INVESTMENTS®

Fund commentary

FIRST QUARTER 2017

FS ENERGY & POWER FUND

Summary

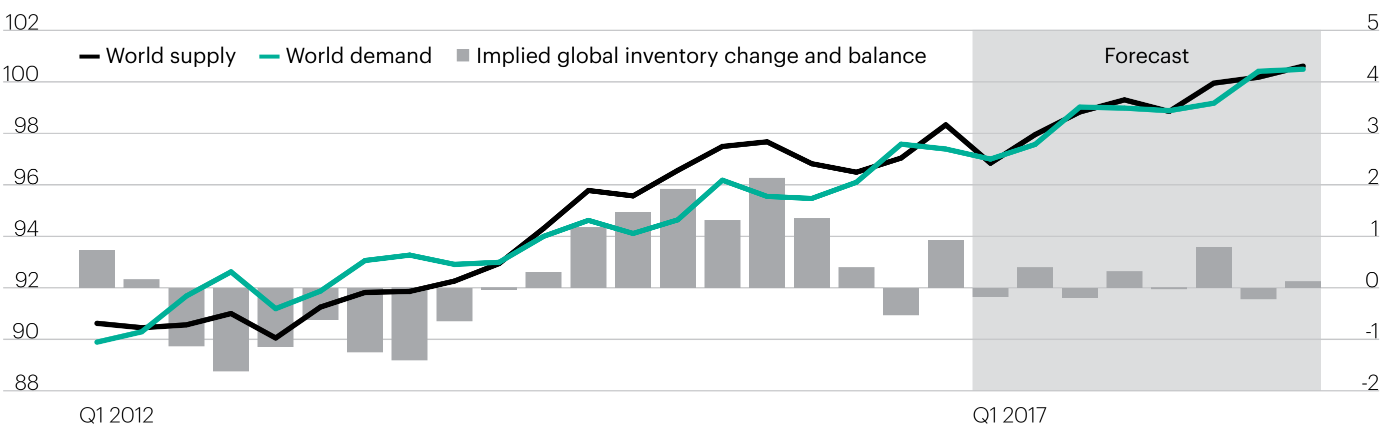
- Energy credit benefited from generally stable oil prices in the first quarter of 2017.
- OPEC's output cut is expected to lead to inventory draws beginning in the first half of 2017.[1]
- Global oil demand is expected to increase by 1.4 million barrels per day in 2017, helping to bring the current supply and demand imbalance back toward equilibrium.[1]
- FSEP generated a shareholder-based total return of approximately 3.0% in the first quarter.
- FSEP closed its public offering to new investors in November 2016. As FSEP enters this new phase in its life cycle, we will seek to optimize the portfolio by continuing to transition from broadly syndicated credit into higher-yielding, directly originated investments.
- We will also seek to rotate out of equity positions acquired through restructurings resulting from prior periods of commodity price volatility into income-producing assets.

Market review

Despite increased oil price volatility toward quarter-end, energy remained one of the better-performing credit market sectors during the first quarter of 2017. Largely range-bound between $50 and $55 per barrel throughout January and February, oil prices declined in March amid building U.S. oil supplies. A late-quarter rally, however, erased nearly half of early March's sell-off, blunting oil's drag on energy high yield bonds and energy senior secured loans. Despite benefiting from the Organization of the Petroleum Exporting Countries' agreed-to 1.8 million barrel-per-day output cut, oil prices lost 6.3% in March and 5.8% during the quarter.

Global oil supplies rose by 260,000 barrels per day in February as both OPEC and non-OPEC producers produced more oil. Nevertheless, at 96.52 million barrels per day, world oil production posted a year-over-year decline as OPEC countries largely complied with the group's proposed output cuts.

WORLD OIL SUPPLY AND DEMAND BALANCE



Source: U.S. Energy Information Administration, http://bit.ly/1aHjjQw.

An investment in FS Energy & Power Fund (FSEP) involves a high degree of risk and may be considered speculative. Investors are advised to read and carefully consider the risk factors and other important information found in FSEP's reports filed with the U.S. Securities and Exchange Commission.

FSEP is closed to new investors. This fund commentary is for informational purposes only and does not constitute an offer to sell nor a solicitation of an offer to buy the securities described herein.

Non-OPEC production increased in February, largely due to higher U.S. output as producers responded to higher oil prices by adding oil drilling rigs. As of March 31, 2017, the total U.S. oil rig count had risen to 662, up from a low of 316 in May 2016, but approximately 59% below the peak levels seen in October 2014.[2] Due, in part, to improved financial conditions of U.S. oil companies and higher productivity, U.S. crude oil production is forecast to rise to 9.2 million barrels per day in 2017, but remains down from the 9.4 million barrels per day produced in 2015.[3]

Meanwhile, global oil demand is expected to increase by 1.4 million barrels per day in 2017, with global inventory draws expected to begin the first half of 2017 if OPEC sticks to its production target.[1]

Performance review

FSEP generated a shareholder-based total return (without sales charge) of 3.0% in Q1 2017.

FSEP paid distributions of approximately $0.18 per share during the quarter ended March 31, 2017.[4] In the first quarter of 2017, FSEP generated a shareholder-based total return (without sales charge) of 3.0%.[4]

As of March 31, 2017, FSEP's total shareholder return (without sales charge) since inception on July 18, 2011 was 36.1%. By comparison, energy senior secured loans and energy high yield bonds have returned 11.4% and 21.5%, respectively, over the same period.[3,4]

We believe this outperformance is due, in large part, to the long-term nature of FSEP's strategy and the benefits of its unlisted structure, which position the fund to manage through periods of commodity and market volatility and buy assets that may be below their intrinsic values.

We continue to view periods of market volatility, such as those seen in 2015 and early 2016, as potential opportunities to act as selective buyers when other managers may need to liquidate positions they would otherwise prefer to hold. We believe having the flexibility and liquidity to invest during periods of market dislocations supports our objective of creating value for FSEP shareholders over the long run.

FSEP closed to new investors in November of 2016 after raising more than $4.4 billion in equity capital. As FSEP enters this new phase in its life cycle, we will seek to optimize the portfolio by continuing to transition from broadly syndicated loans into higher-yielding, directly originated investments. We will also seek to rotate out of equity positions acquired through restructurings as a result of the commodity price volatility that has taken place over the past few years into income-producing assets.

Market trends and opportunities

As highlighted in last quarter's commentary, we believe that there are—and will continue to be—meaningful investment opportunities in income-oriented securities of privately held U.S. energy and power companies based on the following:

Oil supply/demand balance	With oil prices stabilizing, we believe U.S. producers are beginning to shift their focus back to selective growth projects with attractive returns that we believe will lead to new investment opportunities as the oil market continues to work toward balance.
Attractive yields	We believe the debt securities of a select number of energy companies are undervalued, with energy high yield bonds yielding 6.3% compared to 5.8% for the broader high yield market and energy senior secured loans yielding 6.4% more than the broader market (12.7% compared to 6.3%).[5,6]
Need for alternative capital	A prolonged period of low oil prices will likely disrupt the flow of credit from banks and the capital markets to energy companies. In particular, it is our view that private energy companies will experience the most significant reduction in credit from traditional sources, yet will also continue to experience large capital needs.
Income and growth potential	We are maintaining our allocation to the debt of private U.S. energy and power companies to help generate income and preserve capital over the long term.[7] As a result of certain restructurings in 2016, FSEP exchanged the debt for equity in a handful of portfolio companies we believe present an opportunity for long-term growth and appreciation.
Direct originations	We continue to opportunistically transition the portfolio into higher return-generating investments in direct originations while reducing our exposure to broadly syndicated investments.

Conclusion

While oil price volatility may continue to impact the sector in the short term, the long-term fundamentals remain supportive of select energy-related investments as rising global energy demand will continue to drive the increased capital needs of private energy and power companies. Given FSEP's long-term focus, we believe FSEP is well positioned to deliver strong total returns to its shareholders over the long term.

Note: All figures may be rounded. Returns shown are historical and based on past performance. Past performance is not indicative of future results.

1 International Energy Agency, http://bit.ly/1ylJ2td.
2 Baker Hughes, http://bit.ly/1BMeq7M.
3 U.S. Energy Information Administration, http://bit.ly/2h60Ish.
4 For more information on shareholder returns, see page 4 of this fund commentary. No portion of FSEP's distributions during the year ended December 31, 2016 was funded through an expense reimbursement from the fund's sponsor. Information related to the source of distributions for the three months ended March 31, 2017 will be available in the FSEP 10-Q for the quarter ended March 31, 2017. The payment of future distributions on FSEP's common shares is subject to the discretion of FSEP's board of trustees and applicable legal restrictions and, therefore, there can be no assurance as to the amount or timing of any such future distributions.
5 Bank of America Merrill Lynch High Yield Energy Index (yield-to-worst).
6 Credit Suisse Leveraged Loan Index (energy component), based on a three-year maturity.
7 Although senior loans in which FSEP invests may be secured by specific collateral, there can be no assurance that the collateral will not decrease in value or lose its entire value over time, creating a financial impact on FSEP.

SHAREHOLDER RETURNS AS OF 3/31/17

(without sales charge), compounded monthly						(with sales charge), compounded monthly	
YTD	**1 year**	**3 year** (annualized)	**5 year** (annualized)	**Since inception** (annualized)	**Cumulative total return since inception**	**Cumulative total return since inception**	**Inception date**
3.0%	34.5%	1.0%	5.0%	5.6%	36.1%	22.5%	July 18, 2011

Shareholder returns (without sales charge) are the total returns an investor received for the highlighted period taking into account all distributions paid during such period, compounded monthly. Except for shareholder returns (without sales charge) for the YTD period, the calculation assumes that the investor purchased shares at FSEP's public offering price, excluding any selling commissions or dealer manager fees, at the beginning of the applicable period and reinvested all distributions pursuant to FSEP's distribution reinvestment plan (DRP). Since FSEP closed its public offering in November 2016, and has since issued new shares only pursuant to its DRP, the calculation for the YTD period assumes the investor purchased shares at the beginning of the applicable period at a price based on FSEP's DRP on such date. Shareholder returns (without sales charge) do not include selling commissions and dealer manager fees, which could total up to 10% of the public offering price. Had such selling commissions and dealer manager fees been included, the performance shown would be lower.

Shareholder return (with sales charge) is the total return an investor received since inception taking into account all distributions paid during such period, compounded monthly. The calculation assumes that the investor purchased shares at FSEP's public offering price (which includes the maximum selling commissions and dealer manager fees) at inception and reinvested all distributions pursuant to FSEP's DRP.

Valuation as of the end of each period shown above is the repurchase price pursuant to FSEP's share repurchase program on such date. Upon liquidation or redemption, market conditions may cause the actual values to be more or less than the values shown.

FSEP's public offering price was subject to a sales charge of up to 10% and offering expenses of up to 1.5% of the gross proceeds received in the fund's offering. FSEP's total expenses as a percentage of average net assets attributable to common shares was 4.88% for the year ended December 31, 2016.

RISK FACTORS

An investment in the common shares of FSEP involves a high degree of risk and may be considered speculative. The following are some of the risks an investment in our common shares involves; however, you should carefully consider all of the information found in Item 1A of our annual report on Form 10-K entitled "Risk Factors."

- Because there is no public trading market for our common shares and we are not obligated to effectuate a liquidity event by a specified date, it will be difficult for you to sell your common shares. If you are able to sell your common shares before we complete a liquidity event, it is likely that you will receive less than what you paid for them. While we intend to conduct quarterly tender offers for our common shares, only a limited number of our common shares will be eligible for repurchase and we may suspend or terminate the share repurchase program at any time.
- Our distributions may be funded from unlimited amounts of offering proceeds or borrowings, which may constitute a return of capital and reduce the amount of capital available to us for investment. Any capital returned to shareholders through distributions will be distributed after payment of fees and expenses.
- **Our investment policy is to invest, under normal circumstances, at least 80% of our total assets in securities of energy and power companies. The revenues, income (or losses) and valuations of energy and power companies can fluctuate suddenly and dramatically due to a number of environmental, regulatory, political and general market risks, which have historically impacted our financial performance and may continue to in the future.**
- An investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies.
- Investing in middle market companies involves a number of significant risks, any one of which could have a material adverse effect on our operating results.
- A lack of liquidity in certain of our investments may adversely affect our business.
- We are subject to financial market risks, including changes in interest rates, which may have a substantial negative impact on our investments.
- We have borrowed funds to make investments, which increases the volatility of our investments and may increase the risks of investing in our securities.
- FSEP is a long-term investment for persons of adequate financial means who have no need for liquidity in their investment. To invest in FSEP, an investor must have either (i) a net worth of at least $70,000 and an annual gross income of at least $70,000, or (ii) a net worth of at least $250,000. Some states, such as Kansas, impose higher suitability standards.
- Our previous distributions to shareholders were funded in significant part from the reimbursement of certain expenses, including through the waiver of certain investment advisory fees, that are subject to repayment to our affiliate, FS Investments, and our future distributions may be funded from such waivers and reimbursements. Significant portions of these distributions may not be based on our investment performance and such waivers and reimbursements by FS Investments may not continue in the future. If FS Investments had not agreed to reimburse certain of our expenses, including through the waiver of certain advisory fees, significant portions of these distributions may come from offering proceeds or borrowings. The repayment of amounts owed to FS Investments will reduce the future distributions to which you would otherwise be entitled.