INVESTMENTS®

Fund commentary

As of 9/30/2020
unless otherwise noted

Overall Morningstar Rating™

★★★★

based on the risk-adjusted returns out of 94 funds in the Energy Limited Partnership category as of 9/30/2020.[1]

Class I: FSEYX

FS Energy Total Return Fund

Performance (total returns)

	QTD	YTD	1 year	3 year	Since inception
FSEYX (inception 3/15/2017)	**-2.26%**	**-31.72%**	**-30.72%**	**-11.73%**	**-10.23%**
Morningstar Energy Limited Partnership category average[1]	-9.48%	-37.89%	-17.01%	-15.63%	-14.38%
AMEIX (Alerian Midstream Energy Select Index)	-9.12%	-36.79%	-35.21%	-14.07%	-11.69%
AMZX (Alerian MLP Index)	-16.25%	-46.15%	-48.35%	-20.75%	-11.58%
S&P 500 Energy Index (S&P Energy)	-19.72%	-48.09%	-45.24%	-20.42%	-17.14%
ICE BofAML U.S. High Yield Energy Index	2.65%	-17.63%	-15.24%	-6.01%	-3.56%

The expense ratios for Class I shares are 2.35% gross and 1.25% net.[2,3] Not all investors can invest in Class I shares, and performance from other share classes would be different. Performance data quoted represents past performance and is no guarantee of future results. Returns for time periods greater than one year are annualized. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost, and current performance may be lower or higher than the performance quoted. Please call 877-628-8575 or visit our website at www.fsinvestments.com for performance data current to the most recent month-end. One cannot invest directly in an index. See the index definitions on page 3.

Portfolio allocations

Asset class

Common equity	52%
Subordinated debt	8%
MLP equity	21%
Preferred equity	7%
Senior secured loans	9%
Other	3%

Composition[4]

Midstream	67%
Gathering & processing	31%
Pipeline transportation (natural gas)	25%
Pipeline transportation (petroleum)	10%
Marine transportation (LNG)	1%
Utility	11%
Renewables	9%
Exploration & production	5%
Liquefaction	3%
Services & equipment	3%
Integrated	2%

Quarterly commentary

After a strong recovery in Q2 on the back of rapidly declining global crude production and hopes of a demand rebound, the energy sector lost momentum in Q3 as crude prices moved sideways and concerns over weak energy demand continued. WTI crude prices finished the quarter about $1 higher, at $40.22/bbl, and remained rangebound for most of the past three months. Global liquid fuel production increased from a nadir of 88.5 MMbpd in June to 91.7 MMbpd in September, with the majority of production growth from OPEC, whose members continue to produce well below capacity. We believe the ability of OPEC and its affiliated countries to increase supply has put a cap on oil prices, and a robust recovery in energy demand is likely necessary for prices to rise considerably above $40/bbl. Global demand has improved but is still running about 7% below year-end 2019 levels. In the U.S., growth in demand for gasoline has leveled off recently after strong growth from Q1 lows. This uncertain demand outlook impacted energy markets in Q3, as S&P Energy fell -19.72% on the quarter and is now down -48.09% YTD. Midstream equities fared somewhat better thanks to more resilient earnings and lower commodity price exposure. High yield energy bonds gained 2.65% in Q3, riding the broader rally in credit.[5]

Contributors

- In a down quarter for traditional energy equity investments, the fund's allocations to renewables, midstream and credit drove outperformance in Q3.
- Renewables investments were the top performer during Q3, returning nearly 50% and adding 10% to fund performance. The top holding was Vivint Solar, which returned 134% due in part to the announcement that it would be acquired by Sunrun at a 10% premium.[5]
- While the fund's midstream performance lagged during Q3, the fund's MLP investments beat the AMZX by roughly 250 bps. As of quarter-end, MLPs accounted for roughly 21% of the portfolio.
- Investments in credit and preferred equity securities boosted relative performance over the past three months, as they have for much of this year. Two credit investments, Moss Creek Resources and KLX Energy Services, were among the top three contributors for the quarter, while two utility preferred equity investments returned 3.85%.

Detractors

- The fund's midstream equity investments, which currently make up about 59% of the portfolio, were the primary detractors in Q3. Pipeline-focused investments in particular underperformed.
- Kinder Morgan (KMI), which is among the fund's largest holdings, was the top detractor in Q3, returning -12.05% and detracting -3.70% from performance. While KMI's performance was in line with the broader midstream sector, the company reported Q2 earnings that missed estimates. Additionally, KMI lowered its 2020 EBITDA guidance slightly and indicated that capex could decline meaningfully in the future.[5]
- Each of the fund's five largest detractors for the quarter were midstream companies; the fund's lone integrated investment was Royal Dutch Shell, which fell -22.23% in Q3.[5]

The securities identified do not represent all of the securities purchased, sold or recommended. Holdings as of September 30, 2020 are subject to change, and any statement about a company is not an endorsement or recommendation to buy or sell any security. Past performance does not guarantee future results.

Outlook

This year has been a tumultuous one for energy markets, as the COVID-19 pandemic has restricted movement for much of the world's population, putting a dent in global energy consumption. Crude consumption increased significantly in Q3 following a low point in April, but still sits about 7% below 2019 levels and remains highly dependent upon the path of the pandemic across the globe.[5]

Against this backdrop, energy capital markets have struggled. After a partial rebound in Q2, markets lost momentum toward the end of Q3 and generally declined for the quarter. Crude prices have been supported by voluntary production cuts from OPEC+ and market-driven cuts in North America. However, crude prices around $40/bbl are not sufficient to incentivize incremental production, and thus U.S. rig counts are lower by 72% since the start of the year.[6]

There were some positive developments for the energy market in Q3. Rig counts stemmed their decline during the quarter as crude prices stabilized. Additionally, U.S. crude production rose modestly, from 10.4 MMbpd in June to 11.2 MMbpd in September. GDP growth in the U.S. is likely to show a more robust recovery in the third quarter, as consensus GDP estimates show an annualized gain of 20%–30%. Ultimately, the energy sector will need to see the economic recovery strengthen. Items to watch in Q4 include a potential fiscal stimulus bill and the U.S. presidential election.

We believe this market environment provides attractive investment opportunities, and that the fund's flexible mandate is best suited to capitalize on them. Valuations, especially for midstream companies, appear extremely cheap, especially as many midstream firms' financial results have remained solid. Additionally, the fund continues to allocate to other areas of the market such as renewables, utilities and credit, which can offer a blend of diversification, downside risk mitigation and upside potential. The energy sector offers a potentially unique opportunity for yield and capital appreciation given high dividend yields and compelling valuation in midstream, opportunities for yield and stability in utilities and credit, and strong growth potential in companies exposed to the energy transition including renewables and electrification.

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2 FS Energy Total Return Fund was re-organized into an open-end fund as part of FS Series Trust. FS Energy Total Return Fund previously operated as a closed-end interval fund (the "Predecessor Fund") and was reorganized into the Fund immediately prior to the opening of business on May 4, 2020. The gross and net expense ratio calculations are each a percentage of average net assets for year 1. The Fund's actual expense ratio may be different than the estimates listed.

3 The Adviser has entered into an expense limitation agreement with the Fund under which it has agreed to waive or reduce its fees and to assume other expenses of the Fund, if necessary, in an amount that limits "total annual fund operating expenses" (exclusive of management fees, distribution or servicing fees, interest, taxes, brokerage fees and commissions, dividends and interest paid on short positions, acquired fund fees and expenses and extraordinary expenses (as determined in the sole discretion of the Adviser)) to not more than 0.25% of the average daily net assets for the Fund until at least the date that is one year from the effective date of the Fund's prospectus. The Fund may terminate the expense limitation agreement at any time. The expense limitation agreement permits the Adviser to recoup waived or reimbursed amounts within the three-year period from the date of the waiver after the Adviser bears the expense, provided total expenses, including such recoupment, do not exceed the annual expense limit in effect at the time of such waiver and reimbursement or recoupment. The Adviser may recoup amounts previously waived for the Predecessor Fund prior to the reorganization subject to the above-referenced limitations.

4 Percentages may change over time depending on market conditions. Calculated as a percentage of fair value. Portfolio composition is calculated excluding cash.

5 Bloomberg Finance, L.P., as of September 30, 2020.

6 Bloomberg Finance, L.P., Baker Hughes, as of September 30, 2020.

Morningstar ratings are specific metrics of performance and do not represent absolute performance of any fund. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics. The Fund's other share classes may have different performance characteristics.

GLOSSARY OF TERMS

Basis points (bps) is a common unit of measure for interest rates and other percentages. One basis point is equal to 1/100 of 1%, or 0.01%, or 0.0001. **OPEC+** is an alliance consisting of the 14 members of OPEC, along with an additional 10 crude-producing nations.

INDEX DEFINITIONS

Alerian Midstream Energy Select Index is a composite of North American energy infrastructure companies and is a capped, float-adjusted, capitalization-weighted index, whose constituents are engaged in midstream activities involving energy commodities. **Alerian MLP Index** is the leading gauge of energy master limited partnerships (MLPs) and is a capped, float-adjusted, capitalization-weighted index, whose constituents represent approximately 85% of total float-adjusted market capitalization. **ICE BofAML U.S. High Yield Energy Index** is designed to track the performance of U.S. dollar-denominated high yield rated corporate debt publicly issued in the U.S. domestic energy market. **Morningstar Energy Limited Partnership** funds invest a significant amount of their portfolio in energy master limited partnerships. These include but are not limited to limited partnerships specializing in midstream operations in the energy industry. **S&P 500 Energy Index** comprises those companies included in the S&P 500 that are classified as members of the Global Industry Classification Standard (GICS) energy sector.

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An investment in FS Energy Total Return Fund (the Fund) 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 the Fund carefully before investing. The Fund's prospectus contains this and other information about the Fund. Investors may obtain a copy of the Fund's prospectus free of charge at www.fsinvestments.com or by contacting FS Investments at 201 Rouse Blvd., Philadelphia, PA 19112 or by phone at 877-628-8575. Investors should read and carefully consider all information found in the Fund's prospectus and other reports filed with the U.S. Securities and Exchange Commission before investing.

Investing in the Fund involves risk, including the risk that a shareholder may receive little or no return on their investment or that a shareholder may lose part or all of their investment. Investments in natural resource companies, MLPs, royalty trusts, equity securities (including dividend-paying securities, private investment in public equity transactions and securities of smaller capitalization companies), debt instruments, high yield instruments and U.S. government debt securities; energy commodity prices and the volume of, and demand for, energy commodities; the highly cyclical nature of the natural resource and energy sectors; fluctuations of interest rates; investments in non-U.S. securities and securities denominated in foreign currencies and the economic impact on the Fund's fixed income investments and investments in illiquid and restricted securities may create such risk.

Other risks relating to the Fund include risks resulting from: the Fund's lack of operating history; the relationship between FS Energy Advisor, LLC and Magnetar Asset Management, LLC, as well as each entity's experience in advising or sub-advising a registered investment company ("RIC"); the Fund's long-term investment horizon, management and dependence on key personnel; risks related to regulatory changes impacting investments in commodities and derivatives; the anti-takeover provisions in the Fund's declaration of trust and bylaws; the Fund's status as a non-diversified investment company; and the Fund's status as a RIC for U.S. federal income tax purposes.

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