INVESTMENTS®

Q1 Fund commentary

As of 3/31/2018

FS ENERGY & POWER FUND

Summary

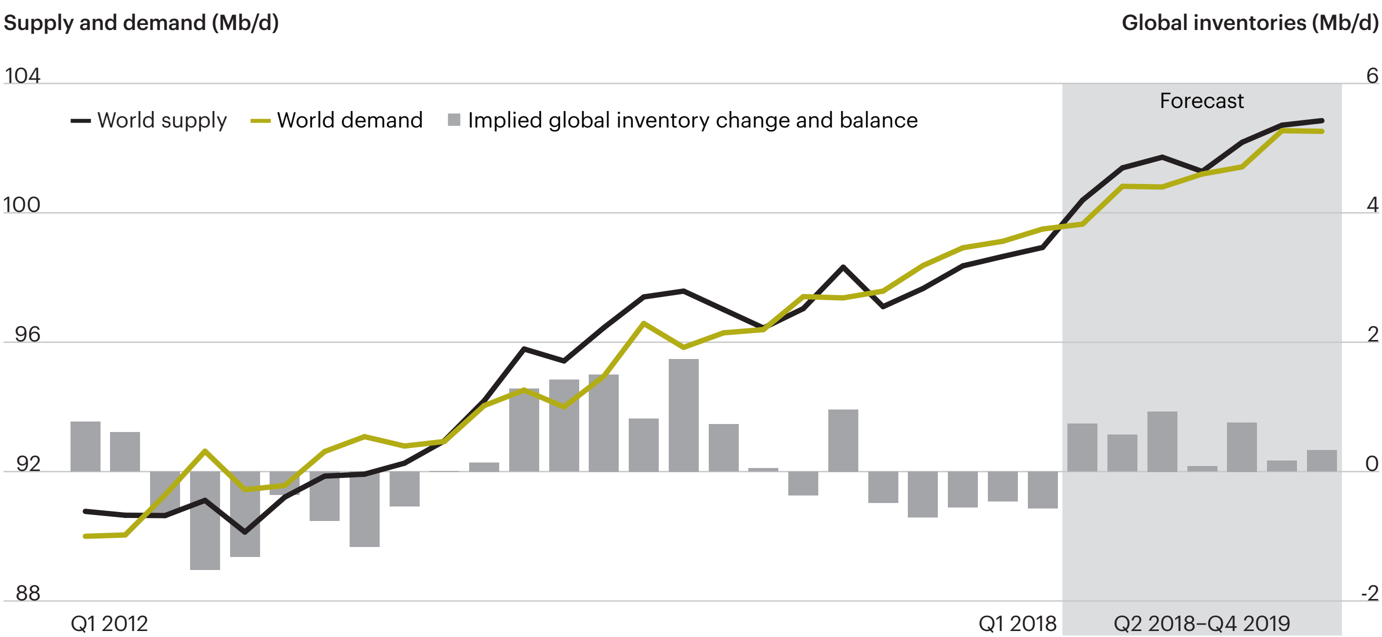
- Oil prices rose on geopolitical tensions and talk of an extension of OPEC output cuts.[1,2]
- Energy senior secured loans rose in the first quarter, while energy high yield bonds declined amid increased equity volatility.[3,4]
- OPEC production fell in February to a 10-month low.[5]
- Global oil demand is expected to increase by 1.5 million barrels per day in 2018.[1]
- FSEP generated a shareholder-based total return of -0.39% in the first quarter and paid distributions of $0.13 per share, or 7.63% based on the distribution reinvestment price as of March 31, 2018.

Market review

Oil prices rose toward quarter's end, helped by increased geopolitical tensions, talk of an extension of OPEC's output cuts and declining Venezuelan oil production.[1,2,3] With rising global demand and declining global output as a backdrop, energy senior secured loans rose during the first quarter of 2018.[3] Meanwhile, high yield energy bonds declined amid a spike in U.S. equity volatility and rising interest rate concerns.[4]

As overall global oil supply declined and OPEC oil production edged lower, oil prices rose during the first quarter, rising back toward a three-year high in late March.[6] Higher U.S. oil output contributed to a slight rise in global supplies in February, even as OPEC crude production edged lower.[1] OPEC output fell by 70,000 barrels per day in February to a 10-month low.[1] Meanwhile, global oil demand is expected to increase by 1.5 million barrels per day in 2018, helped by demand from China and India.[1]

WORLD OIL SUPPLY AND DEMAND BALANCE



Source: U.S. Energy Information Administration, http://bit.ly/2nhbgbd. As of March 31, 2018.

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.

Performance review

FSEP paid distributions of approximately $0.13 per share during the first quarter, or 7.63% based on the distribution reinvestment price as of March 31, 2018. In the first quarter of 2018, FSEP generated a shareholder-based total return (without sales charge) of -0.39%.[7] By comparison, high yield energy bonds and senior secured energy loans returned approximately -0.96% and 2.72%, respectively, in the first quarter.[3,4]

TOTAL RETURN SINCE FSEP'S INCEPTION ON JULY 18, 2011
(without sales charge)

FSEP	**26.2%**
Energy HY	26.7%
Energy senior secured loans	15.8%
Energy equities	6.2%

FSEP's performance was negatively impacted by a select number of the fund's investments. Specifically, one directly originated investment in an upstream energy company accounted for approximately 33% of the total quarterly decline as the company's high cost structure and depleting asset base weighed on market valuations. FSEP is currently working to rationalize the company's cost structure in order to maximize the recovery on the fund's investment.

More broadly, the majority of the remaining declines were the result of unrealized and realized losses within the more liquid, broadly syndicated portion of the fund's portfolio. Realized losses accounted for approximately two-thirds of the total quarterly decline and were solely driven by the sale of certain broadly syndicated investments in which we believe the potential for future losses outweighed the upside potential. In executing on our transition plan with EIG, we are actively looking to reduce the fund's allocation to broadly syndicated investments, with proceeds to be used to help fund new direct originations, which we believe have the potential to generate stronger returns through both income and growth.

As of March 31, 2018, FSEP's total shareholder return (without sales charge) since inception on July 18, 2011 was 26.2%.[7] By comparison, energy senior secured loans, energy high yield bonds and energy equities have returned 15.8%, 26.7% and 6.2%, respectively, over the same period.[3,4,8]

Conclusion

While we continue to believe in the benefits of FSEP's energy-oriented credit strategy, the energy investing environment is vastly different today than it was at the time of FSEP's launch in 2011. This change caused us to reevaluate and update our assumptions around both the market opportunity and the asset manager best suited to deliver the greatest long-term value for FSEP shareholders going forward. To that end, in December 2017 FS Investments announced a partnership with EIG Global Energy Partners, a global alternative investment firm focused on energy and energy-related infrastructure.

Since 1982, EIG has been one of the leading providers of institutional capital to the global energy industry, providing financing solutions across the balance sheet for companies and projects in the oil and gas, midstream, infrastructure, power and renewables sectors globally. We believe partnering with a leading institutional manager focused exclusively on the energy industry will help create a platform with significant scale, enhanced deal flow, attractive proprietary investment opportunities and the ability to provide flexible financing solutions to a broader universe of energy companies and assets across the capital structure.

Since receiving the necessary shareholder approvals for FS and EIG to formalize its partnership to manage FSEP, we have focused on actively evaluating and selectively executing on opportunities to reduce broadly syndicated exposure where we believe downside risks outweigh upside potential. We also continue to monitor the portfolio for companies that may face liquidity or operational challenges in the quarters ahead and continue to work with these companies to maximize the outcome for our investors. Looking forward, we will continue to grow our direct origination pipeline and look to fully leverage both the size and scale of the combined FS Investments and EIG platforms to help generate positive returns for our investors.

SHAREHOLDER RETURNS AS OF 3/31/2018

(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**
-0.4%	-7.3%	-0.2%	1.0%	3.5%	26.2%	13.5%	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 and 1-year periods, 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 and 1-year periods 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 4.94% for the year ended December 31, 2017.

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 OilPrice.com, https://bit.ly/2uhUrFA.

3 Credit Suisse Leveraged Loan Index (energy component).

4 ICE BofAML U.S. High Yield Energy Index.

5 Bloomberg, https://bloom.bg/2F5k41p.

6 Federal Reserve Bank of St. Louis, https://bit.ly/292Tgue.

7 For more information on shareholder returns, see the table above. For the 12 months ended December 31, 2017, FSEP's distributions were sourced 90% from net investment income and 9% from expense reimbursement from FS Investments or its affiliate and 1% from distributions on account of investments in portfolio companies. Information related to the source of distributions for the quarter ended March 31, 2018 will be available in the FSEP 10-Q for the quarter ended March 31, 2018. 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 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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