billion)**. The four opportunistic accounts will not exceed $1.5 billion in the aggregate, but the Division will maintain investment flexibility of the amounts allocated between the GSO Energy and the two Tactical Opportunities accounts. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

NJDOI has a long history of successfully investing with the Blackstone Group and is seeking to jointly develop an investment program that adds value across the alternative investment platform. The Division will derive significant benefits from the relationship, which includes expanded investment opportunities, an experienced investment management team focused on the relationship, enhanced support of Division Resources, discounted fee structure/alignment of interest and strong governance through the Division's ability to retain influence over separate accounts. The reports of the Investment Policy Committee ("IPC") summarizing the details of the proposed investments are attached.

Division Staff and its consultant, Strategic Investment Solutions, undertook extensive due diligence on these proposed additional investments in accordance with the Division's Alternative Investment Due Diligence Procedures.

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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 each investment. In addition, each proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that these investments are authorized pursuant to Articles 69, 71, 90 and 100 of the Council's regulations. The GSO Special Situations Fund and the GSO Credit Opportunities Fund will be classified as credit-oriented hedge funds as defined under N.J.A.C. 17:16-100.1. The Blackstone Capital Partners VI fund will be classified as a "buy-out" private equity fund as defined under N.J.A.C. 17:16-90.1. The BX-NJ Tactical Private Equity Opportunities Fund will be classified as "buy-out" and "debt related" private equity (20-80% of the total tactical account investments) as defined under N.J.A.C. 17:16-90.1. The BX-NJ Real Assets Opportunity Fund will be classified as real assets (30-100% of the total tactical account investments) and non-core real estate (10-50% of the total tactical account investments) as defined under N.J.A.C. 17:16-71.1.

The Blackstone Energy Partners and GSO Energy LP will be classified as real asset investments. Since the definition of real assets in N.J.A.C. 17:16-71.1 does not include all of the potential types of investments which may be included in these accounts, the Division is seeking Council investment approval under N.J.A.C. 17:16-71.2(b). Concurrent with this request, the Division is submitting proposed amendments to N.J.A.C. 17:16-71 which will expand the definitions and permissible investments under this Subchapter.

Formal written due diligence reports for the proposed investments were sent to each member of the IPC and a meeting of the Committee was held on November 22, 2011. In addition to the formal written due diligence reports, all other information obtained by the Division on the investments were made available to the IPC.

We look forward to discussing the proposed investments at the Council's December 8, 2011 meeting.

Attachments

Strategic Relationship BX/NJ Executive Summary

Fund Names: *Blackstone - New Jersey Strategic Relationship includes:* **BX/NJ Tactical Opportunities Account LP |GSO/NJ Credit Partners LP | GSO/NJ Energy Partners LP | BCP VI LP | BEP I LP | GSO Special Situations Fund**
Fund Type: Opportunistic tactical separate accounts and dedicated funds
Asset Allocation Category: Real Assets, Private Equity, Credit, Real Estate and Hedge Funds
Recommendation: Total of $ 1.8 billion = $1.5 billion in tactical opportunistic separate accounts & $300 million in traditional Private Equity, Energy and Credit focused fund vehicles

NJDOI is a significant investor with The Blackstone Group ("BX", "Blackstone") across the alternative investment portfolio and is proposing to deepen the relationship through a series of customized accounts with highly attractive terms, including significantly lower fees than dedicated fund investments, and with the ability to control the pace of investing. Currently, BX is our largest alternative asset manager (commitments of $1.1 billion) and the firm is considered by the Director and Staff as the best single manager across the alternative investment areas of Private Equity, Real Estate, Credit, and Hedge Funds. After considering the needs of NJDOI and considering current "partnerships" that have been developed by other state plans, NJDOI approached BX with the idea of creating a different type of relationship that leverages the unique capabilities of the firm across their four asset classes and involves NJDOI staff in the investment planning process. BX is a top-quartile alternative investment firm that is committed to fostering a close working relationship with NJ that will offer the Division a higher priority in deal flow and due diligence information that will support the Division's small staff in their efforts to generate superior returns for the pension fund.

Firm Summary
The Blackstone Group (ticker symbol "BX") is a publicly traded limited partnership formed in 1985 by Steve Schwarzman (current Chairman and CEO) and Pete Peterson (retired in 2008) as an advisor in mergers and acquisitions. Today the group is a global asset manager/advisor with $158 billion in assets under management and over 1,400 employees in offices around the world. BX has operated as a private equity investor since 1987, completing 153 transactions with a total transaction value of over $298 billion, and has also established, top performing businesses in real estate, hedge funds, and credit.

Separate Account Summary

- **BX-NJ Tactical Opportunities Account LP - $750 mm**
  Management Team: Blackstone anticipates having a dedicated Tactical Opportunities ("Tac Opps") team of 6-8 investment professionals, led by David Blitzer, to source and evaluate investments and decide whether they belong in the Tac Opps portfolio. In addition, two people from each business group (PE, RE, GSO, and BAAM) will assist the Tac Opps team with sourcing and due diligence. The Tac Opps team will utilize the same investment approach as employed within their businesses managing dedicated funds (Blackstone Capital Partners and Blackstone Energy Partners; Blackstone Real Estate Partners; GSO Energy, GSO Credit, and GSO Special Situations; and Blackstone Alternative Asset Management). The goal is to invest in time-sensitive or opportunistic ideas across asset classes and geographies. Targeted investment opportunities will not fall within any of Blackstone's existing fund mandates and will have varying expected holding periods.
- **GSO-NJ Credit Partners LP - $250 mm**
  GSO-NJ Credit Partners ("GSO Credit") will utilize the senior management team of GSO Capital Partners and incorporate a "best ideas of GSO" philosophy. GSO is led by co-founders and Senior Managing Directors Bennett Goodman, Tripp Smith, and Doug Ostrover. The portfolio will be managed by Senior Managing Director Lou Salvatore and will focus on opportunistic long and short investments in the below investment grade corporate credit markets, with an emphasis on the U.S. and Europe.

- **GSO-NJ Energy Partners LP - $250 mm, up to $500 mm**
  GSO-NJ Energy Partners ("GSO Energy") will be managed by GSO Capital Partners LP. GSO Energy will be formed to originate and invest in transactions in various energy sub-sectors across the capital structure, primarily in debt and preferred equity. GSO Energy may also make other equity investments, which shall be principally non-control and comprised of structured equity, common equity and partnership interests, and direct asset investments, working interests, and royalty interests.

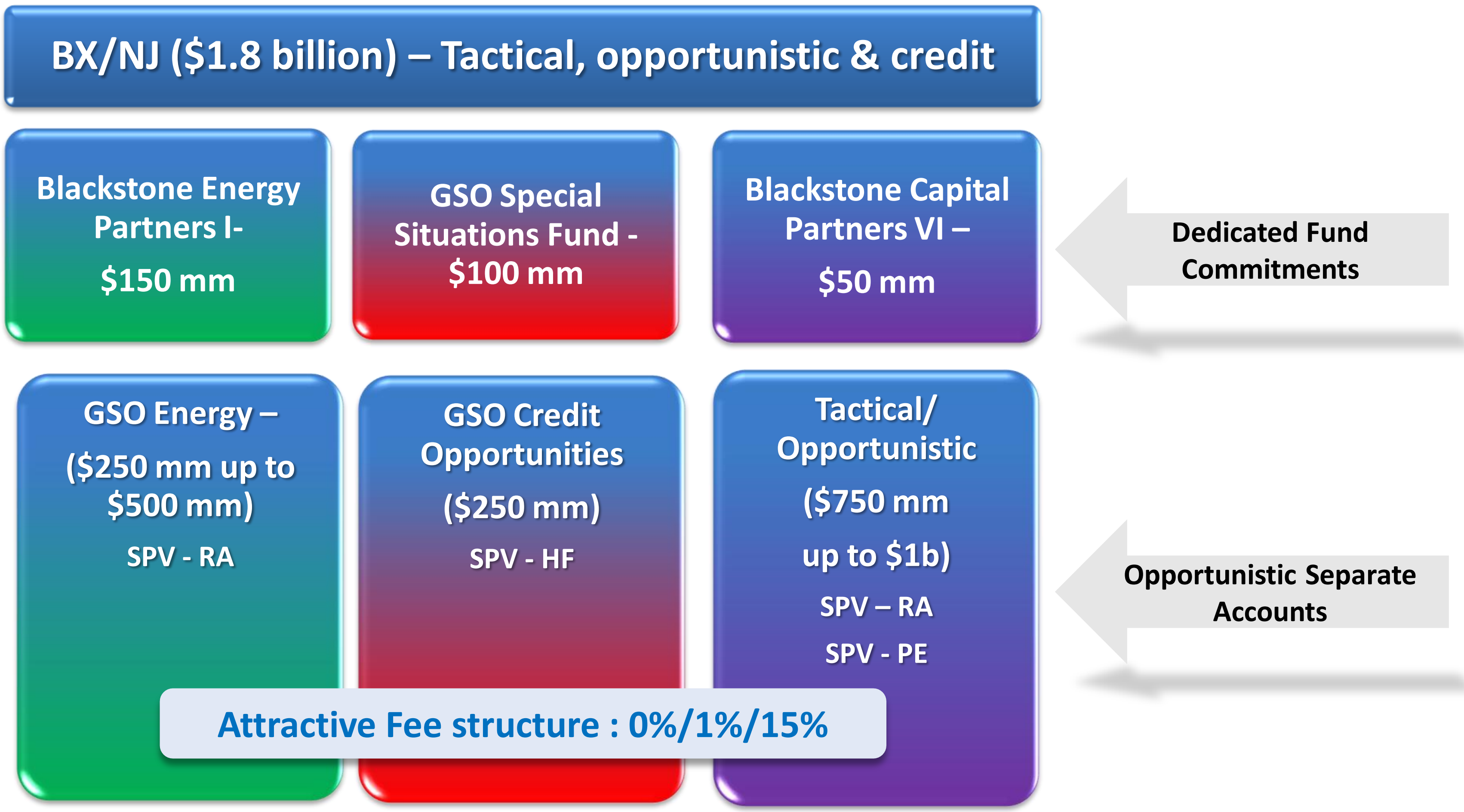
Dedicated Funds
NJDOI is proposing a combined allocation of $300 million in commitments to three dedicated funds:

- **Blackstone Capital Partners VI** ($50 million)
- **Blackstone Energy Partners** ($150 million)
- **GSO Special Situations Fund** ($100 million).

Investment Rationale
NJDOI has a long history of successfully investing with The Blackstone Group and is seeking to solidify the relationship by jointly developing an investment program that adds value across the entire alternative investment platform. The Division will derive significant benefits from the relationship, including:

- **Expanded Investment Opportunities**
  The relationship will focus on leveraging the proven strengths of the firm to generate superior returns for the Division's alternative investment portfolio. The Division will be in a unique position to leverage the resources of the firm to invest in attractive opportunities that do not fit into a Blackstone "product bucket". This capability allows NJDOI and Blackstone to execute on a broad set of investment opportunities where there is an absence of buyers with available capital or other impediments to executing in a timely manner.
- **Experienced Investment Management Team Focused on the Relationship**
  NJDOI will work closely with a dedicated and highly experienced team of Blackstone investment professionals that have a long history of investing across the full spectrum of alternative investments. Each underlying investment strategy will be led by an experienced Senior Managing Director to ensure a high level of emphasis is placed on the success of the account. David Blitzer, a 20 year veteran of Blackstone, will be the primary point of contact to ensure that NJDOI receives priority access to resources across the Blackstone platform and network.
- **Enhanced support of Division Resources**
  NJDOI staff will have preferred access to the senior investment professionals and intellectual capital of Blackstone and its affiliates on a global basis, thus providing additional resources to support NJDOI's broader investment efforts. This will be accomplished through frequent discussions with senior investment professionals of Blackstone and its affiliates, portfolio company CEO discussions, participation in the due diligence of fund investments, and access to internal training programs.
- **Attractive Fee Structure For Separate Accounts /Alignment of Interest**
  BX-NJ offers NJDOI favorable terms, including fees, for the separate accounts. Aggregate fee savings over the life of the relationship are projected to exceed $120 million. Alignment of interest is maintained through a sizable GP capital commitment to both the separate accounts and dedicated funds.
- **Strong Governance NJDOI staff will retain influence over separate accounts.** This level of influence provides the Division with the ability to manage the risk exposures, to control the pace of investments, to respond to changing market opportunities and to ensure that the Division continues to receive the highest level of attention on an ongoing basis.

BX/NJ Strategic Relationship Structure



Blackstone Energy Partners I — December 8, 2011

Contact Info: *Michael Sortirhos, Senior Managing Director of Investor Relations | 212-583-5000 | www.blackstone.com*

Fund Details:

AUM ($mil.):	$157.7 billion firmwide
Strategy:	Buyout, Energy focused
Year Founded:	1985
Headquarters:	New York
GP Commitment:	At least 2.5% of aggregate capital c

Key Investment Professionals: David I. Foley is a Senior Managing Director in the Private Equity group and is based in New York. / Prakash A. Melwani is a Senior Managing Director in the Private Equity group and is based in New York. /Martin Brand is a Managing Director in the Private Equity group and is based in New York./ Sean T. Klimczak is a Managing Director in the Private Equity group and is based in New York/ Angelo Acconcia is a Principal in the Private Equity group and is based in New York.

Investment Summary

The primary objective of the Fund is to capitalize on the high volume of attractive investment opportunities available in the Energy and Natural Resource space. All Energy and Natural Resource sector investments will generally be allocated 50% to Blackstone Capital Partners VI (BCP VI) and 50% to BEP. BEP will be the first fund raised by Blackstone with an exclusive focus on Energy and Natural Resources. The investment activities of BEP are led by David Foley & Prakash Melwani; they have an average tenure of twelve years at Blackstone and eight years working together. They are directly supported by a team of 34 private equity professionals (including Analysts): 20 in Blackstone's New York office and 14 in Blackstone's network of global offices.

Existing and Prior Funds

Funds	*Strategy*	*Returns net IRR*	*Gross TVPI*
Within BX funds - energy & natural resources deals ($3.5 b invested)	Energy & natural resources	38%	2.54x

Vehicle Information:

Inception:	**2011**	**Auditor:**	**Deloitte & Touche LLP**
Fund Size ($mil.):	**Target of $3 billion**	**Legal Counsel:**	**Simpson Thacher & Bartlett LLP**
Management Fee:	**During the Investment Period: 1.0% on committed but uninvested capital; 1.5% on invested capital. After the Investment Period: 0.75% on invested capital**	**Accounting Firm:**	**Deloitte & Touche LLP**
Carry:	**20%**		
Hurdle Rate:	**8%**		

Management Fee Offsets: Management Fees will be reduced by 80% of net breakup, topping, commitment, monitoring, transaction, director and organization fees

Investment Period/ Life **6 years/ 11 year term from “effective date" with two one year extensions if approved by L.P. Advisory Committee**

NJ AIP Program

Recommened Allocation:	150000000	**LP Advisory Board Membership:**	**Yes**
% of Fund:	5% (of target fund size)	**Consultant Recommendation:**	**Yes**
		Placement Agent:	**No**
		Compliance w/ Division Placement Agent Poli	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.

GSO Special Situations Fund, LP.

Thursday, December 08, 2011

Contact Info: ***W. Doyle Queally / Managing Director / 280 Park Avenue, New York,NY / 212-503-2180***

Fund Details:

Total Assets:*	$35 billion
Strategy:	Credit/Distressed
Assets in Strategy:**	$3.5 billion
Year Founded:	2005
SEC Registration	Yes
Employee Capital:***	8.1% of the Fund's Capital

*Total Assets refers to the estimated Estimated AUM and amount of closed commitments for GSO as of October 31, 2011. Includes $60 million pending separately managed accounts.
**Assets in Strategy refers to the Onshore and Offshore Funds combined estimated AUM as of 11/29/11
***Employee Capital refers to GSO employee investments as a percent of the
Onshore and Offshore Funds combined as of 9/30/11

Key Investment Professionals:

- Prior to founding GSO in January 2005, Bennett J. Goodman, J. Albert Smith III (Tripp) and Douglas I. Ostrover were senior executives of CSFB. They joined Credit Suisse First Boston during November 2000 as a result of CSFB's acquisition of DLJ. At DLJ they were responsible for building and managing Leveraged Finance and Alternative Capital businesses. In 2008, The Blackstone Group acquired a controlling stake in GSO. The combination of GSO's businesses with Blackstone's credit-related groups created one of the largest credit platforms in the alternative asset management industry. GSO is headquartered in New York and has 89 investment professionals.
- Bennett Goodman, Senior Managing Director, Founder - 30 years experience
- Tripp Smith, Senior Managing Director, Founder - 24 years experience
- Doug Ostrover - Senior Managing Director, Founder - 25 years experience
- Jason New - Senior Managing Director/Portfolio Manager - 18 years experience
- Lou Salvatore - Senior Managing Director/Portfolio Manager - 17 years experience

Investment Summary

The fund pursues and event-driven credit strategy across Long/Short High Yield, Distressed, and Capital Structure Arbitrage. The fund will invest across market capitalizations, but favors middle-market and smaller companies, particularly in stressed or distressed situations which facilitate an activist role. The portfolio also contains an actively traded hedge component. Investment ideas are predicated on catalysts, including convenant violations, maturities, liquidity/financing issues, legal issues, restructurings, or mergers & acquisitions.

Existing and Prior Funds

YTD	GSO Spec Sits**	HFRI Strategy Benchmark	S&P 500
Annualized Since Inception	0.0725	0.0471	0.0068
5-Year Annualized	0.0663	0.0342	-0.0118
3-Year Annualized	0.0526	0.046	0.0123
CYTD	0.0274	-0.047	-0.0869
2010	0.1404	0.1024	0.151
2009	0.2567	0.2001	0.265
2008	-0.2064	-0.1903	-0.37

*All returns are provided through 9/30/11; GSO Spec Sits refers to GSO Special Situations Fund LP Blended Class A/B/C and Class S Net returns
**Past performance is not necessarily indicative of future results and there can be no assurance that the fund will achieve comparable results in the future. Please refer to the operative document of the fund for important information regarding investment performance and benchmarks.

Vehicle Information:

Fund Inception:	**8/1/2005**	**Subscriptions:**	**Monthly**
		Redemptions (notice):	**Quarter-end after 1st Anniversary, thereafter LPs have the right to redeem 50% with no penalty and the remaining 50% is also eligible with a 4% fee for the 1st year. Thereafter, semi-annual liquidity for 50% of each capital account.**
Fund Size:	**$3.5 billion**		
Management Fee:	**0.015**	**Lock-up:**	**1-Year**
Profit Allocation:	**0.2**	**Prime Broker:**	**Credit Suisse (primary), Goldman Sachs and JP Morgan, Citigroup (inactive)**
Highwater Mark:	**Yes**	**Administrator:**	**Bank of New York Mellon**
Hurdle Rate:	**None**	**Auditor:**	**Deloitte & Touche**
Additional Expenses:	**NA**		

NJ AIP Program

Recommened Allocation:	**$100 million**	**LP Advisory Board Membership:**	**NA**
% of Fund:	**2.86%**	**Consultant Recommendation:**	**YES**
		Placement Agent:	**NO**
		Compliance w/ Division Placement Agent Policy:	**NA**
		Compliance w/ SIC Political Contribution Reg:	**YES**

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Blackstone Capital Partners VI

November 23, 2011

Contact Info: ***Michael Sortirhos, Senior Managing Director of Investor Relations | 212-583-5000 | www.blackstone.com***

Fund Details:

Total Assets ($mil.):	$157.7 billion firmwide
Strategy:	Buyout
Year Founded:	1985
Headquarters:	New York
GP Commitment:	$500mm to $750mm

Key Investment Professionals: *Stephen A. Schwarzman, Chairman, CEO, and Co-Founder of Blackstone, based in New York | Hamilton E. James, President and COO of Blackstone, based in New York |and the following Senior Managing Directors in the Corporate Private Equity Group: Lionel Assant, based in London | Joseph P. Baratta, based in London | David S. Blitzer, based* in New York | Patrick Bourke, based in New York | Michael S. Chae, based in Hong Kong | Chinh E. Chu, based in New York |David Foley, based in New York |Shan Fu, based in Beijing | Lawrence H. Guffey, based in London | Akhil Gupta, based in India |Axel Herberg, based in Dusseldorf |Jamie Kiggen, based in New York |Andrew Kuo, based in Hong Kong | Antony Leung, based in Hong Kong | Prakash A. Melwani, based in New York | Garrett M. Moran, based in New York | Anjan Mukherjee, based in New York | Gerry Murphy, based in London |Sandy Ogg, based in New York | James A. Quella, based in New York | Robert Reid, based in New York | Neil P. Simpkins, based in New York | Peter Wallace, based in New York

Investment Summary

Blackstone Capital Partners VI (BCP VI) represents Blackstone's sixth general corporate private equity fund. Since their first private equity fund in 1988, Blackstone has invested $35.7billion of capital in 159 separate transactions with a total transaction value of over $300 billion through 9/30/11. Blackstone's approach to private equity investing has been consistently supported by a rigorous, value-oriented approach, the leveraging of distinctive cross-firm institutional capabilities, and a focus on corporate partnership investments. Throughout their history their approach has yielded outstanding returns for their Limited Partners through varying economic environments and capital markets cycles. Blackstone's approach has continued to evolve and strengthen across a number of strategic dimensions, including the breadth of their geographic presence, multi-industry expertise, internal operational value-creation capabilities, and the

Existing and Prior Funds

Funds	Strategy	Returns (net IRR)	Gross TVPI
BCP I (1987)	Buyout	19%	2.57x
BCP II (1993)	Buyout	32%	2.52x
BCP III (1997)	Buyout	14%	2.28x
BCP IV (2002)	Buyout	38%	2.56x
BCP V (2006)	Buyout	0%	1.04x

Vehicle Information:

Inception:	**2007**	**Auditor:**	**Deloitte & Touche LLP**
Fund Size ($mil.):	**$16 billion**	**Legal Counsel:**	**Simpson Thacher & Bartlett LLP**
Management Fee:	**Blended 1.3% on committed during investment period / 0.75% on invested after investment period ends.**	**Accounting firm:**	**Deloitte & Touche LLP**
Carry:	**20%**		
Hurdle Rate:	**8%**		

Management Fee Offsets: Management fees will be reduced by 100% of net breakup and topping fees up to the amount of the Broken Deal Expenses, (ii) 80% of net breakup and topping and fees in excess of Broken Deal Expenses and net commitment fees, and (iii) 65% of net monitoring, transaction, directors' and organization fees

Investment Period/ Life: **6 years/ 11 years subject to two 1 year extentions if approved by the L.P. Advisory Committee**

NJ AIP Program

Recommened Allocation:	$50 million	**LP Advisory Board Membership:**	**No**
% of Fund:	0.003495526	**Consultant Recommendation:**	**Yes**
		Placement Agent:	**No**
		Compliance w/ Division Placement Agent Polic	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

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BX/NJ Tactical Opportunities Fund — November 23, 2011

Contact Info: *Michael Sortirhos, Senior Managing Director of Investor Relations | 212-583-5000 | www.blackstone.com*

Fund Details:

Total Assets ($mil.):	$157.5 billion
Strategy:	Opportunistic Credit, Private Equity
Year Founded:	1985
Headquarters:	New York
GP Commitment:	Average of 3%

Key Investment Professionals:
- *David Blitzer, Blackstone Co-Chair of Private Equity*
- *Dwight Scott, Blackstone Head of GSO Capital Partners' Houston Office*
- *Louis Salvatore, Blackstone Head of Portfolio Management of GSO Capital Partners*

Investment Summary

The Blackstone-New Jersey Strategic Relationship ("BX-NJ") is intended to provide the New Jersey Division of Investment ("NJDOI") with access to unique alternative investment opportunities and provide knowledge development and advisory services to NJDOI staff through a strategic relationship with one of the largest alternative investment managers in the world. The primary objectives of the BX-NJ relationship are to improve the flow of attractive, proprietary investment opportunities to the NJDOI across all areas of alternative investments; enhance the internal resources of the NJDOI; and generate preferential terms and fee savings.

Structure outline

Vehicle Information:

Inception:	**2011**	**Auditor:**	**Deloitte & Touche LLP**
Fund Size ($mil.):	**Three separate accounts aggregating to $1.5 billion, plus GP commitment**	**Legal Counsel:**	**Simpson Thacher & Bartlett LLP**
Management Fee:	**During the investment period, an average of 1% on invested capital; after the investment period, 1% on NAV or cost whichever is the lesser**	**Accounting Firm:**	**Deloitte & Touche LLP**
Carry:	**An average of 15%**		
Hurdle Rate:	**Varies by strategy**		

Management Fee Offsets: 100% of all transaction, monitoring and directors fees will offset the management fees paid

Investment period/ Life — **3 years with the ability to extend in 1 year increments / 12 years post investment period with the ability to extend three 1 year periods**

NJ AIP Program

Recommened Allocation:	$1.5 billion	**LP Advisory Board Membership:**	**Yes**
% of Fund:	~ 97%	**Consultant Recommendation:**	**Yes**
		Placement Agent:	**No**
		Compliance w/ Division Placement Agent Polic	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

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