INVESTMENTS®

Q3 Fund commentary

As of 9/30/2018

FS Energy & Power Fund

Summary

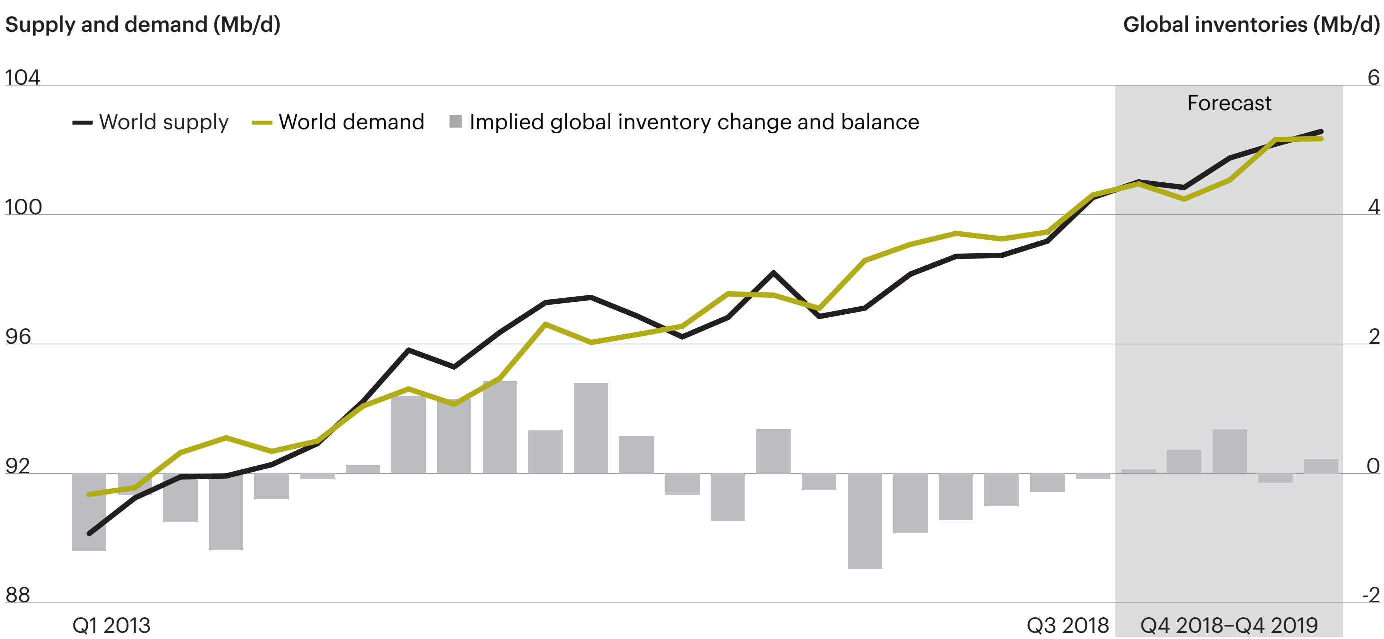
- Oil prices rose to 4-year highs on declining Iranian exports.[1,2]
- Global oil demand is expected to increase by 1.4 million barrels per day in 2019.[3]
- Energy high yield bonds and senior secured loans rose in the third quarter amid stronger commodity prices.[4,5]
- FS Energy & Power Fund (FSEP or the Fund) generated a shareholder-based total return of 2.7% in the third quarter and paid distributions of approximately $0.13 per share, or an annualized rate of 7.52% based on the distribution reinvestment price as of September 30, 2018.

Market review

Oil prices rallied in the third quarter, notching a fifth straight quarterly gain amid declining Iranian oil exports and Venezuelan supply disruptions.[1,2] While higher U.S. and OPEC oil output in September contributed to a rise in global supply, risks to output lifted oil prices to the highest levels since November 2014 by the end of the third quarter.[1] Meanwhile, global oil demand is expected to increase by 1.4 million barrels per day in 2019, potentially leading to a further tightening in spare capacity and shrinking excess supply.[3]

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 over 80 billion cubic feet per day in 2018.[6] This has continued to weigh on natural gas prices, which have recently stabilized below $3 per million BTU, down from $13 per million BTU in 2008.[7]

WORLD OIL SUPPLY AND DEMAND BALANCE



Source: U.S. Energy Information Administration, as of October 10, 2018, https://bit.ly/2D1XSDO.

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.

FS Investments and EIG partnership overview

Since announcing the partnership between FS Investments and EIG, FSEP has focused on deriving the full benefits of the joint venture in three key areas:

- First, the Fund has made significant progress toward its goal of investing 90% of the portfolio's assets in direct originations, which typically offer higher yields and the ability to negotiate structural protections through covenants. Direct originations have increased from 57% as of December 31, 2017, shortly following the announcement of the FS/EIG partnership, to 72% as of September 30, 2018.
- Second, FSEP has continued to execute on its barbell investment strategy by originating a combination of first-lien senior secured loans and income-producing preferred equity investments, which typically include a high current coupon, structural downside protection and some form of equity upside. Furthermore, FSEP increased its allocation to midstream and power investments, which FS/EIG believes tend to be more stable across commodity price cycles.
- Finally, FS/EIG has focused on increasing and optimizing the Fund's borrowing facilities. During the year, FSEP has gained over $1 billion of incremental direct origination capacity, which should help accelerate the repositioning of the portfolio.

These collective efforts are designed to increase the Fund's allocation to direct originations, grow portfolio yield, reduce portfolio volatility and improve distribution coverage over time.

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

FSEP	**33.0%**
Energy HY	30.8%
Energy senior secured loans	16.4%
Energy equities	19.3%

Performance review

FSEP paid distributions of approximately $0.13 per share during the third quarter, or an annualized rate of 7.52% based on the distribution reinvestment price of $6.65 per share as of September 30, 2018.

FSEP's net asset value increased quarter over quarter from $6.51 per share as of June 30, 2018 to $6.58 per share as of September 30, 2018. This marked the second consecutive quarterly increase in NAV. Performance was driven by stability in the majority of the portfolio and unrealized appreciation in a select number of investments, including a few positions which had weighed on performance in prior quarters. The notable contributors to NAV were within the Fund's EIG-originated preferred equity holdings as well as a select number of the Fund's legacy investments.

As of September 30, 2018, FSEP's total shareholder return (without sales charge) since inception on July 18, 2011 was 33.0%.[8] By comparison, energy senior secured loans, energy high yield bonds and energy equities have returned 16.4%, 30.8% and 19.3%, respectively, over the same period.[4,5,9]

During the third quarter, FSEP generated a shareholder-based total return (without sales charge) of 2.7%.[8] 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 third quarter of 2018, returning 2.4% and 2.8%, respectively.[4,5]

Q3 2018 DIRECT ORIGINATION ACTIVITY

1st lien loans	27%
2nd lien loans	46%
Preferred equity	27%

Investment activity

Investment activity focused on reducing the Fund's exposure to legacy broadly syndicated and other liquid investments and redeploying capital into EIG-sourced direct originations.

Total purchases during the third quarter were $502.7 million. FSEP committed approximately $134.9 million to new direct originations in the quarter. As of September 30, 2018, direct originations represented 72% of the portfolio based on fair value, up from 71% as of June 30, 2018 and 59% as of March 31, 2018.

Senior secured debt represented 73% of new direct originations during the third quarter. Approximately 27% of new direct originations during the quarter were in preferred equity investments, which typically include a high current coupon, contractual structural protections and some form of equity upside. In total FSEP has committed $900 million to EIG-sourced investments.

The balance of purchases was deployed into liquid investments in larger and what we believe are more stable companies compared to some of FSEP's legacy liquid investments. We expect a portion of such investments would be short-term holds in advance of funding direct originations in FSEP's investment pipeline.

Sales totaled approximately $307.8 million during the third quarter, composed primarily of liquid upstream and services and equipment companies as FS/EIG continues to rotate the portfolio to midstream and power businesses. The net result of sales activity represented further progress toward rotating the portfolio into investments we believe provide greater upside potential, higher current income and enhanced downside protection.

More broadly, as of September 30, 2018, senior secured debt investments represented approximately 58% of the portfolio's fair value and subordinated debt represented 21% of the portfolio's fair value. As of September 30, 2018, equity investments represented 21% of the portfolio based on fair value, unchanged from the three months ended June 30, 2018.

As of September 30, 2018, income-producing preferred equity investments represented approximately 10.7% of the portfolio based on fair value, or approximately half of all equity investments. It is important to note that EIG-originated preferred equity investments differ from typical preferred equity in that these investments are income-generating and typically include structural protections and significant asset coverage.

As of September 30, 2018, six legacy investments were on non-accrual, representing 3.1% of the Fund's portfolio based on fair value and 8.3% based on amortized cost. We expect one of these assets to be removed from non-accrual following quarter end.

Conclusion

Looking forward through year end and into 2019, FS and EIG will continue to focus on three key areas to help grow shareholder value: growing FSEP's allocation to EIG-sourced direct originations, reducing the Fund's allocation to liquid investments that we believe offer limited upside and optimizing the Fund's capital structure. We believe these combined efforts will help grow portfolio yield, reduce portfolio volatility and meet the Fund's income and return objectives for investors over the long term.

SHAREHOLDER RETURNS AS OF 9/30/2018

(without sales charge), compounded monthly						(with sales charge)	
YTD	**1 year**	**3 year** (annualized)	**5 year** (annualized)	**Since inception** (annualized)	**Cumulative total return since inception**	**Cumulative total return since inception**	**Inception date**
5.0%	0.9%	3.7%	1.1%	4.0%	33.0%	19.7%	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 Bloomberg, https://bloom.bg/2SjvvFt.

3 International Energy Agency, Monthly Oil Market Report, October 12, 2018, https://bit.ly/163iSG9.

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

5 Credit Suisse Leveraged Loan Index (energy component).

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 three months ended June 30, 2018, FSEP's distributions were sourced 100% from net investment income. Information related to the source of distributions for the quarter ended September 30, 2018 will be available in the FSEP 10-Q for the quarter ended September 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.

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