Fund commentary

Third quarter 2017

FS ENERGY & POWER FUND

Summary

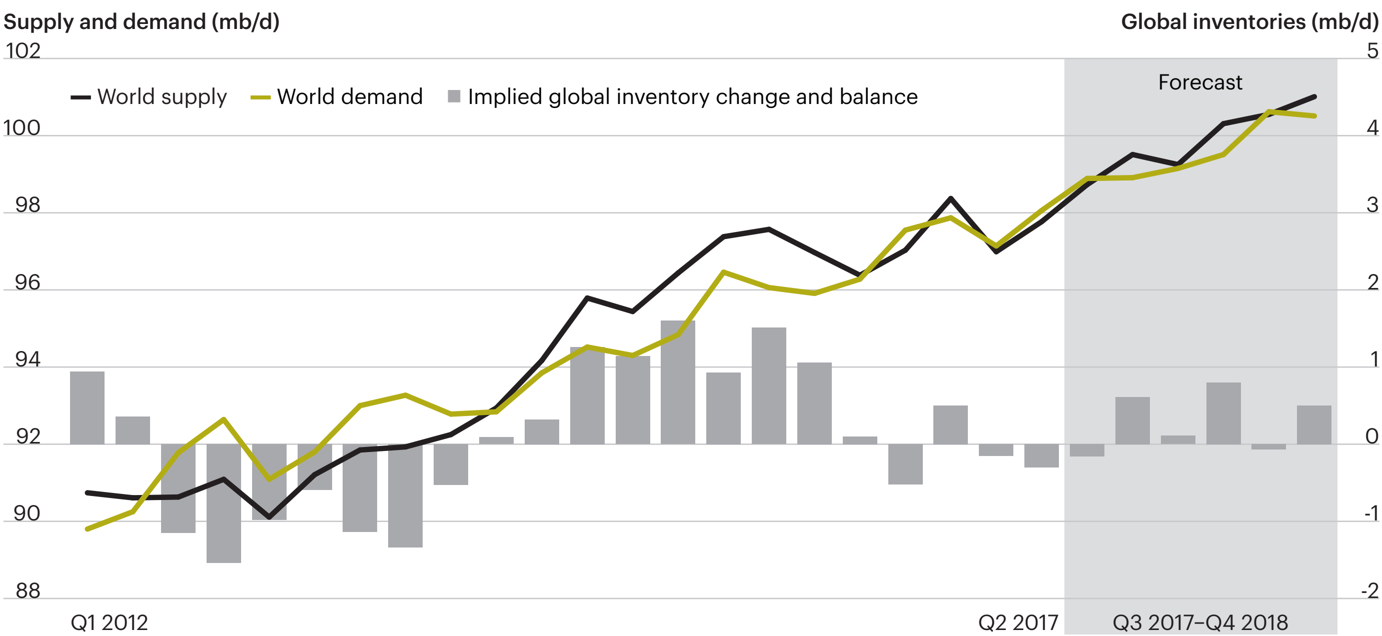
- Against a firmer backdrop for oil, energy credit rose in the third quarter.
- Oil supplies declined as OPEC production fell in August for the first time in five months.[1]
- Global oil demand is expected to increase by 1.4 million barrels per day in 2018, after a gain of 1.6 million barrels per day in 2017.[1]
- FSEP generated a shareholder-based total return of approximately 1.8% in the third quarter and paid distributions of $0.18 per share.

Market review

Oil prices remained largely range-bound near year-to-date lows throughout the third quarter, yet rallied toward quarter's end amid a string of data pointing to a rise in global demand and a decline in oil inventories. Against a firmer backdrop for oil, energy credit benchmarks rallied toward quarter-end.

As overall global oil supply fell and the Organization of the Petroleum Exporting Countries' (OPEC's) output declined for the first time in five months, oil prices rose approximately 12.2% during the third quarter, briefly rising to a two-year high during the last week of the period.[2] Oil prices rose as OPEC signaled it was open to extending its 1.8 million barrel-per-day output cut beyond the first quarter of 2018 and the U.S. Energy Information Administration reported that U.S. stockpiles declined by approximately 37.9 million barrels during the third quarter.[3,4]

WORLD OIL SUPPLY AND DEMAND BALANCE



Source: U.S. Energy Information Administration, http://bit.ly/2nhbgbd.

An investment in FS Energy & Power Fund (FSEP) involves a high degree of risk and may be considered speculative. Investors are advised to consider the investment objectives, risks, and charges and expenses of FSEP carefully. Investors should read and carefully consider all 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.

Global supplies fell by 720,000 barrels per day in August as both OPEC and non-OPEC countries produced less oil. OPEC output fell by 210,000 barrels per day in August as the 12 members bound by the supply pact raised their compliance rate to 82% from 75% during July.[1] Non-OPEC production also decreased in August, largely due to maintenance and hurricane-related outages.[1]

As of September 29, 2017, the total U.S. oil rig count had edged down to 750 from 756 as of June 30, 2017.[5] In September, the U.S. Energy Information Administration lowered its forecast for U.S. crude oil output for 2017, but said production remains on pace to climb to a record high in 2018.[6]

Meanwhile, global oil demand is expected to increase by 1.4 million barrels per day in 2018, after a gain of 1.6 million barrels per day in 2017.[1]

Performance review

FSEP paid distributions of approximately $0.18 per share during the third quarter.

FSEP paid distributions of approximately $0.18 per share during the quarter ended September 30, 2017. In the third quarter of 2017, FSEP generated a shareholder-based total return (without sales charge) of 1.8%.[7]

As of September 30, 2017, FSEP's total shareholder return (without sales charge) since inception on July 18, 2011 was 31.8%.[7] By comparison, energy senior secured loans, energy high yield bonds and energy equities have returned 10.5%, 25.4% and 6.4%, respectively, over the same period.[8,9,10]

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 positions the fund to manage through periods of commodity and market volatility and buy assets that may be below their intrinsic values.

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. As previously disclosed, FSEP closed to new investors in the fourth quarter of 2016 after raising more than $4.4 billion in equity capital. Throughout this next phase in FSEP's 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.

SHAREHOLDER RETURNS AS OF 9/30/17

(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**
-0.3%	5.8%	-1.6%	3.2%	4.5%	31.8%	18.6%	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.

The 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.

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/163iSG9.
2 Federal Reserve Bank of St. Louis, http://bit.ly/2sQ1j6X.
3 Bloomberg, https://bloom.bg/2wUvBuQ.
4 U.S. Energy Information Administration, http://ir.eia.gov/wpsr/psw01.xls.
5 Baker Hughes, http://bit.ly/1BMeq7M.
6 U.S. Energy Information Administration, http://bit.ly/2nhbgbd.
7 For more information on shareholder returns, see the table above. Information related to the source of distributions for the year ended December 31, 2017 will be available in the FSEP 10-K for the year ended December 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.
8 Credit Suisse Leveraged Loan Index (energy component).
9 Bank of America Merrill Lynch High Yield Energy Index.
10 S&P 500 Energy Index.

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, including our offering price, and may continue to in the future. For information about the fund's offering price, visit www.fsinvestments.com.**
- 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.

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