

FS ENERGY & POWER FUND

Summary

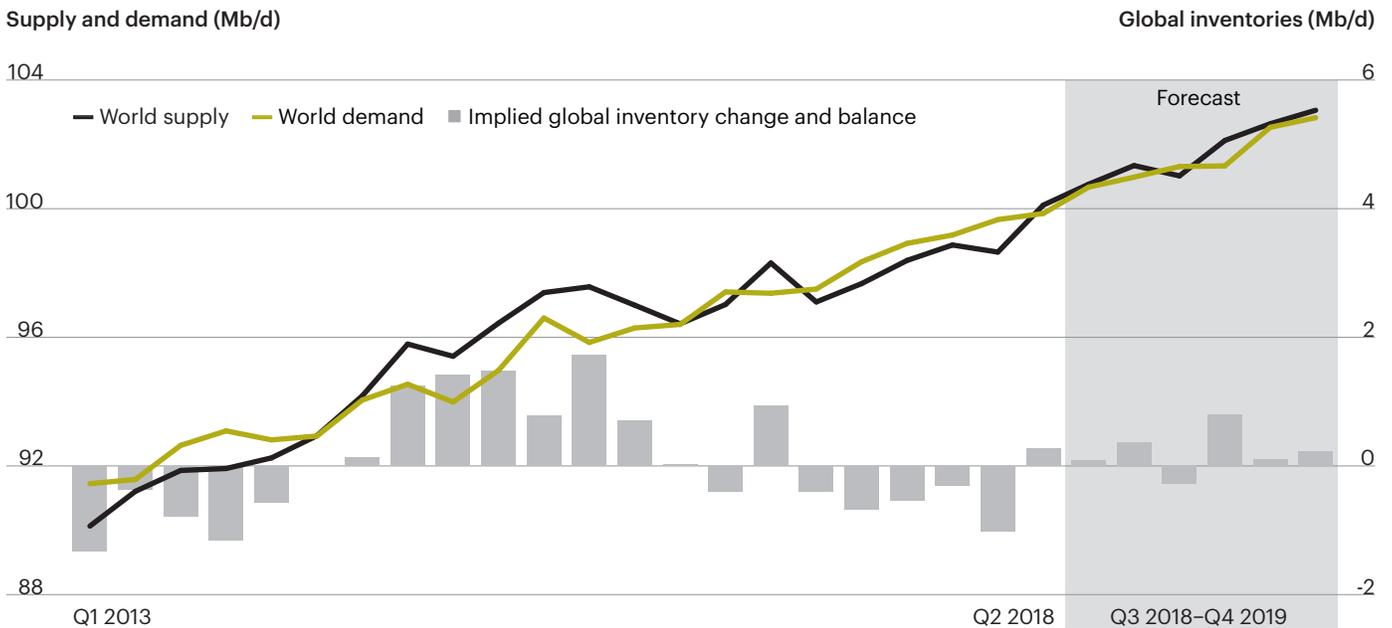
- Oil prices rose to 3.5-year highs on Iran-related supply concerns.^{1,2}
- Energy high yield bonds and senior secured loans rose in the second quarter amid stronger commodity prices.^{3,4}
- Global oil demand is expected to increase by 1.4 million barrels per day in 2019.⁵
- FS Energy & Power Fund (FSEP or the Fund) generated a shareholder-based total return of 2.7% in the second quarter and paid distributions of approximately \$0.13 per share, or 7.58% based on the distribution reinvestment price as of June 30, 2018.

Market review

Oil prices rallied toward quarter end, helped by tougher sanctions on Iranian oil and other potential disruptions to supply.^{1,2} With rising global demand and declining U.S. oil reserves as a backdrop, energy high yield bonds and energy senior secured loans both generated gains during the second quarter of 2018.^{3,4}

Oil prices rose to a 3.5-year high toward quarter end after the United States threatened to sanction countries that don't reduce their imports of Iranian oil to "zero" by November 4. With Iran exporting approximately 2.4 million barrels a day, the decision to cut off exports within five months threatens to reduce global oil supplies more than previously expected.² While higher U.S. and OPEC oil output in May contributed to a modest rise in global supply, risks to output lifted oil prices to multiyear highs by the end of the second quarter.¹ Meanwhile, global oil demand is expected to increase by 1.4 million barrels per day in 2018, potentially leading to a further tightening in spare capacity and shrinking excess supply.⁵

WORLD OIL SUPPLY AND DEMAND BALANCE



Source: U.S. Energy Information Administration, as of June 12, 2018, <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.

While oil prices rebounded sharply, natural gas prices remained near decade lows. Partly as a byproduct of shale oil production, U.S. natural gas production averaged over 74 billion cubic feet per day in 2017 and is expected to grow to nearly 80 billion cubic feet per day in 2018.⁶ This has continued to weigh on natural gas prices, which have recently stabilized near \$3 per million BTU, down from \$13 per million BTU in 2008.⁷

Performance review

FSEP paid distributions of approximately \$0.13 per share during the second quarter, or 7.58% based on the distribution reinvestment price as of June 30, 2018. FSEP's performance was positively impacted as a select number of the Fund's larger investments, which had weighed on performance in prior quarters, stabilized or improved during the quarter. For the three months ended June 30, 2018, FSEP generated a shareholder-based total return (without sales charge) of 2.7%.⁸ By comparison, high yield energy bonds and senior secured energy loans returned approximately 2.4% and 1.6%, respectively, over the same period.^{3,4}

As of June 30, 2018, FSEP's total shareholder return (without sales charge) since inception on July 18, 2011 was 29.6%.⁸ By comparison, energy senior secured loans, energy high yield bonds and energy equities have returned 16.9%, 27.0% and 14.7%, respectively, over the same period.^{3,4,9}

Conclusion

In executing on our transition plan with EIG Global Energy Partners, we are actively seeking to reduce the Fund's allocation to broadly syndicated investments, with proceeds being used to help fund new directly originated investments. Since announcing the partnership in December, FSEP has closed on approximately \$685 million of direct originations. Since then, we have continued to execute on EIG's "barbell strategy" by originating both high-quality first-lien senior secured loans and structured equity investments in order to achieve the Fund's objectives of generating both income and growth.

TOTAL RETURN SINCE FSEP'S INCEPTION ON JULY 18, 2011 (without sales charge)	
FSEP	29.6%
Energy HY	27.0%
Energy senior secured loans	16.9%
Energy equities	14.7%

SHAREHOLDER RETURNS AS OF 6/30/2018

(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
2.3%	0.1%	-0.3%	0.9%	3.8%	29.6%	16.6%	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 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 Federal Reserve Bank of St. Louis, <https://bit.ly/292Tgue>.

2 OilPrice.com, <https://bit.ly/2Newt3n>.

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

4 Credit Suisse Leveraged Loan Index (energy component).

5 International Energy Agency, Monthly Oil Market Report, June 13, 2018, <https://bit.ly/2uF5Nk4>.

6 U.S. Energy Information Administration, <https://bit.ly/2ziOqeo>.

7 Federal Reserve Bank of St. Louis, <https://bit.ly/2KPUFzG>.

8 For more information on shareholder returns, see the table above. For the 3 months ended March 31, 2018, FSEP's distributions were sourced 100% from net investment income. Information related to the source of distributions for the quarter ended June 30, 2018 will be available in the FSEP 10-Q for the quarter ended June 30, 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.

9 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.