FS INVESTMENTS®

Fund commentary
Q1 2023

FS Energy & Power Fund

Summary

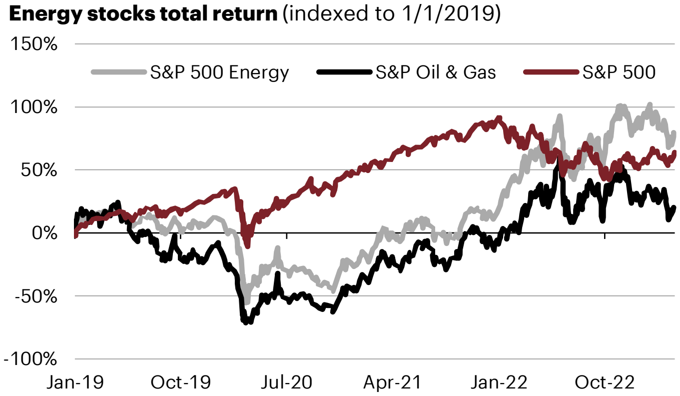
- Crude oil prices fell -5.6% during the first quarter of 2023, driven down by the prospect of weakening demand and slowing economic growth.[1] Natural gas prices fell -44.6% during the quarter and are down approximately -70% over the past two quarters amid sharply reduced demand driven by an extended period of unseasonably warm weather.[1]
- Energy credit was a relative bright spot as fixed income markets benefited from falling Treasury yields during the quarter. Energy high yield bonds returned 4.0% while energy senior secured loans returned 2.7%.[2,3]
- FS Energy & Power Fund (FSEP or the Fund) returned -1.8% during the first quarter driven by unrealized depreciation in the equity portfolio, primarily in restructured upstream equity holdings amid the lower commodity price environment.[4]
- FSEP's board declared a quarterly distribution of $0.03 per share on March 31, 2023, which was paid to shareholders on April 12, 2023.[5]

Market review

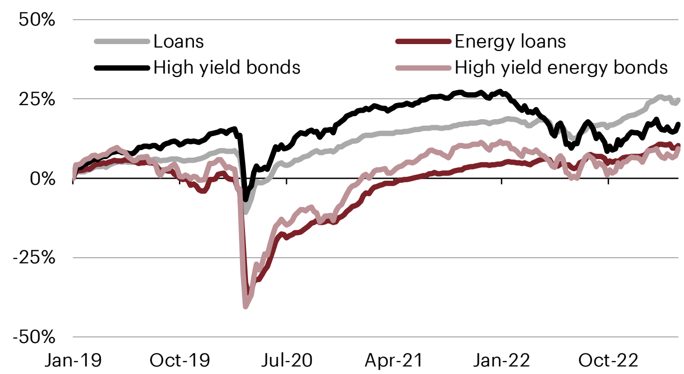
Crude oil prices fell -5.6% during the first quarter of 2023, driven down by the prospect of weakening demand and slowing economic growth.[1] Economic data and oil prices were largely resilient through much of the first quarter until financial conditions materially tightened in March amid regional bank stress in the U.S. Crude prices fell -17.0% peak to trough in March.[1] The longer-term outlook remains constructive as the International Energy Agency forecasts strong growth in demand for the balance of the year, from 710,000 barrels a day in Q1 2023 to 2.6 million barrels a day by year-end 2023, driven by rebounding air travel and growing Chinese demand.

Henry Hub natural gas spot prices were more volatile, falling -44.6% to end the first quarter at $1.95 per BTU.[1] Over the past two quarters, natural gas prices are down approximately -70% amid sharply reduced demand driven by an extended period of unseasonably warm weather across much of the United States during the fall and winter months combined with surging stockpiles.[1] Amid a resurgence in fracking in the U.S., natural gas production continues to rise exponentially, hitting a record 39 trillion cubic feet in 2022, according to the Energy Information Association, and doubling since 2006.

Energy stocks total return (indexed to 1/1/2019)



Energy credit total return (indexed to 1/1/2019)



Source: Bloomberg Finance, L.P., as of March 31, 2023. Energy loans are represented by the Credit Suisse Leveraged Loan Index (energy component). Loans are represented by the Credit Suisse Leveraged Loan Index, which is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market. High yield bonds are represented by the ICE BofAML High Yield Master II Index, which is designed to track the performance of U.S. dollar-denominated below investment grade corporate debt publicly issued in the U.S. domestic market. High yield energy bonds are represented by the ICE BofAML High Yield Energy Index.

Energy equity indices were challenged by falling commodity prices during the first quarter. The S&P 500 Index returned 7.5% during the quarter compared to -4.7% for the S&P 500 Energy Index and -5.4% for upstream equities. In contrast, energy high yield bonds and energy senior secured loans participated in the broader credit rally as Treasury yields declined, returning 4.0% and 2.7%, respectively, during the first quarter.[2,3]

Shareholder returns[2,3,4]
(without sales charge)

	Q1 2023	2022
FSEP	**-1.8%**	**11.5%**
Energy HY bonds	4.0%	-5.5%
Energy senior secured loans	2.7%	0.6%
Upstream equities	-5.4%	45.3%

Performance review

FSEP returned -1.8% in the first quarter of 2023, as distributions of $0.03 per share, which were paid to shareholders on April 12, 2023, were offset by the Fund's net asset value (NAV) declining approximately $0.10 per share during the quarter, to $3.78 per share as of March 31, 2023.[5]

The quarterly NAV decline was primarily driven by unrealized depreciation in the equity portfolio, primarily in two restructured upstream equity holdings amid the lower commodity price environment. Despite the quarterly decline, these companies continue to generate significant free cash flow and have minimal debt relative to their equity. To this end, we received sizable distributions from one of the Fund's largest equity positions in each of the past two quarters and expect the company will continue to pay distributions to the Fund throughout 2023.

Appreciation in the equity portfolio has represented the vast majority of NAV appreciation since Q1 2021 and, as we have communicated over the last several quarters, we continue to believe in the upside valuation potential of the equity portfolio. Our goal is to exit these positions over time and reinvest the capital into income-producing investments, as we focus on seeking to grow the portfolio's earnings power and provide investors with full liquidity over time. Timing for exiting equity investments continues to be highly dependent on market conditions and the sustained financial operations of the companies.

As of March 31, 2023, four investments were on nonaccrual, representing approximately 13.2% of the portfolio's fair value and approximately 16.6% based on amortized cost, compared to 10.8% and 14.4%, respectively, as of December 31, 2022. Nonaccruals were down from the Fund's pandemic-era high of 13.7% and 21.4%, respectively, as of March 31, 2021. The regular monthly cash distributions remain suspended given the concentration of non-income producing debt and equity investments, which represented 23.4% of the portfolio's fair value as of March 31, 2023.

Investment activity

One of our primary focuses in recent quarters has been ensuring the Fund remains well-positioned to repay its scheduled borrowings. To this end, FSEP fully repaid a $306 million term loan facility that matured in February 2023. Following quarter end, FSEP announced its intention to fully redeem $457 million of senior secured notes outstanding on May 15, 2023, ahead of the August 15, 2023 maturity date. The Fund will not incur any prepayment fees in connection with the debt repayment.

As of March 31, 2023, approximately 42% of the portfolio consisted of senior secured debt, unchanged from a quarter earlier. The allocation to unsecured debt was 8%, down from 12% as of December 31, 2022, and 16% as of March 31, 2022.

As of March 31, 2023, common equity/other investments represented approximately 23% of the portfolio's fair value with the majority of those investments comprised of restructured equity positions.

Preferred equity investments represented approximately 24% of the portfolio based on fair value as of March 31, 2023, compared to 20% as of March 31, 2022. For FSEP's preferred equity investments, we typically seek a high current coupon, structural downside protections and some form of equity upside.

Portfolio by asset type (based on fair value)	**12/31/2017**	**3/31/2023**
1st lien loans	23%	34%
2nd lien loans	20%	7%
Senior secured bonds	17%	1%
Unsecured debt	30%	8%
Preferred equity	2%	24%
Sustainable Infrastructure Investments, LLC	—	3%
Equity/other	8%	23%

We have grown the Fund's allocation to infrastructure assets, including midstream and power companies, which historically tend to have more predictable earnings than upstream companies. As of March 31, 2023, infrastructure assets represented 56% of the portfolio, compared to 53% the prior quarter and 17% as of December 31, 2017, immediately prior to the formation of the FS/EIG partnership. At the same time, we have significantly reduced the allocation to older-vintage upstream companies, as their performance tends to be more volatile.

Portfolio by subsector (based on fair value)	**12/31/2017**	**3/31/2023**
Upstream	64%	37%
Midstream	11%	33%
Downstream	1%	—
Power	6%	20%
Service & equipment	18%	6%
Industrials	—	1%
Sustainable Infrastructure Investments, LLC	—	3%

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/2Jg7WgX. Natural gas based on Henry Hub Natural Gas Spot Price. Crude oil refers to West Texas Intermediate (WTI) Crude prices.
2. ICE BofAML U.S. High Yield Energy Index.
3. S&P/LSTA Leveraged Loan Index (energy component).
4. For more information on shareholder returns, see the table on the last page. For the 12 months ended December 31, 2022, 100% of FSEP's cash distributions on a tax basis were sourced from net investment income. 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. There can be no assurance that the Fund will be able to pay distributions in the future. The timing and amount of any future distributions to shareholders are subject to applicable legal restrictions and the sole discretion of the Fund's board.

Additional resources

Please visit FSEP's webpage at **www.fsinvestments.com/investments/all-investments/fsep** or **www.fsinvestments.com/resources/fs-energy-power-fund-update** for additional resources.

Shareholder returns as of 3/31/2023
(Without sales charge), compounded monthly

1 year	3 year (annualized)	5 year (annualized)	10 year (annualized)	Since inception (annualized)	Cumulative total return since inception	(With sales charge) Cumulative total return since inception	Inception date
-0.77%	5.19%	-5.36%	-2.20%	-0.37%	-4.24%	-13.81%	July 18, 2011

Past performance is not a guarantee of future results. 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 1-year 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 1- and 3-year periods assume 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 annualized total expenses as a percentage of average net assets attributable to common shares was 6.78% for the 12 months ended December 31, 2022.

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 and other reports filed with the U.S. Securities and Exchange Commission.

- 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. Our share repurchase program contains numerous restrictions. In addition, we have currently suspended our share repurchase program. If we conduct quarterly tender offers for our common shares in the future, only a limited number of our common shares will be eligible for repurchase. 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.
- We invest in securities that are rated below investment grade by rating agencies or that would be rated below investment grade if they were rated. Below investment grade securities, which are often referred to as "junk," have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. They may also be difficult to value and illiquid.
- Our current 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 net asset value per share, 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 may be unable to sell our investments at favorable prices or at all.
- 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.
- Portions of our distributions to shareholders were funded from the reimbursement of certain expenses, including through the offset of certain investment advisory fees, that are subject to repayment to our affiliate, FS Investments, and our future distributions may be funded from such offsets and reimbursements. Significant portions of these distributions may not be based on our investment performance, and such offsets 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 offset of certain advisory fees, significant portions of these distributions would have 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.
- The global outbreak of COVID-19 (commonly known as the coronavirus) has caused volatility, severe market dislocations and liquidity constraints in many markets, including securities we hold, and has adversely affected our investments and operations. Such impacts may continue to adversely affect us, the performance of our investments and an investment in us.
- We expect that the recent market conditions may have a lasting and, in some instances, permanent impact on some of our portfolio companies as they struggle to meet covenant obligations and face insolvency in future periods. Poor performance or insolvency of our portfolio companies could have a material adverse impact on our financial condition and results of operations.

Cautionary Note Regarding Forward-Looking Statements

Statements included herein may constitute "forward-looking" statements as that term is defined in Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995, including statements with regard to future events or the future performance or operations of the Company. Words such as "intends," "will," "expects," and "may" or similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors could cause actual results to differ materially from those projected in these forward-looking statements. Factors that could cause actual results to differ materially include changes in the economy, geo-political risks, risks associated with possible disruption to the Company's operations or the economy generally due to hostilities, terrorism, natural disasters or pandemics such as COVID-19, future changes in laws or regulations and conditions in the Company's operating area, unexpected costs, disruptions in the oil and gas industry, the failure from time to time of oil-producing countries to reach agreements around crude oil production and such other factors that are disclosed in the Company's filings with the SEC. The inclusion of forward-looking statements should not be regarded as a representation that any plans, estimates or expectations will be achieved. Any forward-looking statements speak only as of the date of this communication. Except as required by federal securities laws, the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on any of these forward-looking statements.