FS INVESTMENTS®

Annual report 2016

ACCESS THE OPPORTUNITY IN ENERGY

FS ENERGY & POWER FUND

MICHAEL FORMAN

Chairman & Chief Executive Officer
FS Energy & Power Fund

Fellow Shareholder,

Tighter market conditions led to a more conservative approach and demand a focus on enhancing our investment platform going forward.

FS Energy & Power Fund's (FSEP) focus on long-term performance, the scale of its platform and a rebound in the energy credit markets resulted in positive total returns for our shareholders in 2016. While we are generally pleased with FSEP's results, tighter credit market conditions led to a more conservative investment approach and demand a continued focus on expanding and enhancing our investment platform going forward. We believe there are a number of strategies we can deploy in an attempt to enhance shareholder returns.

Oil prices remained generally supportive of energy credit in 2016, with momentum building toward year-end after the Organization of the Petroleum Exporting Countries agreed to cut production. Against the backdrop of reduced commodity price volatility, energy high yield bonds and energy senior secured loan prices appreciated throughout the year. It was a marked turnaround from the downdraft of 2015 when oil price declines contributed to significantly weaker secondary prices and wider clearing yields across the energy credit markets. Our long-term, non-traded business development company (BDC) structure allowed FSEP to weather the storm, preserve value and participate when the markets rebounded.

In last year's shareholder letter, written during the depths of the commodity price downturn, I stressed that volatile markets can present ideal investing opportunities for those with the patience to look past short-term sell-offs and with the right investment structure to capitalize on such opportunities. With the benefit of hindsight, it appears that the market dislocation of 2015 created an attractive entry point for those with the discipline and experience to take advantage of the opportunity.

Higher market prices contributed to appreciation in FSEP's net asset value (NAV), which as of December 31, 2016 was $7.61 per share, up from $6.50 per share as of December 31, 2015. For the full-year 2016, FSEP paid cash distributions of approximately $289 million, or $0.71 per share, and generated a NAV-based total return of approximately 28.0%.[1]

Since inception, FSEP generated a NAV-based cumulative total return of 31.7%.[2]

As of December 31, 2016, FSEP's total NAV-based return since inception on July 18, 2011 was 31.7%.[2] By comparison, energy senior secured loans and energy high yield bonds returned 6.5% and 18.9%, respectively, over the same period.[3,4] We believe this outperformance is, in part, due to the long-term nature of FSEP's strategy and the benefits of its unlisted fund structure, which position the fund to manage through market risks and buy assets that may be below their intrinsic values.

A REVIEW OF 2016

A cornerstone of our asset management business is a set of best practices designed to help mitigate risk for our investors. To deliver on this goal, we employ an adviser/sub-adviser structure, which allows the adviser and sub-adviser to focus on their respective core competencies. As the adviser, FS Investment Advisor, LLC and its team of investment professionals provide continuous oversight to FSEP and its sub-adviser to help ensure the interests of our shareholders are placed above all others.

Throughout 2016, we continued to leverage the capital base and BDC expertise of the FS Investments platform to structure and fund investments with attractive risk-adjusted return profiles. We maintained a focus on investing in senior secured and floating rate debt. As of December 31, 2016, approximately 55% of the fair value of FSEP's total investment portfolio was allocated to senior secured debt and 44% of the fair value of the total investment portfolio was allocated to floating rate debt.

While we try to avoid investments that may become distressed, when credits do underperform we welcome the opportunity to partner with our portfolio companies in an effort to maximize returns. We work hard as an equity owner and have many tools at our disposal in the event of a default or a restructuring. As of December 31, 2016, equity/other investments comprised approximately 18% of the investment portfolio, based upon fair value. This level of equity exposure is due, in part, to the restructuring of certain investments in our portfolio. Continued restructurings or defaults in our portfolio may have an impact on the level of income received by the fund.

Finally, FSEP closed to new investors in the fourth quarter of 2016 after raising approximately $4.4 billion in capital. As FSEP enters this new phase in its life cycle, we will seek to enhance the portfolio by continuing to transition from broadly syndicated credits into higher yielding, directly originated investments.

A LONG-TERM OUTLOOK

Looking forward to 2017, we believe there are several specific trends in the current investing environment that present both opportunities and challenges to FSEP's long-term strategy.

Amid declining yields across the corporate credit markets, we believe investing in the U.S. middle market offers the potential for strong returns relative to today's low-yield market environment. At the same time, given their potential for higher yields than those offered in the broadly syndicated markets, we anticipate increased competition within the middle market direct lending space from a growing number of BDCs and other non-bank lenders. We continue to seek out additional ways to enhance and diversify our platform, grow our key partnerships and provide financing to strong management teams in need of capital to build and grow business lines that complement our existing portfolio.

We at FS Investments believe our scale, relationships and experience will continue to benefit FSEP shareholders.

As the largest manager of BDCs, with more than $17 billion in BDC assets under management as of December 31, 2016, we believe our scale, relationships and experience will continue to benefit FSEP shareholders. Given the strength of our portfolio, we believe we are well positioned to generate positive returns for our shareholders over the long term. That said, we expect to continue to work to enhance our platform to meet the challenges ahead.

We look forward to an exciting and rewarding 2017. Thank you for your trust and investment in FSEP.

Sincerely,

MICHAEL FORMAN
Chairman & Chief Executive Officer
FS Energy & Power Fund

FSEP PORTFOLIO HIGHLIGHTS

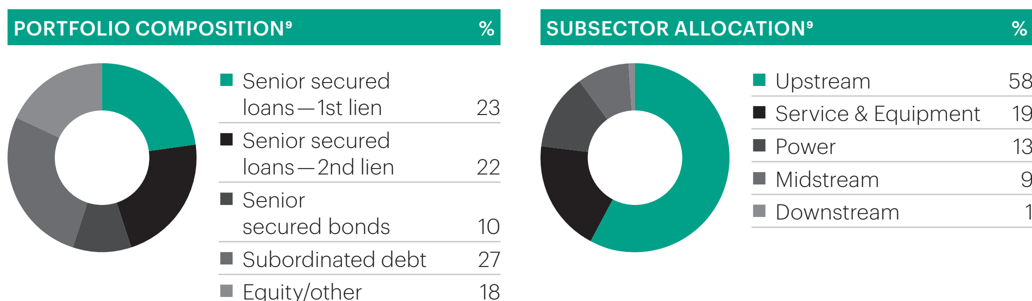
As of December 31, 2016 (unless otherwise noted)

Shareholder returns without sales charge, compounded monthly

PERFORMANCE

32.2% Cumulative total return since inception[5]	**5.2%** Annualized total return since inception[5]	**9.14%** Annualized distribution rate (as of February 28, 2017)[6]
$0.71 Total 2016 distributions per share[7]	**$4.4B** Capital raised since inception[8]	

Senior secured debt represented 55% of the fund's portfolio.[9]



PORTFOLIO COMPOSITION[9]	%
Senior secured loans—1st lien	23
Senior secured loans—2nd lien	22
Senior secured bonds	10
Subordinated debt	27
Equity/other	18

SUBSECTOR ALLOCATION[9]	%
Upstream	58
Service & Equipment	19
Power	13
Midstream	9
Downstream	1

TOP 10 HOLDINGS[9]
1 FourPoint Energy, LLC
2 Ascent Resources–Utica, LLC
3 Sunnova Energy Corp.
4 Canbriam Energy Inc.
5 Allied Wireline Services, LLC
6 Altus Power America, Inc.
7 Arena Energy, LP
8 Titan Energy Operating, LLC
9 Warren Resources, Inc.
10 Synergy Offshore, LLC

1 The total return (without assuming reinvestment of distributions) for the year ended December 31, 2016 was calculated by taking the net asset value per share as of December 31, 2016, adding the cash distributions per share that were declared during 2016 and dividing the total by the net asset value per share at the beginning of 2016. See footnote 5 to the table included in "Item 6. Selected Financial Data" in our annual report for additional information regarding the calculation of our total return (without assuming reinvestment of distributions).

2 Cumulative total return based on net asset value from inception (July 18, 2011) through December 31, 2016 equals the percentage change in FSEP's net asset value, adjusted for distributions, compounded quarterly.

3 Credit Suisse Leveraged Loan Index (Energy Component).

4 Bank of America Merrill Lynch High Yield Energy Index.

5 Represents the total return an investor received for the highlighted period taking into account all cash distributions paid during such period, compounded monthly. The calculation assumes that the investor purchased shares at FSEP's public offering price, excluding any selling commissions or dealer manager fees, at inception and reinvested all cash distributions pursuant to FSEP's distribution reinvestment plan. Valuation as of the end of the applicable period is the tender offer repurchase price pursuant to FSEP's share repurchase program on such date. The returns shown above do not include selling commissions and dealer manager fees, which could have totaled up to 10% of the public offering price. Had such selling commissions and dealer manager fees been included, the performance shown would be lower.

6 Annualized distribution rate is expressed as a percentage equal to the projected annualized distribution amount (which is calculated by annualizing the current regular monthly cash distribution per share as of February 28, 2017 without compounding), divided by the dividend reinvestment price per share as of such date. The annualized distribution rate shown may be rounded. For the year ended December 31, 2016, approximately 95% of FSEP's distributions were funded though net investment income and approximately 5% were funded through distributions on account of investments in portfolio companies, in each case on a tax basis. The actual tax characteristics of distributions to shareholders are reported to shareholders annually on Form 1099-DIV. No portion of FSEP's distributions during the quarter ended December 31, 2016 was funded through an expense reimbursement from the fund's sponsor. The distribution rate is not guaranteed and may change or be discontinued at any time. For the year ended December 31, 2016, the ratio of FSEP's total expenses to average net assets was 4.88%.

7 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 As of February 28, 2017. Includes proceeds received through FSEP's distribution reinvestment plan. Includes investments from investors affiliated with FS Investments and GSO / Blackstone, including certain members of the fund's board of trustees.

9 Calculated as a percentage of fair value. Fair value is determined by FSEP's board of trustees. Information concerning subsector allocations and representative portfolio holdings are as of December 31, 2016. Portfolio holdings are subject to change and, accordingly, there can be no assurance that FSEP will continue to hold positions in the companies identified above or with the subsector allocations above. While FSEP seeks to allocate its portfolio holdings across energy subsectors, there can be no assurance that it will be able to do so.

FSEP
OFFICERS + TRUSTEES

OFFICERS

Michael Forman
Chairman & Chief Executive Officer

Edward T. Gallivan, Jr.
Chief Financial Officer

Zachary K. Klehr
Executive Vice President

Gerald F. Stahlecker
Executive Vice President

Stephen S. Sypherd
Vice President, Treasurer and Secretary

James F. Volk
Chief Compliance Officer

BOARD OF TRUSTEES

Michael C. Forman
Chairman and Chief Executive Officer

David J. Adelman
Vice Chairman
President and Chief Executive Officer,
Campus Apartments Inc.

Michael J. Heller
Trustee
President and Chief Executive Officer,
Cozen O'Connor

Thomas J. Gravina
Trustee
Executive Chairman and Co-Founder,
GPX Enterprises, L.P.

Gregory P. Chandler
Trustee
Chief Financial Officer, Emtec, Inc.

Sidney R. Brown
Trustee
Chief Executive Officer, NFI, Inc.

Richard I. Goldstein
Trustee
Managing Director,
Liberty Associated Partners, LP

Charles P. Pizzi
Trustee
Retired President, Director
and Chief Executive Officer,
Tasty Baking Company

Richard W. Vague
Trustee
Managing Partner, Gabriel Investments

R. Richard Williams
Trustee
Retired Chief Executive Officer,
Valquip Corporation

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 814-00841

FS Energy and Power Fund

(Exact name of registrant as specified in its charter)

Delaware	**27-6822130**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
201 Rouse Boulevard Philadelphia, Pennsylvania	**19112**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (215) 495-1150

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Shares of Beneficial Interest, par value
$0.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒.

There is no established market for the Registrant's common shares of beneficial interest. The Registrant closed the public offering of its common shares in November 2016. The last offering price at which the registrant issued shares in its public offering was $8.35 per share. Since the registrant closed its public offering, it has continued to issue shares pursuant to its distribution reinvestment plan. The most recent price at which the registrant has issued shares pursuant to the distribution reinvestment plan was $7.75 per share.

There were 441,963,332 shares of the Registrant's common shares of beneficial interest outstanding as of March 1, 2017.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement relating to the Registrant's 2017 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Registrant's fiscal year, are incorporated by reference in Part III of this annual report on Form 10-K as indicated herein.

FS ENERGY AND POWER FUND

FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

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PART I

Many of the amounts and percentages presented in Part I have been rounded for convenience of presentation and all dollar amounts, excluding per share amounts, are presented in thousands unless otherwise noted.

Item 1. Business.

FS Energy and Power Fund, or the Company, which may also be referred to as "we," "us" or "our," was organized in September 2010 and commenced investment operations in July 2011. We are an externally managed, non-diversified, closed-end management investment company that has elected to be regulated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act. In addition, we have elected to be treated for U.S. federal income tax purposes, and intend to qualify annually, as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code. As of December 31, 2016, we had total assets of approximately $4.3 billion.

We are managed by FS Investment Advisor, LLC, or FS Advisor, a registered investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act, which oversees the management of our operations and is responsible for making investment decisions with respect to our portfolio. FS Advisor has engaged GSO Capital Partners LP, or GSO, to act as our investment sub-adviser. GSO assists FS Advisor in identifying investment opportunities and makes investment recommendations for approval by FS Advisor, according to guidelines set by FS Advisor. GSO, a registered investment adviser under the Advisers Act, oversaw approximately $93.3 billion in assets under management as of December 31, 2016. GSO is the credit platform of The Blackstone Group L.P., or Blackstone, a leading global alternative asset manager and provider of financial advisory services.

Our investment policy is to invest, under normal circumstances, at least 80% of our total assets in securities of energy and power, or Energy, companies. This investment policy may not be changed without at least 60 days' prior notice to holders of our common shares of any such change. We consider Energy companies to be those companies that engage in the exploration, development, production, gathering, transportation, processing, storage, refining, distribution, mining, generation or marketing of natural gas, natural gas liquids, crude oil, refined products, coal or power, including those companies that provide equipment or services to companies engaged in any of the foregoing. We concentrate our investments on debt securities in Energy companies that we believe have, or are connected to, a strong infrastructure and/or underlying asset base so as to enhance collateral coverage and downside protection for our investments. We may also make select equity investments in certain Energy companies meeting our investment objectives of current income generation and long-term capital appreciation. Our primary areas of focus will be the upstream, midstream, power and service and equipment sub-sectors of the Energy industry; however, we broadly define our "Energy Investment Universe" as follows:

- *Upstream*—businesses that find, develop and extract energy resources, including natural gas, crude oil and coal, from onshore and offshore reservoirs;
- *Midstream*—businesses that gather, process, store and transmit energy resources and their by-products, including businesses that own pipelines, gathering systems, gas processing plants, liquefied natural gas facilities and other energy infrastructure;
- *Downstream*—businesses that refine, market and distribute refined energy resources, such as customer-ready natural gas, propane and gasoline, to end-user customers;
- *Power*—businesses engaged in the generation, transmission and distribution of power and electricity or in the production of alternative energy; and
- *Service and Equipment*—businesses that provide services and/or equipment to aid in the exploration and production of oil and natural gas, including seismic, drilling, completion and production activities, as well as those companies that support the operations and development of power assets.

Our investment objectives are to generate current income and long-term capital appreciation. We seek to meet our investment objectives by:

- utilizing the experience and expertise of FS Advisor and GSO in sourcing, evaluating and structuring transactions;
- employing a conservative investment approach focused on current income and long-term investment performance;
- focusing primarily on debt investments in a broad array of private Energy companies within the United States;
- making select equity investments in certain Energy companies that have strong growth potential;
- investing primarily in established, stable enterprises with positive cash flow and strong asset and collateral coverage so as to limit the risk of potential principal loss; and
- maintaining rigorous portfolio monitoring in an attempt to anticipate and pre-empt negative events within our portfolio.

Our portfolio is comprised primarily of income-oriented securities, which refers to debt securities and income-oriented preferred and common equity interests, of privately-held Energy companies within the United States. We intend to weight our portfolio towards senior and subordinated debt. In addition to investments purchased from dealers or other investors in the secondary market, we expect to invest in primary market transactions and directly originated investments as this will provide us with the ability to tailor investments to best match a project's or company's needs with our investment objectives. Our portfolio may also be comprised of select income-oriented preferred or common equity interests, which refers to equity interests that pay consistent, high-yielding dividends, that we believe will produce both current income and long-term capital appreciation. These income-oriented preferred or common equity interests may include interests in master limited partnerships, or MLPs. MLPs are entities that (i) are structured as limited partnerships or limited liability companies, (ii) are publicly traded, (iii) satisfy certain requirements to be treated as partnerships for U.S. federal income tax purposes and (iv) primarily own and operate midstream and upstream Energy companies. In connection with certain of our debt investments or any restructurings of these debt investments, we may on occasion receive equity interests, including warrants or options, as additional consideration or otherwise in connection with a restructuring. In addition, a portion of our portfolio may be comprised of minority interests in the form of common or preferred equity or other equity-related securities, such as rights and warrants that may be converted into or exchanged for common stock or other equity or the cash value of common stock or other equity, in our target companies, as well as derivatives, including total return swaps and credit default swaps. Depending on market conditions, we may increase or decrease our exposure to less senior portions of the capital structure or other more opportunistic investments. We expect that the size of our individual investments will generally range between $5 million and $75 million each, although investments may vary proportionately as the size of our capital base changes and will ultimately be at the discretion of FS Advisor, subject to oversight by our board of trustees.

To seek to enhance our returns, we intend to employ leverage as market conditions permit and at the discretion of FS Advisor, but in no event will leverage employed exceed 50% of the value of our assets, as required by the 1940 Act.

During the year ended December 31, 2016, we made investments in portfolio companies totaling $1,488,179. During the same period, we sold investments for proceeds of $680,239 and received principal repayments of $544,813. As of December 31, 2016, our investment portfolio, with a total fair value of $3,910,440 (23% in first lien senior secured loans, 22% in second lien senior secured loans, 10% in senior secured bonds, 27% in subordinated debt and 18% in equity/other), consisted of interests in 84 portfolio companies. The portfolio companies that comprised our portfolio as of such date had an average annual earnings before interest, taxes, depreciation and amortization, or EBITDA, of approximately $304.3 million. As of December 31, 2016, the investments in our portfolio were purchased at a weighted average price of 97.2% of par value and our estimated gross annual portfolio yield, prior to leverage (which represents the expected yield to be generated by us on our investment portfolio based on the composition of our portfolio as of such date), was 8.8% based upon the amortized cost of our investments.

Based on our annual cash distribution amount of $0.7085 per share and our final public offering price of $8.35 per share, the annualized distribution rate to shareholders as of December 31, 2016 was 8.49%. Based on our annual cash distribution amount of $0.7085 per share and the price at which we issued shares pursuant to our distribution reinvestment plan of $7.70 per share, the annualized distribution rate to shareholders as of December 31, 2016 was 9.20%. The annualized distribution rate to shareholders, in each case, is expressed as a percentage equal to the annual cash distribution amount per share, divided by our final public offering price per share or our distribution reinvestment price, as applicable, as of the dates indicated above.

Our estimated gross portfolio yield may be higher than an investor's yield on an investment in our common shares. Our estimated gross portfolio yield does not reflect operating expenses that may be incurred by us. Our estimated gross portfolio yield and annualized distribution rate to shareholders do not represent actual investment returns to shareholders, are subject to change and, in the future, may be greater or less than the rates set forth above. See "Item 1A. Risk Factors" for a discussion of the uncertainties, risks and assumptions associated with these statements.

As a BDC, we are subject to certain regulatory restrictions in making our investments. For example, BDCs generally are not permitted to co-invest with certain affiliated entities in transactions originated by the BDC or its affiliates in the absence of an exemptive order from the U.S. Securities and Exchange Commission, or SEC. However, BDCs are permitted to, and may, simultaneously co-invest in transactions where price is the only negotiated term. In an order dated June 4, 2013, the SEC granted exemptive relief permitting us, subject to the satisfaction of certain conditions, to co-invest in certain privately negotiated investment transactions with certain affiliates of FS Advisor, including FS Investment Corporation, FS Investment Corporation II, FS Investment Corporation III, FS Investment Corporation IV and any future BDCs that are advised by FS Advisor or its affiliated investment advisers, or collectively, our co-investment affiliates. We believe this relief has and may continue to enhance our ability to further our investment objectives and strategy. We believe this relief may also increase favorable investment opportunities for us, in part, by allowing us to participate in larger investments, together with our co-investment affiliates, than would be available to us if such relief had not been obtained. Because we did not seek exemptive relief to engage in co-investment transactions with GSO and its affiliates, we will continue to be permitted to co-invest with GSO and its affiliates only in accordance with existing regulatory guidance (e.g., where price is the only negotiated term).

While a BDC may list its shares for trading in the public markets, we have currently elected not to do so. We believe that a non-traded structure is more appropriate for the long-term nature of the assets in which we invest. This structure allows us to operate with a long-term view, similar to that of other types of private investment funds, instead of managing to quarterly market expectations. Furthermore, while our distribution reinvestment and share repurchase prices are subject to adjustment in accordance with the 1940 Act and our share pricing policy, because our common shares will not be listed on a national securities exchange, our shareholders will not be subject to the daily share price volatility associated with the public markets. However, the net asset value of our common shares may be volatile.

Public Offering of Shares

In November 2016, we closed our continuous public offering of shares to new investors. We sold 449,543,498 common shares (as adjusted for share distributions) for gross proceeds of $4,362,119, including common shares issued under our distribution reinvestment plan, in our continuous public offering.

Share Repurchase Program

To provide our shareholders with limited liquidity, we intend to continue to conduct quarterly tender offers pursuant to our share repurchase program. During the year ended December 31, 2016, we repurchased 9,685,608 common shares at an average price per share of $6.949 for aggregate consideration totaling $67,307. During the year ended December 31, 2015, we repurchased 4,833,902 common shares at an average price per share of $8.277 for aggregate consideration totaling $40,009. During the year ended December 31, 2014, we repurchased 1,041,178 common shares at an average

price per share of $9.856 for aggregate consideration totaling $10,262. On January 3, 2017, we repurchased 2,239,480 common shares at $7.700 per share for aggregate consideration totaling $17,244.

We currently intend to limit the number of common shares to be repurchased during any calendar year to the number of common shares we can repurchase with the proceeds we receive from the issuance of common shares under our distribution reinvestment plan. At the discretion of our board of trustees, we may also use cash on hand, cash available from borrowings and cash from the liquidation of securities investments as of the end of the applicable period to repurchase common shares. In addition, we will limit the number of common shares to be repurchased in any calendar year to 10% of the weighted average number of common shares outstanding in the prior calendar year, or 2.5% in each quarter, though the actual number of common shares that we offer to repurchase may be less in light of the limitations listed above.

On October 13, 2016, we amended the terms of our share repurchase program, or the amended share repurchase program, which was first effective for our quarterly repurchase offer for the fourth quarter of 2016. Prior to amending the share repurchase program, we offered to repurchase common shares at a price equal to 90% of the offering price in effect on the date of repurchase. Under the amended share repurchase program, we intend to offer to repurchase common shares at a price equal to the price at which common shares are issued pursuant to our distribution reinvestment plan on the distribution date coinciding with the applicable share repurchase date. The price at which common shares are issued under our distribution reinvestment plan is determined by our board of trustees or a committee thereof, in its sole discretion, and will be (i) not less than the net asset value per common share as determined in good faith by our board of trustees or a committee thereof, in its sole discretion, immediately prior to the payment date of the distribution and (ii) not more than 2.5% greater than the net asset value per common share as of such date. Our board of trustees may amend, suspend or terminate the share repurchase program at any time upon 30 days' notice.

Distributions

Effective November 30, 2016 and subject to applicable legal restrictions and the sole discretion of our board of trustees, we intend to authorize, declare and pay ordinary cash distributions on a monthly basis. From time to time, we may also pay special interim distributions in the form of cash or common shares at the discretion of our board of trustees. The timing and amount of any future distributions to shareholders are subject to applicable legal restrictions and the sole discretion of our board of trustees.

The following table reflects the cash distributions per share that we have declared and paid on our common shares during the years ended December 31, 2016, 2015 and 2014:

For the Year Ended December 31,	Distribution Per Share	Distribution Amount
2014	$0.6882	$163,043
2015	$0.7085	$238,833
2016	$0.7085	$288,982

On December 23, 2016, January 30, 2017 and February 27, 2017, our board of trustees declared regular monthly cash distributions for January 2017, February 2017 and March 2017, respectively. These distributions have been or will be paid monthly to shareholders of record as of monthly record dates previously determined by our board of trustees in the amount of $0.059042 per share.

For additional information regarding our distributions and our distribution reinvestment plan, including certain related tax considerations, see "Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities—Distributions" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—RIC Status and Distributions."

About FS Advisor

FS Advisor is a subsidiary of our affiliate, Franklin Square Holdings, L.P. (which does business as FS Investments), or FS Investments, a national sponsor of alternative investments designed for the individual investor. FS Advisor is registered as an investment adviser with the SEC under the Advisers

Act and is led by substantially the same personnel that form the investment and operations team of FB Income Advisor, LLC, FSIC II Advisor, LLC, FSIC III Advisor, LLC, FSIC IV Advisor, LLC, FS Global Advisor, LLC and FS Energy Advisor, LLC, FB Income Advisor, LLC, FSIC II Advisor, LLC, FSIC III Advisor, LLC and FSIC IV Advisor, LLC are registered investment advisers that manage FS Investments' four other affiliated BDCs, FS Investment Corporation, FS Investment Corporation II, FS Investment Corporation III and FS Investment Corporation IV, respectively. FS Global Advisor, LLC is a registered investment adviser that manages FS Investments' affiliated closed-end management investment company, FS Global Credit Opportunities Fund. FS Energy Advisor, LLC is a registered investment adviser that manages FS Investments' affiliated closed-end management investment company which operates as an interval fund, FS Energy Total Return Fund.

In addition to managing our investments, the managers, officers and other personnel of FS Advisor also currently manage the following entities through affiliated investment advisers:

Name	Entity	Investment Focus	Gross Assets[1]
FS Investment Corporation	BDC	Primarily invests in senior secured loans, second lien secured loans and, to a lesser extent, subordinated loans of private U.S. companies.	$4,110,071
FS Investment Corporation II	BDC	Primarily invests in senior secured loans, second lien secured loans and, to a lesser extent, subordinated loans of private U.S. companies.	$4,967,858
FS Investment Corporation III	BDC	Primarily invests in senior secured loans, second lien secured loans and, to a lesser extent, subordinated loans of private U.S. companies.	$3,662,739
FS Investment Corporation IV	BDC	Primarily invests in senior secured loans, second lien secured loans and, to a lesser extent, subordinated loans of private U.S. companies.	$ 176,089
FS Global Credit Opportunities Fund[2]	Closed-end management investment company	Primarily invests in secured and unsecured floating and fixed rate loans, bonds and other types of credit instruments.	$1,971,450
FS Energy Total Return Fund[3]	Closed-end management investment company	Primarily invests in the equity and debt securities of natural resource companies.	—

(1) As of December 31, 2016.

(2) Two funds affiliated with FS Global Credit Opportunities Fund, FS Global Credit Opportunities Fund—T and FS Global Credit Opportunities Fund ADV, or together, the FSGCOF Offered Funds, which have the same investment objectives and strategy as FS Global Credit Opportunities Fund, currently offer common shares of beneficial interest to the public and invest substantially all of the net proceeds of their respective offerings in FS Global Credit Opportunities Fund. Two other funds affiliated with FS Global Credit Opportunities Fund, FS Global Credit Opportunities Fund—A and FS Global Credit Opportunities Fund—D, or together, the FSGCOF Closed Funds, which also have the same investment objectives and strategy as FS Global Credit Opportunities Fund, closed their respective continuous public offerings to new investors in April 2016.

(3) The managers, officers and other personnel of FS Advisor will also manage FS Energy Total Return Fund, which as of December 31, 2016 had not commenced investment operations through an affiliated investment adviser, FS Energy Advisor, LLC.

Our chairman, president and chief executive officer, Michael C. Forman, has led FS Advisor since its inception. In 2007, he co-founded FS Investments with the goal of delivering alternative investment solutions, advised by what FS Investments believes to be best-in-class institutional asset managers, to individual investors nationwide. In addition to leading FS Advisor, Mr. Forman currently serves as chairman, president and chief executive officer of FB Income Advisor, LLC, FSIC II Advisor, LLC, FS Investment Corporation II, FSIC III Advisor, LLC, FS Investment Corporation III, FSIC IV Advisor, LLC, FS Investment Corporation IV, FS Global Advisor, LLC, FS Global Credit Opportunities Fund, FSGCOF Offered Funds, FS Energy Advisor, LLC and FS Energy Total Return Fund. Mr. Forman also currently serves as chairman and chief executive officer of FS Investment Corporation.

FS Advisor's senior management team has significant experience in private lending and private equity investing, and has developed an expertise in using all levels of a firm's capital structure to produce income-generating investments, while focusing on risk management. The team also has extensive knowledge of the managerial, operational and regulatory requirements of publicly registered alternative asset entities, such as BDCs. We believe that the active and ongoing participation by FS Investments and its affiliates in the credit markets, and the depth of experience and disciplined investment approach of FS Advisor's management team, will allow FS Advisor to successfully execute our investment strategy.

All investment decisions require the unanimous approval of FS Advisor's investment committee, which is currently comprised of Mr. Forman, Gerald F. Stahlecker, Zachary Klehr and Sean Coleman. Our board of trustees, including a majority of independent trustees, oversees and monitors our investment performance and annually reviews the investment advisory and administrative services agreement and the investment sub-advisory agreement to determine, among other things, whether the fees payable under such agreements are reasonable in light of the services provided.

About GSO

From time to time, FS Advisor may enter into sub-advisory relationships with registered investment advisers that possess skills that FS Advisor believes will aid it in achieving our investment objectives. FS Advisor has engaged GSO to act as our investment sub-adviser. GSO assists FS Advisor in identifying investment opportunities and makes investment recommendations for approval by FS Advisor, according to guidelines set by FS Advisor. GSO also serves as the investment sub-adviser to FS Global Credit Opportunities Fund. In addition, GSO's wholly-owned subsidiary, GSO/Blackstone Debt Funds Management LLC, or GDFM, serves as the investment sub-adviser to FS Investment Corporation, FS Investment Corporation II, FS Investment Corporation III and FS Investment Corporation IV. GSO is a Delaware limited partnership with principal offices located at 345 Park Avenue, New York, New York 10154.

GSO is the credit platform of Blackstone, a leading global alternative asset manager. As of December 31, 2016, GSO and its affiliates, excluding Blackstone, managed approximately $93.3 billion of assets across multiple strategies and investment types within the leveraged finance marketplace, including leveraged loans, high-yield bonds, distressed, mezzanine and private equity. GSO has extensive experience investing in Energy companies. From 2005 through 2016, funds managed by GSO have invested over $17 billion in Energy companies. As investment sub-adviser, GSO utilizes its experience in Energy investing and makes recommendations to FS Advisor in a manner that is consistent with its existing investment and monitoring processes.

Blackstone is a leading global alternative asset manager and provider of financial advisory services. It is one of the largest independent managers of private capital in the world, with assets under management of approximately $366.6 billion as of December 31, 2016. Blackstone's alternative asset management businesses include the management of private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, collateralized loan obligation vehicles, separately managed accounts and publicly-traded closed-end mutual funds. Blackstone is a publicly-traded limited partnership that has common units which trade on the New York Stock Exchange LLC under the ticker symbol "BX." Information about Blackstone and its various affiliates, including certain ownership, governance and financial information, is disclosed in Blackstone's periodic filings with the SEC, which can be obtained from Blackstone's website at *http://ir.blackstone.com* or the SEC's website at *www.sec.gov*. Information contained on Blackstone's website and in Blackstone's filings with the SEC are not incorporated by reference into this annual report on Form 10-K and shareholders should not consider that information to be part of this annual report on Form 10-K.

Market Opportunity

With oil prices benefiting from the Organization of the Petroleum Exporting Countries' decision to cut production in November 2016, performance of energy high yield bonds and energy senior secured loans remained positive during the fourth quarter of 2016. Largely range-bound between $40 and $50 per barrel throughout November 2016, oil prices ended 2016 at a 17-month high as the agreed-to 1.8 million barrel-per-day output cut was set to take effect. The "spread-to-worst" of the Bank of America Merrill Lynch High Yield Energy Index, or the Energy Index, which measures the difference from the Energy Index's worst performing security to Treasuries, tightened over the quarter ended December 31, 2016 from 643 basis points as of September 30, 2016 to 454 basis points as of December 31, 2016. Overall, the Energy Index ended the fourth quarter of 2016 with a yield-to-worst of 6.4% after reaching levels earlier in the year not seen since November 2008.

West Texas Intermediate (WTI) crude prices, which began the year at $36.76 per barrel, reached an eleven month high on June 8, 2016 and ended at $53.72 per barrel as of December 31, 2016. The average par weighted price of the Energy Index began the year at $64.89, reached a year-to-date low of

$52.17 on February 11, 2016 and significantly rebounded to $97.83 as of December 31, 2016. Since December 31, 2016, OPEC's high deal compliance rate continued to push oil prices higher, though rising inventory levels remain an overhang for the industry.

Characteristics of and Risks Related to Investments in Private Companies

We invest primarily in income-oriented securities of privately-held Energy companies within the United States. Investments in private companies pose significantly greater risks than investments in public companies. First, private companies have reduced access to the capital markets, resulting in diminished capital resources and ability to withstand financial distress. As a result, these companies, which may present greater credit risk than public companies, may be unable to meet the obligations under their debt and equity securities that we hold. Second, the investments themselves may often be illiquid. The securities of many of the companies in which we invest are not publicly traded or actively traded on the secondary market and are, instead, traded on a privately negotiated over-the-counter secondary market for institutional investors. In addition, our directly originated investments generally will not be traded on any secondary market, and a trading market for such investments may not develop. These securities may also be subject to legal and other restrictions on resale. As such, we may have difficulty exiting an investment promptly or at a desired price prior to maturity or outside of a normal amortization schedule. These investments may also be difficult to value because little public information generally exists about private companies, requiring an experienced due diligence team to analyze and value the potential portfolio company. Finally, these companies may not have third-party debt ratings or audited financial statements. We must therefore rely on the ability of FS Advisor and/or GSO to obtain adequate information through their due diligence efforts to evaluate the creditworthiness of, and risks involved in investing in, these companies, and to determine the optimal time to exit an investment. These companies and their financial information will also generally not be subject to the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and other rules and regulations that govern public companies that are designed to protect investors.

Investment Strategy

Our investment policy is to invest, under normal circumstances, at least 80% of our total assets in securities of Energy companies. This investment policy may not be changed without at least 60 days' prior notice to holders of our common shares of any such change. In accordance with the best interests of our shareholders, FS Advisor monitors our targeted investment mix as economic conditions evolve.

When identifying prospective portfolio companies, we focus primarily on the attributes set forth below, which we believe help us generate higher total returns with an acceptable level of risk. While these criteria provide general guidelines for our investment decisions, we caution investors that, if we believe the benefits of investing are sufficiently strong, not all of these criteria necessarily will be met by each prospective portfolio company in which we choose to invest. These attributes are:

- *Deeply-rooted asset value.* We seek to invest in companies that have significant asset value rather than speculative investments that rely solely on rising energy commodity prices, exploratory drilling success or factors beyond the control of a portfolio company. We focus on Energy companies that have strong potential for enhancing asset value through factors within their control. Examples of these types of factors include operating cost reductions and revenue increases driven by improved operations of previously under-performing or under-exploited assets. Such investments are expected to have significant collateral coverage and downside protection irrespective of the broader economy.

- *Defensible market positions.* We seek to invest in companies that have developed strong positions within their sub-sector and exhibit the potential to maintain sufficient cash flows and profitability to service our debt in a range of economic environments. We seek companies that can protect their competitive advantages through scale, scope, customer loyalty, product pricing or product quality versus their competitors, thereby minimizing business risk and protecting profitability.

- *Proven management teams.* We focus on companies that have experienced management teams with an established track record of success. We typically require our portfolio companies to have proper incentives in place, which may include non-cash and performance-based compensation, to align management's goals with ours.

- *Commodity price management.* We seek to invest in companies that appropriately manage their commodity price exposure through the use of hedging with highly-rated counterparties, contracts such as power purchase agreements or tolling agreements and other instruments that seek to minimize the company's exposure to significant commodity price swings.
- *Allocation among various issuers and sub-sectors.* We seek to allocate our portfolio broadly among issuers and sub-sectors within the Energy Investment Universe, thereby attempting to reduce the risk of a downturn in any one company or sub-sector having a disproportionate adverse impact on the value of our portfolio.
- *Viable exit strategy.* While we attempt to invest in securities that may be sold in a privately negotiated over-the-counter market, providing us a means by which we may exit our positions, we expect that a large portion of our portfolio may not be sold on this secondary market. For any investments that are not able to be sold within this market, we focus primarily on investing in companies whose business models and growth prospects offer attractive exit possibilities, including repayment of our investments, an initial public offering of equity securities, a merger, a sale or a recapitalization, in each case with the potential for capital gains.

In addition, in an order dated June 4, 2013, the SEC granted exemptive relief that, subject to the satisfaction of certain conditions, expanded our ability to co-invest in certain privately negotiated investment transactions with our co-investment affiliates, which we believe has and may continue to enhance our ability to further our investment objectives and strategy.

Potential Competitive Strengths

We believe that we offer investors the following potential competitive strengths:

Global Platform with Seasoned Investment Professionals.

We believe that the breadth and depth of the experience of FS Advisor's senior management team, with the resources of GSO's investment team, which together are dedicated to sourcing, structuring, executing, monitoring and harvesting a broad range of private investments, provides us with a significant competitive advantage in sourcing and analyzing what we believe to be attractive investment opportunities.

Long-term Investment Horizon.

Our long-term investment horizon gives us great flexibility, which we believe allows us to maximize returns on our investments. Unlike most private equity and venture capital funds, we are not required to return capital to our shareholders once we exit a portfolio investment. Such funds typically can only be invested once and must be returned to investors after a specific time period. These provisions often force private equity and venture capital funds to seek liquidity events, including initial public offerings, mergers or recapitalizations, more quickly than they otherwise might, potentially resulting in a lower return to investors. We believe that freedom from such capital return requirements, which allows us to invest using a longer term focus, provides us with the opportunity to increase total returns on invested capital, compared to other private company investment vehicles.

GSO Transaction Sourcing Capability.

FS Advisor seeks to leverage GSO's access to transaction flow. GSO seeks to generate investment opportunities through syndicate and club deals (generally, investments made by a small group of investment firms), through its trading platform, relationships with investment banks, which may be exclusive to GSO, and, subject to regulatory constraints as discussed under "—Regulation" and the allocation policies of GSO and its affiliates, as applicable, also through GSO's direct origination channels. These include significant contacts to participants in the credit and leveraged finance marketplace, which it can draw upon in sourcing investment opportunities for us. With respect to syndicate and club deals, GSO has built a network of relationships with commercial and investment banks, finance companies and other investment funds as a result of the long track record of its investment professionals in the leveraged finance marketplace. With respect to GSO's origination channel, FS Advisor seeks to leverage the global presence of GSO and its long-standing personal

contacts within the Energy industry to generate access to directly originated transactions with attractive investment characteristics. GSO also has a trading platform, which, we believe, allows us access to the secondary market for investment opportunities.

Disciplined, Income-Oriented Investment Philosophy.

FS Advisor and GSO employ a conservative investment approach focused on current income and long-term investment performance. This investment approach involves a multi-stage selection process for each investment opportunity, as well as ongoing monitoring of each investment made, with particular emphasis on early detection of deteriorating credit conditions at portfolio companies which would result in adverse portfolio developments. This strategy is designed to maximize current income and minimize the risk of capital loss while maintaining the potential for long-term capital appreciation.

Investment Expertise Across All Levels of the Corporate Capital Structure.

FS Advisor and GSO believe that their broad expertise and experience investing at all levels of a company's capital structure enable us to manage risk while affording us the opportunity for significant returns on our investments. We attempt to capitalize on this expertise in an effort to produce and maintain an investment portfolio that will perform in a broad range of economic conditions. In addition, we seek to leverage this broad-ranging capability to enable us to provide Energy companies with financing that most closely aligns with their particular capital needs. We believe that such flexibility is valuable to Energy companies and provides us with a competitive advantage over other capital providers that are more limited in the securities in which they invest.

Operating and Regulatory Structure

Our investment activities are managed by FS Advisor and supervised by our board of trustees, a majority of whom are independent. Under the investment advisory and administrative services agreement, we have agreed to pay FS Advisor an annual base management fee based on the average value of our gross assets as well as incentive fees based on our performance. See "See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations" for a description of the fees we pay to FS Advisor.

From time to time, FS Advisor may enter into sub-advisory relationships with registered investment advisers that possess skills or attributes that FS Advisor believes will aid it in achieving our investment objectives. FS Advisor has engaged GSO to act as our investment sub-adviser. GSO assists FS Advisor in identifying investment opportunities and makes investment recommendations for consideration and approval by FS Advisor according to guidelines set by FS Advisor. FS Advisor oversees GSO and our day-to-day operations, including the provision of general ledger accounting, fund accounting, legal services, investor relations and other administrative services. FS Advisor also performs, or oversees the performance of, our corporate operations and required administrative services, which includes being responsible for the financial records that we are required to maintain and preparing reports for our shareholders and reports filed with the SEC. In addition, FS Advisor assists us in calculating our net asset value, overseeing the preparation and filing of tax returns and the printing and dissemination of reports to our shareholders, and generally overseeing the payment of our expenses and the performance of administrative and professional services rendered to us by others.

We reimburse FS Advisor for expenses necessary to perform services related to our administration and operations, including FS Advisor's allocable portion of the compensation and related expenses of certain personnel of FS Investments providing administrative services to us on behalf of FS Advisor. The amount of this reimbursement is set at the lesser of (1) FS Advisor's actual costs incurred in providing such services and (2) the amount that we estimate we would be required to pay alternative service providers for comparable services in the same geographic location. FS Advisor is required to allocate the cost of such services to us based on factors such as assets, revenues, time allocations and/or other reasonable metrics. Our board of trustees reviews the methodology employed in determining how the expenses are allocated to us and the proposed allocation of administrative expenses among us and certain affiliates of FS Advisor. Our board of trustees then assesses the reasonableness of such reimbursements for expenses allocated to us based on the breadth, depth and quality of such services as compared to the estimated cost to us of obtaining similar services from third-party service providers

known to be available. In addition, our board of trustees considers whether any single third party service provider would be capable of providing all such services at comparable cost and quality. Finally, our board of trustees, among other things, compares the total amount paid to FS Advisor for such services as a percentage of our net assets to the same ratio as reported by other comparable BDCs. We do not reimburse FS Advisor for any services for which it receives a separate fee, or for rent, depreciation, utilities, capital equipment or other administrative items allocated to a controlling person of FS Advisor.

In addition, we have contracted with State Street Bank and Trust Company, or State Street, to provide various accounting and administrative services including, but not limited to, preparing preliminary financial information for review by FS Advisor, preparing and monitoring expense budgets, maintaining accounting and corporate books and records, processing trade information provided by us and performing testing with respect to RIC compliance.

As a BDC, we are required to comply with certain regulatory requirements. Also, while we are permitted to finance investments using debt, our ability to use debt will be limited in certain significant respects pursuant to the 1940 Act. Within the limits of existing regulation, we will adjust our use of debt, according to market conditions, to the level we believe will allow us to generate maximum risk-adjusted returns. See "—Regulation." We have elected to be treated for U.S. federal income tax purposes, and intend to qualify annually, as a RIC under Subchapter M of the Code.

Investment Types

Our portfolio is comprised primarily of income-oriented securities, which refers to debt securities and income-oriented preferred and common equity interests, of privately-held Energy companies within the United States. We intend to weight our portfolio towards senior and subordinated debt. In addition to investments purchased from dealers or other investors in the secondary market, we expect to invest in primary market transactions and directly originated investments as this will provide us with the ability to tailor investments to best match a project's or company's needs with our investment objectives. Our portfolio may also be comprised of select income-oriented preferred or common equity interests, which refers to equity interests that pay consistent, high-yielding dividends, that we believe will produce both current income and long-term capital appreciation. These income-oriented preferred or common equity interests may include interests in MLPs. In connection with certain of our debt investments or any restructuring of these debt investments, we may on occasion receive equity interests, including warrants or options, as additional consideration or otherwise in connection with a restructuring. In addition, a portion of our portfolio may be comprised of minority interests in the form of common or preferred equity or other equity-related securities, such as rights and warrants that may be converted into or exchanged for common stock or other equity or the cash value of common stock or other equity, in our target companies, as well as derivatives, including total return swaps and credit default swaps. FS Advisor will seek to tailor our investment focus as market conditions evolve. Depending on market conditions, we may increase or decrease our exposure to less senior portions of the capital structure or other more opportunistic investments.

Senior Debt

Senior debt is situated at the top of the capital structure. Because this debt has priority in payment, it carries the lowest risk among all investments in a company. Generally, senior debt in which we may invest is expected to have a maturity period of three to seven years, offer some form of amortization, and have first priority security interests in the assets of the borrower. Senior debt is comprised of first lien and second lien debt positions. Second lien debt is granted a second priority security interest in the assets of the borrower, which means that any realization of collateral will generally be applied to pay first lien debt in full before second lien debt positions are paid and the value of the collateral may not be sufficient to repay in full both first lien secured debt and second lien secured debt. Generally, in normalized markets, we expect that the variable interest rate on our first lien debt typically will range between 4.0% and 9.0% over a standard benchmark, such as the prime rate or the London Interbank Offered Rate, or LIBOR. In normalized markets, we expect that the variable interest rate on second lien debt will range between 6.0% and 10.0% over a standard benchmark. In addition, we may receive additional returns from any warrants we may receive in connection with these investments.

Subordinated Debt

In addition to senior debt, we may invest a portion of our assets in subordinated debt of private companies. Subordinated debt usually ranks junior in priority of payment to first lien and second lien secured loans and is often unsecured, but is situated above preferred equity and common equity in the capital structure. In return for their junior status compared to first lien and second lien secured loans, subordinated debt typically offers higher returns through both higher interest rates and possible equity ownership in the form of warrants, enabling the lender to participate in the capital appreciation of the borrower. These warrants typically require only a nominal cost to exercise. We intend to generally target subordinated debt with interest-only payments throughout the life of the security, with the principal due at maturity. Typically, subordinated debt investments have maturities of five to ten years. Generally, in normalized markets, we expect these securities to carry a fixed rate or a floating current yield of 8.0% to 12.0% over a standard benchmark. In addition, we may receive additional returns from any warrants we may receive in connection with these investments. In some cases, a portion of the total interest may accrue or be paid-in-kind, or PIK.

Preferred Equity

Preferred equity typically includes a stated value or liquidation preference structurally ahead of common equity holders. Holders of preferred equity can be entitled to a wide range of voting and other rights, depending on the structure of each separate security. Preferred equity can also include a conversion feature whereby the securities convert into common stock based on established parameters according to set ratios. We seek to invest in primarily income-oriented equity securities of Energy companies in a manner consistent with our status as a BDC.

Other Equity Securities

We may also invest in other equity securities which are typically structurally subordinate to all other securities within the capital structure and do not have a stated maturity. As compared to more senior securities, equity interests have greater risk exposure, but also have the potential to provide a higher return. Some of these investments may take the form of common units in MLPs. MLPs typically pay their unitholders quarterly distributions, offering investors a current yield and the opportunity for a more stable return profile.

Net Profits Interests, Royalty Interests, Volumetric Production Payments, or VPPs

We may invest in energy-specific non-operating investments including net profits interests, royalty interests or VPPs. Such non-operating interests do not include the rights and obligations of operating a mineral property (costs of exploration, development and operation) and do not bear any part of the net losses. Net profits interests and royalty interests are contractual agreements whereby the holders of such interests are entitled to a portion of the mineral production or proceeds therefrom. A VPP is a type of structured investment whereby the owner sells a specific volume of production in a field or property to an investor and the investor receives a specific quota of production on a monthly basis in either raw output or proceeds therefrom. A VPP is typically set to expire after a certain length of time or after a specified aggregate total volume of the commodity has been delivered. If the producer cannot meet the supply quota for a given period, the supply obligation rolls forward to future cycles until the buyer is made financially whole.

Non-U.S. Securities

We may invest in non-U.S. securities, which may include securities denominated in U.S. dollars or in non-U.S. currencies, to the extent permitted by the 1940 Act.

Other Securities

We may also invest from time to time in derivatives, such as total return swaps and credit default swaps. We anticipate that any use of derivatives would primarily be as a substitute for investing in conventional securities. Any use of derivatives may subject us to additional risks. See "Item 1A. Risk Factors—Risks Related to Our Investments—We may from time to time enter into total return swaps, credit default swaps or other derivative transactions which expose us to certain risks, including credit risk, market risk, liquidity risk and other risks similar to those associated with the use of leverage."

Cash and Cash Equivalents

We may maintain a certain level of cash or cash equivalent instruments to make follow-on investments, if necessary, in existing portfolio companies or to take advantage of new opportunities.

Sources of Income

The primary means through which our shareholders may receive a return of value is through interest income, dividends and capital gains generated by our investments. In addition to these sources of income, we may receive fees paid by our portfolio companies, including one-time closing fees paid at the time each investment is made. Closing fees typically range from 1.0% to 3.0% of the purchase price of an investment. In addition, we may generate revenues in the form of non-recurring commitment, origination, structuring or diligence fees, fees for providing managerial assistance, consulting fees, prepayment fees and performance-based fees.

Risk Management

We seek to limit the downside potential of our investment portfolio by:

- applying our investment strategy guidelines for portfolio investments;
- requiring a total return on investments (including both interest and potential appreciation) that adequately compensates us for credit risk;
- allocating our portfolio among various issuers and sub-sectors, and size permitting, with an adequate number of companies, across different sub-sectors of the Energy industry, with different types of collateral; and
- negotiating or seeking debt and other securities with covenants or features that protect us while affording portfolio companies flexibility in managing their businesses consistent with preservation of capital.

Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights. We may also enter into interest rate hedging transactions at the sole discretion of FS Advisor. Such transactions will enable us to selectively modify interest rate exposure as market conditions dictate.

Affirmative Covenants

Affirmative covenants require borrowers to take actions that are meant to ensure the solvency of the company, facilitate the lender's monitoring of the borrower and ensure payment of interest and loan principal due to lenders. Examples of affirmative covenants include covenants requiring the borrower to maintain adequate insurance, accounting and tax records, and to produce frequent financial reports for the benefit of the lender.

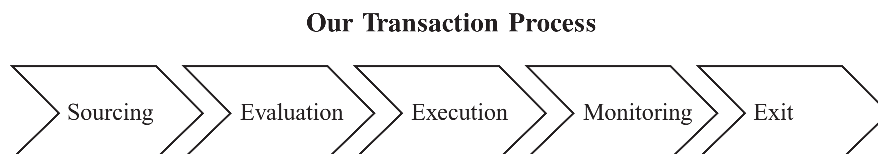
Negative Covenants

Negative covenants impose restrictions on the borrower and are meant to protect lenders from actions that the borrower may take that could harm the credit quality of the lender's investments. Examples of negative covenants include restrictions on the payment of dividends and restrictions on the issuance of additional debt without the lender's approval. In addition, certain covenants restrict a borrower's activities by requiring it to meet certain earnings interest coverage ratio and leverage ratio requirements. These covenants are also referred to as financial or maintenance covenants.

Investment Process

The investment professionals employed by FS Advisor and GSO have spent their careers developing the resources necessary to invest in private companies. Our transaction process is highlighted below.

Our Transaction Process



Sourcing

In order to source transactions, FS Advisor seeks to leverage GSO's significant access to transaction flow, along with GSO's trading platform, which allows for access to the syndicated loan market, which may be a key source of investment opportunities for us. GSO seeks to generate investment opportunities through its trading platform, through syndicate and club deals, through relationships with investment banks, which may be exclusive to GSO, and, subject to regulatory constraints and the allocation policies of GSO and its affiliates, as applicable, through GSO's direct origination channels. GSO also relies on its relationships with private equity sponsors, investment banks and commercial banks to source investment opportunities. With respect to syndicate and club deals, GSO has built a network of relationships with commercial and investment banks, finance companies and other investment funds as a result of the long track record of its investment professionals in the leveraged finance marketplace. GSO may compensate certain brokers or other financial services firms out of its own profits or revenues for services provided in connection with the identification of appropriate investment opportunities. With respect to GSO's origination channel, FS Advisor seeks to leverage the global presence of GSO and its long-standing personal contacts within the Energy industry to generate access to directly originated transactions with what we believe to be attractive investment characteristics.

Evaluation

Initial Review. In its initial review of an investment opportunity to present to FS Advisor, GSO's transaction team examines information furnished by the target company and external sources, including rating agencies, if applicable, to determine whether the investment meets our basic investment criteria and other guidelines specified by FS Advisor, within the context of proper allocation of our portfolio among various issuers and industry sub-sectors, and offers an acceptable probability of attractive returns with identifiable downside risk. For the majority of securities available on the secondary market, a comprehensive analysis is conducted and continuously maintained by a dedicated GSO research analyst, the results of which are available for the transaction team to review. In the case of a directly originated transaction, FS Advisor and GSO conduct detailed due diligence investigations as necessary.

Credit Analysis/Due Diligence. Before undertaking an investment, the transaction teams from GSO and FS Advisor conduct a thorough due diligence review of the opportunity to ensure the company fits our investment strategy, which may include:

- a full operational analysis to identify the key risks and opportunities of the target's business, including a detailed review of historical and projected financial results;
- a detailed analysis of industry dynamics, competitive position, regulatory, tax and legal matters;
- on-site visits, if deemed necessary;
- background checks to further evaluate management and other key personnel;
- a review by legal and accounting professionals, environmental or other industry consultants, if necessary;
- financial sponsor due diligence, including portfolio company and lender reference checks, if necessary; and

• a review of management's experience and track record.

When possible, our advisory team seeks to structure transactions in such a way that our target companies are required to bear the costs of due diligence, including those costs related to any outside consulting work we may require.

Execution

Recommendation. FS Advisor has engaged GSO to identify and recommend investment opportunities for its approval. GSO seeks to maintain a defensive approach toward its investment recommendations by emphasizing risk control in its transaction process, which includes (i) the pre-review of each opportunity by one of its portfolio managers to assess the general quality, value and fit relative to our portfolio, (ii) where possible, transaction structuring with a focus on preservation of capital in varying economic environments and (iii) ultimate approval of investment recommendations by GSO's investment committee.

Approval. After completing its internal transaction process, GSO makes formal recommendations for review and approval by FS Advisor. In connection with its recommendation, it transmits any relevant underwriting material and other information pertinent to the decision-making process. In addition, GSO makes its staff available to answer inquiries by FS Advisor in connection with its recommendations. The consummation of a transaction requires unanimous approval of the members of FS Advisor's investment committee.

Monitoring

Portfolio Monitoring. FS Advisor, with the help of GSO, monitors our portfolio with a focus toward anticipating negative credit events. To maintain portfolio company performance and help to ensure a successful exit, FS Advisor and GSO work closely with the lead equity sponsor, loan syndicator, portfolio company management, consultants, advisers and other security holders to discuss financial position, compliance with covenants, financial requirements and execution of the company's business plan. In addition, depending on the size, nature and performance of the transaction, we may occupy a seat or serve as an observer on a portfolio company's board of directors or similar governing body.

Typically, FS Advisor and GSO receive financial reports detailing operating performance, sales volumes, margins, cash flows, financial position and other key operating metrics on a quarterly basis from our portfolio companies. FS Advisor and GSO use this data, combined with due diligence gained through contact with the company's customers, suppliers, competitors, market research and other methods, to conduct an ongoing, rigorous assessment of the company's operating performance and prospects. GSO may rely on brokers or other financial services firms that may help identify potential investments from time to time for assistance in monitoring these investments.

In addition to various risk management and monitoring tools, FS Advisor uses an investment rating system to characterize and monitor the expected level of returns on each investment in our portfolio. FS Advisor uses an investment rating scale of 1 to 5. The following is a description of the conditions associated with each investment rating:

Investment Rating	Summary Description
1	Investment exceeding expectations and/or capital gain expected.
2	Performing investment generally executing in accordance with the portfolio company's business plan—full return of principal and interest expected.
3	Performing investment requiring closer monitoring.
4	Underperforming investment—some loss of interest or dividend possible, but still expecting a positive return on investment.
5	Underperforming investment with expected loss of interest and some principal.

FS Advisor monitors and, when appropriate, changes the investment ratings assigned to each investment in our portfolio. In connection with valuing our assets, our board of trustees reviews these investment ratings on a quarterly basis. In the event that our advisory team determines that an investment is underperforming, or circumstances suggest that the risk associated with a particular investment has significantly increased, FS Advisor will attempt to sell the asset in the secondary market, if applicable, or to implement a plan to attempt to exit the investment or to correct the situation.

The following table shows the distribution of our investments on the 1 to 5 investment rating scale at fair value as of December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
Investment Rating	**Fair Value**	**Percentage of Portfolio**	**Fair Value**	**Percentage of Portfolio**
1	$ 115,927	3%	$ 159,204	5%
2	2,719,833	70%	1,340,637	44%
3	899,835	23%	1,288,144	42%
4	85,427	2%	203,084	7%
5	89,418	2%	78,429	2%
	$3,910,440	100%	$3,069,498	100%

The amount of the portfolio in each grading category may vary substantially from period to period resulting primarily from changes in the composition of the portfolio as a result of new investment, repayment and exit activities. In addition, changes in the grade of investments may be made to reflect our expectation of performance and changes in investment values. The increase in the amount of our investments rated a two or three is due primarily to the pronounced increase in the price of oil, decreased volatility in the Energy credit markets and general improvement in the Energy markets during the year ended December 31, 2016.

Valuation Process. Each quarter, we value investments in our portfolio, and such values are disclosed each quarter in reports filed with the SEC. Investments for which market quotations are readily available are recorded at such market quotations. With respect to investments for which market quotations are not readily available, our board of trustees determines the fair value of such investments in good faith, utilizing the input of our valuation committee, FS Advisor and any other professionals or materials that our board of trustees deems worthy and relevant, including GSO and independent third-party valuation services, if applicable. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Valuation of Portfolio Investments."

Managerial Assistance. As a BDC, we must offer, and provide upon request, managerial assistance to certain of our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. Depending on the nature of the assistance required, FS Advisor or GSO will provide such managerial assistance on our behalf to portfolio companies that request this assistance. To the extent fees are paid for these services, we, rather than FS Advisor or GSO, will retain any fees paid for such assistance.

Exit

While we attempt to invest in securities that may be sold in a privately negotiated over-the-counter market, providing us a means by which we may exit our positions, we expect that a large portion of our portfolio may not be sold on this secondary market. For any investments that are not able to be sold within this market, we focus primarily on investing in companies whose business models and growth prospects offer attractive exit possibilities, including repayment of our investments, an initial public offering of equity securities, a merger, a sale or a recapitalization, in each case with the potential for capital gains.

Financing Arrangements

To seek to enhance our returns, we employ leverage as market conditions permit and at the discretion of FS Advisor, but in no event may leverage employed exceed 50% of the value of our assets, as required by the 1940 Act. Our wholly-owned, special-purpose financing subsidiaries, Bryn Mawr Funding LLC, or Bryn Mawr Funding; Berwyn Funding LLC, or Berwyn Funding; FSEP Term Funding LLC, or FSEP Funding; Energy Funding LLC, or Energy Funding; Foxfields Funding LLC, or Foxfields Funding; Gladwyne Funding LLC, or Gladwyne Funding; Strafford Funding LLC, or Strafford Funding and Wayne Funding LLC, or Wayne Funding, have entered into financing arrangements with Barclays Bank PLC, or Barclays; BNP Paribas Prime Brokerage, Inc., or BNP; Deutsche Bank AG, New York Branch, or Deutsche Bank; Natixis, New York Branch, or Natixis; Fortress Credit Co LLC, or Fortress; Goldman Sachs Bank USA, or Goldman; and Wells Fargo Securities, LLC and Wells Fargo Bank, National Association, or Wells Fargo, respectively. The following table presents summary information with respect to our outstanding financing arrangements as of December 31, 2016:

Facility	Type of Arrangement	Rate	Amount Outstanding	Amount Available	Maturity Date
Barclays Credit Facility	Revolving	L+3.25%	—	$100,000	May 18, 2021
BNP Facility	Prime Brokerage	L+1.10%[1]	$113,737	$186,263	September 27, 2017[2]
Deutsche Bank Credit Facility	Revolving	L+2.05%[3]	$200,000	$115,000	June 11, 2017
Fortress Facility	Term	L+5.00%[4]	$155,000	—	November 6, 2020
Goldman Facility	Repurchase	L+3.38%[5]	$325,000	—	September 15, 2018
Natixis Credit Facility	Revolving	CP+2.25%	$ 50,328	—	July 11, 2023
Wells Fargo Credit Facility	Revolving	L+2.50% to 2.75%	$ 29,600	$ 30,400	September 9, 2018

(1) Beginning on January 2, 2017, borrowings under Berwyn Funding and BNP, or the BNP facility, will accrue interest at a rate equal to LIBOR plus 1.35%.

(2) The financing arrangement entered into by the BNP facility, is generally terminable upon 270 days' notice by either party. As of December 31, 2016, neither Berwyn Funding nor BNP had provided notice of its intent to terminate the BNP facility.

(3) Prior to June 11, 2016, borrowings under the Deutsche Bank credit facility accrued interest at a rate equal to LIBOR plus 1.80% per annum. Beginning on June 11, 2016, borrowings under the Deutsche Bank credit facility accrue interest at a rate equal to LIBOR plus 2.05% per annum.

(4) The financing arrangement entered into by Foxfields Funding and Fortress, or the Fortress facility, accrues interest at a rate equal to LIBOR plus 5.00%, subject to a floor of 0.75%.

(5) Prior to September 21, 2016, borrowings under the Goldman facility accrued interest at a rate equal to LIBOR plus 2.75% per annum. Beginning on September 21, 2016, borrowings under the Goldman facility accrue interest at a rate equal to LIBOR plus 3.38% per annum.

Our average borrowings and weighted average interest rate, including the effect of non-usage fees, for the year ended December 31, 2016 were $918,992 and 3.69%, respectively. As of December 31, 2016, our weighted average effective interest rate on borrowings was 3.85%.

See Note 8 to our consolidated financial statements contained in this annual report on Form 10-K for additional information regarding our financing arrangements.

Regulation

We have elected to be regulated as a BDC under the 1940 Act. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates, principal underwriters and affiliates of those affiliates or underwriters. The 1940 Act requires that a majority of our trustees be persons other than "interested persons," as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by a majority of our outstanding voting securities.

The 1940 Act defines "a majority of the outstanding voting securities" as the lesser of (i) 67% or more of the voting securities present at a meeting if the holders of more than 50% of our outstanding voting securities are present or represented by proxy or (ii) 50% of our voting securities. Furthermore, our investment policy is to invest, under normal circumstances, at least 80% of our total assets in securities of Energy companies. This investment policy may not be changed without at least 60 days' prior notice to holders of our common shares of any such change.

We will generally not be able to issue and sell our common shares at a price per share, after deducting selling commissions and dealer manager fees, that is below our net asset value per share. See "Item 1A. Risk Factors—Risks Related to Business Development Companies—Regulations governing our operation as a BDC and RIC will affect our ability to raise, and the way in which we raise, additional capital or borrow for investment purposes, which may have a negative effect on our growth." We may, however, sell our common shares, or warrants, options or rights to acquire our common shares, at a price below the then-current net asset value of our common shares if our board of trustees determines that such sale is in our best interests and the best interests of our shareholders, and our shareholders approve such sale. In addition, we may generally issue new common shares at a price below our net asset value per share in rights offerings to existing shareholders, in payment of dividends and in certain other limited circumstances.

As a BDC, we are subject to certain regulatory restrictions in making our investments. For example, BDCs generally are not permitted to co-invest with certain affiliated entities in transactions originated by the BDC or its affiliates in the absence of an exemptive order from the SEC. However, BDCs are permitted to, and may, co-invest in transactions where price is the only negotiated term. In an order dated June 4, 2013, the SEC granted exemptive relief permitting us, subject to the satisfaction of certain conditions, to co-invest in certain privately negotiated investment transactions with our co-investment affiliates. Under the terms of this relief, a "required majority" (as defined in Section 57(o) of the 1940 Act) of our independent trustees must make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to us and our shareholders and do not involve overreaching of us or our shareholders on the part of any person concerned and (2) the transaction is consistent with the interests of our shareholders and is consistent with our investment objectives and strategy. We believe this relief has and may continue to enhance our ability to further our investment objectives and strategy. We believe this relief may also increase favorable investment opportunities for us, in part, by allowing us to participate in larger investments, together with our co-investment affiliates, than would be available to us if such relief had not been obtained. Because we did not seek exemptive relief to engage in co-investment transactions with GSO and its affiliates, we will continue to be permitted to co-invest with GSO and its affiliates only in accordance with existing regulatory guidance (e.g., where price is the only negotiated term).

Qualifying Assets

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to our business are any of the following:

1. Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:

    a. is organized under the laws of, and has its principal place of business in, the United States;

    b. is not an investment company (other than a small business investment company wholly owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and

    c. satisfies any of the following:

        i. does not have any class of securities that is traded on a national securities exchange;

        ii. has a class of securities listed on a national securities exchange, but has an aggregate market value of outstanding voting and non-voting common equity of less than $250 million;

iii. is controlled by a BDC or a group of companies including a BDC and the BDC has an affiliated person who is a director of the eligible portfolio company; or

iv. is a small and solvent company having total assets of not more than $4.0 million and capital and surplus of not less than $2.0 million.

2. Securities of any eligible portfolio company that we control.

3. Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities, was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

4. Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

5. Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

6. Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

In addition, a BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) above.

Managerial Assistance to Portfolio Companies

In order to count portfolio securities as qualifying assets for the purpose of the 70% test, we must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where we purchase such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the BDC, through its trustees, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

Temporary Investments

Pending investment in other types of "qualifying assets," as described above, our investments may consist of cash, cash equivalents, including money market funds, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we will invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price that is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the Diversification Tests (as defined below) in order to maintain our qualification as a RIC for U.S. federal income tax purposes as described below under "—Taxation as a RIC." Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. FS Advisor will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Senior Securities

We are permitted, under specified conditions, to issue multiple classes of debt and one class of shares senior to our common shares if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any senior securities remain outstanding, we must make provisions to prohibit any distribution to our shareholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see "Item 1A. Risk Factors—Risks Related to Debt Financing" and "Item 1A. Risk Factors—Risks Related to Business Development Companies."

Code of Ethics

We and FS Advisor have each adopted a code of ethics pursuant to Rule 17j-1 promulgated under the 1940 Act that, among other things, establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to the code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with each code's requirements. Our code of ethics was filed as an exhibit to our current report on Form 8-K filed with the SEC on August 9, 2016. FS Advisor's code of ethics is attached as an exhibit to Post-Effective Amendment No. 5 to our registration statement on Form N-2 (File No. 333-199777) pertaining to the public offering of our common shares filed on August 10, 2016. Shareholders may also read and copy these codes of ethics at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. Shareholders may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. In addition, each code of ethics is available on our website at *www.fsinvestments.com* and on the EDGAR Database on the SEC's Internet site at *www.sec.gov*. Shareholders may also obtain a copy of each code of ethics, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, at 100 F Street, N.E, Washington, D.C. 20549.

Compliance Policies and Procedures

We and FS Advisor have adopted and implemented written policies and procedures reasonably designed to prevent violation of the federal securities laws and are required to review these compliance policies and procedures annually for their adequacy and the effectiveness of their implementation. Our chief compliance officer and the chief compliance officer of FS Advisor are responsible for administering these policies and procedures.

Proxy Voting Policies and Procedures

We have delegated our proxy voting responsibility to FS Advisor. The proxy voting policies and procedures of FS Advisor are set forth below. The guidelines are reviewed periodically by FS Advisor and our non-interested trustees, and, accordingly, are subject to change.

As an investment adviser registered under the Advisers Act, FS Advisor has a fiduciary duty to act solely in the best interests of its clients. As part of this duty, it recognizes that it must vote client securities in a timely manner free of conflicts of interest and in the best interests of its clients.

These policies and procedures for voting proxies for the investment advisory clients of FS Advisor are intended to comply with Section 206 of, and Rule 206(4)-6 promulgated under, the Advisers Act.

FS Advisor will vote proxies relating to our securities in the best interest of its clients' shareholders. It will review on a case-by-case basis each proposal submitted for a shareholder vote to determine its impact on the portfolio securities held by its clients. Although FS Advisor will generally vote against proposals that may have a negative impact on its clients' portfolio securities, it may vote for such a proposal if there exists compelling long-term reasons to do so.

The proxy voting decisions of FS Advisor are made by the senior officers who are responsible for monitoring each of its clients' investments. To ensure that its vote is not the product of a conflict of interest, it will require that: (a) anyone involved in the decision-making process disclose to its chief

compliance officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (b) employees involved in the decision making process or vote administration are prohibited from revealing how FS Advisor intends to vote on a proposal in order to reduce any attempted influence from interested parties.

Shareholders may obtain information, without charge, regarding how FS Advisor voted proxies with respect to our portfolio securities by making a written request for proxy voting information to: Chief Compliance Officer, FS Energy and Power Fund, 201 Rouse Boulevard, Philadelphia, Pennsylvania 19112 or by calling us collect at (215) 495-1150.

Other

We will be periodically examined by the SEC for compliance with the 1940 Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from protecting any trustee or officer against any liability to us or our shareholders arising from willful misconduct, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

Exchange Act and Sarbanes-Oxley Act Compliance

We are subject to the reporting and disclosure requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, including the filing of quarterly, annual and current reports, proxy statements and other required items. In addition, we are subject to the Sarbanes-Oxley Act, which imposes a wide variety of regulatory requirements on publicly held companies and their insiders. Many of these requirements affect us. For example:

- pursuant to Rule 13a-14 promulgated under the Exchange Act, our chief executive officer and chief financial officer are required to certify the accuracy of the financial statements contained in our periodic reports;
- pursuant to Item 307 of Regulation S-K, our periodic reports are required to disclose our conclusions about the effectiveness of our disclosure controls and procedures; and
- pursuant to Rule 13a-15 promulgated under the Exchange Act, our management will be required to prepare a report regarding its assessment of our internal control over financial reporting.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and take actions necessary to ensure that we are in compliance therewith. In addition, we voluntarily comply with Section 404(b) of the Sarbanes-Oxley Act, and have engaged our independent registered public accounting firm to audit our internal control over financial reporting.

Taxation as a RIC

We have elected to be treated as a RIC under Subchapter M of the Code. As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that we distribute as dividends to our shareholders. To qualify for and maintain our qualification as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, in order to maintain RIC tax treatment, we must distribute to our shareholders, for each tax year, dividends of an amount at least equal to 90% of our "investment company taxable income," which is generally the sum of our net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses, determined without regard to any deduction for distributions paid, or the Annual Distribution Requirement.

If we:

- qualify as a RIC; and
- satisfy the Annual Distribution Requirement,

then we will not be subject to U.S. federal income tax on the portion of our income or capital gains we distribute (or are deemed to distribute) as dividends to our shareholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) as dividends to our shareholders.

As a RIC, we will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless we distribute dividends in a timely manner to our shareholders generally of an amount at least equal to the sum of (1) 98% of our net ordinary income (taking into account certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gain net income, which is the excess of capital gains over capital losses (as adjusted for certain ordinary losses) for the one-year period ending October 31 of that calendar year and (3) any net ordinary income and capital gain net income for the preceding years that were not distributed during such years and on which we paid no U.S. federal income tax, or the Excise Tax Avoidance Requirement. Any distribution declared by us during October, November or December of any calendar year, payable to shareholders of record on a specified date in such a month and actually paid during January of the following calendar year, will be treated as if it had been paid by us, as well as received by our U.S. shareholders on December 31 of the calendar year in which the distribution was declared. We generally will endeavor in each tax year to avoid any material U.S. federal excise tax on our earnings.

We have previously incurred, and may incur in the future, such excise tax on a portion of our income and capital gains. While we intend to distribute income and capital gains to minimize exposure to the 4% excise tax, we may not be able to, or may choose not to, distribute amounts sufficient to avoid the imposition of the tax entirely. In that event, we generally will be liable for the excise tax only on the amount by which we do not meet the excise tax avoidance requirement.

In order to qualify as a RIC for U.S. federal income tax purposes, we must, among other things:

- continue to qualify as a BDC under the 1940 Act at all times during each tax year;
- derive in each tax year at least 90% of our gross income from dividends, interest, payments with respect to certain securities, loans, gains from the sale of stock or other securities, net income from certain "qualified publicly-traded partnerships," or other income derived with respect to our business of investing in such stock or other securities, or the 90% Income Test; and
- diversify our holdings so that at the end of each quarter of the tax year:
    - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of such issuer; and
    - no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain "qualified publicly-traded partnerships," or the Diversification Tests.

A RIC is limited in its ability to deduct expenses in excess of its investment company taxable income. If our expenses in a given tax year exceed our investment company taxable income, we may experience a net operating loss for that tax year. However, a RIC is not permitted to carry forward net operating losses to subsequent tax years and such net operating losses do not pass through to its stockholders. In addition, deductible expenses can be used only to offset investment company taxable income, not net capital gain. A RIC may not use any net capital losses (that is, the excess of realized capital losses over realized capital gains) to offset its investment company taxable income, but may carry forward such net capital losses, and use them to offset future capital gains, indefinitely. Due to these limits on deductibility of expenses and net capital losses, we may for tax purposes have aggregate taxable income for several years that we are required to distribute and that is taxable to our stockholders even if such taxable income is greater than the net income we actually earn during those years.

For U.S. federal income tax purposes, we may be required to recognize taxable income in circumstances in which we do not receive a corresponding payment in cash. For example, if we hold

debt instruments that are treated under applicable tax rules as having original issue discount (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or debt instruments that were issued with warrants), we must include in income each tax year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same tax year. We may also have to include in income other amounts that we have not yet received in cash, such as deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. We anticipate that a portion of our income may constitute original issue discount or other income required to be included in taxable income prior to receipt of cash.

We invest a portion of our net assets in below investment grade instruments. Investments in these types of instruments may present special tax issues for us. U.S. federal income tax rules are not entirely clear about issues such as when we may cease to accrue interest, original issue discount or market discount, when and to what extent deductions may be taken for bad debts or worthless instruments, how payments received on instruments in default should be allocated between principal and income and whether exchanges of debt obligations in a bankruptcy or workout context are taxable. We will address these and other issues to the extent necessary in order to seek to ensure that we distribute sufficient income to avoid any material U.S. federal income or excise tax.

Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of the accrual, we may be required to make a distribution to our shareholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount. As a result, we may have difficulty meeting the Annual Distribution Requirement necessary to maintain RIC tax treatment under Subchapter M of the Code. We may have to sell or otherwise dispose of some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level U.S. federal income tax.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell or otherwise dispose of assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our shareholders while our debt obligations and other senior securities are outstanding unless certain "asset coverage" tests are met. See "—Regulation—Senior Securities." Moreover, our ability to sell or otherwise dispose of assets to meet the Annual Distribution Requirement may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we sell or otherwise dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

To satisfy the Diversification Tests at the close of each quarter of our tax year, we will generally have invested no more than 25% of the value of our total assets in MLPs and certain other "qualified publicly traded partnerships". As a limited partner in the MLPs in which we seek to invest, we will be deemed to have received our share of income, gains, losses, deductions, and credits from those MLPs. Historically, a significant portion of income from MLPs has been offset by tax deductions. As a result, this income has been significantly lower than cash distributions paid by MLPs. The percentage of an MLP's income and gains which is offset by tax deductions, losses and credits will fluctuate over time for various reasons. A significant slowdown in acquisition activity or capital spending by MLPs held in our portfolio could result in a reduction of accelerated depreciation generated by new acquisitions, which may result in an increase in our investment company taxable income that we are required to distribute to shareholders to satisfy the Annual Distribution Requirement or the Excise Tax Avoidance Requirement or to eliminate our liability for U.S. federal income tax. If our income from our investments in MLPs exceeds the cash distributions received from such investments, we may need to obtain cash from other sources in order to satisfy the Annual Distribution Requirement. If we are unable to obtain cash from other sources, we may fail to qualify for RIC tax treatment and become subject to corporate-level U.S. federal income tax. We may also recognize for U.S. federal income tax purposes gain in excess of cash proceeds upon the sale of an interest in an MLP. Any such gain may need to be distributed (or deemed distributed) in order to avoid liability for corporate-level U.S. federal income taxes on such gain.

A portfolio company in which we invest may face financial difficulties that require us to work-out, modify or otherwise restructure our investment in the portfolio company. Any such transaction could, depending upon the specific terms of the transaction, result in unusable capital losses and future non-cash income. Any such transaction could also result in our receiving assets that give rise to non-qualifying income for purposes of the 90% Income Test or otherwise would not count toward satisfying the Diversification Tests.

Some of the income that we might otherwise earn, such as fees for providing managerial assistance, certain fees earned with respect to our investments, income recognized in a work-out or restructuring of a portfolio investment, or income recognized from an equity investment in an operating partnership, may not satisfy the 90% Income Test. To manage the risk that such income might disqualify us as a RIC for failure to satisfy the 90% Income Test, one or more subsidiary entities treated as U.S. corporations for entity-level tax purposes may be employed to earn such income and (if applicable) hold the related asset. Such subsidiary entities will be required to pay U.S. federal income tax on their earnings, which ultimately will reduce the yield to our shareholders on such fees and income.

Competition

Our primary competitors for investments include other BDCs and investment funds (including private equity funds, mezzanine funds and CLO funds). In addition, alternative investment vehicles, such as hedge funds, have begun to invest in areas in which they have not traditionally invested, including making investments in middle market private U.S. companies. We also compete with traditional financial services companies such as commercial banks. We believe we will be able to compete with these entities for financing opportunities on the basis of, among other things, the experience of FS Advisor's senior management team and GSO's investment team. Furthermore, while we believe that regulatory changes and other factors have diminished the role of traditional financial institutions and certain other capital providers in providing financing to middle market private U.S. companies, we are not certain whether this trend will continue as a result of the potentially changing regulatory landscape due to the new presidential administration. For additional information, see "—Market Opportunity" and "—Potential Competitive Strengths."

Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of capital and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments than we have. These characteristics could allow our competitors to consider a wider variety of investments, establish more relationships and offer better pricing and more flexible structuring than us. Furthermore, many of our competitors have greater experience operating under, or are not subject to, the regulatory restrictions that the 1940 Act imposes on us as a BDC. For additional information concerning the competitive risks we face, see "Item 1A. Risk Factors—Risks Related to Our Business and Structure—We may face increasing competition for investment opportunities, which could delay deployment of our capital, reduce returns and result in losses."

Employees

We do not currently have any employees. Each of our executive officers is a principal, officer or employee of FS Advisor, which manages and oversees our investment operations. In the future, FS Advisor may retain additional investment personnel based upon its needs.

Available Information

For so long as our bylaws require, we will distribute to all shareholders of record our quarterly report on Form 10-Q within 60 days after the end of each fiscal quarter and our annual report on Form 10-K within 120 days after the end of each fiscal year. We also file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information is available free of charge by calling us collect at (215) 495-1150 or on our website at *www.fsinvestments.com*. Information contained on our

website is not incorporated into this annual report on Form 10-K and such information should not be considered to be part of this annual report on Form 10-K.

Shareholders also may inspect and copy these reports, proxy statements and other information, as well as this annual report on Form 10-K and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Such information is also available from the EDGAR database on the SEC's web site at *www.sec.gov*. Shareholders also can obtain copies of such information, after paying a duplicating fee, by sending a request by e-mail to *publicinfo@sec.gov* or by writing the SEC's Public Reference Branch, Office of Consumer Affairs and Information Services, Securities and Exchange Commission, Washington, D.C. 20549. Shareholders may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at (202) 551-8090.

Item 1A. Risk Factors.

Investing in our common shares involves a number of significant risks. In addition to the other information contained in this annual report on Form 10-K, investors should consider carefully the following information before making an investment in our common shares. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, the net asset value of our common shares could decline or the value of our debt our equity investments may decline, and investors may lose all or part of their investment.

Risks Related to Our Business and Structure

Our board of trustees may change our investment policy by providing our shareholders with 60 days' prior notice, or may modify or waive our current operating policies and strategy without prior notice or shareholder approval, the effects of which may be adverse.

Our investment policy is to invest, under normal circumstances, at least 80% of our total assets in securities of Energy companies. This investment policy may be changed by our board of trustees if we provide our shareholders with at least 60 days' prior notice. In addition, our board of trustees has the authority to modify or waive our current operating policies, investment criteria and strategy without prior notice and without shareholder approval. We cannot predict the effect any changes to our investment policy, current operating policies, investment criteria and strategy would have on our business, net asset value, operating results and the value of our common shares. However, the effects might be adverse, which could negatively impact our ability to pay distributions to shareholders and cause shareholders to lose all or part of their investment. Finally, because our common shares are not expected to be listed on a national securities exchange for the foreseeable future, shareholders will be limited in their ability to sell their common shares in response to any changes in our investment policy, operating policies, investment criteria or strategy.

Our ability to achieve our investment objectives depends on FS Advisor's and GSO's ability to manage and support our investment process. If either our agreement with FS Advisor or FS Advisor's agreement with GSO were to be terminated, or if either FS Advisor or GSO were to lose any members of their respective senior management teams, our ability to achieve our investment objectives could be significantly harmed.

Because we have no employees, we depend on the investment expertise, skill and network of business contacts of FS Advisor and GSO. FS Advisor, with the assistance of GSO, evaluates, negotiates, structures, executes, monitors and services our investments. Our future success depends to a significant extent on the continued service and coordination of FS Advisor and GSO, as well as their respective senior management teams. The departure of any members of FS Advisor's senior management team could have a material adverse effect on our ability to achieve our investment objectives. Likewise, the departure of any key employees of GSO or termination of key relationships may impact its ability to render services to us under the terms of its investment sub-advisory agreement with FS Advisor.

Our ability to achieve our investment objectives depends on FS Advisor's ability, with the assistance of GSO, to identify, analyze, invest in, finance and monitor companies that meet our investment criteria. FS Advisor's capabilities in structuring the investment process, providing competent, attentive and efficient services to us, and facilitating access to financing on acceptable terms depend on the employment of investment professionals in an adequate number and of adequate sophistication to match the corresponding flow of transactions. To achieve our investment objectives, FS Advisor may need to hire, train, supervise and manage new investment professionals to participate in our investment selection and monitoring process. FS Advisor may not be able to find investment professionals in a timely manner or at all. Failure to support our investment process could have a material adverse effect on our business, financial condition and results of operations.

In addition, the investment advisory and administrative services agreement that FS Advisor has entered into with us, as well as the investment sub-advisory agreement that FS Advisor has entered into with GSO, have termination provisions that allow the parties to terminate the agreements without penalty. The investment advisory and administrative services agreement may be terminated at any time, without penalty, by FS Advisor, upon 120 days' notice to us. The investment sub-advisory agreement may be terminated at any time, without the payment of any penalty, upon 60 days' written notice by

GSO or, if our board of trustees or the holders of a majority of our outstanding voting securities determine that the investment sub-advisory agreement with GSO should be terminated, by FS Advisor. If either agreement is terminated, it may adversely affect the quality of our investment opportunities. In addition, in the event such agreements are terminated, it may be difficult for us to replace FS Advisor or for FS Advisor to replace GSO. Furthermore, the termination of either of these agreements may adversely impact the terms of any financing arrangement into which we may enter, which could have a material adverse effect on our business and financial condition.

Because our business model depends to a significant extent upon relationships with private equity sponsors, investment banks and commercial banks, the inability of FS Advisor and GSO to maintain or develop these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.

If FS Advisor or GSO fails to maintain its existing relationships with private equity sponsors, investment banks and commercial banks on which they rely to provide us with potential investment opportunities or develop new relationships with other sponsors or sources of investment opportunities, we may not be able to grow our investment portfolio. In addition, individuals with whom FS Advisor and GSO have relationships generally are not obligated to provide us with investment opportunities, and, therefore, there is no assurance that such relationships will generate investment opportunities for us. GSO may compensate certain brokers or other financial services firms out of GSO's own profits or revenues for services provided in connection with the identification of appropriate investment opportunities.

Our financial condition and results of operations depend on our ability to manage future growth effectively.

Our ability to achieve our investment objectives depends on our ability to acquire suitable investments and monitor and administer those investments, which depends, in turn, on our investment adviser's ability to identify, invest in and monitor companies that meet our investment criteria.

Accomplishing this result on a cost-effective basis is largely a function of the structuring of our investment process and the ability of FS Advisor to provide competent, attentive and efficient services to us. Our executive officers and the members of FS Advisor's investment committee have substantial responsibilities in connection with their roles at FS Investments and with the other entities affiliated with FS Investments, as well as responsibilities under the investment advisory and administrative services agreement. They may also be called upon to provide significant managerial assistance to certain of our portfolio companies. These demands on their time, which will increase as the number of investments grow, may distract them or slow the rate of investment. In order to grow, FS Advisor will need to hire, train, supervise, manage and retain new employees. However, we cannot assure you that FS Advisor will be able to do so effectively. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

We may face increasing competition for investment opportunities, which could delay deployment of our capital, reduce returns and result in losses.

We compete for investments with other BDCs and investment funds (including private equity funds, mezzanine funds and collateralized loan obligation, or, CLO, funds), as well as traditional financial services companies such as commercial banks and other sources of funding. Moreover, alternative investment vehicles, such as hedge funds, have begun to invest in areas in which they have not traditionally invested, including making investments in middle market private U.S. companies, which we define as companies with annual revenue of $50 million to $2.5 billion at the time of investment. As a result of these new entrants, competition for investment opportunities in middle-market private U.S. companies may intensify. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of capital and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments than we have. These characteristics could allow our competitors to consider a wider variety of investments, establish more relationships and offer better pricing and more flexible structuring than we are able to do. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. If we are forced to match our competitors' pricing, terms and structure, we may not be able

to achieve acceptable returns on our investments or may bear substantial risk of capital loss. A significant part of our competitive advantage stems from the fact that the market for investments in middle market private U.S. companies is underserved by traditional commercial banks and other financial sources. A significant increase in the number and/or the size of our competitors in this target market could force us to accept less attractive investment terms. Furthermore, many of our competitors have greater experience operating under, or are not subject to, the regulatory restrictions that the 1940 Act imposes on us as a BDC.

A significant portion of our investment portfolio is and will be recorded at fair value as determined in good faith by our board of trustees and, as a result, there is and will be uncertainty as to the value of our portfolio investments.

Under the 1940 Act, we are required to carry our portfolio investments at market value or, if there is no readily available market value, at fair value as determined in good faith by or under the direction of our board of trustees. There is not a public market for the securities of the privately-held companies in which we invest. Many of our investments are not publicly-traded or actively-traded on a secondary market but are, instead, traded on a privately negotiated over-the-counter secondary market for institutional investors or are not traded at all. As a result, we value these securities quarterly at fair value as determined in good faith by our board of trustees.

Certain factors that may be considered in determining the fair value of our investments include dealer quotes for securities traded on the secondary market for institutional investors, the nature and realizable value of any collateral, the portfolio company's earnings and its ability to make payments on its indebtedness, the markets in which the portfolio company does business, comparison to comparable publicly-traded companies, discounted cash flows and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these non-traded securities existed. Due to this uncertainty, our fair value determinations may cause our net asset value on a given date to materially understate or overstate the value that we may ultimately realize upon the sale of one or more of our investments.

There is a risk that investors in our common shares may not receive distributions or that our distributions may not grow over time.

We cannot assure shareholders that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. All distributions will be paid at the discretion of our board of trustees and will depend on our earnings, our net investment income, our financial condition, maintenance of our RIC status, compliance with applicable BDC regulations and such other factors as our board of trustees may deem relevant from time to time. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. See "Item 1. Business—Regulation—Senior Securities."

Our distribution proceeds have exceeded and in the future may exceed our earnings, particularly during the period before we have substantially invested the net proceeds from our continuous public offering. Therefore, portions of the distributions that we make may represent a return of capital to shareholders, which will lower their tax basis in their common shares.

We may pay all or a substantial portion of our distributions from the proceeds of our continuous public offering or from borrowings in anticipation of future cash flow, which may constitute a return of shareholders' capital and will lower such shareholders' tax basis in their common shares. A return of capital generally is a return of a shareholder's investment rather than a return of earnings or gains derived from our investment activities and will be made after deducting the fees and expenses payable in connection with the offering, including any fees payable to FS Advisor. Moreover, a return of capital will generally not be taxable, but will reduce each shareholder's cost basis in our common shares, and will result in a higher reported capital gain or lower reported capital loss when the common shares on which such return of capital was received are sold.

Changes in laws or regulations governing our operations or the operations of our business partners may adversely affect our business or cause us to alter our business strategy.

We, our portfolio companies and our business partners are subject to regulation at the local, state and federal level. New legislation may be enacted or new interpretations, rulings or regulations could be adopted, including those governing the types of investments we are permitted to make, any of which could harm us and our shareholders, potentially with retroactive effect. Changes in laws or regulations governing the operations of those with whom we do business, including selected broker-dealers and other financial representatives selling our common shares, could also have a material adverse effect on our business, financial condition and results of operations. In addition, over the last several years there has been an increase in regulatory attention to the extension of credit outside of the traditional banking sector, raising the possibility that some portion of the non-bank financial sector will be subject to new regulation. New legislation, interpretations, rulings or regulations could require changes to certain business practices of us or our portfolio companies, negatively impact the operations, cash flows or financial condition of us or our portfolio companies, impose additional costs on us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies.

In addition, any changes to the laws and regulations governing our operations, including with respect to permitted investments, may cause us to alter our investment strategy to avail ourselves of new or different opportunities or make other changes to our business. Such changes could result in material differences to our strategy and plans as set forth in this annual report on Form 10-K and may result in our investment focus shifting from the areas of expertise of FS Advisor and GSO to other types of investments in which FS Advisor and GSO may have less expertise or little or no experience. Thus, any such changes, if they occur, could have a material adverse effect on our results of operations and the value of a shareholder's investment.

As a public company, we are subject to regulations not applicable to private companies, such as provisions of the Sarbanes-Oxley Act. Efforts to comply with such regulations will involve significant expenditures, and non-compliance with such regulations may adversely affect us.

As a public company, we are subject to regulations not applicable to private companies, including provisions of the Sarbanes-Oxley Act and the related rules and regulations promulgated by the SEC. Our management is required to report on our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act and rules and regulations of the SEC thereunder. We are required to review on an annual basis our internal control over financial reporting, and on a quarterly and annual basis, to evaluate and disclose changes in our internal control over financial reporting. Section 404 of the Sarbanes-Oxley Act also generally requires an attestation from our independent registered public accounting firm on the effectiveness of our internal control over financial reporting.

We incur significant expenses in connection with our compliance with the Sarbanes-Oxley Act and other regulations applicable to public companies, which may negatively impact our financial performance and our ability to make distributions. Compliance with such regulations also requires a significant amount of our management's time and attention. For example, we cannot be certain as to the timing of the completion of our Sarbanes-Oxley mandated evaluations, testings and remediation actions, if any, or the impact of the same on our operations, and we may not be able to ensure that the process is effective or that our internal control over financial reporting are or will be deemed effective in the future. In the event that we are unable to maintain an effective system of internal control and maintain compliance with the Sarbanes-Oxley Act and related rules, we may be adversely affected.

Economic activity in the United States was adversely impacted by the global financial crisis of 2008 and future recessions, downturns, disruptions or instability could have a materially adverse effect on our business.

From time to time, the global capital markets may experience periods of disruption and instability, which could cause disruptions in liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. Despite actions of U.S. and foreign governments, these events could contribute to worsening general economic conditions that materially and adversely impact the broader financial and credit markets and reduce the availability of debt and equity capital for the market as a whole and financial services firms in particular.

Beginning in the third quarter of 2007, global credit and other financial markets suffered substantial stress, volatility, illiquidity and disruption. These forces reached extraordinary levels in late 2008, resulting in the bankruptcy of, the acquisition of, or government intervention in the affairs of several major domestic and international financial institutions. In particular, the financial services sector was negatively impacted by significant write-offs as the value of the assets held by financial firms declined, impairing their capital positions and abilities to lend and invest. We believe that such value declines were exacerbated by widespread forced liquidations as leveraged holders of financial assets, faced with declining prices, were compelled to sell to meet margin requirements and maintain compliance with applicable capital standards. Such forced liquidations also impaired or eliminated many investors and investment vehicles, leading to a decline in the supply of capital for investment and depressed pricing levels for many assets. These events significantly diminished overall confidence in the debt and equity markets, engendered unprecedented declines in the values of certain assets, and caused extreme economic uncertainty.

Deterioration of economic and market conditions in the future could negatively impact credit spreads as well as our ability to obtain financing, particularly from the debt markets.

Future downgrades of the U.S. credit rating and global economic uncertainty could negatively impact our business, financial condition and results of operations.

In August 2011, Standard & Poor's Ratings Services, or S&P, lowered its long-term sovereign credit rating on the U.S. from "AAA" to "AA+," which was affirmed by S&P in June 2015. In January 2012, S&P lowered its long-term sovereign credit rating for France, Italy, Spain and six other European countries, which negatively impacted global markets and economic conditions. In addition, in April 2012, S&P further lowered its long-term sovereign credit rating for Spain. Recent U.S. budget deficit concerns, together with signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of additional credit-rating downgrades and economic slowdowns. The impact of any further downgrade to the U.S. government's sovereign credit rating, or its perceived creditworthiness, and the impact of the current crisis in Europe with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations are inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions. In addition, the economic downturn and the significant government interventions into the financial markets and fiscal stimulus spending over the last several years have contributed to significantly increased U.S. budget deficits. There can be no assurance that future fiscal or monetary measures to aid economic recovery will be effective. These developments and reactions of the credit markets toward these developments could cause interest rates and borrowing costs to rise, which may negatively impact our ability to obtain debt financing on favorable terms. In addition, any adverse economic conditions resulting from any further downgrade of the U.S. government's sovereign credit rating or the economic crisis in Europe could have a material adverse effect on our business, financial condition and results of operations.

Declines in market values or fair market values of our investments could result in significant net unrealized depreciation of our portfolio, which, in turn, would reduce our net asset value.

Under the 1940 Act, we are required to carry our investments at market value or, if there is no readily available market value, at fair value as determined in good faith by our board of trustees. While most of our investments will not be publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants (even if we plan on holding an investment through its maturity) and impairments of the market values or fair market values of our investments, even if unrealized, must be reflected in our financial statements for the applicable period as unrealized depreciation, which could result in significant reductions to our net asset value for a given period.

The impact on us of recent financial reform legislation, including the Dodd-Frank Act, is uncertain.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended, or the Dodd-Frank Act, institutes a wide range of reforms that will have an impact on financial institutions. Many of the requirements called for in the Dodd-Frank Act will be implemented over time, most of which will be subject to implementing regulations over the course of several years. In addition, the new presidential administration has announced its intention to repeal, amend or replace portions of the

Dodd-Frank and the regulations implemented thereunder. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented, repealed, amended or replaced by the various regulatory agencies and through regulations, the full impact such requirements will have on our business, results of operations or financial condition is unclear. The changes resulting from the Dodd-Frank Act and any changes to the regulations already implemented thereunder may require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements. Failure to comply with any such laws, regulations or principles, or changes thereto, may negatively impact our business, results of operations and financial condition. While we cannot predict what effect any changes in the laws or regulations or their interpretations would have on us as a result of recent financial reform legislation, these changes could be materially adverse to us and our shareholders.

Future legislation or rules could modify how we treat derivatives and other financial arrangements for purposes of our compliance with the leverage limitations of the 1940 Act.

Future legislation or rules may modify how we treat derivatives and other financial arrangements for purposes of our compliance with the leverage limitations of the 1940 Act. For example, the SEC proposed a new rule in December 2015 that is designed to enhance the regulation of the use of derivatives by registered investments companies and business development companies. While the December 2015 rule appears not to be moving toward adoption, the proposed rule, if adopted, or any future legislation or rules, may modify how leverage is calculated under the 1940 Act and, therefore, may increase or decrease the amount of leverage currently available to us under the 1940 Act, which may be materially adverse to us and our shareholders.

We may experience fluctuations in our quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including our ability or inability to make investments in companies that meet our investment criteria, the interest rate payable on the debt securities we acquire, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any previous period should not be relied upon as being indicative of performance in future periods.

If we, our affiliates and our and their respective third-party service providers are unable to maintain the availability of electronic data systems and safeguard the security of data, our ability to conduct business may be compromised, which could impair our liquidity, disrupt our business, damage our reputation or otherwise affect our business.

Cybersecurity refers to the combination of technologies, processes, and procedures established to protect information technology systems and data from unauthorized access, attack, or damage. We, our affiliates and our and their respective third-party service providers are subject to cybersecurity risks. Cybersecurity risks have significantly increased in recent years and, while we have not experienced any material losses relating to cyber attacks or other information security breaches, we could suffer such losses in the future. Our, our affiliates and our and their respective third-party service providers' computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize confidential and other information, including nonpublic personal information and sensitive business data, processed and stored in, and transmitted through, computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our affiliates and our and their respective third-party service providers. This could result in significant losses, reputational damage, litigation, regulatory fines or penalties, or otherwise adversely affect our business, financial condition or results of operations. Privacy and information security laws and regulation changes, and compliance with those changes, may result in cost increases due to system changes and the development of new administrative processes. In addition, we may be required to expend significant additional resources to modify our protective measures and to investigate and remediate vulnerabilities or other exposures arising from operational and security risks.

Risks Related to FS Advisor, GSO and Their Respective Affiliates

FS Advisor and its affiliates, including our officers and some of our trustees, face conflicts of interest caused by compensation arrangements with us and our affiliates, which could result in actions that are not in the best interests of our shareholders.

FS Advisor and its affiliates receive substantial fees from us in return for their services, and these fees could influence the advice provided to us. Among other matters, the compensation arrangements could affect their judgment. In addition, the decision to utilize leverage has increased our assets and, as a result, has increased the amount of base management fees payable to FS Advisor.

We may be obligated to pay FS Advisor incentive compensation even if we incur a net loss due to a decline in the value of our portfolio.

Our investment advisory and administrative services agreement entitles FS Advisor to receive incentive compensation on income regardless of any capital losses. In such case, we may be required to pay FS Advisor incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or if we incur a net loss for that quarter.

Any incentive fee payable by us that relates to our net investment income may be computed and paid on income that may include interest that has been accrued but not yet received. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously included in the calculation of the incentive fee will become uncollectible. FS Advisor is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued income that we never received as a result of a default by an entity on the obligation that resulted in the accrual of such income, and such circumstances would result in our paying an incentive fee on income we never received.

For U.S. federal income tax purposes, we will be required to recognize taxable income (such as deferred interest that is accrued as original issue discount) in some circumstances in which we do not receive a corresponding payment in cash and to make distributions with respect to such income to maintain our status as a RIC. Under such circumstances, we may have difficulty meeting the Annual Distribution Requirement necessary to maintain RIC tax treatment under the Code. This difficulty in making the required distribution may be amplified to the extent that we are required to pay an incentive fee with respect to such accrued income. As a result, we may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital, or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.

There may be conflicts of interest related to obligations FS Advisor's and GSO's senior management and investment teams have to our affiliates and to other clients.

The members of the senior management and investment teams of both FS Advisor and GSO serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do, or of investment vehicles managed by the same personnel. For example, the officers, managers and other personnel of FS Advisor also serve in similar capacities for the investment advisers to FS Investments' four other affiliated BDCs, FS Investment Corporation, FS Investment Corporation II, FS Investment Corporation III, FS Investment Corporation IV, FS Investments' affiliated closed-end management investment company, FS Global Credit Opportunities Fund and FS Investments' affiliated closed-end management investment company which operates as an interval fund, FS Energy Total Return Fund. In serving in these multiple and other capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in our best interests or in the best interest of our shareholders. Our investment objectives may overlap with the investment objectives of such investment funds, accounts or other investment vehicles. For example, we rely on FS Advisor to manage our day-to-day activities and to implement our investment strategy. FS Advisor and certain of its affiliates are presently, and plan in the future to continue to be, involved with activities which are unrelated to us. As a result of these activities, FS Advisor, its employees and certain of its affiliates will have conflicts of interest in allocating their time between us and other activities in which they are or may become involved, including the management of other entities

affiliated with FS Investments. FS Advisor and its employees will devote only as much of its or their time to our business as FS Advisor and its employees, in their judgment, determine is reasonably required, which may be substantially less than their full time.

Furthermore, GSO, on which FS Advisor relies to assist it in identifying investment opportunities and making investment recommendations, has similar conflicts of interest. GSO or its subsidiary, GDFM, serves as investment sub-adviser to FS Investments' four other affiliated BDCs and FS Investments' two affiliated closed-end management investment companies. GSO, its affiliates and their respective members, partners, officers and employees will devote as much of their time to our activities as they deem necessary and appropriate. GSO and its affiliates are not restricted from forming additional investment vehicles, from entering into other investment advisory relationships or from engaging in other business activities, even though such activities may be in competition with us and/or may involve substantial time and resources of GSO. Also, in connection with such business activities, GSO and its affiliates may have existing business relationships or access to material, non-public information that may prevent it from recommending investment opportunities that would otherwise fit within our investment objectives. All of these factors could be viewed as creating a conflict of interest in that the time, effort and ability of the members of GSO, its affiliates and their officers and employees will not be devoted exclusively to our business but will be allocated between us and the management of the monies of other advisees of GSO and its affiliates.

The time and resources that individuals employed by FS Advisor and GSO devote to us may be diverted, and we may face additional competition due to the fact that individuals employed by FS Advisor and GSO are not prohibited from raising money for or managing another entity that makes the same types of investments that we target.

Neither FS Advisor nor GSO, or individuals employed by FS Advisor or GSO, are prohibited from raising money for and managing another investment entity that makes the same types of investments as those we target. For example, FS Energy Advisor, LLC, an affiliate of FS Advisor, manages FS Energy Total Return Fund, an interval fund with an investment strategy that focuses on investing 80% of its total assets in natural resource companies. As a result, the time and resources that these individuals may devote to us may be diverted. In addition, we may compete with any such investment entity for the same investors and investment opportunities. In an order dated June 4, 2013, the SEC granted exemptive relief permitting us, subject to the satisfaction of certain conditions, to co-invest in certain privately negotiated investment transactions with our co-investment affiliates. Because we did not seek exemptive relief to engage in co-investment transactions with GSO and its affiliates, we will continue to be permitted to co-invest with GSO and its affiliates only in accordance with existing regulatory guidance (e.g., where price is the only negotiated term). Affiliates of GSO, whose primary businesses include the origination of investments, engage in investment advisory business with accounts that compete with us.

Our incentive fee may induce FS Advisor to make, and GSO to recommend, speculative investments.

The incentive fee payable by us to FS Advisor may create an incentive for it to enter into investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable to FS Advisor is determined may encourage it to use leverage to increase the return on our investments. In addition, the fact that our base management fee is payable based upon our gross assets, which would include any borrowings for investment purposes, may encourage FS Advisor to use leverage to make additional investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor holders of our common shares. Such a practice could result in our investing in more speculative securities than would otherwise be in our best interests, which could result in higher investment losses, particularly during cyclical economic downturns. In addition, since GSO will receive a portion of the advisory fees paid to FS Advisor, GSO may have an incentive to recommend investments that are riskier or more speculative.

FS Advisor's liability is limited under our investment advisory and administrative services agreement, and we are required to indemnify it against certain liabilities, which may lead it to act in a riskier manner on our behalf than it would when acting for its own account.

Pursuant to our investment advisory and administrative services agreement, FS Advisor and its officers, managers, partners, members (and their members, including the owners of their members), agents, employees, controlling persons and any other person or entity affiliated with FS Advisor will not be liable to us for their acts under our investment advisory and administrative services agreement, absent willful misfeasance, bad faith or gross negligence in the performance of their duties. We have agreed to indemnify, defend and protect FS Advisor and its officers, managers, partners, members (and their members, including the owners of their members), agents, employees, controlling persons and any other person or entity affiliated with FS Advisor with respect to all damages, liabilities, costs and expenses resulting from acts of FS Advisor not arising out of willful misfeasance, bad faith or gross negligence in the performance of their duties under our investment advisory and administrative services agreement. These protections may lead FS Advisor to act in a riskier manner when acting on our behalf than it would when acting for its own account.

Risks Related to Business Development Companies

The requirement that we invest a sufficient portion of our assets in qualifying assets could preclude us from investing in accordance with our current business strategy; conversely, the failure to invest a sufficient portion of our assets in qualifying assets could result in our failure to maintain our status as a BDC.

As a BDC, we may not acquire any assets other than "qualifying assets" unless, at the time of such acquisition, at least 70% of our total assets are qualifying assets. Therefore, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets. Conversely, if we fail to invest a sufficient portion of our assets in qualifying assets, we could lose our status as a BDC, which would have a material adverse effect on our business, financial condition and results of operations. Similarly, these rules could prevent us from making additional investments in existing portfolio companies, which could result in the dilution of our position, or could require us to dispose of investments at an inopportune time to comply with the 1940 Act. If we were forced to sell non-qualifying investments in the portfolio for compliance purposes, the proceeds from such sale could be significantly less than the current value of such investments.

Failure to maintain our status as a BDC would reduce our operating flexibility.

If we do not remain a BDC, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease our operating flexibility.

Regulations governing our operation as a BDC and a RIC will affect our ability to raise, and the way in which we raise, additional capital or borrow for investment purposes, which may have a negative effect on our growth.

As a result of our need to satisfy the Annual Distribution Requirement in order to maintain RIC tax treatment under Subchapter M of the Code, we may need to periodically access the capital markets to raise cash to fund new investments. We may issue "senior securities," as defined in the 1940 Act, including issuing preferred shares, borrowing money from banks or other financial institutions or issuing debt securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such incurrence or issuance. Our ability to issue certain other types of securities is also limited. Compliance with these limitations on our ability to raise capital may unfavorably limit our investment opportunities and may reduce our ability in comparison to other companies to profit from favorable spreads between the rates at which we can borrow and the rates at which we can lend.

We expect to continue to borrow for investment purposes. If the value of our assets declines, we may be unable to satisfy the asset coverage test, which would prohibit us from paying distributions and as a result could cause us to be subject to U.S federal corporate income or excise taxation, regardless of the amount of distributions paid. If we cannot satisfy the asset coverage test, we may be required to sell a portion of our investments and, depending on the nature of our debt financing, repay a portion of our indebtedness at a time when such sales may be disadvantageous.

Future legislation may allow us to incur additional leverage.

As a BDC, we are generally not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). Recent legislation introduced in the U.S. House of Representatives, if passed, would modify this section of the 1940 Act to permit an increase in the amount of debt that BDCs could incur by modifying the percentage from 200% to 150%. Even if this legislation does not pass, similar legislation may pass that permits us to incur additional leverage under the 1940 Act. As a result, we may be able to incur additional indebtedness in the future, and, therefore, the risk of an investment in us may increase.

Our ability to enter into transactions with our affiliates is restricted.

We are prohibited under the 1940 Act from participating in certain transactions with certain of our affiliates without the prior approval of a majority of the independent members of our board of trustees and, in some cases, the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities will be our affiliate for purposes of the 1940 Act and we will generally be prohibited from buying or selling any securities from or to such affiliate, absent the prior approval of our board of trustees. The 1940 Act also prohibits certain "joint" transactions with certain of our affiliates, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our board of trustees and, in some cases, the SEC. In an order dated June 4, 2013, the SEC granted exemptive relief permitting us, subject to the satisfaction of certain conditions, to co-invest in certain privately negotiated investment transactions with our co-investment affiliates. If a person acquires more than 25% of our voting securities, we will be prohibited from buying or selling any security from or to such person or certain of that person's affiliates, or entering into prohibited joint transactions with such persons to the extent not covered by our exemptive relief, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers or trustees or their affiliates. As a result of these restrictions, we may be prohibited from buying or selling any security from or to any portfolio company of a private equity fund managed by FS Advisor without the prior approval of the SEC, which may limit the scope of investment opportunities that would otherwise be available to us.

We are uncertain of our sources for funding our future capital needs; if we cannot obtain debt or equity financing on acceptable terms, our ability to acquire investments and to expand our operations will be adversely affected.

Any working capital reserves we maintain may not be sufficient for investment purposes, and we may require debt or equity financing to operate. We may also need to access the capital markets to refinance existing debt obligations to the extent maturing obligations are not repaid with cash flows from operations. In order to maintain RIC tax treatment, we must make distributions to our shareholders each tax year on a timely basis generally of an amount at least equal to 90% of our investment company taxable income, determined without regard to any deduction for distributions paid, and the amounts of such distributions will therefore not be available to fund investment originations or to repay maturing debt. In addition, with certain limited exceptions, we are only allowed to borrow amounts or issue debt securities or preferred shares, which we refer to collectively as "senior securities," such that our asset coverage, as calculated pursuant to the 1940 Act, equals at least 200% immediately after such borrowing, which, in certain circumstances, may restrict our ability to borrow or issue debt securities or preferred shares. In the event that we develop a need for additional capital in the future for investments or for any other reason, and we cannot obtain debt or equity financing on acceptable terms, or at all, our ability to acquire investments and to expand our operations will be adversely affected. As a result, we would be less able to allocate our portfolio among various issuers and sub-sectors and achieve our investment objectives, which may negatively impact our results of operations and reduce our ability to make distributions to our shareholders.

Risks Related to Our Investments

We are exposed to risks associated with changes in interest rates.

We are subject to financial market risks, including changes in interest rates. General interest rate fluctuations may have a substantial negative impact on our investments and investment opportunities and, accordingly have a material adverse effect on our investment objectives and our rate of return on invested capital. In addition, an increase in interest rates would make it more expensive to use debt for our financing needs, if any.

Interest rates have recently been at or near historic lows. In the event of a rising interest rate environment, payments under floating rate debt instruments generally would rise and there may be a significant number of issuers of such floating rate debt instruments that would be unable or unwilling to pay such increased interest costs and may otherwise be unable to repay their loans. Investments in floating rate debt instruments may also decline in value in response to rising interest rates if the interest rates of such investments do not rise as much, or as quickly, as market interest rates in general. Similarly, during periods of rising interest rates, fixed rate debt instruments may decline in value because the fixed rates of interest paid thereunder may be below market interest rates.

Our investments in prospective portfolio companies may be risky, and we could lose all or part of our investment.

Our investments in senior and subordinated debt, select equity investments and other investments issued by private Energy companies may be risky.

Senior Debt. There is a risk that any collateral pledged by portfolio companies in which we have taken a security interest may decrease in value over time or lose its entire value, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital. To the extent our debt investment is collateralized by the securities of a portfolio company's subsidiaries, such securities may lose some or all of their value in the event of the bankruptcy or insolvency of the portfolio company. Also, in some circumstances, our security interest may be contractually or structurally subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Loans that are under-collateralized involve a greater risk of loss. In addition, second lien secured loans are granted a second priority security interest in collateral, which means that any realization of collateral will generally be applied to pay first lien secured loans in full before second lien secured loans are paid. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the senior debt's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.

Subordinated Debt. Our subordinated debt investments will generally rank junior in priority of payment to senior debt and will generally be unsecured. This may result in a heightened level of risk and volatility or a loss of principal, which could lead to the loss of the entire investment. These investments may involve additional risks that could adversely affect our investment returns. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject us and our shareholders to non-cash income. Because we will not receive any principal repayments prior to the maturity of some of our subordinated debt investments, such investments will be of greater risk than amortizing loans.

Equity Investments. We expect to make select equity investments in income-oriented preferred or common equity interests, which may include interests in MLPs. In addition, when we invest in senior secured loans and notes or subordinated debt, we may acquire warrants to purchase equity securities. The equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

Net Profits Interests, Royalty Interests or VPPs. We may invest in energy-specific non-operating investments including net profits interests, royalty interests or VPPs. Net profits interests and royalty interests are contractual agreements whereby the holders of such interests are entitled to a portion of the mineral production, or proceeds therefrom. A VPP is a type of structured investment whereby the owner sells a specific volume of production in a field or property to an investor and the investor receives a specific quota of production on a monthly basis in either raw output or proceeds therefrom. We will not have any operational control over these investments and our receipt of payments is contingent on the producer's ability to meet its supply obligations, which can make these types of investments highly speculative.

Non-U.S. Securities. We may invest in non-U.S. securities, which may include securities denominated in U.S. dollars or in non-U.S. currencies, to the extent permitted by the 1940 Act. Because evidences of ownership of such securities usually are held outside the United States, we would be subject to additional risks if we invested in non-U.S. securities, which include possible adverse political and economic developments, seizure or nationalization of foreign deposits and adoption of governmental restrictions which might adversely affect or restrict the payment of principal and interest on the non-U.S. securities to investors located outside the country of the issuer, whether from currency blockage or otherwise. Because non-U.S. securities may be purchased with and payable in foreign currencies, the value of these assets as measured in U.S. dollars may be affected unfavorably by changes in currency rates and exchange control regulations.

In addition, 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 portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.

Our portfolio companies may have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt in which we invest. By their terms, such debt instruments may entitle the holders to receive payment of interest or principal on or before the dates on which we are entitled to receive payments with respect to the debt instruments in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any proceeds. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt instruments in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

If one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt investment and subordinate all or a portion of our claim to that of other creditors. In situations where a bankruptcy carries a high degree of political significance, our legal rights may be subordinated to other creditors. We may also be subject to lender liability claims for actions taken by us with respect to a borrower's business or in instances where we exercise control over the borrower or render significant managerial assistance.

We generally will not control our portfolio companies.

We do not expect to control most of our portfolio companies, even though we may have board representation or board observation rights, and our debt agreements with such portfolio companies may contain certain restrictive covenants. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in

ways that do not serve our interests as debt investors. Due to the lack of liquidity for our investments in non-traded companies, we may not be able to dispose of our interests in our portfolio companies as readily as we would like or at an appropriate valuation. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

Second priority liens on collateral securing debt investments that we make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.

Certain debt investments that we make to portfolio companies may be secured on a second priority basis by the same collateral securing first priority debt of such companies. The first priority liens on the collateral will secure the portfolio company's obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by such company under the agreements governing the loans. The holders of obligations secured by the first priority liens on the collateral will generally control the liquidation of and be entitled to receive proceeds from any realization of the collateral to repay the obligations in full before us. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the debt obligations secured by the second priority liens after payment in full of all obligations secured by the first priority liens on the collateral. If such proceeds are not sufficient to repay amounts outstanding under the debt obligations secured by the second priority liens, then we, to the extent not repaid from the proceeds of the sale of the collateral, will only have an unsecured claim against such company's remaining assets, if any.

The rights we may have with respect to the collateral securing the debt investments we make in our portfolio companies with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time that obligations that have the benefit of the first priority liens are outstanding, any of the following actions that may be taken in respect of the collateral will be at the direction of the holders of the obligations secured by the first priority liens: the ability to cause the commencement of enforcement proceedings against the collateral; the ability to control the conduct of such proceedings; the approval of amendments to collateral documents; releases of liens on the collateral; and waivers of past defaults under collateral documents. We may not have the ability to control or direct such actions, even if our rights are adversely affected.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

Many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our debt investments during these periods. Therefore, our non-performing assets are likely to increase, and the value of our portfolio is likely to decrease, during these periods. Adverse economic conditions may also decrease the value of any collateral securing our first lien or second lien secured loans. A prolonged recession may further decrease the value of such collateral and result in losses of value in our portfolio and a decrease in our revenues, net income and net asset value. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us on terms we deem acceptable. These events could prevent us from increasing investments and harm our operating results. Economic downturns or recessions may also result in a portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders, which could lead to defaults and, potentially, acceleration of the time when the loans are due and foreclosure on its assets representing collateral for its obligations, which could trigger cross defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt that we hold and the value of any equity securities we own. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company.

A covenant breach by our portfolio companies may harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize a portfolio company's

ability to meet its obligations under the debt or equity securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company.

Our portfolio companies may be highly leveraged.

Some of our portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to us as an investor. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

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.

Investments in middle-market companies involve some of the same risks that apply generally to investments in larger, more established companies. However, such investments have more pronounced risks in that they:

- may have limited financial resources and may be unable to meet the obligations under their debt and equity securities that we hold, which may be accompanied by a deterioration in the value of any collateral pledged under such securities and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;
- have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tends to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;
- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, trustees and members of FS Advisor may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies; and
- may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

We may not realize gains from our equity investments.

Certain investments that we may make may include warrants or other equity securities. In addition, we may make direct equity investments in portfolio companies. The equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience. We may also be unable to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, recapitalization or public offering, which would allow us to sell the underlying equity interests. We may be unable to exercise any put rights we acquire which grant us the right to sell our equity securities back to the portfolio company for the consideration provided in our investment documents if the issuer is in financial distress.

An investment strategy focused primarily on privately-held companies presents certain challenges, including the lack of available information about these companies.

Our investments are primarily in privately-held companies. Investments in private companies pose significantly greater risks than investments in public companies. First, private companies have reduced access to the capital markets, resulting in diminished capital resources and the ability to withstand financial distress. As a result, these companies, which may present greater credit risk than public companies, may be unable to meet the obligations under their debt and equity securities that we hold. Second, the investments themselves often may be illiquid. The securities of many of the companies in which we invest are not publicly-traded or actively-traded on the secondary market and are, instead, traded on a privately negotiated over-the-counter secondary market for institutional investors. In addition, such securities may be subject to legal and other restrictions on resale. As such, we may have difficulty exiting an investment promptly or at a desired price prior to maturity or outside of a normal amortization schedule. These investments may also be difficult to value because little public information generally exists about private companies, requiring an experienced due diligence team to analyze and value the potential portfolio company. Finally, these companies often may not have third-party debt ratings or audited financial statements. We must therefore rely on the ability of FS Advisor and/or GSO to obtain adequate information through due diligence to evaluate the creditworthiness and potential returns from investing in these companies. These companies and their financial information will generally not be subject to the Sarbanes-Oxley Act and other rules and regulations that govern public companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments.

A lack of liquidity in certain of our investments may adversely affect our business.

We invest in certain companies whose securities are not publicly-traded or actively-traded on the secondary market and are, instead, traded on a privately-negotiated over-the-counter secondary market for institutional investors, and whose securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly-traded securities. The illiquidity of certain of our investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. The reduced liquidity of our investments may make it difficult for us to dispose of them at a favorable price, and, as a result, we may suffer losses.

We may not have the funds or ability to make additional investments in our portfolio companies.

We may not have the funds or ability to make additional investments in our portfolio companies. After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company or have the opportunity to increase our investment through the exercise of a warrant to purchase common stock. There is no assurance that we will make, or will have sufficient funds to make, follow-on investments. Any decisions not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of such an investment, may result in a missed opportunity for us to increase our participation in a successful operation or may reduce the expected return on the investment.

Our investments may include original issue discount and PIK instruments.

To the extent that we invest in original issue discount or PIK instruments and the accretion of original issue discount or PIK interest income constitutes a portion of our income, we will be exposed to risks associated with the requirement to include such non-cash income in taxable and accounting income prior to receipt of cash, including the following:

- The higher interest rates on PIK instruments reflect the payment deferral and increased credit risk associated with these instruments, and PIK instruments generally represent a significantly higher credit risk than coupon loans;
- Original issue discount and PIK instruments may have unreliable valuations because the accruals require judgments about collectability of the deferred payments and the value of any associated collateral;

- An election to defer PIK interest payments by adding them to the principal on such instruments increases our future investment income which increases our gross assets and, as such, increases FB Advisor's future base management fees which, thus, increases FB Advisor's future income incentive fees at a compounding rate;
- Market prices of PIK instruments and other zero coupon instruments are affected to a greater extent by interest rate changes, and may be more volatile than instruments that pay interest periodically in cash. While PIK instruments are usually less volatile than zero coupon debt instruments, PIK instruments are generally more volatile than cash pay securities;
- The deferral of PIK interest on an instrument increases the loan-to-value ratio, which is a measure of the riskiness of a loan, with respect to such instrument;
- Even if the conditions for income accrual under GAAP are satisfied, a borrower could still default when actual payment is due upon the maturity of such loan;
- For accounting purposes, cash distributions to investors representing original issue discount income do not come from paid-in capital, although they may be paid from the offering proceeds. Thus, although a distribution of original issue discount income may come from the cash invested by investors, the 1940 Act does not require that investors be given notice of this fact;
- The required recognition of PIK interest for U.S federal income tax purposes may have a negative impact on liquidity, as it represents a non-cash component of our investment company taxable income, income that may require cash distributions to shareholders in order to maintain our ability to be subject to tax as a RIC; and
- Original issue discount may create a risk of non-refundable cash payments to FS Advisor based on non-cash accruals that may never be realized.

We may from time to time enter into total return swaps, credit default swaps or other derivative transactions which expose us to certain risks, including credit risk, market risk, liquidity risk and other risks similar to those associated with the use of leverage.

We may from time to time enter into total return swaps, credit default swaps or other derivative transactions that seek to modify or replace the investment performance of a particular reference security or other asset. These transactions are typically individually negotiated, non-standardized agreements between two parties to exchange payments, with payments generally calculated by reference to a notional amount or quantity. Swap contracts and similar derivative contracts are not traded on exchanges; rather, banks and dealers act as principals in these markets. These investments may present risks in excess of those resulting from the referenced security or other asset. Because these transactions are not an acquisition of the referenced security or other asset itself, the investor has no right directly to enforce compliance with the terms of the referenced security or other asset and has no voting or other consensual rights of ownership with respect to the referenced security or other asset. In the event of insolvency of a counterparty, we will be treated as a general creditor of the counterparty and will have no claim of title with respect to the referenced security or other asset.

A total return swap is a contract in which one party agrees to make periodic payments to another party based on the change in the market value of the referenced security or other assets underlying the total return swap during a specified period, in return for periodic payments based on a fixed or variable interest rate.

A total return swap is subject to market risk, liquidity risk and risk of imperfect correlation between the value of the total return swap and the debt obligations underlying the total return swap. In addition, we may incur certain costs in connection with a total return swap that could in the aggregate be significant.

A credit default swap is a contract in which one party buys or sells protection against a credit event with respect to an issuer, such as an issuer's failure to make timely payments of interest or principal on its debt obligations, bankruptcy or restructuring during a specified period. Generally, if we sell credit protection using a credit default swap, we will receive fixed payments from the swap counterparty and if a credit event occurs with respect to the applicable issuer, we will pay the swap counterparty par for the issuer's defaulted debt securities and the swap counterparty will deliver the

defaulted debt securities to us. Generally, if we buy credit protection using a credit default swap, we will make fixed payments to the counterparty and if a credit event occurs with respect to the applicable issuer, we will deliver the issuer's defaulted securities underlying the swap to the swap counterparty and the counterparty will pay us par for the defaulted securities. Alternatively, a credit default swap may be cash settled and the buyer of protection would receive the difference between the par value and the market value of the issuer's defaulted debt securities from the seller of protection.

Credit default swaps are subject to the credit risk of the underlying issuer. If we are selling credit protection, there is a risk that we will not properly assess the risk of the underlying issuer, a credit event will occur and we will have to pay the counterparty. If we are buying credit protection, there is a risk that we will not properly assess the risk of the underlying issuer, no credit event will occur and we will receive no benefit for the premium paid.

A derivative transaction is also subject to the risk that a counterparty will default on its payment obligations thereunder or that we will not be able to meet our obligations to the counterparty. In some cases, we may post collateral to secure our obligations to the counterparty, and we may be required to post additional collateral upon the occurrence of certain events such as a decrease in the value of the reference security or other asset. In some cases, the counterparty may not collateralize any of its obligations to us.

Derivative investments effectively add leverage to a portfolio by providing investment exposure to a security or market without owning or taking physical custody of such security or investing directly in such market. In addition to the risks described above, such arrangements are subject to risks similar to those associated with the use of leverage. See "—Risks Related to Debt Financing."

Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. When this occurs, we will generally reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments will typically have substantially lower yields than the debt being prepaid and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments, net of prepayment fees, could negatively impact our return on equity.

Energy Company Risks

Our investment policy is to invest, under normal circumstances, at least 80% of our total assets in securities of Energy companies. This investment policy may not be changed without at least 60 days' prior notice to holders of our common shares of any such change. The revenues, income (or losses) and valuations of Energy companies can fluctuate suddenly and dramatically due to a number of factors.

Because our investment policy is to invest at least 80% of our total assets in securities of Energy companies, our portfolio will not be well allocated among various industries.

As there can be a correlation in the valuation of the securities in our portfolio, a decline in value of the securities of one company may be accompanied by a decline in the valuations of the securities of other companies within the Energy industry that we may hold in our portfolio. A decline in value of the securities of such issuers or a downturn in the Energy sector might have a more severe impact on us than on an entity that is more broadly allocated among various industries.

An increase or decrease in commodity supply or demand may adversely affect our business.

A decrease in the production of natural gas, natural gas liquids, crude oil, coal or other energy commodities, a decrease in the volume of such commodities available for transportation, mining, processing, storage or distribution, or a sustained decline in demand for such commodities may adversely impact the financial performance or prospects of Energy companies in which we may invest.

Energy companies are subject to supply and demand fluctuations in the markets they serve which will be impacted by a wide range of factors, including fluctuating commodity prices, weather, increased conservation or use of alternative fuel sources, increased governmental or environmental regulation, depletion of natural gas, natural gas liquids, crude oil or coal production, rising interest rates, declines in domestic or foreign production of natural gas, natural gas liquids and crude oil, accidents or catastrophic events and economic conditions, among others.

An increase or decrease in commodity pricing may adversely affect our business.

The return on our prospective investments in Energy companies will be dependent on the margins received by those companies for the exploration, development, production, gathering, transportation, processing, storing, refining, distribution, mining, generation or marketing of natural gas, natural gas liquids, crude oil, refined products, coal or power. These margins may fluctuate widely in response to a variety of factors including global and domestic economic conditions, weather conditions, natural disasters, the supply and price of imported energy commodities, the production and storage levels of energy commodities in certain regions or in the world, political instability, terrorist activities, transportation facilities, energy conservation, domestic and foreign governmental regulation and taxation and the availability of local, intrastate and interstate transportation systems. Volatility of commodity prices may also make it more difficult for Energy companies in which we may invest to raise capital to the extent the market perceives that their performance may be directly or indirectly tied to commodity prices.

Cyclicality within the Energy sector may adversely affect our business.

Industries within the Energy sector are cyclical with fluctuations in commodity prices and demand for commodities driven by a variety of factors. The highly cyclical nature of the industries within the Energy sector may lead to volatile changes in commodity prices, which may adversely affect the earnings of Energy companies in which we may invest.

A prolonged continuation of depressed oil and natural gas prices could have a material adverse effect on us.

Depressed oil and natural gas prices would adversely affect the credit quality and performance of certain of our debt and equity investments in Energy companies. A decrease in credit quality and performance would, in turn, negatively affect the fair value of these investments, which would consequently negatively affect our net asset value. Should a prolonged period of depressed oil and natural gas prices occur, it is likely that our portfolio companies' abilities to satisfy financial or operating covenants imposed by us or other lenders will be adversely affected, thereby negatively impacting their financial condition and their ability to satisfy their debt service and other obligations to us. Likewise, should a prolonged period of depressed oil and natural gas prices occur, it is likely that our portfolio companies' cash flow and profit generating capacities would also be adversely affected thereby negatively impacting their ability to pay us dividends or distributions on certain of our investments.

Changes in international, foreign, federal, state or local government regulation may adversely affect our business.

Energy companies are subject to significant international, foreign, federal, state and local government regulation, including how facilities are constructed, maintained and operated, environmental and safety controls, and the prices they may charge for the products and services they provide. Various governmental authorities have the power to enforce compliance with these regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. For example, many state and federal environmental laws provide for civil penalties as well as regulatory remediation, thus adding to the potential liability an Energy company may face. More extensive laws, regulations or enforcement policies could be enacted in the future which would likely increase compliance costs and may adversely affect the financial performance of Energy companies in which we may invest.

In particular, changes to laws and increased regulations or enforcement policies as a result of oil spills may adversely affect the financial performance of Energy companies. Additionally, changes to laws and increased regulation or restrictions on the use of hydraulic fracturing may adversely impact the ability of Energy companies to economically develop oil and natural gas resources and, in turn, reduce production for such commodities. Any such changes or increased regulations or policies may adversely affect the performance of Energy companies in which we may invest.

Energy companies are subject to various operational risks.

Energy companies are subject to various operational risks, such as disruption of operations, mining, drilling or installation accidents, inability to timely and effectively integrate newly acquired assets, unanticipated operation and maintenance expenses, lack of proper asset integrity, underestimated cost projections, inability to renew or increased costs of rights of way, failure to obtain the necessary permits to operate and failure of third-party contractors to perform their contractual obligations. Thus, some Energy companies may be subject to construction risk, acquisition risk or other risks arising from their specific business strategies.

Energy companies that focus on exploration and production are subject to numerous reserve and production related risks.

Exploration and production businesses are subject to overstatement of the quantities of their reserves based upon any reserve estimates that prove to be inaccurate, the possibility that no commercially productive oil, natural gas or other energy reservoirs will be discovered as a result of drilling or other exploration activities, the curtailment, delay or cancellation of exploration activities as a result of unexpected conditions or miscalculations, title problems, pressure or irregularities in formations, equipment failures or accidents, adverse weather conditions, compliance with environmental and other governmental requirements and cost of, or shortages or delays in the availability of, drilling rigs and other exploration equipment, and operational risks and hazards associated with the development of the underlying properties, including natural disasters, blowouts, explosions, fires, leakage of crude oil, natural gas or other resources, mechanical failures, cratering and pollution.

Competition between Energy companies may adversely affect our business.

The Energy companies in which we may invest face substantial competition in acquiring assets, expanding or constructing assets and facilities, obtaining and retaining customers and contracts, securing trained personnel and operating their assets. Many of their competitors may have superior financial and other resources.

Inability by companies in which we may invest to make accretive acquisitions may adversely affect our business.

The ability of Energy companies in which we may invest to grow and, where applicable, to increase dividends or distributions to their equity holders can be highly dependent on their ability to make acquisitions of infrastructure assets that result in an increase in free cash flow. In the event that such companies are unable to make such accretive acquisitions because they are unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts, because they are unable to raise financing for such acquisitions on economically acceptable terms, or because they are outbid by competitors, their future growth and ability to make or raise dividends or distributions will be limited and their ability to repay their debt and make payments to preferred equity holders may be weakened. Furthermore, even if these companies do consummate acquisitions that they believe will be accretive, the acquisitions may instead result in a decrease in free cash flow.

A significant accident or event that is not fully insured could adversely affect the operations and financial condition of Energy companies in which we may invest.

The operations of Energy companies in which we may invest are subject to many hazards inherent in the transporting, processing, storing, distributing, mining, generating or marketing of natural gas, natural gas liquids, crude oil, coal, refined products, power or other commodities, or in the exploring, managing or producing of such commodities, including: damage to pipelines, storage tanks, vessels or

related equipment and surrounding properties caused by hurricanes, tornadoes, floods, fires and other natural disasters or by acts of terrorism; inadvertent damage from construction or other equipment; leaks of natural gas, natural gas liquids, crude oil, refined products or other commodities; and fires and explosions. Further, since the September 11th terrorist attacks, the U.S. government has issued warnings that energy assets and facilities, specifically U.S. pipeline infrastructure, may be targeted in future terrorist attacks. These risks could result in substantial losses due to personal injury or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage and may result in the curtailment or suspension of their related operations. Not all Energy companies are fully insured against all risks inherent to their businesses. If a significant accident or event occurs that is not fully insured, it could adversely affect the Energy company's operations and financial condition. In addition, any increased governmental regulation to mitigate such risks (including regulations related to recent oil spills or hydraulic fracturing), could increase insurance premiums and other operating costs for Energy companies in which we may invest.

Energy reserves naturally deplete as they are produced over time and this may adversely affect our business.

Energy reserves naturally deplete as they are produced over time. Many Energy companies are either engaged in the production of natural gas, natural gas liquids, crude oil or coal, or are engaged in transporting, storing, distributing and processing these items or their derivatives on behalf of shippers. To maintain or grow their revenues, these companies or their customers need to maintain or expand their reserves through exploration of new sources of supply, through the development of existing sources or through acquisitions. The financial performance of Energy companies in which we may invest may be adversely affected if they, or the companies to whom they provide services, are unable to cost-effectively acquire additional reserves sufficient to replace the depleted reserves. If an Energy company fails to add reserves by acquiring or developing them, its reserves and production will decline over time as the reserves are produced. If an Energy company is not able to raise capital on favorable terms, it may not be able to add to or maintain its reserves.

Infrastructure assets may be the future target of terrorist organizations.

The terrorist attacks in the United States on September 11, 2001, had a disruptive effect on the economy and the securities markets. United States military and related action in the Middle East and elsewhere could have significant adverse effects on the U.S. economy and the stock market. Uncertainty surrounding military strikes or actions or a sustained military campaign may affect an Energy company's operations in unpredictable ways, including disruptions of fuel supplies and markets, and infrastructure assets could be direct targets, or indirect casualties, of an act of terror. The U.S. government has issued warnings that infrastructure assets, specifically the United States' pipeline infrastructure, may be the future target of terrorist organizations. In addition, changes in the insurance markets have made certain types of insurance more difficult, if not impossible, to obtain and have generally resulted in increased premium costs.

Certain Energy companies are dependent on their parents or sponsors for a majority of their revenues and may be subject to affiliate party risk.

Certain Energy companies in which we may invest are dependent on their parents or sponsors for a majority of their revenues. Any failure by an Energy company's parent or sponsor to satisfy its payments or obligations would impact the Energy company's revenues and cash flows and ability to make distributions.

Changing economic, regulatory and political conditions in some countries, including political and military conflicts, may adversely affect the businesses in which we invest.

Changing economic, regulatory and political conditions in some countries, including political and military conflicts, have from time to time resulted in attacks on vessels, mining of waterways, piracy, terrorism, labor strikes, boycotts and government inspections or requisitioning of vessels. These types of events could impact the delivery of commodities or impact pricing of commodities.

Risks Related to Our Investments in MLPs

An investment in MLP units involves certain risks which differ from an investment in the common stock of a corporation. Holders of MLP units have limited control and voting rights on matters affecting the partnership. In addition, there are certain tax risks associated with an investment in MLP units. See "—Risks Related to U.S. Federal Income Tax."

An MLP's cash flow, and consequently its distributions, are subject to operational and general energy industry risks, which may result in disparate quarterly distributions.

A portion of the cash flow received by us may be derived from investments in the equity securities of MLPs. The amount of cash that an MLP has available for distributions and the tax character of such distributions depend upon the amount of cash generated by the MLP's operations. Cash available for distribution will vary from quarter to quarter and is largely dependent on factors affecting the MLP's operations and factors affecting the Energy industry in general. In addition to the risk factors described above, other factors which may reduce the amount of cash an MLP has available for distribution in a given quarter include increased operating costs, maintenance capital expenditures, acquisition costs, expansion, construction or exploration costs and borrowing costs.

Investments in MLPs may have limited liquidity.

Although common units of some MLPs may trade on public exchanges, certain of these securities may trade less frequently, particularly those with smaller capitalizations. Securities with limited trading volumes may display volatile or erratic price movements. As a result, these securities may be difficult to dispose of at a fair price at the times when we believe it is desirable to do so. These securities are also more difficult to value, and our judgment as to value will often be given greater weight than market quotations, if any exist. Investment of our capital in securities that are less actively-traded, or over time experience decreased trading volume, may restrict our ability to take advantage of other market opportunities. In addition, many MLP units are privately held.

Investments in MLPs are susceptible to interest rate fluctuation risks.

Interest rate risk is the risk that securities will decline in value because of changes in market interest rates. The yields of equity and debt securities of MLPs are susceptible in the short-term to fluctuations in interest rates and, like treasury bonds, the prices of these securities typically decline when interest rates rise. Accordingly, our net asset value may be impacted by an increase in interest rates. Further, rising interest rates could adversely impact the financial performance of MLPs in which we invest by increasing their costs of capital. This may reduce their ability to execute acquisitions or expansion projects in a cost-effective manner.

Investments in MLPs are subject to certain tax risks.

MLPs are not subject to tax at the partnership level. Rather, each partner is allocated a share of the MLP's income, gains, losses, deductions, and expenses. A change in current tax law, or a change in the underlying business of a given MLP could result in the MLP being treated as a corporation for U.S. federal tax purposes, which would result in such MLP being required to pay U.S. federal income tax on its taxable income. Such treatment also would have the effect of reducing the amount of cash available for distribution by the affected MLP.

Our investments in MLPs may be subject to additional fees and expenses, including management and incentive fees, and, as a result, our investments in MLPs may achieve a lower rate of return than our other investments.

MLPs are subject to additional fees, some of which are paid regardless of the performance of its assets. We will pay certain management fees to the adviser entity of any MLP in which we invest. FS Advisor will also earn its base management fee from us based on our gross assets, including our investment in any such MLP; therefore, we will be paying both FS Advisor's base management fee and any management fees charged by an MLP. As a result, our investment returns attributable to MLPs in which we invest may be lower than other investments we select. In addition, because the fees received by an MLP adviser are typically based on the managed assets of the MLP, including the proceeds of

any leverage it may incur, the MLP adviser has a financial incentive to utilize leverage, which may create a conflict of interest between the MLP adviser and us as a shareholder in the MLP.

Risks Related to Debt Financing

We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage.

Borrowings and other types of financing, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increases the risks associated with investing in our securities. Our and our special-purpose financing subsidiaries' lenders and debt holders have fixed dollar claims on our and their assets that are superior to the claims of our shareholders. If the value of our assets increases, then leverage would cause the net asset value to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leverage would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of consolidated interest payable on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make distributions to shareholders. Leverage is generally considered a speculative investment technique.

The agreements governing our financing arrangements contain various covenants which, if not complied with, could accelerate repayment under the applicable arrangement, thereby materially and adversely affecting our liquidity, financial condition, results of operations and our ability to pay distributions to our shareholders.

Our wholly-owned, special-purpose financing subsidiaries, Bryn Mawr Funding, Berwyn Funding, FSEP Funding, Energy Funding, Foxfields Funding, Wayne Funding, Gladwyne Funding and Strafford Funding have entered into financing arrangements with Barclays, BNP, Deutsche Bank, Natixis, Fortress, Wells Fargo and Goldman, respectively. The agreements governing these financing arrangements contain various default provisions and operational covenants which, if triggered, could result in the termination of the respective financing arrangements and the acceleration of any amounts outstanding thereunder, which could require us or our subsidiaries to liquidate positions at a time and/or at a price which is disadvantageous to us. This could result in losses and impact our ability to meet our investment objectives and pay distributions to shareholders.

Our or our subsidiaries' failure to comply with the covenants set forth in the financing arrangements could materially and adversely affect our liquidity, financial condition, results of operations and our ability to pay distributions to our shareholders. We cannot assure shareholders that we or our subsidiaries will be able to borrow funds under any such financing arrangements at any particular time or at all. See Note 8 to our consolidated financial statements contained in this annual report on Form 10-K for a more detailed discussion of the terms of our financing arrangements.

We are subject to risks associated with our debt securitization facility.

Through our two wholly-owned, special-purpose financing subsidiaries, Gladwyne Funding and Strafford Funding, we entered into a debt financing arrangement with Goldman pursuant to which up to $325,000 will be made available to us to fund investments and for other general corporate purposes. The financing transaction with Goldman is structured as a debt securitization. We use the term "debt securitization" to describe a form of secured borrowing under which an operating company, sometimes referred to as an originator, acquires or originates loans or other assets that earn income, whether on a one-time or recurring basis, or collectively referred to herein as income producing assets, and borrows money on a non-recourse basis against a legally separate pool of income producing assets. In a typical debt securitization, the originator transfers the income producing assets to a special-purpose, bankruptcy-remote subsidiary, also referred to as a "special purpose entity", which is established solely for the purpose of holding income producing assets and issuing debt secured by these income producing assets. The special purpose entity completes the borrowing through the issuance of notes secured by the income producing assets.

Pursuant to the financing arrangement, assets in our portfolio may be sold and/or contributed by us from time to time to Gladwyne Funding. The assets held by Gladwyne Funding will secure the

obligations of Gladwyne Funding under the floating rate notes, or Notes, to be issued from time to time by Gladwyne Funding to Strafford Funding pursuant to an indenture, dated as of September 11, 2014, as supplemented by the Second Supplemental Indenture dated as of September 21, 2016, or together, the Indenture. Pursuant to the Indenture, the aggregate principal amount of Notes that may be issued by Gladwyne Funding from time to time is $577,750.

Strafford Funding, in turn, has entered into a repurchase transaction with Goldman pursuant to the terms of a master repurchase agreement and the related annex and master confirmation thereto, each dated as of September 11, 2014, as supplemented by the second amended and restated master confirmation dated as of September 21, 2016, or collectively, the Goldman facility. Pursuant to the Goldman facility, on one or more occasions beginning December 15, 2014 Goldman began purchasing Notes held by Strafford Funding for an aggregate purchase price equal to approximately 56.25% of the principal amount of Notes purchased. Subject to certain conditions, the maximum principal amount of Notes that may be purchased under the Goldman facility is $577,750. Accordingly, the aggregate maximum amount payable to Strafford Funding under the Goldman facility will not exceed $325,000, plus applicable financing fees. As of December 31, 2016, Strafford Funding has purchased $577,750 of Notes, the maximum principal amount of Notes that may be purchased under the Goldman facility. The maximum repurchase amount payable by Strafford Funding to Goldman under the Goldman facility in respect of the Notes is $325,000, plus applicable financing fees.

See Note 8 to our consolidated financial statements contained in this annual report on Form 10-K for a more detailed discussion of the terms of this debt securitization facility. As a result of this debt securitization facility, we are subject to certain risks, including, but not limited to, those set forth below.

Our equity investment in Gladwyne Funding is subordinated to the debt obligations of Gladwyne Funding.

Any dividends or other payments in respect of our equity interest in Gladwyne Funding are subordinated in priority of payment to the Notes. In addition, Gladwyne Funding is subject to certain payment restrictions set forth in the Indenture in respect of our equity interest.

We will receive cash distributions based on our investment in Gladwyne Funding only if Gladwyne Funding has made all required cash interest payments on the Notes. We cannot assure you that distributions on the assets held by Gladwyne Funding will be sufficient to make any distributions to us or that the yield on our investment in Gladwyne Funding will meet our expectations.

Our equity investment in Gladwyne Funding is unsecured and ranks behind all of the creditors, known or unknown, of Gladwyne Funding, including the holders of the Notes. Consequently, if the value of Gladwyne Funding's assets decreases as a result of conditions in the credit markets, defaulted loans, capital gains and losses on the underlying assets or prepayment or changes in interest rates generally, the value of our equity investment in Gladwyne Funding could be reduced. Accordingly, our investment in Gladwyne Funding may not produce a profit and may be subject to a loss in an amount up to the entire amount of such equity investment.

In addition, if the value of Gladwyne Funding's assets decreases and Gladwyne Funding is unable to make any required payments to Strafford Funding pursuant to the terms of the Notes, Strafford Funding may, in turn, be unable to make any required payments to Goldman pursuant to the terms of the Goldman facility. In such event, if the value of Strafford Funding's assets is not sufficient to meet Strafford Funding's payment obligations to Goldman, Strafford Funding may request that we loan to it pursuant to an uncommitted revolving credit agreement, dated as of September 11, 2014 and amended and restated on September 21, 2016, between Strafford Funding, as borrower, and us, as lender, or the Revolving Credit Agreement, or that we otherwise provide additional funds to it to cover its payment obligations to Goldman. Otherwise, we may be subject to a loss in an amount up to the entire amount of our equity investment in Strafford Funding.

Our equity investment in Strafford Funding is subordinated to the debt obligations of Strafford Funding.

Our equity investment in Strafford Funding is unsecured and ranks behind all of the creditors, known or unknown, of Strafford Funding, including Goldman. Consequently, if the value of Strafford Funding's assets decreases as a result of conditions in the credit markets, defaulted loans, capital gains and losses on the underlying assets or prepayment or changes in interest rates generally, the value of

our equity investment in Strafford Funding could be reduced. Accordingly, our investment in Strafford Funding may not produce a profit and may be subject to a loss in an amount up to the entire amount of such equity investment.

In addition, if the value of Strafford Funding's assets decreases or Gladwyne Funding fails to make any required payments to Strafford Funding pursuant to the terms of the Notes, Strafford Funding may be unable to make any required payments to Goldman pursuant to the terms of the Goldman facility. In such event, if the value of Strafford Funding's assets is not sufficient to meet Strafford Funding's payment obligations to Goldman, Strafford Funding may request that we loan to it pursuant to the Revolving Credit Agreement or that we otherwise provide additional funds to it to cover its payment obligations to Goldman. Otherwise, we may be subject to a loss in an amount up to the entire amount of our equity investment in Strafford Funding.

Our equity investment in Gladwyne Funding has a high degree of leverage.

The maximum aggregate principal amount of Notes permitted to be issued by Gladwyne Funding under the Indenture is $577,750. The maximum repurchase amount payable by Strafford Funding to Goldman under the Goldman facility in respect of the Notes is $325,000, plus applicable financing fees. The market value of our equity investment in Gladwyne Funding may be significantly affected by a variety of factors, including changes in the market value of the assets held by Gladwyne Funding, changes in distributions on the assets held by Gladwyne Funding, defaults and recoveries on those assets, capital gains and losses on those assets, prepayments on those assets and other risks associated with those assets. Our investment in Gladwyne Funding may not produce a profit and may be subject to a loss in an amount up to the entire amount of such equity investment. The leveraged nature of our equity investment may magnify the adverse impact of any loss on our equity investment.

The interests of Goldman, as the holder of the Notes, may not be aligned with our interests, and we will not have control over remedies in respect of the Notes.

The Notes rank senior in right of payment to any equity securities issued by Gladwyne Funding. As a result, there are circumstances in which the interests of Goldman, as the holder of the Notes, may not be aligned with our interests. For example, under the terms of the Notes, Goldman has the right to receive payments of principal and interest prior to Gladwyne Funding making any distributions or dividends to holders of its equity securities.

For as long as the Notes remain outstanding, Goldman has the right to act in certain circumstances with respect to the portfolio of assets that secure the obligations of Gladwyne Funding under the Notes in ways that may benefit their interests but not ours, including by exercising remedies or directing the trustee under the Indenture to declare events of default under or accelerate the Notes in accordance with the terms of the Indenture. Goldman has no obligation to consider any possible adverse effect that actions taken may have on our equity interests. For example, upon the occurrence of an event of default (as defined in the Indenture) with respect to the Notes, the trustee, which is currently Citibank N.A., or Citibank, may declare the outstanding principal amount of all of the Notes, together with any accrued interest thereon, to be immediately due and payable. This would have the effect of accelerating the outstanding principal amount of the Notes and triggering a repayment obligation on the part of Gladwyne Funding. Gladwyne Funding may not have proceeds sufficient to make required payments on the Notes and make any distributions to us. Any failure of Gladwyne Funding to make distributions on the equity interests we hold could have a material adverse effect on our business, financial condition, results of operations and cash flows, and may result in our inability to make distributions to our shareholders in amounts sufficient to maintain our qualification as a RIC, or at all.

The market value of the Notes may decline causing Strafford Funding to borrow funds from us in order to meet certain margin posting, which would have an adverse effect on the timing of payments to us.

If at any time during the term of the Goldman facility the market value of the Notes (measured by reference to the market value of Gladwyne Funding's portfolio of assets) declines and is less than the required margin amount under the Goldman facility, or the Margin Threshold, Strafford Funding will be required to post cash collateral with Goldman in an amount at least equal to the amount by which

the market value of the Notes at such time is less than the Margin Threshold. In such event, in order to satisfy this requirement, Strafford Funding intends to borrow funds from us pursuant to the Revolving Credit Agreement. We may, in our sole discretion, make such loans from time to time to Strafford Funding pursuant to the terms of the Revolving Credit Agreement. Borrowings under the Revolving Credit Agreement may not exceed $325,000 and will accrue interest at a rate equal to one-month LIBOR plus a spread of 0.75% per annum. To the extent we loan additional funds to Strafford Funding to satisfy the Margin Threshold, such event could have a material adverse effect on our business, financial condition, results of operations and cash flows, and may result in our inability to make distributions to our shareholders in amounts sufficient to maintain our qualification as a RIC, or at all. There is no assurance that loans made pursuant to the Revolving Credit Agreement will be repaid.

Restructurings of investments held by Gladwyne Funding, if any, may decrease their value and reduce the value of our equity interest in Gladwyne Funding.

As investment manager, we have broad authority to direct and supervise the investment and reinvestment of the assets held by Gladwyne Funding, which may require from time to time the execution of amendments, waivers, modifications and other changes to the investment documentation in accordance with the related investment management agreement we have entered into with Gladwyne Funding. During periods of economic uncertainty and recession, the necessity for amendments, waivers, modifications and restructurings of investments may increase. Such amendments, waivers, modifications and other restructurings may change the terms of the investments and, in some cases, may result in Gladwyne Funding holding assets that do not meet certain specified criteria for the investments made by it, and also could adversely impact the market value of such investments and thereby the market value of the Notes, which in turn could adversely impact the ability of Strafford Funding to meet the Margin Threshold. Any amendment, waiver, modification or other restructuring that affects the market value of the assets underlying the Notes and therefore reduces Strafford Funding's ability to meet the Margin Threshold, will make it more likely that Gladwyne Funding will need to retain assets, including cash, to increase the market value of the assets underlying the Notes and for Strafford Funding to post cash collateral with Goldman in an amount at least equal to the amount by which the market value of the Notes is less than the Margin Threshold. Any such use of cash by Gladwyne Funding would reduce distributions available to us or delay the timing of distributions to us.

We may not receive cash from Gladwyne Funding or Strafford Funding.

We will receive cash from Gladwyne Funding and Strafford Funding only to the extent that Gladwyne Funding or Strafford Funding, respectively, makes distributions to us. Gladwyne Funding may make distributions to us, in turn, only to the extent permitted by the Indenture. The Indenture generally provides that distributions by Gladwyne Funding may not be made unless all amounts then due and owing with respect to the Notes have been paid in full. If we do not receive cash from Gladwyne Funding or Strafford Funding, we may be unable to make distributions to our shareholders in amounts sufficient to maintain our qualification as a RIC, or at all. We also could be forced to sell investments in our portfolio at less than their fair value in order to continue making such distributions.

We are subject to the credit risk of Goldman.

If Goldman fails to sell the Notes back to Strafford Funding at the end of the applicable period, Strafford Funding's recourse will be limited to an unsecured claim against Goldman for the difference between the value of such Notes at such time and the amount that would be owing by Strafford Funding to Goldman had Goldman performed under the Goldman facility. The ability of Goldman to satisfy such a claim will be subject to Goldman's creditworthiness at that time.

If we borrow money, the potential for gain or loss on amounts invested in us will be magnified and may increase the risk of investing in us.

The use of borrowings, also known as leverage, increases the volatility of investments by magnifying the potential for gain or loss on invested equity capital. If we use leverage to partially finance our investments, through borrowing from banks and other lenders, shareholders will experience increased risks of investing in our common shares. If the value of our assets increases, leverage would

cause the net asset value attributable to our common shares to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leverage would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common share distribution payments. Leverage is generally considered a speculative investment technique. In addition, the decision to utilize leverage will increase our assets and, as a result, will increase the amount of base management fees payable to FS Advisor.

As of December 31, 2016, we had $431,663 in borrowings available under our financing arrangements. Below is a summary of our outstanding financing arrangements as of December 31, 2016:

Facility	Type of Arrangement	Rate	Amount Outstanding	Amount Available	Maturity Date
Barclays Credit Facility	Revolving	L+3.25%	—	$100,000	May 18, 2021
BNP Facility	Prime Brokerage	L+1.10%[(1)]	$113,737	$186,263	September 27, 2017[(2)]
Deutsche Bank Credit Facility	Revolving	L+2.05%[(3)]	$200,000	$115,000	June 11, 2017
Fortress Facility	Term	L+5.00%[(4)]	$155,000	—	November 6, 2020
Goldman Facility	Repurchase	L+3.38%[(5)]	$325,000	—	September 15, 2018
Natixis Credit Facility	Revolving	CP+2.25%	$ 50,328	—	July 11, 2023
Wells Fargo Credit Facility	Revolving	L+2.50% to 2.75%	$ 29,600	$ 30,400	September 9, 2018

(1) Beginning on January 2, 2017, borrowings under the BNP facility will accrue interest at a rate equal to LIBOR plus 1.35%.

(2) The BNP facility generally is terminable upon 270 days' notice by either party. As of December 31, 2016, neither Berwyn Funding nor BNP had provided notice of its intent to terminate the facility.

(3) Prior to June 11, 2016, borrowings under the Deutsche Bank credit facility accrued interest at a rate equal to LIBOR plus 1.80% per annum. Beginning on June 11, 2016, borrowings under the Deutsche Bank credit facility accrue interest at a rate equal to LIBOR plus 2.05% per annum.

(4) Borrowings under the Fortress facility accrue interest at a rate equal to LIBOR plus 5.00%, subject to a floor of 0.75%.

(5) Prior to September 21, 2016, borrowings under the Goldman facility accrued interest at a rate equal to LIBOR plus 2.75% per annum. Beginning on September 21, 2016, borrowings under the Goldman facility accrue interest at a rate equal to LIBOR plus 3.38% per annum.

Illustration. The following table illustrates the effect of leverage on returns from an investment in our common shares assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation assumes (i) $4,704,900 in total average assets, (ii) a weighted average cost of funds of 4.22%, (iii) $1,305,328 in borrowings outstanding (i.e., assumes that the full $431,663 available to us as of December 31, 2016 under the financing arrangements with Barclays, BNP, Deutsche Bank, Fortress, Goldman, Natixis and Wells Fargo is outstanding) and (iv) $3,399,592 in average shareholders' equity. In order to compute the "Corresponding return to shareholders," the "Assumed Return on Our Portfolio (net of expenses)" is multiplied by the assumed total average assets to obtain an assumed return to us. From this amount, the interest expense is calculated by multiplying the assumed weighted average cost of funds times the assumed borrowings outstanding, and the product is subtracted from the assumed return to us in order to determine the return available to shareholders. The return available to shareholders is then divided by our shareholders' equity to determine the "Corresponding return to shareholders." Actual interest payments may be different.

Assumed Return on Our Portfolio (net of expenses)	−10%	−5%	0%	5%	10%
Corresponding return to shareholders	−15.46%	−8.54%	−1.62%	5.30%	12.22%

Similarly, assuming (i) approximately $4,704,900 in total average assets, (ii) a weighted average cost of funds of approximately 4.22% and (iii) $1,305,328 in borrowings outstanding (i.e., assumes that the full $431,663 available to us as of December 31, 2016 under the financing arrangements with Barclays, BNP, Deutsche Bank, Fortress, Goldman, Natixis and Wells Fargo is outstanding, our assets would need

to yield an annual return (net of expenses) of approximately 1.17% in order to cover the annual interest payments on our outstanding borrowings.

Changes in interest rates may affect our cost of capital and net investment income.

Because we intend to use debt to finance investments, our net investment income will depend, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates when we have debt outstanding, our cost of funds will increase, which could reduce our net investment income. We expect that our long-term fixed-rate investments will be financed primarily with equity and long-term debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Also, we have limited experience in entering into hedging transactions, and we will initially have to develop such expertise or arrange for such expertise to be provided.

A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle rate and may result in a substantial increase of the amount of incentive fees payable to FS Advisor with respect to pre-incentive fee net investment income.

Risks Related to U.S. Federal Income Tax

We will be subject to corporate-level income tax if we are unable to qualify as a RIC under Subchapter M of the Code or to satisfy RIC distribution requirements.

To qualify for and maintain RIC tax treatment under Subchapter M of the Code, we must meet the following annual distribution, income source and asset diversification requirements. See "Item 1. Business—Taxation as a RIC."

- The Annual Distribution Requirement for RIC tax treatment will be satisfied if we distribute to our shareholders each tax year, dividends of an amount at least equal to the sum of 90% of our "investment company taxable income," which is generally the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, determined without regard to any deduction for dividends paid. Because we may use debt financing, we are subject to an asset coverage ratio requirement under the 1940 Act and may in the future become subject to certain financial covenants under loan and credit agreements that could, under certain circumstances, restrict us from making distributions necessary to satisfy the Annual Distribution Requirement. If we are unable to obtain cash from other sources, we could fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.
- The income source requirement will be satisfied if we obtain at least 90% of our gross income for each tax year from dividends, interest, gains from the sale of securities or similar sources.
- The asset diversification requirement will be satisfied if we meet certain asset diversification requirements at the end of each quarter of our tax year. To satisfy this requirement, at least 50% of the value of our assets must consist of cash, cash equivalents, U.S. government securities, securities of other RICs and other securities if such securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of such issuer; and no more than 25% of the value of our assets can be invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain "qualified publicly traded partnerships." Failure to meet these requirements may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most

of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

We must satisfy these tests on an ongoing basis in order to maintain RIC tax treatment, and may be required to make distributions to shareholders at times when it would be more advantageous to invest cash in our existing or other investments, or when we do not have funds readily available for distribution. Compliance with the RIC tax requirements may hinder our ability to operate solely on the basis of maximizing profits and the value of our shareholders' investments. If we fail to qualify for or maintain RIC tax treatment for any reason and are subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions.

Some of our investments may be subject to corporate-level income tax.

We may invest in certain debt and equity investments through taxable subsidiaries and the taxable income of these taxable subsidiaries will be subject to federal and state corporate income taxes. We may invest in certain foreign debt and equity investments which could be subject to foreign taxes (such as income tax, withholding and value added taxes).

We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

For U.S. federal income tax purposes, we may be required to recognize taxable income in circumstances in which we do not receive a corresponding payment in cash. For example, our investments may include debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or debt obligations that were issued with warrants). To the extent original issue discount or PIK interest constitutes a portion of our income, we must include in taxable income each tax year a portion of the original issue discount or PIK interest that accrues over the life of the instrument, regardless of whether cash representing such income is received by us in the same tax year. We may also have to include in income other amounts that we have not yet received in cash, such as deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. We anticipate that a portion of our income may constitute original issue discounts or other income required to be included in taxable income prior to receipt of cash. Further, we may elect to amortize market discounts and include such amounts in our taxable income in the current tax year, instead of upon disposition, as not making the election would limit our ability to deduct interest expenses for tax purposes.

Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the tax year of the accrual, we may be required to make a distribution to our shareholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount. As a result, we may have difficulty meeting the Annual Distribution Requirement necessary to maintain RIC tax treatment under Subchapter M of the Code. We may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for or maintain RIC tax treatment and thus become subject to corporate-level income tax.

We may be adversely affected if an MLP or other non-corporate business structure in which we invest is treated as a corporation, rather than a partnership, for U.S. federal income tax purposes.

Our ability to meet our investment objectives will depend on the level of taxable income and distributions and dividends we receive from the MLPs and other Energy company securities in which we may invest, a factor over which we have no control. The benefit we derive from an investment in MLPs is largely dependent on the MLPs being treated as partnerships for U.S. federal income tax purposes. As a partnership, an MLP has no tax liability at the entity level. If, as a result of a change in current law or a change in an MLP's business, an MLP is treated as a corporation for U.S. federal income tax purposes, such MLP would be obligated to pay U.S. federal income tax on its income at the corporate tax rate. If an MLP were classified as a corporation for U.S. federal income tax purposes, the

amount of cash available for distribution would be reduced and distributions received by us would be taxed under U.S. federal income tax laws applicable to corporate distributions (as dividend income, return of capital or capital gain). Therefore, treatment of an MLP as a corporation for U.S. federal income tax purposes would result in a reduction in the after-tax return to us, likely causing a reduction in the value of our common shares. In addition, if we receive a Schedule K-1 from an MLP after having mailed a Form 1099-DIV to our shareholders, and our estimates with respect to the applicable MLP are determined to have been materially incorrect, we may be required to mail an amended Form 1099-DIV to our shareholders.

We may be adversely affected if an MLP or other non-corporate business structure in which we invest is unable to take advantage of certain tax deductions for U.S. federal income tax purposes and our income from investments in MLPs may exceed the cash received from such investments.

As a limited partner in the MLPs in which we seek to invest, we will receive our share of income, gains, losses, deductions and credits from those MLPs. Historically, a significant portion of income from MLPs has been offset by tax deductions. As a result, this income has been significantly lower than cash distributions paid by MLPs. We will incur a current tax liability on our share of an MLP's income and gains that is not offset by tax deductions, losses, and credits, or our net operating loss carryforwards, if any. The percentage of an MLP's income and gains which is offset by tax deductions, losses, and credits will fluctuate over time for various reasons. A significant slowdown in acquisition activity or capital spending by MLPs held in our portfolio could result in a reduction of accelerated depreciation generated by new acquisitions, which may result in an increase in our net ordinary income that we are required to distribute to shareholders to maintain our status as a RIC and to eliminate our liability for U.S. federal income tax. If our income from our investments in MLPs exceeds the cash distributions received from such investments, we may need to obtain cash from other sources in order to satisfy the Annual Distribution Requirement. If we are unable to obtain cash from other sources, we may fail to qualify for or maintain RIC tax treatment and become subject to corporate-level federal income tax. We may also recognize gain in excess of cash proceeds upon the sale of an interest in an MLP. Any such gain may need to be distributed or deemed distributed in order to avoid liability for corporate-level federal income taxes on such gain.

Our portfolio investments may present special tax issues.

Investments in below-investment grade debt instruments and certain equity securities may present special tax issues for us. U.S. federal income tax rules are not entirely clear about issues such as when we may cease to accrue interest, original issue discount or market discount, when and to what extent deductions may be taken for bad debts or worthless debt in equity securities, how payments received on obligations in default should be allocated between principal and interest income, as well as whether exchanges of debt instruments in a bankruptcy or workout context are taxable. Such matters could cause us to recognize taxable income for U.S. federal income tax purposes, even in the absence of cash or economic gain, and require us to make taxable distributions to our shareholders to maintain our RIC status or preclude the imposition of either U.S. federal corporate income or excise taxation. Additionally, because such taxable income may not be matched by corresponding cash received by us, we may be required to borrow money or dispose of other investments to be able to make distributions to our shareholders. These and other issues will be considered by us, to the extent determined necessary, in order that we minimize the level of any U.S. federal income or excise tax that we would otherwise incur. See "Item 1. Business—Taxation as a RIC."

Legislative or regulatory tax changes could adversely affect investors.

At any time, the federal income tax laws governing RICs or the administrative interpretations of those laws or regulations may be amended. Any of those new laws, regulations or interpretations may take effect retroactively and could adversely affect the taxation of us or our shareholders. Therefore, changes in tax laws, regulations or administrative interpretations or any amendments thereto could diminish the value of an investment in our shares or the value or the resale potential of our investments.

Risks Related to Our Common Shares

Our common shares are not listed on an exchange or quoted through a quotation system, and will not be for the foreseeable future, if ever. Therefore, shareholders will have limited liquidity and may not receive a full return of invested capital upon selling common shares.

Our common shares are illiquid assets for which there is not a secondary market and it is not expected that any will develop in the foreseeable future. There can be no assurance that we will complete a liquidity event. A liquidity event could include (1) a listing of our common shares on a national securities exchange, (2) the sale of all or substantially all of our assets either on a complete portfolio basis or individually followed by a liquidation or (3) a merger or another transaction approved by our board of trustees in which our shareholders likely will receive cash or shares of a publicly-traded company, including potentially a company that is an affiliate of us.

In addition, any shares repurchased pursuant to our share repurchase program may be purchased at a price which may reflect a discount from the purchase price a shareholder paid for the common shares being repurchased. See "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Share Repurchase Program" for a detailed description of our share repurchase program.

If our common shares are listed, we cannot assure shareholders that a public trading market will develop. In addition, a liquidity event involving a listing of our common shares on a national securities exchange may include certain restrictions on the ability of shareholders to sell their common shares. Further, even if we do complete a liquidity event, shareholders may not receive a return of all of their invested capital.

We are not obligated to complete a liquidity event by a specified date; therefore, it will be difficult for an investor to sell his or her common shares.

A liquidity event could include (1) a listing of our common shares on a national securities exchange, (2) the sale of all or substantially all of our assets either on a complete portfolio basis or individually followed by a liquidation, or (3) a merger or another transaction approved by our board of trustees in which our shareholders likely will receive cash or shares of a publicly-traded company, including potentially a company that is an affiliate of us. However, there can be no assurance that we will complete a liquidity event by a specified date or at all. If we do not successfully complete a liquidity event, liquidity for an investor's common shares will be limited to our share repurchase program, which we have no obligation to maintain.

Only a limited number of common shares may be repurchased pursuant to our share repurchase program and, to the extent shareholders are able to sell their common shares under our share repurchase program, shareholders may not be able to recover the amount of their investment in those shares.

Our share repurchase program includes numerous restrictions that limit shareholders' ability to sell their common shares. We intend to limit the number of common shares repurchased pursuant to our share repurchase program as follows: (1) we currently intend to limit the number of common shares to be repurchased during any calendar year to the number of common shares we can repurchase with the proceeds we receive from the issuance of our common shares under our distribution reinvestment plan, although at the discretion of our board of trustees, we may also use cash on hand, cash available from borrowings and cash from the liquidation of securities investments as of the end of the applicable period to repurchase common shares; (2) we intend to limit the number of common shares to be repurchased in any calendar year to 10% of the weighted average number of common shares outstanding in the prior calendar year, or 2.5% in each calendar quarter (though the actual number of common shares that we offer to repurchase may be less in light of the limitations noted above); (3) unless shareholders tender all of their common shares, shareholders must tender at least 25% of the number of common shares they have purchased and generally must maintain a minimum balance of $5,000 subsequent to submitting a portion of their common shares for repurchase by us; and (4) to the extent that the number of common shares tendered for repurchase exceeds the number of common shares that we are able to repurchase, we will repurchase common shares on a pro rata basis, not on a first-come, first-served basis. Further, we will have no obligation to repurchase common shares if the repurchase would violate the restrictions on distributions under federal law or Delaware law, which

prohibits distributions that would cause a trust to fail to meet statutory tests of solvency. Any of the foregoing limitations may prevent us from accommodating all repurchase requests made in any year.

In addition, our board of trustees may amend, suspend or terminate the share repurchase program upon 30 days' notice. We will notify shareholders of such developments (1) in our quarterly reports or (2) by means of a separate mailing to shareholders, accompanied by disclosure in a current or periodic report under the Exchange Act. In addition, although we have adopted a share repurchase program, we have discretion to not repurchase common shares, to suspend the share repurchase program and to cease repurchases. Further, the share repurchase program has many limitations and should not be relied upon as a method to sell common shares promptly or at a desired price.

Our distribution proceeds may exceed our earnings. Therefore, portions of the distributions that we make may represent a return of capital to shareholders for tax purposes, which will lower their tax basis in their shares.

We may pay all or a substantial portion of our distributions from sources that may constitute a return of shareholders' capital and will lower such shareholders' tax basis in their shares. A return of capital generally is a return of a shareholder's investment rather than a return of earnings or gains derived from our investment activities.

We may pay distributions from borrowings or the sale of assets to the extent our cash flows from operations, net investment income or earnings are not sufficient to fund declared distributions.

We may fund distributions from the uninvested proceeds of our continuous public offering and borrowings, and we have not established limits on the amount of funds we may use from such sources to make any such distributions. We have paid and may continue to pay distributions from the sale of assets to the extent distributions exceed our earnings or cash flows from operations.

The timing of our repurchase offers pursuant to our share repurchase program may be at a time that is disadvantageous to our shareholders.

When we make quarterly repurchase offers pursuant to our share repurchase program, we may offer to repurchase common shares at a price that is lower than the price that investors paid for common shares in our offering. As a result, to the extent investors have the ability to sell their common shares to us as part of our share repurchase program, the price at which an investor may sell common shares may be lower than what an investor paid in connection with the purchase of common shares in our offering.

In addition, in the event an investor chooses to participate in our share repurchase program, the investor will be required to provide us with notice of intent to participate prior to knowing what the repurchase price will be on the repurchase date. Although an investor will have the ability to withdraw a repurchase request prior to the expiration date of such tender offer, to the extent an investor seeks to sell common shares to us as part of our share repurchase program, the investor will be required to do so without knowledge of what the repurchase price of our common shares will be on the repurchase date.

A shareholder's interest in us will be diluted if we issue additional common shares, which could reduce the overall value of an investment in us.

Our investors do not have preemptive rights to any common shares we issue in the future. Our declaration of trust authorizes us to issue 450,000,000 common shares. Pursuant to our declaration of trust, a majority of our entire board of trustees may amend our declaration of trust to increase the number of authorized common shares without shareholder approval. After an investor purchases common shares, our board of trustees may elect to sell additional common shares in the future, issue equity interests in private offerings or issue share-based awards to our independent trustees or employees of FS Advisor. To the extent we issue additional equity interests after an investor purchases our common shares, an investor's percentage ownership interest in us will be diluted. In addition, depending upon the terms and pricing of any additional offerings and the value of our investments, an investor may also experience dilution in the book value and fair value of their common shares.

Certain provisions of our declaration of trust and bylaws could deter takeover attempts and have an adverse impact on the value of our common shares.

Our declaration of trust and bylaws, as well as certain statutory and regulatory requirements, contain certain provisions that may have the effect of discouraging a third party from attempting to acquire us. Our board of trustees may, without shareholder action, authorize the issuance of shares in one or more classes or series, including preferred shares; and our board of trustees may, without shareholder action, amend our declaration of trust to increase the number of our common shares, of any class or series, that we have authority to issue. These anti-takeover provisions may inhibit a change of control in circumstances that could give the holders of our common shares the opportunity to realize a premium over the value of our common shares.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We do not own any real estate or other physical properties materially important to our operation. Our headquarters are located at 201 Rouse Boulevard, Philadelphia, Pennsylvania, 19112. We believe that our office facilities are suitable and adequate for our business as it is presently conducted.

Item 3. Legal Proceedings.

We are not currently subject to any material legal proceedings, and, to our knowledge, no material legal proceedings are threatened against us. From time to time, we may be party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of any legal proceedings cannot be predicted with certainty, we do not expect that any such proceedings will have a material effect upon our financial condition or results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Many of the amounts and percentages presented in Part II have been rounded for convenience of presentation and all dollar amounts, excluding per share amounts, are presented in thousands unless otherwise noted.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

There is currently no market for our common shares, and we do not expect that a market for our common shares will develop in the foreseeable future. In November 2016, we closed our continuous public offering of common shares to new investors. Following the closing of our continuous public offering, we have continued to issue shares pursuant to our distribution reinvestment plan.

Set forth below is a chart describing the classes of our securities outstanding as of March 1, 2017:

(1)	(2)	(3)	(4)
Title of Class	Amount Authorized	Amount Held by Us or for Our Account	Amount Outstanding Exclusive of Amount Under Column (3)
Common Shares	450,000,000	—	441,963,332

As of March 1, 2017, we had 91,999 record holders of our common shares.

Share Repurchase Program

We intend to continue to conduct quarterly tender offers pursuant to our share repurchase program. Our board of trustees will consider the following factors, among others, in making its determination regarding whether to cause us to offer to repurchase common shares and under what terms:

- the effect of such repurchases on our qualification as a RIC (including the consequences of any necessary asset sales);
- the liquidity of our assets (including fees and costs associated with disposing of assets);
- our investment plans and working capital requirements;
- the relative economies of scale with respect to our size;
- our history in repurchasing common shares or portions thereof; and
- the condition of the securities markets.

We currently intend to limit the number of common shares to be repurchased during any calendar year to the number of common shares we can repurchase with the proceeds we receive from the issuance of common shares under our distribution reinvestment plan. At the discretion of our board of trustees, we may also use cash on hand, cash available from borrowings and cash from the liquidation of securities investments as of the end of the applicable period to repurchase common shares. In addition, we will limit the number of common shares to be repurchased in any calendar year to 10% of the weighted average number of common shares outstanding in the prior calendar year, or 2.5% in each quarter, though the actual number of common shares that we offer to repurchase may be less in light of the limitations noted above.

On October 13, 2016, we amended the terms of our share repurchase program, or the amended share repurchase program, which was first effective for our quarterly repurchase offer for the fourth quarter of 2016. Prior to amending the share repurchase program, we offered to repurchase common shares at a price equal to 90% of the offering price in effect on the date of repurchase. Under the amended share repurchase program, we intend to offer to repurchase common shares at a price equal to the price at which common shares are issued pursuant to our distribution reinvestment plan on the distribution date coinciding with the applicable share repurchase date. The price at which common shares are issued under our distribution reinvestment plan is determined by our board of trustees or a committee thereof, in its sole discretion, and will be (i) not less than the net asset value per common

share as determined in good faith by our board of trustees or a committee thereof, in its sole discretion, immediately prior to the payment date of the distribution and (ii) not more than 2.5% greater than the net asset value per common share as of such date. Our board of trustees may amend, suspend or terminate the share repurchase program at any time upon 30 days' notice.

The table below provides information concerning our repurchases of common shares during the quarter ended December 31, 2016 pursuant to our share repurchase program.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 to October 31, 2016	2,983,921	$7.425	2,983,921	(1)
November 1 to November 30, 2016	—	—	—	—
December 1 to December 31, 2016	—	—	—	—
Total	2,983,921	$7.425	2,983,921	(1)

(1) The maximum number of common shares available for repurchase on October 1, 2016 was 8,446,996. A description of the maximum number of common shares that may be purchased under our share repurchase program is included in the narrative preceding this table.

Distributions

Effective November 30, 2016, and subject to our board of trustees' discretion and applicable legal restrictions, we intend to authorize, declare and pay ordinary cash distributions on a monthly basis. From time to time, we may also pay special interim distributions in the form of cash or common shares at the discretion of our board of trustees. The timing and amount of any future distributions to shareholders are subject to applicable legal restrictions and the sole discretion of our board of trustees.

The following table reflects the cash distributions per share that we have declared and paid on our common shares during the years ended December 31, 2016, 2015 and 2014:

For the Year Ended December 31,	Distribution	
	Per Share	Amount
2014	$0.6882	$163,043
2015	$0.7085	$238,833
2016	$0.7085	$288,982

On December 23, 2016, January 30, 2017 and February 27, 2017, our board of trustees declared regular monthly cash distributions for January 2017, February 2017 and March 2017, respectively. These distributions have been or will be paid monthly to shareholders of record as of monthly record dates previously determined by our board of trustees in the amount of $0.059042 per share. The timing and amount of any future distributions to shareholders are subject to applicable legal restrictions and the sole discretion of our board of trustees. We have not established limits on the amount of funds we may use from available sources to make distributions.

We have adopted an "opt in" distribution reinvestment plan for our shareholders. As a result, if we make a cash distribution, our shareholders will receive distributions in cash unless they specifically "opt in" to the distribution reinvestment plan so as to have their cash distributions reinvested in additional common shares. However, certain state authorities or regulators may impose restrictions from time to time that may prevent or limit a shareholder's ability to participate in the distribution reinvestment plan.

On October 13, 2016, we further amended and restated our distribution reinvestment plan, or the amended distribution reinvestment plan, which first applied to the reinvestment of cash distributions paid on or after November 30, 2016. Under the original plan, cash distributions to participating shareholders were reinvested in additional common shares at a purchase price equal to 90% of the public offering price per share in effect as of the date of issuance. Under the amended plan, cash distributions to participating shareholders will be reinvested in additional common shares at a purchase

price determined by our board of trustees, or a committee thereof, in its sole discretion, that is (i) not less than the net asset value per common share as determined in good faith by our board of trustees or a committee thereof, in its sole discretion, immediately prior to the payment of the distribution and (ii) not more than 2.5% greater than the net asset value per common share as of such date. Any distributions reinvested under the plan will remain taxable to a U.S. shareholder.

For additional information regarding our distributions, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—RIC Tax Treatment and Distributions."

Item 6. Selected Financial Data.

The following selected consolidated financial data for the years ended December 31, 2016, 2015, 2014, 2013 and 2012 is derived from our consolidated financial statements which have been audited by RSM US LLP, our independent registered public accounting firm. The data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto included elsewhere in this annual report on Form 10-K.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Statements of operations data:					
Investment income	$ 369,740	$ 379,653	$ 289,970	$ 132,002	$ 29,965
Operating expenses					
Total expenses	138,093	152,058	115,081	65,198	19,803
Less: Expense reimbursement from sponsor	—	—	—	—	(1,432)
Add: Expense recoupment to sponsor	—	—	—	—	1,432
Net expenses	138,093	152,058	115,081	65,198	19,803
Net investment income (loss)	231,647	227,595	174,889	66,804	10,162
Total net realized and unrealized gain (loss) on investments	520,937	(738,894)	(344,398)	41,566	32,101
Net increase (decrease) in net assets resulting from operations	$ 752,584	$ (511,299)	$ (169,509)	$ 108,370	$ 42,263
Per share data:[1]					
Net investment income (loss)—basic and diluted[2]	$ 0.57	$ 0.67	$ 0.74	$ 0.58	$ 0.33
Net increase (decrease) in net assets resulting from operations—basic and diluted[2]	$ 1.84	$ (1.51)	$ (0.72)	$ 0.94	$ 1.38
Distributions declared[3]	$ 0.71	$ 0.71	$ 0.69	$ 0.66	$ 0.63
Balance sheet data:					
Total assets	$4,268,297	$3,498,105	$3,714,351	$2,428,659	$829,494
Credit facilities and repurchase agreement payable	$ 873,665	$1,040,494	$1,090,413	$ 624,174	$185,232
Total net assets	$3,348,894	$2,417,861	$2,565,721	$1,676,237	$602,889
Other data:					
Total return[4]	29.53%	(17.34)%	(4.79)%	10.76%	14.45%
Total return (without assuming reinvestment of distributions)[5]	28.00%	(15.87)%	(4.14)%	10.49%	14.07%
Number of portfolio company investments at year end	84	90	125	104	64
Total portfolio investments for the year	$1,488,179	$1,195,947	$2,437,689	$2,295,602	$826,011
Proceeds from sales and prepayments of investments	$1,225,052	$ 800,534	$1,044,311	$ 735,673	$244,192

(1) The share information utilized to determine per share data for the year ended December 31, 2012 has been retroactively adjusted to reflect the share distribution declared in February 2012.

(2) The per share data was derived by using the weighted average shares outstanding during the applicable year.

(3) The per share data for distributions reflects the actual amount of distributions paid per share (as adjusted for share distributions) during the applicable year.

(4) The total return for each year presented was calculated based on the change in net asset value during the applicable year, including the impact of distributions reinvested in accordance with our distribution reinvestment plan. The total return does not consider the effect of any sales commissions or charges that may be incurred in connection with the sale of our common shares. The total return includes the effect of the issuance of common shares at a net offering price that is greater than net asset value per share, which causes an increase in net asset value per share. The historical calculation of total return in the table should not be considered a representation of our future total return, which may be greater or less than the return shown in the table due to a number of factors, including our ability or inability to make investments in companies that meet our investment criteria, the interest rates payable on the debt securities we acquire, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any previous year should not be relied upon as being indicative of performance in future years. The total return calculations set forth above represent the total return on our investment portfolio during the applicable year and do not represent an actual return to shareholders.

(5) The total return (without assuming reinvestment of distributions) for each year presented was calculated by taking the net asset value per share as of the end of the applicable year, adding the cash distributions per share which were declared during the applicable year and dividing the total by the net asset value per share at the beginning of the applicable year. The total return (without assuming reinvestment of distributions) does not consider the effect of any sales commissions or charges that may be incurred in connection with the sale of our common shares. The total return (without assuming reinvestment of distributions) includes the effect of the issuance of common shares at a net offering price that is greater than net asset value per share, which causes an increase in net asset value per share. The historical calculation of total return (without assuming reinvestment of distributions) in the table should not be considered a representation of our future total return (without assuming reinvestment of distributions), which may be greater or less than the return shown in the table due to a number of factors, including our ability or inability to make investments in companies that meet our investment criteria, the interest rates payable on the debt securities we acquire, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any previous year should not be relied upon as being indicative of performance in future years. The total return calculations set forth above represent the total return on our investment portfolio during the applicable year and do not represent an actual return to shareholders.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. (in thousands, except share and per share amounts)

The following discussion should be read in conjunction with our consolidated financial statements and the related notes thereto included elsewhere in this annual report on Form 10-K.

Forward-Looking Statements

Some of the statements in this annual report on Form 10-K constitute forward-looking statements because they relate to future events or our future performance or financial condition. The forward-looking statements contained in this annual report on Form 10-K may include statements as to:

- our future operating results;
- our business prospects and the prospects of the companies in which we may invest;
- the impact of the investments that we expect to make;
- the ability of our portfolio companies to achieve their objectives;
- our current and expected financing arrangements and investments;
- changes in the general interest rate environment;
- the adequacy of our cash resources, financing sources and working capital;
- the timing and amount of cash flows, distributions and dividends, if any, from our portfolio companies;
- our contractual arrangements and relationships with third parties;
- actual and potential conflicts of interest with FS Advisor, FB Income Advisor, LLC, FSIC II Advisor, LLC, FSIC III Advisor, LLC, FSIC IV Advisor, LLC, FS Global Advisor, LLC, FS Energy Advisor, LLC, FS Investment Corporation, FS Investment Corporation II, FS Investment Corporation III, FS Investment Corporation IV, FS Global Credit Opportunities Fund, GSO, FS Energy Total Return Fund or any of their affiliates;
- the dependence of our future success on the general economy and its effect on the industries in which we may invest;
- our use of financial leverage;
- the ability of FS Advisor to locate suitable investments for us and to monitor and administer our investments;
- the ability of FS Advisor or its affiliates to attract and retain highly talented professionals;
- our ability to maintain our qualification as a RIC and as a BDC;
- the impact on our business of the Dodd-Frank Act and the rules and regulations issued thereunder;
- the effect of changes to tax legislation and our tax position; and
- the tax status of the enterprises in which we may invest.

In addition, words such as "anticipate," "believe," "expect" and "intend" indicate a forward-looking statement, although not all forward-looking statements include these words. The forward-looking statements contained in this annual report on Form 10-K involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in "Item 1A. Risk Factors." Other factors that could cause actual results to differ materially include:

- changes in the economy;
- risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters; and
- future changes in laws or regulations and conditions in our operating areas.

We have based the forward-looking statements included in this annual report on Form 10-K on information available to us on the date of this annual report on Form 10-K. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. Shareholders are advised to consult any additional disclosures that we may make directly to shareholders or through reports that we may file in the future with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements and projections contained in this annual report on Form 10-K are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act.

Overview

We were formed as a Delaware statutory trust under the Delaware Statutory Trust Act on September 16, 2010 and formally commenced investment operations on July 18, 2011 upon raising gross proceeds in excess of $2,500 from sales of our common shares in our continuous public offering to persons who were not affiliated with us or FS Advisor. We are an externally managed, non-diversified, closed-end management investment company that has elected to be regulated as a BDC under the 1940 Act and has elected to be treated for U.S. federal income tax purposes, and intends to qualify annually, as a RIC under Subchapter M of the Code. Prior to satisfying the minimum offering requirement, we had no operations except for matters relating to our organization. In November 2016, we closed our continuous public offering of common shares to new investors.

Our investment activities are managed by FS Advisor and supervised by our board of trustees, a majority of whom are independent. Under our investment advisory and administrative services agreement, we have agreed to pay FS Advisor an annual base management fee based on our gross assets as well as incentive fees based on our performance. FS Advisor has engaged GSO to act as our investment sub-adviser. GSO assists FS Advisor in identifying investment opportunities and makes investment recommendations for approval by FS Advisor according to guidelines set by FS Advisor.

Our investment policy is to invest, under normal circumstances, at least 80% of our total assets in securities of Energy companies. This investment policy may not be changed without at least 60 days' prior notice to holders of our common shares of any such change.

Our investment objective is to generate current income and long-term capital appreciation. We have identified and intend to focus on the following investment categories, which we believe will allow us to generate an attractive total return with an acceptable level of risk.

Direct Originations: We intend to leverage our relationship with GSO and its global sourcing and origination platform, including its industry relationships, to directly source investment opportunities. Such investments are originated or structured for us or made by us and are not generally available to the broader market. These investments may include both debt and equity components, although we do not expect to make equity investments (other than income-oriented equity investments) independent of having an existing credit relationship. We believe directly originated investments may offer higher returns and more favorable protections than broadly syndicated transactions.

Opportunistic: We seek to capitalize on market price inefficiencies by investing in loans, bonds and other securities where the market price of such investment reflects a lower value than deemed warranted by our fundamental analysis. We believe that market price inefficiencies may occur due to, among other things, general dislocations in the markets, a misunderstanding by the market of a particular company or an Energy industry sub-sector being out of favor with the broader investment community. We seek to allocate capital to these securities that have been misunderstood or mispriced by the market and where we believe there is an opportunity to earn an attractive return on our investment. Such opportunities may include both event driven investments and anchor orders.

In the case of event driven investments, we intend to take advantage of dislocations that arise in the markets due to an impending event and where the market's apparent expectation of value differs substantially from our fundamental analysis. Such events may include a looming debt maturity or default, a merger, spin-off or other corporate reorganization, an adverse regulatory or legal ruling, or a material contract expiration, any of which may significantly improve or impair a company's financial position. Compared to other investment strategies, event driven investing depends more heavily on our

ability to successfully predict the outcome of an individual event rather than on underlying macroeconomic fundamentals. As a result, successful event driven strategies may offer both substantial diversification benefits and the ability to generate performance in uncertain market environments.

We may also invest in certain opportunities that are originated and then syndicated by a commercial or investment bank but where we provide a capital commitment significantly above the average syndicate participant, i.e., an anchor order. In these types of investments, we may receive fees, preferential pricing or other benefits not available to other lenders in return for our significant capital commitment. Our decision to provide an anchor order to a syndicated transaction is predicated on a rigorous credit analysis, our familiarity with a particular company, Energy industry sub-sector or financial sponsor, and the broader investment experiences of FS Advisor and GSO.

Broadly Syndicated/Other: Although our primary focus is to invest in directly originated transactions and opportunistic investments, in certain circumstances we will also invest in the broadly syndicated loan and high yield markets. Broadly syndicated loans and bonds are generally more liquid than our directly originated investments and provide a complement to our less liquid strategies. In addition, and because we typically receive more attractive financing terms on these positions than we do on our less liquid assets, we are able to leverage the broadly syndicated portion of our portfolio in such a way that maximizes the levered return potential of our portfolio.

Our portfolio is comprised primarily of income-oriented securities, which refers to debt securities and income-oriented preferred and common equity interests, of privately-held Energy companies within the United States. We intend to weight our portfolio towards senior and subordinated debt. In addition to investments purchased from dealers or other investors in the secondary market, we expect to invest in primary market transactions and directly originated investments as this will provide us with the ability to tailor investments to best match a project's or company's needs with our investment objectives. Our portfolio may also be comprised of select income-oriented preferred or common equity interests, which refers to equity interests that pay consistent, high-yielding dividends, that we believe will produce both current income and long-term capital appreciation. These income-oriented preferred or common equity interests may include interests in master limited partnerships. In connection with certain of our debt investments or any restructuring of these debt investments, we may on occasion receive equity interests, including warrants or options, as additional consideration or otherwise in connection with a restructuring.

Revenues

The principal measure of our financial performance is net increase or decrease in net assets resulting from operations, which includes net investment income, net realized gain or loss on investments, net realized gain or loss on foreign currency, net change in unrealized appreciation or depreciation on investments and net change in unrealized gain or loss on foreign currency. Net investment income is the difference between our income from interest, dividends, fees and other investment income and our operating and other expenses. Net realized gain or loss on investments is the difference between the proceeds received from dispositions of portfolio investments and their amortized cost, including the respective realized gain or loss on foreign currency for those foreign denominated investment transactions. Net realized gain or loss on foreign currency is the portion of realized gain or loss attributable to foreign currency fluctuations. Net change in unrealized appreciation or depreciation on investments is the net change in the fair value of our investment portfolio, including the respective unrealized gain or loss on foreign currency for those foreign denominated investments. Net change in unrealized gain or loss on foreign currency is the net change in the value of receivables or accruals due to the impact of foreign currency fluctuations.

We principally generate revenues in the form of interest income on the debt investments we hold. We also generate revenues in the form of dividends and other distributions on the equity or other securities we may hold. In addition, we may generate revenues in the form of non-recurring commitment, closing, origination, structuring or diligence fees, fees for providing managerial assistance, consulting fees, prepayment fees and performance-based fees. Any such fees generated in connection with our investments will be recognized as earned.

Expenses

Our primary operating expenses include the payment of advisory fees and other expenses under the investment advisory and administrative services agreement, interest expense from financing arrangements and other expenses necessary for our operations. Our investment advisory fee compensates FS Advisor for its work in identifying, evaluating, negotiating, executing, monitoring and servicing our investments. FS Advisor is responsible for compensating our investment sub-adviser.

We reimburse FS Advisor for expenses necessary to perform services related to our administration and operations, including FS Advisor's allocable portion of the compensation and related expenses of certain personnel of FS Investments providing administrative services to us on behalf of FS Advisor. Such services include the provision of general ledger accounting, fund accounting, legal services, investor relations and other administrative services. FS Advisor also performs, or oversees the performance of, our corporate operations and required administrative services, which includes being responsible for the financial records that we are required to maintain and preparing reports for our shareholders and reports filed with the SEC. In addition, FS Advisor assists us in calculating our net asset value, overseeing the preparation and filing of tax returns and the printing and dissemination of reports to our shareholders, and generally overseeing the payment of our expenses and the performance of administrative and professional services rendered to us by others.

The amount of the reimbursement payable to FS Advisor is set at the lesser of (1) FS Advisor's actual costs incurred in providing such services and (2) the amount that we estimate we would be required to pay alternative service providers for comparable services in the same geographic location. FS Advisor is required to allocate the cost of such services to us based on factors such as assets, revenues, time allocations and/or other reasonable metrics. Our board of trustees reviews the methodology employed in determining how the expenses are allocated to us and the proposed allocation of the administrative expenses among us and certain affiliates of FS Advisor. Our board of trustees then assesses the reasonableness of such reimbursements for expenses allocated to us based on the breadth, depth and quality of such services as compared to the estimated cost to us of obtaining similar services from third-party service providers known to be available. In addition, our board of trustees considers whether any single third-party service provider would be capable of providing all such services at comparable cost and quality. Finally, our board of trustees, among other things, compares the total amount paid to FS Advisor for such services as a percentage of our net assets to the same ratio as reported by other comparable BDCs. We do not reimburse FS Advisor for any services for which it receives a separate fee, or for rent, depreciation, utilities, capital equipment or other administrative items allocated to a controlling person of FS Advisor.

We bear all other expenses of our operations and transactions, including (without limitation) fees and expenses relating to:

- corporate and organization expenses relating to offerings of our common shares, subject to limitations included in the investment advisory and administrative services agreement;
- the cost of calculating our net asset value, including the cost of any third-party pricing or valuation services;
- the cost of effecting sales and repurchases of our common shares and other securities;
- investment advisory fees;
- fees payable to third parties relating to, or associated with, making investments and valuing investments, including fees and expenses associated with performing due diligence reviews of prospective investments;
- interest payments on our debt or related obligations;
- transfer agent and custodial fees;
- research and market data (including news and quotation equipment and services, and any computer hardware and connectivity hardware (e.g. telephone and fiber optic lines) incorporated into the cost of obtaining such research and market data);
- fees and expenses associated with marketing efforts;

- federal and state registration fees;
- federal, state and local taxes;
- annual fees of the Delaware trustee;
- fees and expenses of our trustees not also serving in an executive officer capacity for us or FS Advisor;
- costs of proxy statements, shareholders' reports and notices and other filings;
- our fidelity bond, trustees and officers/errors and omissions liability insurance and other insurance premiums;
- direct costs such as printing, mailing, long distance telephone and staff;
- fees and expenses associated with accounting, corporate governance, independent audits and outside legal costs;
- costs associated with our reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws, including compliance with the Sarbanes-Oxley Act;
- brokerage commissions for our investments;
- costs associated with our chief compliance officer; and
- all other expenses incurred by FS Advisor, GSO or us in connection with administering our business, including expenses incurred by FS Advisor or GSO in performing administrative services for us and administrative personnel paid by FS Advisor or GSO, to the extent they are not controlling persons of FS Advisor, GSO or any of their respective affiliates, subject to the limitations included in the investment advisory and administrative services agreement.

In addition, we have contracted with State Street to provide various accounting and administrative services, including, but not limited to, preparing preliminary financial information for review by FS Advisor, preparing and monitoring expense budgets, maintaining accounting and corporate books and records, processing trade information provided by us and performing testing with respect to RIC compliance.

Expense Reimbursement

Pursuant to an expense support and conditional reimbursement agreement, amended and restated as of May 16, 2013, or the expense reimbursement agreement, FS Investments has agreed to reimburse us for expenses in an amount that is sufficient to ensure that no portion of our distributions to shareholders will be paid from our offering proceeds or borrowings. However, because certain investments we may make, including preferred and common equity investments, may generate dividends and other distributions to us that are treated for tax purposes as a return of capital, a portion of our distributions to shareholders may also be deemed to constitute a return of capital for tax purposes to the extent that we may use such dividends or other distribution proceeds to fund our distributions to shareholders. Under those circumstances, FS Investments will not reimburse us for the portion of such distributions to shareholders that represent a return of capital for tax purposes, as the purpose of the expense reimbursement arrangement is not to prevent tax-advantaged distributions to shareholders.

Under the expense reimbursement agreement, FS Investments will reimburse us quarterly for expenses in an amount equal to the difference between our cumulative distributions paid to our shareholders in each quarter, less the sum of our net investment company taxable income, net capital gains and dividends and other distributions paid to us on account of preferred and common equity investments in portfolio companies (to the extent such amounts are not included in net investment company taxable income or net capital gains) in each quarter.

Pursuant to the expense reimbursement agreement, we have a conditional obligation to reimburse FS Investments for any amounts funded by FS Investments under such agreement if (and only to the extent that), during any fiscal quarter occurring within three years of the date on which FS Investments funded such amount, the sum of our net investment company taxable income, net capital gains and the amount of any dividends and other distributions paid to us on account of preferred and common equity

investments in portfolio companies (to the extent not included in net investment company taxable income or net capital gains) exceeds the distributions paid by us to our shareholders; provided, however, that (i) we will only reimburse FS Investments for expense support payments made by FS Investments with respect to any calendar quarter beginning on or after July 1, 2013 to the extent that the payment of such reimbursement (together with any other reimbursement paid during such fiscal year) does not cause "other operating expenses" (as defined below) (on an annualized basis and net of any expense support payments received by us during such fiscal year) to exceed the lesser of (A) 1.75% of our average net assets attributable to our common shares for the fiscal year-to-date period after taking such payments into account and (B) the percentage of our average net assets attributable to our common shares represented by "other operating expenses" during the fiscal year in which such expense support payment from FS Investments was made (provided, however, that this clause (B) shall not apply to any reimbursement payment which relates to an expense support payment from FS Investments made during the same fiscal year) and (ii) we will not reimburse FS Investments for expense support payments made by FS Investments if the aggregate amount of distributions per share declared by us in such calendar quarter is less than the aggregate amount of distributions per share declared by us in the calendar quarter in which FS Investments made the expense support payment to which such reimbursement relates. We are not obligated to pay interest on the payments we receive from FS Investments. "Other operating expenses" means our total "operating expenses" (as defined below), excluding base management fees, incentive fees, organization and offering expenses, financing fees and costs, interest expense, brokerage commissions and extraordinary expenses. "Operating expenses" means all operating costs and expenses incurred, as determined in accordance with U.S. generally accepted accounting principles, or GAAP for investment companies.

We or FS Investments may terminate the expense reimbursement agreement at any time. The specific amount of expenses reimbursed by FS Investments, if any, will be determined at the end of each quarter. Upon termination of the expense reimbursement agreement by FS Investments, FS Investments will be required to fund any amounts accrued thereunder as of the date of termination. Similarly, our conditional obligation to reimburse FS Investments pursuant to the terms of the expense reimbursement agreement shall survive the termination of such agreement by either party.

FS Investments is controlled by our chairman, president and chief executive officer, Michael C. Forman, and our vice-chairman, David J. Adelman. There can be no assurance that the expense reimbursement agreement will remain in effect or that FS Investments will reimburse any portion of our expenses in future quarters.

As of December 31, 2016 and 2015, we had no reimbursements due from FS Investments. Under the expense reimbursement agreement, amounts reimbursed to us by FS Investments may become subject to repayment in the future. As of December 31, 2016 and 2015, no further amounts remained subject to repayment by us to FS Investments in the future.

Portfolio Investment Activity for the Years Ended December 31, 2016 and 2015

During the year ended December 31, 2016, we made investments in portfolio companies totaling $1,488,179. During the same period, we sold investments for proceeds of $680,239 and received principal repayments of $544,813. As of December 31, 2016, our investment portfolio, with a total fair value of $3,910,440 (23% in first lien senior secured loans, 22% in second lien senior secured loans, 10% in senior secured bonds, 27% in subordinated debt and 18% in equity/other), consisted of interests in 84 portfolio companies. The portfolio companies that comprised our portfolio as of such date had an average annual EBITDA, of approximately $304.3 million. As of December 31, 2016, the investments in our portfolio were purchased at a weighted average price of 97.2% of par value and our estimated gross annual portfolio yield (which represents the expected yield to be generated by us on our investment portfolio based on the composition of our portfolio as of such date), prior to leverage, was 8.8% based upon the amortized cost of our investments.

Based on our annual cash distribution amount of $0.7085 per share and our final public offering price of $8.35 per share, the annualized distribution rate to shareholders as of December 31, 2016 was 8.49%. Based on our annual cash distribution amount of $0.7085 per share and the price at which we issued shares pursuant to our distribution reinvestment plan of $7.70 per share, the annualized distribution rate to shareholders as of December 31, 2016 was 9.20%. The distribution rate to

shareholders does not represent an actual investment return to shareholders and may include income, realized capital gains and a return of investors' capital.

During the year ended December 31, 2015, we made investments in portfolio companies totaling $1,195,947. During the same period, we sold investments for proceeds of $590,726 and received principal repayments of $209,808. As of December 31, 2015, our investment portfolio, with a total fair value of $3,069,498 (30% in first lien senior secured loans, 30% in second lien senior secured loans, 11% in senior secured bonds, 19% in subordinated debt and 10% in equity/other), consisted of interests in 90 portfolio companies. The portfolio companies that comprised our portfolio as of such date had an average annual EBITDA of approximately $244.8 million. As of December 31, 2015, the investments in our portfolio were purchased at a weighted average price of 98.4% of par value and our estimated gross annual portfolio yield, prior to leverage, was 9.3% based upon the amortized cost of our investments.

Based on our regular weekly cash distribution rate of $0.013625 per share as of December 31, 2015 and our public offering price of $7.50 per share as of such date, the annualized distribution rate to shareholders as of December 31, 2015 was 9.45%. The distribution rate to shareholders may include income, realized capital gains and a return of investors' capital.

Our estimated gross portfolio yield and annualized distribution rate to shareholders do not represent actual investment returns to shareholders. Our gross annual portfolio yield and distribution rate to shareholders are subject to change and in the future may be greater or less than the rates set forth above. See "Item 1A. Risk Factors" for a discussion of the uncertainties, risks and assumptions associated with these statements.

Total Portfolio Activity

The following tables present certain selected information regarding our portfolio investment activity for the years ended December 31, 2016 and 2015:

Net Investment Activity	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
Purchases	$ 1,488,179	$1,195,947
Sales and Redemptions	(1,225,052)	(800,534)
Net Portfolio Activity	$ 263,127	$ 395,413

New Investment Activity by Asset Class	For the Year Ended December 31, 2016		For the Year Ended December 31, 2015	
	Purchases	Percentage	Purchases	Percentage
Senior Secured Loans—First Lien	$ 307,960	21%	$ 439,617	37%
Senior Secured Loans—Second Lien	203,980	14%	261,831	22%
Senior Secured Bonds	147,795	10%	196,821	16%
Subordinated Debt	410,587	27%	258,418	22%
Equity/Other	417,857	28%	39,260	3%
Total	$1,488,179	100%	$1,195,947	100%

The following table summarizes the composition of our investment portfolio at cost and fair value as of December 31, 2016 and 2015:

	December 31, 2016			December 31, 2015		
	Amortized Cost[(1)]	Fair Value	Percentage of Portfolio	Amortized Cost[(1)]	Fair Value	Percentage of Portfolio
Senior Secured Loans— First Lien	$ 947,803	$ 912,491	23%	$1,055,070	$ 929,790	30%
Senior Secured Loans— Second Lien	948,762	873,869	22%	1,213,716	923,402	30%
Senior Secured Bonds	388,512	397,614	10%	445,475	323,948	11%
Subordinated Debt	1,049,097	1,043,167	27%	860,872	579,740	19%
Equity/Other	628,814	683,299	18%	319,274	312,618	10%
Total	$3,962,988	$3,910,440	100%	$3,894,407	$3,069,498	100%

(1) Amortized cost represents the original cost adjusted for the amortization of premiums and/or accretion of discounts, as applicable, on investments.

The following table presents certain selected information regarding the composition of our investment portfolio as of December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Number of Portfolio Companies	84	90
% Variable Rate (based on fair value)	43.6%	50.9%
% Fixed Rate (based on fair value)	38.9%	38.9%
% Income Producing Equity/Other Investments (based on fair value)	3.5%	5.9%
% Non-Income Producing Equity/Other Investments (based on fair value)	14.0%	4.3%
Average Annual EBITDA of Portfolio Companies	$304,299	$244,789
Weighted Average Purchase Price of Debt Investments (as a % of par value)	97.2%	98.4%
% of Investments on Non-Accrual (based on fair value)	0.0%	0.1%
Gross Portfolio Yield Prior to Leverage (based on amortized cost)	8.8%	9.3%
Gross Portfolio Yield Prior to Leverage (based on amortized cost)—Excluding Non-Income Producing Assets	10.2%	9.8%

Direct Originations

The following tables present certain selected information regarding our direct originations for the three months and year ended December 31, 2016:

New Direct Originations	For the Three Months Ended December 31, 2016	For the Year Ended December 31, 2016
Total Commitments (including unfunded commitments)	$ 333,571	$ 892,177
Exited Investments (including partial paydowns)	(325,800)	(930,778)
Net Direct Originations	$ 7,771	$ (38,601)

New Direct Originations by Asset Class (including Unfunded Commitments)	For the Three Months Ended December 31, 2016		For the Year Ended December 31, 2016	
	Commitment Amount	Percentage	Commitment Amount	Percentage
Senior Secured Loans—First Lien	$117,599	35%	$184,094	21%
Senior Secured Loans—Second Lien	—	—	202,375	23%
Senior Secured Bonds	83,887	25%	83,887	9%
Subordinated Debt	786	0%	40,786	4%
Equity/Other	131,299	40%	381,035	43%
Total	$333,571	100%	$892,177	100%

	For the Three Months Ended December 31, 2016	For the Year Ended December 31, 2016
Average New Direct Origination Commitment Amount	$55,595	$46,957
Weighted Average Maturity for New Direct Originations	3/28/22	6/23/21
Gross Portfolio Yield Prior to Leverage (based on amortized cost) of Direct Originations Funded during Period	7.2%	7.7%
Gross Portfolio Yield Prior to Leverage (based on amortized cost) of Direct Originations Funded during Period—Excluding Non-Income Producing Assets	10.4%	12.7%
Gross Portfolio Yield Prior to Leverage (based on amortized cost) of Direct Originations Exited during Period	3.7%	7.5%

The following table presents certain selected information regarding our direct originations as of December 31, 2016 and 2015:

Characteristics of All Direct Originations held in Portfolio	December 31, 2016	December 31, 2015
Number of Portfolio Companies	28	27
Average Annual EBITDA of Portfolio Companies	$71,509	$82,111
Average Leverage Through Tranche of Portfolio Companies—Excluding Equity/Other Securities	4.8x	4.8x
% of Investments on Non-Accrual (based on fair value)	0.1%	0.1%
Gross Portfolio Yield Prior to Leverage (based on amortized cost) of Funded Direct Originations	8.9%	9.9%
Gross Portfolio Yield Prior to Leverage (based on amortized cost) of Funded Direct Originations—Excluding Non-Income Producing Assets	11.4%	10.9%

Portfolio Composition by Strategy and Industry

The table below summarizes the composition of our investment portfolio by strategy and enumerates the percentage, by fair value, of the total portfolio assets in such strategies as of December 31, 2016 and 2015:

Portfolio Composition by Strategy	December 31, 2016		December 31, 2015	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Direct Originations	$2,208,234	57%	$1,975,269	64%
Opportunistic	867,477	22%	567,149	19%
Broadly Syndicated/Other	834,729	21%	527,080	17%
Total	$3,910,440	100%	$3,069,498	100%

The table below describes investments by industry classification and enumerates the percentage, by fair value, of the total portfolio assets in such industries as of December 31, 2016 and 2015:

Industry Classification	December 31, 2016 Fair Value	December 31, 2016 Percentage of Portfolio	December 31, 2015 Fair Value	December 31, 2015 Percentage of Portfolio
Upstream	$2,270,769	58%	$1,689,705	55%
Midstream	343,713	9%	215,906	7%
Downstream	49,623	1%	12,195	0%
Power	523,153	13%	519,593	17%
Service & Equipment	723,182	19%	632,099	21%
Total	$3,910,440	100%	$3,069,498	100%

As of December 31, 2016, except for Altus Power America, Inc., in which we held a first lien senior secured loan, Altus Power America Holdings, LLC, in which we held two equity/other investments, FourPoint Energy, LLC, in which we held a senior secured bond and four equity/other investments, Ridgeback Resources Inc., in which we held a senior secured bond and an equity/other investment, Sunnova Energy Corp., in which we held two equity/other investments, Sunnova Asset Portfolio 5 Holdings, LLC, in which we held a first lien senior secured loan, Titan Energy Operating, LLC, in which we held a second lien senior secured loan and an equity/other investment, Warren Resources Inc., in which we held a first lien senior secured loan and an equity other investment, and Lusk Operating LLC, in which we held a first lien senior secured loan and an equity/other investment, we were not an "affiliated person" of any of our portfolio companies, as defined in the 1940 Act. As of December 31, 2016, except for Lusk Operating LLC, in which we held a first lien senior secured loan and an equity/other investment, we did not "control" any of our portfolio companies, as defined in the 1940 Act. In general, under the 1940 Act, we would be presumed to "control" a portfolio company if we owned more than 25% of its voting securities or we had the power to exercise control over the management or policies of a portfolio company, and would be an "affiliated person" of a portfolio company if we owned 5% or more of its voting securities.

Our investment portfolio may contain loans or bonds that are in the form of lines of credit or revolving credit facilities, or other investments, which may require us to provide funding when requested by portfolio companies in accordance with the terms of the underlying agreements. As of December 31, 2016, we had four senior secured loan investments with aggregate unfunded commitments of $82,404, and four equity/other investments with aggregate unfunded commitments of $14,942. As of December 31, 2016, these unfunded equity/other investments were Altus Power America Holdings, LLC, preferred equity, BL Sand Hills Unit, L.P., net profits interest, BL Sand Hills Unit, L.P., overriding royalty interest and Synergy Offshore LLC. As of December 31, 2015, we had four senior secured loan investments with aggregate unfunded commitments of $67,365, one senior secured bond investment with an unfunded commitment of $18,470 and five equity/other investments with aggregate unfunded commitments of $33,890. As of December 31, 2015, these unfunded equity/other investments were Altus Power America Holdings, LLC, BL Sand Hills Unit, L.P., net profits interest, BL Sand Hills Unit, L.P., overriding royalty interest, Sunnova Holdings, LLC and Synergy Offshore LLC. We maintain sufficient cash on hand, available borrowings and liquid securities to fund such unfunded commitments should the need arise.

Portfolio Asset Quality

In addition to various risk management and monitoring tools, FS Advisor uses an investment rating system to characterize and monitor the expected level of returns on each investment in our

portfolio. FS Advisor uses an investment rating scale of 1 to 5. The following is a description of the conditions associated with each investment rating:

Investment Rating	Summary Description
1	Investment exceeding expectations and/or capital gain expected.
2	Performing investment generally executing in accordance with the portfolio company's business plan—full return of principal and interest expected.
3	Performing investment requiring closer monitoring.
4	Underperforming investment—some loss of interest or dividend possible, but still expecting a positive return on investment.
5	Underperforming investment with expected loss of interest and some principal.

The following table shows the distribution of our investments on the 1 to 5 investment rating scale at fair value as of December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
Investment Rating	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
1	$ 115,927	3%	$ 159,204	5%
2	2,719,833	70%	1,340,637	44%
3	899,835	23%	1,288,144	42%
4	85,427	2%	203,084	7%
5	89,418	2%	78,429	2%
	$3,910,440	100%	$3,069,498	100%

The amount of the portfolio in each grading category may vary substantially from period to period resulting primarily from changes in the composition of the portfolio as a result of new investment, repayment and exit activities. In addition, changes in the grade of investments may be made to reflect our expectation of performance and changes in investment values. The increase in the amount of our investments rated a two or three is due primarily to the pronounced increase in the price of oil, decreased volatility in the Energy credit markets and general improvement in the Energy markets during the year ended December 31, 2016.

Results of Operations

Comparison of the Years Ended December 31, 2016 and 2015

The performance of our portfolio during the year ended December 31, 2016 was primarily driven by a tightening of credit spreads in the high yield energy market over the last eleven months of 2016. As of January 31, 2016, high yield energy credit spreads had widened from December 31, 2015; however, in February, spreads reversed course due in large part to rallying oil and natural gas prices. For example, the "spread-to-worst" of the Bank of America Merrill Lynch High Yield Energy Index, which measures the difference from the worst performing security to Treasuries, decreased from 1,405 basis points as of December 31, 2015 to 454 basis points as of December 31, 2016, the most significant tightening over a twelve month period on record. Overall, the Bank of America Merrill Lynch High Yield Energy Index ended 2016 with a yield-to-worst of 6.4%.

With the rebound in oil and gas prices resulting in a re-pricing of risk, the high yield energy market changed dramatically during the course of 2016. Exploration and production, or E&P, and oil field service companies were especially impacted during the year. The average par weighted price of bonds issued by E&P and oil field service companies increased from approximately $53 and $57, respectively, to begin the year, to approximately $94 and $84, respectively, on December 30, 2016.

Revenues

We generated investment income of $369,740 and $379,653 for the years ended December 31, 2016 and 2015, respectively, in the form of interest and fees earned on senior secured loans (first and second

lien), senior secured bonds and subordinated debt investments in our portfolio and dividends and other distributions earned on equity/other investments. Such revenues represent $315,889 and $343,792 of cash income earned as well as $53,851 and $35,861 in non-cash portions relating to accretion of discount, PIK interest and accrual of limited partnership income for the years ended December 31, 2016 and 2015, respectively. Cash flows related to such non-cash revenues may not occur for a number of reporting periods or years after such revenues are recognized.

The level of investment income we receive is directly related to the balance of income-producing investments multiplied by the weighted average yield of our investments. We expect the dollar amount of interest and any dividend income that we earn to increase as the size of our investment portfolio increases and the proportion of directly originated investments in our portfolio increases.

During the years ended December 31, 2016 and 2015, we generated $18,119 and $31,682 of fee income, which represented 4.9% and 8.3%, respectively, of total investment income. Such fee income is transaction based, and typically consists of amendment and consent fees, prepayment fees, structuring fees, upfront fees and other non-recurring fees. As such, future fee income is generally dependent on new direct origination investments and the occurrence of events at existing portfolio companies resulting in such fees.

Expenses

Our total expenses were $138,093 and $152,058 for the years ended December 31, 2016 and 2015, respectively. Our expenses include base management fees attributed to FS Advisor of $76,580 and $75,997 for the years ended December 31, 2016 and 2015, respectively. Our expenses also include administrative services expenses attributed to FS Advisor of $3,870 and $4,056 for the years ended December 31, 2016 and 2015, respectively.

FS Advisor is eligible to receive incentive fees based on our performance. During the years ended December 31, 2016 and 2015, we accrued a subordinated incentive fee on income of $5,774 and $31,016, respectively. During the year ended December 31, 2016 and 2015, we did not accrue any capital gains incentive fees. No capital gains incentive fees are actually payable by us with respect to such unrealized gains unless and until those gains are actually realized. See "—Critical Accounting Policies—Capital Gains Incentive Fee."

We recorded interest expense of $37,126 and $30,703 for the years ended December 31, 2016 and 2015, respectively, in connection with our financing arrangements. For the years ended December 31, 2016 and 2015, fees and expenses incurred with our fund administrator, which provides various accounting and administrative services to us, totaled $1,392 and $1,405, respectively, and fees and expenses incurred with our share transfer agent totaled $2,884 and $2,757, respectively. Fees for our board of trustees were $962 and $970 for the years ended December 31, 2016 and 2015, respectively. Amortization of our deferred offering costs was $4,675 and $0 for the years ended December 31, 2016 and 2015, respectively.

Our other general and administrative expenses totaled $4,621 and $4,841 for the years ended December 31, 2016 and 2015, respectively, and consisted of the following:

	Year Ended December 31,	
	2016	**2015**
Expenses associated with our independent audit and related fees	$ 484	$ 552
Compensation of our chief compliance officer[1]	—	10
Legal fees	536	686
Printing fees	2,203	1,717
Insurance expense	226	316
Other	1,172	1,560
Total	$4,621	$4,841

(1) On April 1, 2015, James F. Volk was appointed as our chief compliance officer. Prior to that date, we had contracted with Vigilant Compliance, LLC to provide the services of Salvatore Faia as our

chief compliance officer. Mr. Volk is employed by FS Investments and will not receive any direct compensation from us in this capacity.

During the years ended December 31, 2016 and 2015, we accrued $209 and $313, respectively for income and excise taxes.

During the years ended December 31, 2016 and 2015, the ratio of our total expenses to our average net assets was 4.88% and 5.55%, respectively. During the years ended December 31, 2016 and 2015, our ratio of total expenses to average net assets included $37,126 and $30,703, respectively, related to interest expense, $5,774 and $31,016, respectively, related to accruals for incentive fees, $4,675 and $0, respectively, related to amortization of deferred offering costs and $209 and $313, respectively, related to accruals for income and excise taxes. Without such expenses, our ratio of expenses to average net assets would have been 3.19% and 3.29% for the years ended December 31, 2016 and 2015, respectively. Incentive fees and interest expense, among other things, may increase or decrease our expense ratios relative to comparative periods depending on portfolio performance and changes in benchmark interest rates such as LIBOR, among other factors.

Net Investment Income

Our net investment income totaled $231,647 ($0.57 per share) and $227,595 ($0.67 per share) for the years ended December 31, 2016 and 2015, respectively. The decrease in net investment income on a per share basis can be attributed primarily to a decrease in fee income, a decrease in investment income resulting from the restructuring of certain investments in the portfolio and an increase in the percentage of non-income producing equity securities held in the portfolio.

Net Realized Gains or Losses

We sold investments and received principal repayments of $680,239 and $544,813, respectively, during the year ended December 31, 2016, from which we realized a net loss of $251,431. We sold investments and received principal repayments of $590,726 and $209,808, respectively, during the year ended December 31, 2015, from which we realized a net loss of $201,559. During the year ended December 31, 2015, we realized a net loss of $210 from settlements on foreign currency.

Net Change in Unrealized Appreciation (Depreciation) on Investments and Total Return Swap and Unrealized Gain (Loss) on Foreign Currency

For the years ended December 31, 2016 and 2015, the net change in unrealized appreciation (depreciation) on investments totaled $772,361 and $(537,036), respectively, and the net change in unrealized gain (loss) on foreign currency was $7 and $(89), respectively. The net change in unrealized appreciation (depreciation) on our investments during the year ended December 31, 2016 was primarily driven by a general improvement in the energy markets, a tightening of credit spreads and the performance of our anchor order and broadly syndicated investments. The net change in unrealized appreciation (depreciation) on our investments during the year ended December 31, 2015 was primarily driven by a general widening of credit spreads in Energy markets and by the performance of our directly originated and opportunistic investments.

Net Increase (Decrease) in Net Assets Resulting from Operations

For the years ended December 31, 2016 and 2015, the net increase (decrease) in net assets resulting from operations was $752,584 ($1.84 per share) and $(511,299) ($(1.51) per share), respectively.

Comparison of the Years Ended December 31, 2015 and 2014

The performance of our portfolio during the year ended December 31, 2015 was primarily driven by a widening of credit spreads in the high yield energy market over the last seven months of 2015. As of May 31, 2015, high yield credit spreads had tightened from the beginning of the year; however, in June, spreads reversed course due in large part to the dramatic decline in oil and natural gas prices. For example, the "spread-to-worst" of the Bank of America Merrill Lynch High Yield Energy Index, which measures the difference from the worst performing security to the best, increased from 756 basis

points as of December 31, 2014 to 1,405 basis points as of December 31, 2015, which was the highest annual year-end spread on record. Overall, the Bank of America Merrill Lynch High Yield Energy Index ended 2015 with a yield-to-worst of 15.9%, a year-end historic high.

With the decline in oil and gas prices resulting in a re-pricing of risk, the high yield energy market changed dramatically during the course of 2015. Exploration and production, or E&P, and oil field service companies were especially impacted during the year. The average par weighted price of bonds issued by E&P and oil field service companies decreased from approximately $83 and $83, respectively, to begin the year, to approximately $53 and $57, respectively, on December 31, 2015. This broad sector write-down impacted our reported unrealized depreciation for the year ended December 31, 2015.

As a result of oil and natural gas price volatility, high yield energy credit new issuance declined year over year after a robust start to 2015. According to JP Morgan, through May 2015, energy credit issuance (USD, global) totaled approximately $25 billion, or 14.9% of total new credit issue volume. Given the volatility and uncertainty in the market, we deployed less capital in 2015 than in 2014.

Revenues

We generated investment income of $379,653 and $289,970 for the years ended December 31, 2015 and 2014, respectively, in the form of interest and fees earned on senior secured loans (first and second lien), senior secured bonds and subordinated debt investments in our portfolio and dividends and other distributions earned on equity/other investments. Such revenues represent $343,792 and $264,570 of cash income earned as well as $35,861 and $25,400 in non-cash portions relating to accretion of discount, PIK interest and accrual of limited partnership income for the years ended December 31, 2015 and 2014, respectively. Cash flows related to such non-cash revenues may not occur for a number of reporting periods or years after such revenues are recognized.

The level of investment income we receive is directly related to the balance of income-producing investments multiplied by the weighted average yield of our investments. We expect the dollar amount of interest and any dividend income that we earn to increase as the size of our investment portfolio increases and the proportion of directly originated investments in our portfolio increases.

During the years ended December 31, 2015 and 2014, we generated $31,682 and $31,889 of fee income, which represented 8.3% and 11.0%, respectively of total investment income. Such fee income is transaction based, and typically consists of amendment and consent fees, prepayment fees, structuring fees, upfront fees and other non-recurring fees. As such, future fee income is generally dependent on new direct origination investments and the occurrence of events at existing portfolio companies resulting in such fees.

Expenses

Our total expenses were $152,058 and $115,081 for the years ended December 31, 2015 and 2014, respectively. Our expenses include base management fees attributed to FS Advisor of $75,997 and $61,970 for the years ended December 31, 2015 and 2014, respectively. Our expenses also include administrative services expenses attributed to FS Advisor of $4,056 and $3,831 for the years ended December 31, 2015 and 2014, respectively.

FS Advisor is eligible to receive incentive fees based on our performance. During the years ended December 31, 2015 and 2014, we accrued a subordinated incentive fee on income of $31,016 and $32,072, respectively. During the year ended December 31, 2015, we did not accrue any capital gains incentive fees. During the year ended December 31, 2014, we reversed $10,993 of capital gains incentive fees previously accrued based on the performance of our portfolio, which was primarily driven by increased volatility and a widening of credit spreads in the energy high yield and leveraged loan markets over the six month period ended December 31, 2014.

We recorded interest expense of $30,703 and $19,069 for the years ended December 31, 2015 and 2014, respectively, in connection with our financing arrangements. For the years ended December 31, 2015 and 2014, fees and expenses incurred with our fund administrator, which provides various accounting and administrative services to us, totaled $1,405 and $1,211, respectively, and fees and expenses incurred with our share transfer agent totaled $2,757 and $2,541, respectively. Fees for our board of trustees were $970 and $853 for the years ended December 31, 2015 and 2014, respectively.

Our other general and administrative expenses totaled $4,841 and $3,615 for the years ended December 31, 2015 and 2014, respectively, and consisted of the following:

	Year Ended December 31,	
	2015	2014
Expenses associated with our independent audit and related fees	$ 552	$ 399
Compensation of our chief compliance officer[(1)]	10	80
Legal fees	686	882
Printing fees	1,717	469
Insurance expense	316	221
Other	1,560	1,564
Total	$4,841	$3,615

(1) On April 1, 2015, James F. Volk was appointed as our chief compliance officer. Prior to that date, we had contracted with Vigilant Compliance, LLC to provide the services of Salvatore Faia as our chief compliance officer. Mr. Volk is employed by FS Investments and will not receive any direct compensation from us in this capacity.

During the years ended December 31, 2015 and 2014, we accrued $313 and $912, respectively, for income and excise taxes.

During the years ended December 31, 2015 and 2014, the ratio of our total expenses to our average net assets was 5.55% and 5.07%, respectively. During the years ended December 31, 2015 and 2014, our ratio of total expenses to average net assets included $30,703 and $19,069, respectively, related to interest expense, $31,016 and $21,079, respectively, related to accruals for (or reversals of previously accrued) incentive fees and $313 and $912, respectively, related to accruals for income and excise taxes. Without such expenses, our ratio of expenses to average net assets would have been 3.29% and 3.26% for the years ended December 31, 2015 and 2014, respectively. Incentive fees and interest expense, among other things, may increase or decrease our expense ratios relative to comparative periods depending on portfolio performance and changes in benchmark interest rates such as LIBOR, among other factors.

Net Investment Income

Our net investment income totaled $227,595 ($0.67 per share) and $174,889 ($0.74 per share) for the years ended December 31, 2015 and 2014, respectively. The decrease in net investment income on a per share basis can be attributed primarily to an increase in accruals for incentive fees and interest expense during the period.

Net Realized Gains or Losses

We sold investments and received principal repayments of $590,726 and $209,808, respectively, during the year ended December 31, 2015, from which we realized a net loss of $201,559. During the year ended December 31, 2015, we realized a net loss of $210 from settlements on foreign currency. We sold investments and received principal repayments of $462,170 and $582,141, respectively, during the year ended December 31, 2014, from which we realized a net loss of $5,682. During the year ended December 31, 2014, we realized a net loss of $636 from settlements on foreign currency.

Net Change in Unrealized Appreciation (Depreciation) on Investments and Unrealized Gain (Loss) on Foreign Currency

For the years ended December 31, 2015 and 2014, the net change in unrealized appreciation (depreciation) on investments totaled $(537,036) and $(338,120), respectively, and the net change in unrealized gain (loss) on foreign currency was $(89) and $40, respectively. The net change in unrealized appreciation (depreciation) on our investments during the year ended December 31, 2015 was primarily driven by a general widening of credit spreads in Energy markets and by the performance of our directly originated and opportunistic investments. The net change in unrealized appreciation (depreciation) on our investments during the year ended December 31, 2014 was primarily driven by

increased volatility and a widening of credit spreads in the energy high yield and leveraged loan markets over the final six months of 2014.

Net Increase (Decrease) in Net Assets Resulting from Operations

For the years ended December 31, 2015 and 2014, the net increase (decrease) in net assets resulting from operations was $(511,299) ($(1.51) per share) and $(169,509) ($(0.72) per share), respectively.

Financial Condition, Liquidity and Capital Resources

Overview

As of December 31, 2016, we had $317,520 in cash, which we or our wholly-owned financing subsidiaries held in custodial accounts, and $431,663 in borrowings available under our financing arrangements, subject to borrowing base and other limitations. To seek to enhance our returns, we employ leverage as market conditions permit and at the discretion of FS Advisor, but in no event may leverage employed exceed 50% of the value of our assets, as required by the 1940 Act. See "—Financing Arrangements." As of December 31, 2016, we also had broadly syndicated investments and opportunistic investments that could be sold to create additional liquidity. As of December 31, 2016, we had four senior secured loan investments with aggregate unfunded commitments of $82,404 and four equity/other investments with aggregate unfunded commitments of $14,942. We maintain sufficient cash on hand, available borrowings and liquid securities to fund such unfunded commitments should the need arise.

In November 2016, we closed our continuous public offering of common shares to new investors. We sold 449,543,498 common shares (as adjusted for share distributions) for gross proceeds of $4,362,119 in our continuous public offering, including shares issued pursuant to our distribution reinvestment plan. Following the closing of our continuous public offering, we will continue to issue shares pursuant to our distribution reinvestment plan. As of March 1, 2017, we have raised total gross proceeds of $4,446,227, including $200 of seed capital contributed by the principals of FS Advisor in December 2010 and $20,004 in proceeds raised from the principals of FS Advisor, other individuals and entities affiliated with FS Advisor, certain members of our board of trustees and certain individuals and entities affiliated with GSO in a private placement conducted in April 2011.

During the year ended December 31, 2016, we sold 77,637,439 common shares for gross proceeds of $568,437 at an average price per share of $7.32. The gross proceeds received during the year ended December 31, 2016 include reinvested shareholder distributions of $180,011, for which we issued 25,722,629 common shares. The sales commissions and dealer manager fees related to the sale of our common shares were $33,699 for the year ended December 31, 2016. These sales commissions and fees include $6,545 retained by the dealer manager, FS Investment Solutions, LLC, or FS Investment Solutions, which is one of our affiliates.

We generate cash primarily from the issuance of shares under our distribution reinvestment plan and from cash flows from fees, interest and dividends earned from our investments as well as principal repayments and proceeds from sales of our investments.

Prior to investing in securities of portfolio companies, we invest the net proceeds from the issuance of shares under our distribution reinvestment plan as well as from sales and paydowns of existing investments primarily in cash, cash equivalents, including money market funds, U.S. government securities, repurchase agreements and high-quality debt instruments maturing in one year or less from the time of investment, consistent with our BDC election and our election to be taxed as a RIC.

To provide our shareholders with limited liquidity, we conduct quarterly tender offers pursuant to our share repurchase program. The first such tender offer commenced in August 2012, and the repurchase occurred in connection with our October 1, 2012 semi-monthly closing.

On October 13, 2016, we amended the terms of our share repurchase program, or the amended share repurchase program, which was first effective for our quarterly repurchase offer for the fourth quarter of 2016. Prior to amending the share repurchase program, we offered to repurchase common shares at a price equal to 90% of the offering price in effect on the date of repurchase. Under the amended share repurchase program, we intend to offer to repurchase common shares at a price equal to the price at which common shares are issued pursuant to our distribution reinvestment plan on the distribution date coinciding with the applicable share repurchase date. The price at which common shares are issued under our distribution reinvestment plan is determined by our board of trustees or a committee thereof, in its sole discretion, and will be (i) not less than the net asset value per common share as determined in good faith by our board of trustees or a committee thereof, in its sole discretion, immediately prior to the payment date of the distribution and (ii) not more than 2.5% greater than the net asset value per common share as of such date.

The following table provides information concerning our repurchases of common shares pursuant to our share repurchase program during the years ended December 31, 2016, 2015 and 2014:

For the Three Months Ended	Repurchase Date	Shares Repurchased	Percentage of Shares Tendered That Were Repurchased	Percentage of Outstanding Shares Repurchased as of the Repurchase Date	Repurchase Price Per Share	Aggregate Consideration for Repurchased Shares
Fiscal 2014						
December 31, 2013	January 2, 2014	174,181	100%	0.10%	$9.720	$ 1,693
March 31, 2014	April 2, 2014	158,723	100%	0.08%	$9.810	$ 1,557
June 30, 2014	July 2, 2014	401,302	100%	0.17%	$9.900	$ 3,973
September 30, 2014	October 1, 2014	306,972	100%	0.11%	$9.900	$ 3,039
Fiscal 2015						
December 31, 2014	January 7, 2015	450,293	100%	0.15%	$8.820	$ 3,972
March 31, 2015	April 1, 2015	716,857	100%	0.22%	$8.730	$ 6,258
June 30, 2015	July 1, 2015	955,664	100%	0.28%	$8.820	$ 8,429
September 30, 2015	October 7, 2015	2,711,088	100%	0.76%	$7.875	$21,350
Fiscal 2016						
December 31, 2015	January 6, 2016	2,716,924	100%	0.73%	$6.750	$18,339
March 31, 2016	April 6, 2016	2,196,742	100%	0.56%	$6.345	$13,938
June 30, 2016	July 6, 2016	1,788,021	100%	0.43%	$7.200	$12,874
September 30, 2016	October 5, 2016	2,983,921	100%	0.69%	$7.425	$22,156

On January 3, 2017, we repurchased 2,239,480 common shares (representing 100% of common shares tendered for repurchase and 0.51% of the shares outstanding as of such date) at $7.700 per share for aggregate consideration totaling $17,244.

Financing Arrangements

The following table presents a summary of information with respect to our outstanding financing arrangements as of December 31, 2016:

Facility	Type of Arrangement	Rate	Amount Outstanding	Amount Available	Maturity Date
Barclays Credit Facility	Revolving	L+3.25%	—	$100,000	May 18, 2021
BNP Facility	Prime Brokerage	L+1.10%[1]	$113,737	$186,263	September 27, 2017[2]
Deutsche Bank Credit Facility . .	Revolving	L+2.05%[3]	$200,000	$115,000	June 11, 2017
Fortress Facility	Term	L+5.00%[4]	$155,000	—	November 6, 2020
Goldman Facility	Repurchase	L+3.38%[5]	$325,000	—	September 15, 2018
Natixis Credit Facility	Revolving	CP+2.25%	$ 50,328	—	July 11, 2023
Wells Fargo Credit Facility	Revolving	L+2.50% to 2.75%	$ 29,600	$ 30,400	September 9, 2018

(1) Beginning on January 2, 2017, borrowings under the BNP facility will accrue interest at a rate equal to LIBOR plus 1.35%.

(2) As described below, the BNP facility generally is terminable upon 270 days' notice by either party. As of December 31, 2016, neither Berwyn Funding nor BNP had provided notice of its intent to terminate the facility.

(3) Prior to June 11, 2016, borrowings under the Deutsche Bank credit facility accrued interest at a rate equal to LIBOR plus 1.80% per annum. Beginning on June 11, 2016, borrowings under the Deutsche Bank credit facility accrue interest at a rate equal to LIBOR plus 2.05% per annum.

(4) As described in Note 8, borrowings under the Fortress facility accrue interest at a rate equal to LIBOR plus 5.00%, subject to a floor of 0.75%.

(5) Prior to September 21, 2016, borrowings under the Goldman facility accrued interest at a rate equal to LIBOR plus 2.75% per annum. Beginning on September 21, 2016, borrowings under the Goldman facility accrue interest at a rate equal to LIBOR plus 3.38% per annum.

Our average borrowings and weighted average interest rate, including the effect of non-usage fees, for the year ended December 31, 2016 were $918,992 and 3.69%, respectively. As of December 31, 2016, our weighted average effective interest rate on borrowings was 3.85%.

For additional information regarding our financing arrangements, see Note 8 to our consolidated financial statements included herein.

RIC Tax Treatment and Distributions

We have elected to be treated for U.S. federal income tax purposes, and intend to qualify annually, as a RIC under Subchapter M of the Code. As a RIC, we generally do not have to pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that we distribute as dividends to our shareholders. To maintain our qualification as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements. In addition, in order to maintain RIC tax treatment, we must distribute to our shareholders, for each tax year, dividends generally of an amount at least equal to 90% of our "investment company taxable income," which is generally the sum of our net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses, determined without regard to any deduction for dividends paid. In addition, we may, in certain cases, satisfy the Annual Distribution Requirement by distributing dividends relating to a tax year after the close of such tax year under the "spillover dividend" provisions of Subchapter M of the Code. If we distribute a spillover dividend, such dividend will be included in a shareholder's gross income for the tax year in which the spillover distribution is paid. We intend to make sufficient distributions to our shareholders to maintain our RIC tax treatment each tax year. We will also be subject to nondeductible U.S. federal excise taxes on certain undistributed income unless we distribute in a timely manner to our shareholders of an amount at least equal to the sum of (1) 98% of our net ordinary taxable income (taking into account certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gain net income, which is the excess of capital gains over capital losses (adjusted for certain ordinary losses), for the one-year period ending October 31 of that calendar year and (3) any ordinary income and capital gain net income for the preceding years that were not distributed during such years and on which we paid no U.S. federal income tax. Any distribution declared by us during October, November or December of any calendar year, payable to our shareholders of record on a specified date in such a month and actually paid during January of the following calendar year, will be treated as if it had been paid by us, as well as received by our U.S.

shareholders, on December 31 of the calendar year in which the distribution was declared. We can offer no assurance that we will achieve results that will permit us to pay any cash distributions. If we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

Prior to the closing of our continuous public offering in November 2016, we declared regular cash distributions on a weekly basis, and paid such distributions on a monthly basis. Effective November 30, 2016, and subject to applicable legal restrictions and the sole discretion of our board of trustees, we intend to declare and pay regular cash distributions on a monthly basis. We will calculate each shareholder's specific distribution amount for the period using record and declaration dates and each shareholder's distributions will begin to accrue on the date that common shares are issued to such shareholder. From time to time, we may also pay special interim distributions in the form of cash or common shares at the discretion of our board of trustees. The timing and amount of any future distributions to shareholders are subject to applicable legal restrictions and the sole discretion of our board of trustees.

During certain periods, our distributions may exceed our earnings. As a result, it is possible that a portion of the distributions we make will represent a return of capital. A return of capital generally is a return of an investor's investment rather than a return of earnings or gains derived from our investment activities and will be made after deducting the fees and expenses payable in connection with our continuous public offering, including any fees payable to FS Advisor. Moreover, a return of capital will generally not be taxable, but will reduce each shareholder's cost basis in our common shares, and will result in a higher reported capital gain or lower reported capital loss when the common shares on which such return of capital was received are sold. Each year a statement on Form 1099-DIV identifying the sources of the distributions will be mailed to our shareholders.

The following table reflects the cash distributions per share that we have declared and paid on our common shares during the years ended December 31, 2016, 2015 and 2014:

For the Year Ended December 31,	Distribution	
	Per Share	**Amount**
2014	$0.6882	$163,043
2015	$0.7085	$238,833
2016	$0.7085	$288,982

On December 23, 2016, January 30, 2017 and February 27, 2017, our board of trustees declared regular monthly cash distributions for January 2017, February 2017 and March 2017, respectively. These distributions have been or will be paid monthly to shareholders of record as of monthly record dates previously determined by our board of trustees in the amount of $0.059042 per share. The timing and amount of any future distributions to shareholders are subject to applicable legal restrictions and the sole discretion of our board of trustees.

We have adopted an "opt in" distribution reinvestment plan for our shareholders. As a result, if we make a cash distribution, our shareholders will receive distributions in cash unless they specifically "opt in" to the distribution reinvestment plan so as to have their cash distributions reinvested in additional common shares. However, certain state authorities or regulators may impose restrictions from time to time that may prevent or limit a shareholder's ability to participate in the distribution reinvestment plan. Although distributions paid in the form of additional common shares will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, shareholders who elect to participate in our distribution reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes. Shareholders receiving distributions in the form of additional common shares will generally be treated as receiving a distribution in the amount of the fair market value of our common shares.

On October 13, 2016, we further amended and restated our distribution reinvestment plan, or the amended distribution reinvestment plan, which first applied to the reinvestment of cash distributions paid on or after November 30, 2016. Under the original plan, cash distributions to participating shareholders were reinvested in additional common shares at a purchase price equal to 90% of the public offering price per share in effect as of the date of issuance. Under the amended plan, cash

distributions to participating shareholders will be reinvested in additional common shares at a purchase price determined by our board of trustees, or a committee thereof, in its sole discretion, that is (i) not less than the net asset value per common share as determined in good faith by our board of trustees or a committee thereof, in its sole discretion, immediately prior to the payment of the distribution and (ii) not more than 2.5% greater than the net asset value per common share as of such date. Any distributions reinvested under the plan will remain taxable to a U.S. shareholder.

We may fund our cash distributions to shareholders from any sources of funds legally available to us, including offering proceeds, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds from the sale of assets, dividends or other distributions paid to us on account of preferred and common equity investments in portfolio companies and expense reimbursements from FS Investments. We have not established limits on the amount of funds we may use from available sources to make distributions.

For a period of time following commencement of our continuous public offering, substantial portions of our distributions were funded through the reimbursement of certain expenses by FS Investments and its affiliates, including through the waiver of certain investment advisory fees by FS Advisor, that were subject to repayment by us within three years. The purpose of this arrangement was to ensure that no portion of our distributions to shareholders was paid from offering proceeds or borrowings. Any such distributions funded through expense reimbursements or waivers of advisory fees were not based on our investment performance.

No portion of the distributions paid during the years ended December 31, 2016, 2015 and 2014 was funded through the reimbursement of operating expenses by FS Investments. During the years ended December 31, 2016, 2015 and 2014, we did not repay any amounts to FS Investments for expenses previously reimbursed or waived. There can be no assurance that we will continue to achieve the performance necessary to sustain our distributions or that we will be able to pay distributions at a specific rate or at all. FS Investments and its affiliates have no obligation to waive advisory fees or otherwise reimburse expenses in future periods.

The following table reflects the sources of the cash distributions on a tax basis that we paid on our common shares during the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,					
	2016		2015		2014	
Source of Distribution	**Distribution Amount**	**Percentage**	**Distribution Amount**	**Percentage**	**Distribution Amount**	**Percentage**
Offering proceeds	$ —	—	$ —	—	$ —	—
Borrowings	—	—	—	—	—	—
Net investment income[1]	273,529	95%	224,586	94%	145,745	89%
Short-term capital gains proceeds from the sale of assets	—	—	—	—	10,509	7%
Long-term capital gains proceeds from the sale of assets	—	—	14,247	6%	6,789	4%
Non-capital gains proceeds from the sale of assets	—	—	—	—	—	—
Distributions on account of investments in portfolio companies	15,453	5%	—	—	—	—
Expense reimbursement from sponsor	—	—	—	—	—	—
Total	$288,982	100%	$238,833	100%	$163,043	100%

(1) During the years ended December 31, 2016, 2015 and 2014, 79.8%, 87.2% and 90.9%, respectively, of our gross investment income on a tax basis was attributable to cash income earned, 3.9%, 2.6% and 2.0%, respectively, was attributable to non-cash income earned. In addition, 13.3%, 8.1% and 5.8%, respectively, was attributed to PIK interest and 3.0%, 2.1% and 1.3%, respectively, was attributed to accretion of discount during the years ended December 31, 2016, 2015 and 2014.

Our net investment income on a tax basis for the years ended December 31, 2016 and 2015 and 2014 was $262,430, $234,163 and $145,745, respectively. As of December 31, 2016 and 2015, we had $19 and $15,496, respectively, of undistributed ordinary income on a tax basis and distributions received from investments in portfolio companies.

During the year ended December 31, 2016, we saw positive developments in our investment portfolio and a subsequent increase in our net asset value. However, certain investments in the portfolio were restructured or experienced defaults due to the recently depressed prices of oil and natural gas, and we may experience additional restructurings or defaults in the future. These restructurings and defaults may have an impact on the level of income received by us. As a result, we are evaluating the current distribution rate payable on our common shares and there can be no assurance that we will be able to maintain a monthly cash distribution amount of $0.059042 per common share.

See Note 5 to our consolidated financial statements contained in this annual report on Form 10-K for additional information regarding our distributions, including a reconciliation of our GAAP-basis net investment income to our tax-basis net investment income for the years ended December 31, 2016, 2015 and 2014, the components of accumulated earnings on a tax basis and deferred taxes as of December 31, 2016 and 2015.

Critical Accounting Policies

Our financial statements are prepared in conformity with GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Critical accounting policies are those that require the application of management's most difficult, subjective or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that may change in subsequent periods. In preparing the financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In preparing the financial statements, management has utilized available information, including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration to materiality. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may impact the comparability of our results of operations to those of companies in similar businesses. As we execute our operating plans, we will describe additional critical accounting policies in the notes to our future financial statements in addition to those discussed below.

Valuation of Portfolio Investments

We determine the net asset value of our investment portfolio each quarter. Securities are valued at fair value as determined in good faith by our board of trustees. In connection with that determination, FS Advisor provides our board of trustees with portfolio company valuations which are based on relevant inputs, including, but not limited to, indicative dealer quotes, values of like securities, recent portfolio company financial statements and forecasts, and valuations prepared by independent third-party valuation services.

Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosure*, or ASC Topic 820, issued by the Financial Accounting Standards Board, or the FASB, clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. ASC Topic 820 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, which includes inputs such as quoted prices for similar securities in active markets and quoted prices for identical securities where there is little or no activity in the market; and

Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

With respect to investments for which market quotations are not readily available, we undertake a multi-step valuation process each quarter, as described below:

- our quarterly fair valuation process begins with FS Advisor's management team reviewing and documenting preliminary valuations of each portfolio company or investment, which valuations may be obtained from an independent third-party valuation service, if applicable;
- FS Advisor's management team then provides the valuation committee with the preliminary valuations for each portfolio company or investment;
- preliminary valuations are then discussed with the valuation committee;
- the valuation committee reviews the preliminary valuations and FS Advisor's management team, together with our independent third-party valuation services, if applicable, supplements the preliminary valuations to reflect any comments provided by the valuation committee;
- following its review, the valuation committee will recommend that our board of trustees approve our fair valuations; and
- our board of trustees discusses the valuations and determines the fair value of each such investment in our portfolio in good faith based on various statistical and other factors, including the input and recommendation of FS Advisor, the valuation committee and any independent third-party valuation services, if applicable.

Determination of fair value involves subjective judgments and estimates. Accordingly, the notes to our consolidated financial statements refer to the uncertainty with respect to the possible effect of such valuations and any change in such valuations on our consolidated financial statements. In making its determination of fair value, our board of trustees may use any approved independent third-party pricing or valuation services. However, our board of trustees is not required to determine fair value in accordance with the valuation provided by any single source, and may use any relevant data, including information obtained from FS Advisor or any approved independent third-party valuation or pricing service that our board of trustees deems to be reliable in determining fair value under the circumstances. Below is a description of factors that FS Advisor's management team, any approved independent third-party valuation services and our board of trustees may consider when determining the fair value of our investments.

Valuation of fixed income investments, such as loans and debt securities, depends upon a number of factors, including prevailing interest rates for like securities, expected volatility in future interest rates, call features, put features and other relevant terms of the debt. For investments without readily available market prices, we may incorporate these factors into discounted cash flow models to arrive at fair value. Other factors that may be considered include the borrower's ability to adequately service its debt, the fair market value of the portfolio company in relation to the face amount of its outstanding debt and the quality of collateral securing our debt investments.

For convertible debt securities, fair value generally approximates the fair value of the debt plus the fair value of an option to purchase the underlying security (i.e., the security into which the debt may convert) at the conversion price. To value such an option, a standard option pricing model may be used.

Our equity interests in portfolio companies for which there is no liquid public market are valued at fair value. Our board of trustees, in its determination of fair value, may consider various factors, such as multiples of EBITDA, cash flows, net income, revenues or, in limited instances, book value or liquidation value. All of these factors may be subject to adjustments based upon the particular circumstances of a portfolio company or our actual investment position. For example, adjustments to EBITDA may take into account compensation to previous owners or acquisition, recapitalization, restructuring or other related items.

FS Advisor's management team, any approved independent third-party valuation services and our board of trustees may also consider private merger and acquisition statistics, public trading multiples discounted for illiquidity and other factors, valuations implied by third-party investments in the portfolio companies or industry practices in determining fair value. FS Advisor's management team, any approved independent third-party valuation services and our board of trustees may also consider the size and scope of a portfolio company and its specific strengths and weaknesses, and may apply discounts or premiums, where and as appropriate, due to the higher (or lower) financial risk and/or the smaller size of portfolio companies relative to comparable firms, as well as such other factors as our board of trustees, in consultation with FS Advisor's management team and any approved independent third-party valuation services, if applicable, may consider relevant in assessing fair value. Generally, the value of our equity interests in public companies for which market quotations are readily available is based upon the most recent closing public market price. Portfolio securities that carry certain restrictions on sale are typically valued at a discount from the public market value of the security.

When we receive warrants or other equity securities at nominal or no additional cost in connection with an investment in a debt security, the cost basis in the investment will be allocated between the debt securities and any such warrants or other equity securities received at the time of origination. Our board of trustees subsequently values these warrants or other equity securities received at their fair value.

The fair values of our investments are determined in good faith by our board of trustees. Our board of trustees is solely responsible for the valuation of our portfolio investments at fair value as determined in good faith pursuant to our valuation policy and consistently applied valuation process. Our board of trustees has delegated day-to-day responsibility for implementing our valuation policy to FS Advisor's management team, and has authorized FS Advisor's management team to utilize independent third-party valuation and pricing services that have been approved by our board of trustees. The valuation committee is responsible for overseeing FS Advisor's implementation of the valuation process.

Our investments as of December 31, 2016 consisted primarily of debt investments that were acquired directly from the issuer. Sixteen senior secured loan investments, three senior secured bond investments and seven subordinated debt investments were valued by independent valuation firms, which determined the fair value of such investments by considering, among other factors, the borrower's ability to adequately service its debt, prevailing interest rates for like investments, call features, anticipated prepayments and other relevant terms of the debt. Twenty-eight of the our equity/other investments were valued by an independent valuation firm, which determined the fair value of such investments by considering, among other factors, contractual rights ascribed to such investments, as well as various income scenarios and multiples of EBITDA, cash flows, net income, revenues or, in limited instances, book value or liquidation value. Three equity/other investments, which were traded on an active public market, were valued at their closing price as of December 30, 2016. One senior secured loan investment, which was newly issued and purchased near December 31, 2016, was valued at cost as our board of trustees determined that the cost of this investment was the best indication of its fair value. Except as described above, we valued our other investments, including two of our equity/other investments, by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end, which were provided by an independent third-party pricing service and screened for validity by such service.

Our investments as of December 31, 2015 consisted primarily of debt investments that were acquired directly from the issuer. Twenty senior secured loan investments, two senior secured bond investments and five subordinated debt investments were valued by independent valuation firms, which determined the fair value of such investments by considering, among other factors, the borrower's ability to adequately service its debt, prevailing interest rates for like investments, call features, anticipated prepayments and other relevant terms of the debt. All of our equity/other investments were valued by an independent valuation firm, which determined the fair value of such investments by considering, among other factors, contractual rights ascribed to such investments, as well as various income scenarios and multiples of EBITDA, cash flows, net income, revenues or, in limited instances, book value or liquidation value. Except as described above, we valued our other investments by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end,

which were provided by an independent third-party pricing service and screened for validity by such service.

We periodically benchmark the bid and ask prices we receive from third-party pricing services and/or dealers, as applicable, against the actual prices at which we purchase and sell our investments. Based on the results of the benchmark analysis and the experience of our management in purchasing and selling these investments, we believe that these prices are reliable indicators of fair value. However, because of the private nature of this marketplace (meaning actual transactions are not publicly reported), we believe that these valuation inputs are classified as Level 3 within the fair value hierarchy. We may also use other methods, including the use of independent valuation firms, to determine fair value for securities for which we cannot obtain prevailing bid and ask prices through third-party pricing services or independent dealers or where our board of trustees otherwise determines that the use of such other method is appropriate. We periodically benchmark the valuations provided by the independent valuation firms against the actual prices at which we purchase and sell our investments. Our valuation committee and board of trustees reviewed and approved the valuation determinations made with respect to these investments in a manner consistent with our valuation policy.

Revenue Recognition

Security transactions are accounted for on the trade date. We record interest income on an accrual basis to the extent that we expect to collect such amounts. We record dividend income on the ex-dividend date. We do not accrue as a receivable interest or dividends on loans and securities if we have reason to doubt our ability to collect such income. Our policy is to place investments on non-accrual status when there is reasonable doubt that interest income will be collected. We consider many factors relevant to an investment when placing it on or removing it from non-accrual status including, but not limited to, the delinquency status of the investment, economic and business conditions, the overall financial condition of the underlying investment, the value of the underlying collateral, bankruptcy status, if any, and any other facts or circumstances relevant to the investment. If there is reasonable doubt that we will receive any previously accrued interest, then the previously recognized interest income will be written-off. Payments received on non-accrual investments may be recognized as income or applied to principal depending upon the collectability of the remaining principal and interest. Non-accrual investments may be restored to accrual status when principal and interest payments become current and are likely to remain current based on our judgment.

Loan origination fees, original issue discount and market discount are capitalized and we amortize such amounts as interest income over the respective term of the loan or security. Upon the prepayment of a loan or security, any unamortized loan origination fees and original issue discount are recorded as interest income. Structuring and other non-recurring upfront fees are recorded as fee income when earned. We record prepayment premiums on loans and securities as fee income when we receive such amounts.

Net Realized Gains or Losses, Net Change in Unrealized Appreciation or Depreciation and Net Change in Unrealized Gains or Losses on Foreign Currency

Gains or losses on the sale of investments are calculated by using the specific identification method. We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized fees. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized gains or losses when gains or losses are realized and the respective unrealized gain or loss on foreign currency for any foreign denominated investments we may hold. Net change in unrealized gains or losses on foreign currency reflects the change in the value of foreign currency held, receivables or accruals during the reporting period due to the impact of foreign currency fluctuations.

Capital Gains Incentive Fee

Pursuant to the terms of the investment advisory and administrative services agreement, the incentive fee on capital gains is determined and payable in arrears as of the end of each calendar year (or upon termination of such agreement). Such fee equals 20.0% of our incentive fee capital gains (i.e., our realized capital gains on a cumulative basis from inception, calculated as of the end of the applicable period, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis), less the aggregate amount of any previously paid capital gains incentive fees. On a quarterly basis, we accrue for the capital gains incentive fee by calculating such fee as if it were due and payable as of the end of such period.

While the investment advisory and administrative services agreement with FS Advisor neither includes nor contemplates the inclusion of unrealized gains in the calculation of the capital gains incentive fee, pursuant to an interpretation of an American Institute of Certified Public Accountants Technical Practice Aid for investment companies, we include unrealized gains in the calculation of the capital gains incentive fee expense and related accrued capital gains incentive fee. This accrual reflects the incentive fees that would be payable to FS Advisor as if our entire portfolio was liquidated at its fair value as of the balance sheet date even though FS Advisor is not entitled to an incentive fee with respect to unrealized gains unless and until such gains are actually realized.

Subordinated Income Incentive Fee

Pursuant to the investment advisory and administrative services agreement, FS Advisor may also be entitled to receive a subordinated incentive fee on income. The subordinated incentive fee on income, which is calculated and payable quarterly in arrears, equals 20.0% of our "pre-incentive fee net investment income" for the immediately preceding quarter and is subject to a hurdle rate, expressed as a rate of return on adjusted capital equal to 1.625% per quarter, or an annualized hurdle rate of 6.5%. As a result, FS Advisor does not earn this incentive fee for any quarter until our pre-incentive fee net investment income for such quarter exceeds the hurdle rate of 1.625%. For purposes of this fee, "adjusted capital" means cumulative gross proceeds generated from sales of our common shares (including proceeds from our distribution reinvestment plan) reduced for distributions from non-liquidating dispositions of our investments paid to shareholders and amounts paid for share repurchases pursuant to our share repurchase program. Once our pre-incentive fee net investment income in any quarter exceeds the hurdle rate, FS Advisor is entitled to a "catch-up" fee equal to the amount of the pre-incentive fee net investment income in excess of the hurdle rate, until our pre-incentive fee net investment income for such quarter equals 2.031%, or 8.125% annually, of adjusted capital. Thereafter, FS Advisor is entitled to receive 20.0% of pre-incentive fee net investment income.

Offering Costs

Our offering costs primarily include, among other things, marketing expenses and printing, legal and due diligence fees and other costs pertaining to our continuous public offering of our common shares. Historically, we charged offering costs against capital in excess of par value on our consolidated balance sheets. Following discussions with the Staff of the Division of Investment Management of the SEC, we determined to change our accounting treatment of offering costs and defer and amortize such costs as an expense over twelve months. We evaluated this change in accounting treatment of offering costs, which we implemented effective January 1, 2016, and determined that it did not have a material impact on our consolidated financial position, results of operations or cash flows. Following the closing of our continuous public offering to new investors in November 2016, all deferred offering costs were expensed.

Uncertainty in Income Taxes

We evaluate our tax positions to determine if the tax positions taken meet the minimum recognition threshold in connection with accounting for uncertainties in income tax positions taken or expected to be taken for the purposes of measuring and recognizing tax benefits or liabilities in our consolidated financial statements. Recognition of a tax benefit or liability with respect to an uncertain tax position is required only when the position is "more likely than not" to be sustained assuming

examination by taxing authorities. We recognize interest and penalties, if any, related to unrecognized tax liabilities as income tax expense in our consolidated statements of operations. During the years ended December 31, 2016, 2015 and 2014, we did not incur any interest or penalties.

Contractual Obligations

We have entered into an agreement with FS Advisor to provide us with investment advisory and administrative services. Payments for investment advisory services under the investment advisory and administrative services agreement are equal to (a) an annual base management fee of 2.0% of the average value of our gross assets and (b) an incentive fee based on our performance. FS Advisor, and to the extent it provides such services, GSO, are reimbursed for administrative expenses incurred on our behalf. See "—Related Party Transactions—Compensation of the Investment Adviser and Dealer Manager" for a discussion of these agreements and for the amount of fees and expenses accrued under these agreements during the years ended December 31, 2016, 2015 and 2014.

A summary of our significant contractual payment obligations for the repayment of outstanding borrowings under the Barclays credit facility, the BNP facility, the Deutsche Bank credit facility, the Fortress facility, the Goldman facility, the Natixis credit facility and the Wells Fargo credit facility at December 31, 2016 is as follows:

	Payments Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
BNP Facility[1]	$113,737	$113,737	—	—	—
Deutsche Bank Credit Facility[2]	$200,000	$200,000	—	—	—
Fortress Facility[3]	$155,000	—	—	$155,000	—
Goldman Facility[4]	$325,000	—	$325,000	—	—
Natixis Credit Facility[5]	$ 50,328	—	—	—	$50,328
Wells Fargo Credit Facility[6]	$ 29,600	—	$ 29,600	—	—

(1) At December 31, 2016, $186,263 remained unused under the BNP facility. The BNP facility generally is terminable upon 270 days' notice by either party. As of December 31, 2016, neither Berwyn Funding nor BNP had provided notice of its intent to terminate the facility.

(2) At December 31, 2016, $115,000 remained unused under the Deutsche Bank credit facility. All amounts borrowed under the facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on June 11, 2017.

(3) At December 31, 2016, no amounts remained unused under the Fortress facility. All amounts borrowed under the facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on November 6, 2020.

(4) At December 31, 2016, no amounts remained unused under the Goldman facility. Strafford Funding will repurchase all Notes sold to Goldman under the Goldman facility and will owe all accrued and unpaid interest thereunder, on September 15, 2018.

(5) At December 31, 2016, no amounts remained unused under the Natixis credit facility. All amounts borrowed under the facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on July 11, 2023. Amounts under the Natixis credit facility began to amortize after the first repayment thereunder and we cannot borrow additional amounts under the facility thereafter.

(6) At December 31, 2016, $30,400 remained unused under the Wells Fargo credit facility. All amounts borrowed under the facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on September 9, 2018.

As of December 31, 2016, no amounts were outstanding under the Barclays credit facility.

Off-Balance Sheet Arrangements

We currently have no off-balance sheet arrangements, including any risk management of commodity pricing or other hedging practices.

Related Party Transactions

Compensation of the Investment Adviser and Dealer Manager

Pursuant to the investment advisory and administrative services agreement, FS Advisor is entitled to an annual base management fee of 2.0% of the average value of our gross assets and an incentive fee based on our performance. We commenced accruing fees under the investment advisory and administrative services agreement on July 18, 2011, upon commencement of our investment operations. Base management fees are paid on a quarterly basis in arrears.

The dealer manager for our continuous public offering was FS Investment Solutions, which is one of our affiliates. Under the dealer manager agreement among us, FS Advisor and FS Investment Solutions, or the dealer manager agreement, FS Investment Solutions was entitled to receive sales commissions and dealer manager fees in connection with the sale of common shares in our continuous public offering, all or a portion of which were re-allowed to selected broker-dealers and financial representatives. The dealer manager agreement terminated in connection with the closing of our continuous public offering in November 2016.

The following table describes the fees and expenses accrued under the investment advisory and administrative services agreement and the dealer manager agreement during the years ended December 31, 2016, 2015 and 2014:

Related Party	Source Agreement	Description	Year Ended December 31, 2016	2015	2014
FS Advisor	Investment Advisory and Administrative Services Agreement	Base Management Fee[1]	$76,580	$75,997	$ 61,970
FS Advisor	Investment Advisory and Administrative Services Agreement	Capital Gains Incentive Fee[2]	—	—	$(10,993)
FS Advisor	Investment Advisory and Administrative Services Agreement	Subordinated Incentive Fee on Income[3]	$ 5,774	$31,016	$ 32,072
FS Advisor	Investment Advisory and Administrative Services Agreement	Administrative Services Expenses[4]	$ 3,870	$ 4,056	$ 3,831
FS Advisor	Investment Advisory and Administrative Services Agreement	Offering Costs[5]	$ 3,548	$ 4,238	$ 3,279
FS Investment Solutions	Dealer Manager Agreement	Dealer Manager Fee[6]	$ 6,545	$ 9,251	$ 22,194

(1) During the years ended December 31, 2016, 2015 and 2014, $74,063, $75,571 and $54,809, respectively, in base management fees were paid to FS Advisor. As of December 31, 2016, $20,855 in base management fees were payable to FS Advisor.

(2) During the years ended December 31, 2016 and 2015, we did not accrue any capital gains incentive fees. During the year ended December 31, 2014, we reversed $10,993 of capital gains incentive fees previously accrued based on the performance of our portfolio. No capital gains incentive fees are actually payable by us with respect to unrealized gains unless and until those gains are actually realized. We did not pay any capital gains incentive fees to FS Advisor during the years ended December 31, 2016 or 2015. We paid FS Advisor $2,857 in capital gains incentive fees during the year ended December 31, 2014. As of December 31, 2016, we did not have any accrued capital gains incentive fees.

(3) During the years ended December 31, 2016, 2015 and 2014, $17,822, $31,110 and $26,716, respectively, of subordinated incentive fees on income were paid to FS Advisor. As of December 31, 2016, we did not have a subordinated incentive fee on income payable to FS Advisor.

(4) During the years ended December 31, 2016, 2015 and 2014, $3,704, $3,784 and $3,508, respectively, of the accrued administrative services expenses related to the allocation of costs of administrative personnel for services rendered to us by FS Advisor and the remainder related to other reimbursable expenses. We paid $4,265, $3,837 and $2,596, respectively, in administrative services expenses to FS Advisor during the years ended December 31, 2016, 2015 and 2014.

(5) During the years ended December 31, 2016, 2015 and 2014, we incurred offering costs of $4,675, $8,950 and $7,536, respectively, of which $3,548, $4,238 and $3,279, respectively, related to reimbursements to FS Advisor for offering costs incurred on our behalf, including marketing expenses, salaries and other direct expenses of FS Advisor's personnel and employees of its affiliates while engaged in registering and marketing our common shares.

(6) Represents aggregate dealer manager fees retained by FS Investment Solutions and not re-allowed to selected broker-dealers or financial representatives.

See Note 4 to our consolidated financial statements included herein for additional information regarding our related party transactions and relationships, including a description of the fees and amounts due to FS Advisor, capital contributions by FS Advisor and GSO, potential conflicts of interest, our exemptive relief order, our expense reimbursement arrangement with FS Investments and FS Benefit Trust's purchases of our common shares.

Recent Developments

Public Offering of Shares

In November 2016, we closed our continuous public offering of common shares to new investors. We sold 449,543,498 common shares (as adjusted for share distributions) for gross proceeds of $4,362,119 in our continuous public offering, including shares issued pursuant to our distribution reinvestment plan during that period.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are subject to financial market risks, including changes in interest rates. As of December 31, 2016, 43.6% of our portfolio investments (based on fair value) paid variable interest rates, 38.9% paid fixed interest rates, 3.5% were income producing equity or other investments and the remainder (14.0%) consisted of non-income producing equity or other investments. A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to the variable rate investments we hold and to declines in the value of any fixed rate investments we hold. However, many of our variable rate investments provide for an interest rate floor, which may prevent our interest income from increasing until benchmark interest rates increase beyond a threshold amount. To the extent that a substantial portion of our investments may be in variable rate investments, an increase in interest rates beyond this threshold would make it easier for us to meet or exceed the hurdle rate applicable to the subordinated incentive fee on income and may result in a substantial increase in our net investment income and to the amount of incentive fees payable to FS Advisor with respect to our increased pre-incentive fee net investment income.

Pursuant to the terms of the Barclays credit facility, BNP facility, Deutsche Bank credit facility, Fortress facility, Goldman facility, Natixis credit facility and Wells Fargo credit facility, Bryn Mawr Funding, Berwyn Funding, FSEP Funding, Foxfields Funding, Strafford Funding, Energy Funding and Wayne Funding, respectively, borrow at a floating rate based on a benchmark interest rate. To the extent that any present or future credit facilities or other financing arrangements that we or any of our subsidiaries enter into are based on a floating interest rate, we will be subject to risks relating to changes in market interest rates. In periods of rising interest rates when we or our subsidiaries have such debt outstanding or financing arrangements in effect, our interest expense would increase, which could reduce our net investment income, especially to the extent we hold fixed rate investments.

The following table shows the effect over a twelve-month period of changes in interest rates on our interest income, interest expense and net interest income, assuming no changes in the composition of our investment portfolio, including the accrual status of our investments, and our borrowing arrangements in effect as of December 31, 2016 (dollar amounts are presented in thousands):

Basis Point Change in Interest Rates	Increase (Decrease) in Interest Income	Increase (Decrease) in Interest Expense	Increase (Decrease) in Net Interest Income	Percentage Change in Net Interest Income
Down 100 basis points	$ —	$ (8,207)	$ 8,207	2.6%
No Change	—	—	—	—
Up 100 basis points	13,534	8,207	5,327	1.7%
Up 300 basis points	48,953	24,621	24,332	7.8%
Up 500 basis points	84,747	41,035	43,712	13.9%

We expect that our long-term investments will be financed primarily with equity and debt. If deemed prudent, we may use interest rate risk management techniques in an effort to minimize our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. During the years ended December 31, 2016, 2015 and 2014, we did not engage in interest rate hedging activities.

In addition, we may have risk regarding portfolio valuation. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Valuation of Portfolio Investments."

Item 8. Financial Statements and Supplementary Data.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. In connection with the preparation of our annual financial statements, management has conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework set forth in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls. Based on this evaluation, we have concluded that, as of December 31, 2016, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Our internal control over financial reporting as of December 31, 2016 has been audited by our independent registered public accounting firm.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders
FS Energy and Power Fund
Philadelphia, Pennsylvania

We have audited FS Energy and Power Fund's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. FS Energy and Power Fund's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, FS Energy and Power Fund maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets, including the consolidated schedules of investments, of FS Energy and Power Fund as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 15, 2017 expressed an unqualified opinion.

/s/ RSM US LLP

Blue Bell, Pennsylvania
March 15, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders
FS Energy and Power Fund
Philadelphia, Pennsylvania

We have audited the accompanying consolidated balance sheets, including the consolidated schedules of investments, of FS Energy and Power Fund (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2016 and 2015 by correspondence with the custodians and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FS Energy and Power Fund as of December 31, 2016 and 2015 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FS Energy and Power Fund's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 15, 2017 expressed an unqualified opinion on the effectiveness of FS Energy and Power Fund's internal control over financial reporting.

/s/ RSM US LLP

Blue Bell, Pennsylvania
March 15, 2017

FS Energy and Power Fund

Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	December 31,	
	2016	2015
Assets		
Investments, at fair value		
Non-controlled/unaffiliated investments (amortized cost—$2,959,314 and $3,267,830, respectively)	$2,838,377	$2,518,595
Non-controlled/affiliated investments (amortized cost—$977,010 and $356,188, respectively)	1,071,032	276,993
Controlled/affiliated investments (amortized cost—$26,664 and $270,389, respectively)	1,031	273,910
Total investments, at fair value (amortized cost—$3,962,988 and $3,894,407, respectively)	3,910,440	3,069,498
Cash	317,520	368,867
Receivable for investments sold and repaid	22	13,792
Interest receivable	37,857	34,921
Receivable for common shares purchased	—	6,915
Deferred financing costs	2,443	3,865
Prepaid expenses and other assets	15	247
Total assets	$4,268,297	$3,498,105
Liabilities		
Payable for investments purchased	$ 6,046	$ —
Credit facilities payable (net of deferred financing costs of $1,045 and $1,094, respectively)	547,620	714,416
Repurchase agreement payable (net of deferred financing costs of $91 and $220, respectively)[1]	324,909	324,764
Shareholder distributions payable	9,474	48
Management fees payable	20,855	18,338
Subordinated income incentive fees payable[2]	—	12,048
Administrative services expense payable	1,477	1,872
Interest payable	4,328	3,046
Trustees' fees payable	250	254
Other accrued expenses and liabilities	4,444	5,458
Total liabilities	919,403	1,080,244
Commitments and contingencies[3]		
Shareholders' equity		
Preferred shares, $0.001 par value, 50,000,000 shares authorized, none issued and outstanding	—	—
Common shares, $0.001 par value, 450,000,000 shares authorized, 440,162,095 and 372,210,264 shares issued and outstanding, respectively	440	372
Capital in excess of par value[4]	3,802,263	3,428,672
Accumulated net realized gains (losses) on investments and gain/loss on foreign currency[4]	(387,452)	(200,220)
Accumulated undistributed (distributions in excess of) net investment income[4]	(13,738)	14,024
Net unrealized appreciation (depreciation) on investments and unrealized gain/loss on foreign currency	(52,619)	(824,987)
Total shareholders' equity	3,348,894	2,417,861
Total liabilities and shareholders' equity	$4,268,297	$3,498,105
Net asset value per common share at year end	$ 7.61	$ 6.50

(1) See Note 8 for a discussion of the Company's repurchase transaction.

(2) See Note 2 and Note 4 for a discussion of the methodology employed by the Company in calculating the subordinated income incentive fees.

(3) See Note 9 for a discussion of the Company's commitments and contingencies.

(4) See Note 5 for a discussion of the sources of distributions paid by the Company.

See notes to consolidated financial statements.

FS Energy and Power Fund

Consolidated Statements of Operations
(in thousands, except share and per share amounts)

	Year Ended December 31,		
	2016	2015	2014
Investment income			
From non-controlled/unaffiliated investments:			
Interest income	$ 281,271	$ 305,035	$ 251,827
Fee income	10,428	22,316	29,661
Dividend income	—	1,483	—
From non-controlled/affiliated investments:			
Interest income	70,350	21,503	6,254
Fee income	7,691	681	2,228
From controlled/affiliated investments:			
Interest income	—	19,950	—
Fee income	—	8,685	—
Total investment income	369,740	379,653	289,970
Operating expenses			
Management fees	76,580	75,997	61,970
Capital gains incentive fees(1)	—	—	(10,993)
Subordinated income incentive fees(1)	5,774	31,016	32,072
Administrative services expenses	3,870	4,056	3,831
Share transfer agent fees	2,884	2,757	2,541
Accounting and administrative fees	1,392	1,405	1,211
Interest expense	37,126	30,703	19,069
Trustees' fees	962	970	853
Offering costs	4,675	—	—
Other general and administrative expenses	4,621	4,841	3,615
Total operating expenses	137,884	151,745	114,169
Income and excise taxes	209	313	912
Total expenses	138,093	152,058	115,081
Net investment income	231,647	227,595	174,889
Realized and unrealized gain/loss			
Net realized gain (loss) on investments:			
Non-controlled/unaffiliated	(252,003)	(201,559)	(5,682)
Non-controlled/affiliated	572	—	—
Net realized gain (loss) on foreign currency	—	(210)	(636)
Net change in unrealized appreciation (depreciation) on investments:			
Non-controlled/unaffiliated	614,513	(462,587)	(336,895)
Non-controlled/affiliated	174,231	(77,970)	(1,225)
Controlled/affiliated	(16,383)	3,521	—
Net change in unrealized gain (loss) on foreign currency	7	(89)	40
Total net realized and unrealized gain (loss)	520,937	(738,894)	(344,398)
Net increase (decrease) in net assets resulting from operations	$ 752,584	$ (511,299)	$ (169,509)
Per share information—basic and diluted			
Net increase (decrease) in net assets resulting from operations (Earnings per Share)	$ 1.84	$ (1.51)	$ (0.72)
Weighted average shares outstanding	408,967,511	337,879,830	236,753,647

(1) See Note 2 and Note 4 for a discussion of the methodology employed by the Company in calculating the capital gains incentive fees and subordinated income incentive fees.

See notes to consolidated financial statements.

FS Energy and Power Fund

Consolidated Statements of Changes in Net Assets
(in thousands)

	Year Ended December 31,		
	2016	2015	2014
Operations			
Net investment income	$ 231,647	$ 227,595	$ 174,889
Net realized gain (loss) on investments and foreign currency	(251,431)	(201,769)	(6,318)
Net change in unrealized appreciation (depreciation) on investments	772,361	(537,036)	(338,120)
Net change in unrealized gain (loss) on foreign currency	7	(89)	40
Net increase (decrease) in net assets resulting from operations	752,584	(511,299)	(169,509)
Shareholder distributions[1]			
Distributions from net investment income	(273,529)	(224,586)	(145,745)
Distributions from net realized gain on investments	—	(14,247)	(17,298)
Distributions representing tax return of capital	(15,453)	—	—
Net decrease in net assets resulting from shareholder distributions	(288,982)	(238,833)	(163,043)
Capital share transactions			
Issuance of common shares[2]	354,727	498,830	1,129,068
Reinvestment of shareholder distributions[2]	180,011	152,401	110,766
Repurchases of common shares[2]	(67,307)	(40,009)	(10,262)
Offering costs	—	(8,950)	(7,536)
Net increase in net assets resulting from capital share transactions	467,431	602,272	1,222,036
Total increase (decrease) in net assets	931,033	(147,860)	889,484
Net assets at beginning of year	2,417,861	2,565,721	1,676,237
Net assets at end of year	$3,348,894	$2,417,861	$2,565,721
Accumulated undistributed (distributions in excess of) net investment income[1]	$ (13,738)	$ 14,024	$ 4,341

(1) See Note 5 for a discussion of the sources of distributions paid by the Company.

(2) See Note 3 for a discussion of transactions with respect to the Company's common shares during the years ended December 31, 2016, 2015 and 2014.

See notes to consolidated financial statements.

FS Energy and Power Fund

Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities			
Net increase (decrease) in net assets resulting from operations	$ 752,584	$ (511,299)	$ (169,509)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:			
Purchases of investments	(965,957)	(1,195,947)	(2,437,689)
Paid-in-kind interest	(40,900)	(27,585)	(15,125)
Proceeds from sales and repayments of investments	702,830	800,534	1,044,311
Net realized (gain) loss on investments	251,431	201,559	5,682
Net change in unrealized (appreciation) depreciation on investments	(772,361)	537,036	338,120
Accretion of discount	(15,985)	(9,918)	(10,275)
Amortization of deferred financing costs	3,207	2,707	1,891
Amortization of deferred offering costs	4,675	—	—
(Increase) decrease in receivable for investments sold and repaid	13,770	37,461	(42,947)
(Increase) decrease in interest receivable	(2,936)	12,276	(21,730)
(Increase) decrease in prepaid expenses and other assets	232	(217)	(9)
Increase (decrease) in payable for investments purchased	6,046	(20,094)	(61,415)
Increase (decrease) in management fees payable	2,517	426	7,161
Increase (decrease) in accrued capital gains incentive fees	—	—	(13,850)
Increase (decrease) in subordinated income incentive fees payable	(12,048)	(94)	5,356
Increase (decrease) in administrative services expense payable	(395)	219	1,235
Increase (decrease) in interest payable[1]	1,282	158	883
Increase (decrease) in trustees' fees payable	(4)	25	(22)
Increase (decrease) in other accrued expenses and liabilities	(1,014)	2,209	1,271
Net cash provided by (used in) operating activities	(73,026)	(170,544)	(1,366,661)
Cash flows from financing activities			
Issuance of common shares	361,642	501,904	1,119,214
Reinvestment of shareholder distributions	180,011	152,401	110,766
Repurchases of common shares	(67,307)	(40,009)	(10,262)
Offering costs incurred	(4,675)	(8,950)	(7,536)
Shareholder distributions	(279,556)	(238,835)	(173,693)
Borrowings under credit facilities	65,400	109,600	323,826
Borrowings under repurchase agreement	16	135,871	189,113
Repayments of credit facilities	(232,245)	(295,390)	(46,700)
Deferred financing costs paid	(1,607)	(2,311)	(4,021)
Net cash provided by financing activities	21,679	314,281	1,500,707
Total increase (decrease) in cash	(51,347)	143,737	134,046
Cash at beginning of year	368,867	225,130	91,084
Cash at end of year	$ 317,520	$ 368,867	$ 225,130
Supplemental disclosure			
Excise and state taxes paid	$ 183	$ 400	$ 264
Non-cash purchases of investments	$(522,222)	$ —	$ —
Non-cash sales of investments	$ 522,222	$ —	$ —

(1) See Note 8 for a discussion of the Company's credit facilities. During the years ended December 31, 2016, 2015 and 2014, the Company paid $20,885, $18,419 and $16,295, respectively, in interest expense on the credit facilities. During the year ended December 31, 2016 and 2015, the Company paid $11,752 and $9,419, respectively, in interest expense pursuant to the repurchase agreement. During the year ended December 31, 2014, the Company did not pay any interest expense pursuant to the repurchase agreement.

See notes to consolidated financial statements.

FS Energy and Power Fund

Consolidated Schedule of Investments
As of December 31, 2016
(in thousands, except share amounts)

Portfolio Company[(a)]	Footnotes	Industry	Rate[(b)]	Floor	Maturity	Principal Amount[(c)]	Amortized Cost	Fair Value[(d)]
Senior Secured Loans—First Lien—27.2%								
Abaco Energy Technologies LLC	(g)(i)(j)	Service & Equipment	L+700, 2.5% PIK (2.5% Max PIK)	1.0%	11/20/20	$ 60,455	$ 58,038	$ 45,795
Allied Wireline Services, LLC	(g)(i)(k)(l)	Service & Equipment	L+400, 5.5% PIK (5.5% Max PIK)	1.5%	2/28/19	108,920	108,099	106,877
Alon USA Partners, L.P.	(g)(i)(j)(m)	Downstream	L+800	1.3%	11/26/18	11,063	11,199	11,035
Altus Power America, Inc.	(j)(p)	Power	L+750	1.5%	9/30/21	71,945	71,945	73,294
Altus Power America, Inc.	(e)(p)	Power	L+750	1.5%	9/30/21	29,305	29,305	29,854
AP Exhaust Acquisition, LLC	(g)(l)	Service & Equipment	L+775	1.5%	1/16/21	15,811	15,811	14,309
BL Sand Hills Unit, L.P.	(l)	Upstream	Prime+650	3.5%	12/17/17	40,821	35,451	38,321
BL Sand Hills Unit, L.P.	(e)	Upstream	Prime+650	3.5%	12/17/17	15,000	13,027	14,081
Cactus Wellhead, LLC	(g)(i)(j)	Service & Equipment	L+600	1.0%	7/31/20	56,392	54,715	51,458
Cimarron Energy Inc.	(g)	Service & Equipment	L+775, 3.8% PIK (3.8% Max PIK)	1.0%	12/15/19	23,664	23,664	24,019
CITGO Holding, Inc.	(f)	Downstream	L+850	1.0%	5/12/18	16,822	16,947	17,109
Crestwood Holdings LLC	(f)(g)	Midstream	L+800	1.0%	6/19/19	29,703	29,794	29,146
EnergySolutions, LLC	(i)(j)	Service & Equipment	L+575	1.0%	5/29/20	18,193	17,965	18,375
Gulf Finance, LLC	(f)(i)	Midstream	L+525	1.0%	8/25/23	18,953	18,407	19,095
Industrial Group Intermediate Holdings, LLC	(i)	Service & Equipment	L+800	1.3%	5/31/20	22,240	22,240	22,573
Lusk Operating LLC	(r)(z)(aa)	Upstream	Prime+500 PIK (8.8% Max PIK)	3.3%	1/31/17	27,497	25,664	1,031
MB Precision Holdings LLC	(g)	Service & Equipment	L+725, 1.5% PIK (1.5% Max PIK)	1.3%	1/23/20	12,853	12,853	12,355
Moxie Liberty LLC	(g)(j)	Power	L+650	1.0%	8/21/20	32,155	32,241	31,794
P2 Upstream Acquisition Co.	(f)	Service & Equipment	L+400	1.0%	10/30/20	5,101	4,801	4,865
Panda Temple Power, LLC	(j)	Power	L+625	1.0%	3/6/22	9,825	9,677	8,744
Panda Temple Power II, LLC	(g)(j)	Power	L+600	1.3%	4/3/19	27,531	27,761	25,604
ProPetro Services, Inc.	(i)	Service & Equipment	L+625	1.0%	9/30/19	10,839	10,833	9,837
Strike, LLC	(e)	Midstream	L+800	1.0%	5/30/19	35,000	34,482	34,475
Strike, LLC	(i)(j)(bb)	Midstream	L+800	1.0%	11/30/22	52,500	50,937	51,975
Sunnova Asset Portfolio 5 Holdings, LLC	(j)(l)(p)	Power	12%, 0.0% PIK (12.0% Max PIK)		11/14/21	149,652	147,435	151,148
Swift Worldwide Resources US Holdings Corp.	(g)(j)	Service & Equipment	L+1100	1.0%	7/20/21	58,614	58,614	58,614
UTEX Industries, Inc.	(f)	Service & Equipment	L+400	1.0%	5/21/21	5,432	4,275	5,085
Warren Resources, Inc.	(k)(p)	Upstream	L+900, 1.0% PIK (1.0% Max PIK)	1.0%	5/22/20	78,437	78,437	78,437
Warren Resources, Inc.	(e)(p)	Upstream	L+900, 1.0% PIK (1.0% Max PIK)	1.0%	5/22/20	5,590	5,590	5,590
Total Senior Secured Loans—First Lien							1,030,207	994,895
Unfunded Loan Commitments							(82,404)	(82,404)
Net Senior Secured Loans—First Lien							947,803	912,491

See notes to consolidated financial statements.

FS Energy and Power Fund

Consolidated Schedule of Investments (Continued)
As of December 31, 2016
(in thousands, except share amounts)

Portfolio Company[(a)]	Footnotes	Industry	Rate[(b)]	Floor	Maturity	Principal Amount[(c)]	Amortized Cost	Fair Value[(d)]
Senior Secured Loans—Second Lien—26.1%								
Alison US LLC	(f)(j)(m)	Service & Equipment	L+850	1.0%	8/29/22	$ 23,722	$ 22,591	$ 23,011
Ameriforge Group Inc.	(g)	Service & Equipment	L+750	1.3%	12/21/20	35,950	36,352	5,707
AP Exhaust Acquisition, LLC		Service & Equipment	12.0% PIK (12.0% Max PIK)		9/28/21	3,763	3,763	3,279
Arena Energy, LP	(i)(k)	Upstream	L+900, 4.0% PIK (4.0% Max PIK)	1.0%	1/24/21	103,410	103,410	103,927
Ascent Resources—Marcellus, LLC		Upstream	L +750	1.0%	8/4/21	10,000	9,874	1,325
Ascent Resources—Utica, LLC	(g)(j)(k)(l)	Upstream	L+950	1.5%	9/30/18	285,257	284,490	287,753
Brock Holdings III, Inc.	(g)(j)	Service & Equipment	L+825	1.8%	3/16/18	29,605	29,699	28,273
Chief Exploration & Development LLC	(f)(i)	Upstream	L+650	1.3%	5/16/21	36,576	35,139	35,935
Emerald Performance Materials, LLC	(f)	Downstream	L+775	1.0%	8/1/22	11,819	11,754	11,834
EP Energy, LLC	(f)(m)	Upstream	L+875	1.0%	6/30/21	17,209	17,379	18,047
Fieldwood Energy LLC		Upstream	L+713	1.3%	9/30/20	41,047	41,788	29,246
Granite Acquisition, Inc.	(f)	Power	L+725	1.0%	12/19/22	20,150	19,718	19,445
Gruden Acquisition, Inc.	(j)	Service & Equipment	L+850	1.0%	8/18/23	15,000	14,372	11,875
Horn Intermediate Holdings, Inc.	(g)(j)	Service & Equipment	L+775	1.3%	10/2/18	50,250	50,250	50,250
Jonah Energy LLC	(f)(i)	Upstream	L+650	1.0%	5/12/21	34,293	33,325	32,579
Neff Rental LLC	(f)(j)	Service & Equipment	L+625	1.0%	6/9/21	33,789	33,089	33,657
Oxbow Carbon LLC	(g)	Midstream	L+700	1.0%	1/17/20	15,000	14,927	14,738
P2 Upstream Acquisition Co.	(f)(g)(j)	Service & Equipment	L+800	1.0%	4/30/21	34,099	34,144	31,243
Titan Energy Operating, LLC	(k)(p)	Upstream	2.0%, L+900 PIK (L+900 Max PIK)	1.0%	2/23/20	104,409	87,134	85,427
UTEX Industries, Inc.	(f)(j)	Service & Equipment	L+725	1.0%	5/20/22	36,192	36,227	25,696
W3 Co.	(g)(j)	Service & Equipment	L+800	1.3%	9/13/20	14,795	14,943	6,695
WP CPP Holdings, LLC	(g)(j)	Service & Equipment	L+775	1.0%	4/30/21	14,680	14,394	13,927
Total Senior Secured Loans—Second Lien							948,762	873,869
Senior Secured Bonds—11.9%								
Calpine Corp.	(f)(m)	Power	5.3%		6/1/26	19,800	19,809	19,508
Cheniere Corpus Christi Holdings, LLC	(f)	Midstream	7.0%		6/30/24	4,000	4,134	4,357
CITGO Holding, Inc.	(f)	Downstream	10.8%		2/15/20	9,000	9,063	9,645
EP Energy LLC	(h)(m)	Upstream	8.0%		11/29/24	10,000	10,000	10,780
FourPoint Energy, LLC	(j)(k)(l)(p)	Upstream	9.0%		12/31/21	235,125	227,859	240,709
Mirant Mid-Atlantic Trust	(f)(h)	Power	10.1%		12/30/28	31,752	33,838	26,936
Ridgeback Resources Inc.	(k)(m)(p)	Upstream	12.0%		12/29/20	3,887	3,809	3,887
Velvet Energy Ltd.	(j)(l)(m)	Upstream	9.0%		10/5/23	80,000	80,000	81,792
Total Senior Secured Bonds							388,512	397,614

See notes to consolidated financial statements.

FS Energy and Power Fund

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Portfolio Company[(a)]	Footnotes	Industry	Rate[(b)]	Floor	Maturity	Principal Amount[(c)]	Amortized Cost	Fair Value[(d)]
Subordinated Debt—31.2%								
Alta Mesa Holdings, LP	(h)	Upstream	7.9%		12/15/24	$ 20,425	$ 20,425	$ 21,242
Archrock Partners, L.P.	(h)(m)	Midstream	6.0%		4/1/21	8,555	7,505	8,384
Archrock Partners, L.P.	(h)(m)	Midstream	6.0%		10/1/22	14,283	12,400	13,881
Bellatrix Exploration Ltd.	(f)(h)(m)	Upstream	8.5%		5/15/20	53,590	52,560	52,753
Brand Energy & Infrastructure Services, Inc.	(f)(h)	Service & Equipment	8.5%		12/1/21	43,311	42,479	44,502
Calpine Corp.	(f)(m)	Power	5.8%		1/15/25	5,100	5,093	4,941
Canbriam Energy Inc.	(f)(h)(j)(m)	Upstream	9.8%		11/15/19	115,200	112,341	121,536
Compressco Partners, LP	(f)(h)(m)	Service & Equipment	7.3%		8/15/22	20,050	19,908	18,972
Crestwood Equity Partners L.P.	(f)(m)	Midstream	6.1%		3/1/22	5,500	5,500	5,641
Dynegy Finance I/II Inc.	(f)(m)	Power	7.6%		11/1/24	22,542	21,968	20,894
Dynegy Finance I/II Inc.	(f)(m)	Power	8.0%		1/15/25	12,000	11,995	11,243
Eclipse Resources Corp.	(f)(h)(m)(o)	Upstream	8.9%		7/15/23	59,745	53,883	62,334
EP Energy LLC	(h)(m)	Upstream	9.4%		5/1/20	19,970	16,006	18,440
EV Energy Partners, L.P.	(h)(m)	Upstream	8.0%		4/15/19	48,814	36,060	34,609
Extraction Oil & Gas Holdings, LLC	(h)(o)	Upstream	7.9%		7/15/21	37,500	37,500	40,313
Genesis Energy, L.P.	(f)(m)	Midstream	6.8%		8/1/22	23,540	22,949	24,473
Genesis Energy, L.P.	(f)(m)	Midstream	6.0%		5/15/23	15,280	14,116	15,599
GenOn Energy, Inc.	(h)	Power	7.9%		6/15/17	4,000	3,945	2,868
GenOn Energy, Inc.	(h)	Power	9.9%		10/15/20	32,698	34,010	22,419
Global Jet Capital Inc.		Service & Equipment	15.0% PIK (15.0% Max PIK)		1/30/25	732	732	727
Global Jet Capital Inc.		Service & Equipment	15.0% PIK (15.0% Max PIK)		4/30/25	4,649	4,649	4,620
Global Jet Capital Inc.		Service & Equipment	15.0% PIK (15.0% Max PIK)		9/3/25	961	961	955
Global Jet Capital Inc.		Service & Equipment	15.0% PIK (15.0% Max PIK)		9/29/25	904	904	899
Global Jet Capital Inc.		Service & Equipment	15.0% PIK (15.0% Max PIK)		12/2/26	795	795	795
Global Partners L.P.	(f)(h)(m)(o)	Midstream	6.3%		7/15/22	69,435	69,264	66,831
Global Partners L.P.	(h)(m)(o)	Midstream	7.0%		6/15/23	2,824	2,419	2,744
Great Western Petroleum, LLC	(f)(h)	Upstream	9.0%		9/30/21	23,830	23,692	24,932
Gulfport Energy Corp.	(f)(m)	Upstream	6.0%		10/15/24	10,000	10,000	10,205
Jupiter Resources Inc.	(h)(m)	Upstream	8.5%		10/1/22	71,125	67,772	61,760
Laredo Petroleum, Inc.	(f)(m)	Upstream	7.4%		5/1/22	25,384	25,093	26,375
Lonestar Resources America Inc.	(h)	Upstream	8.8%		4/15/19	21,500	21,566	19,780
Martin Midstream Partners L.P.	(f)(h)(m)	Midstream	7.3%		2/15/21	29,660	29,102	29,438
NRG Energy, Inc.	(f)(m)	Power	7.3%		5/15/26	28,000	27,823	27,965
ONEOK, Inc.	(f)(h)(m)	Midstream	7.5%		9/1/23	28,000	26,887	31,910
SandRidge Energy, Inc.	(l)(m)(r)	Upstream	0.0%		10/4/20	10,550	14,060	13,245
Synergy Resources Corp.	(j)(m)	Upstream	9.0%		6/14/21	40,000	40,000	41,700
Talos Production LLC	(h)	Upstream	9.8%		2/15/18	43,250	43,249	24,004
Tenrgys, LLC	(j)	Upstream	L+900	2.5%	12/23/18	75,000	75,000	73,125
Whiting Petroleum Corp.	(h)(m)	Upstream	5.0%		3/15/19	11,685	10,552	11,739
Zachry Holdings, Inc.	(f)	Service & Equipment	7.5%		2/1/20	23,925	23,934	24,374
Total Subordinated Debt							1,049,097	1,043,167

See notes to consolidated financial statements.

Consolidated Schedule of Investments (Continued)
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Portfolio Company[a]	Footnotes	Industry	Number of Shares	Amortized Cost	Fair Value[d]
Equity/Other—20.4%[n]					
Abaco Energy Technologies LLC, Common Equity	(r)	Service & Equipment	6,944,444	$ 6,944	$ 347
Abaco Energy Technologies LLC, Preferred Equity	(r)	Service & Equipment	28,942,003	1,447	1,447
Allied Downhole Technologies, LLC, Common Equity	(k)(q)(r)	Service & Equipment	7,431,113	7,223	5,945
Allied Downhole Technologies, LLC, Warrants, 2/28/2019	(k)(q)(r)	Service & Equipment	5,344,680	1,865	4,276
Altus Power America Holdings, LLC, Common Equity	(p)(r)	Power	12,474,205	12,474	12,474
Altus Power America Holdings, LLC, Preferred Equity	(p)(s)	Power	23,981,707	23,982	23,982
AP Exhaust Holdings, LLC, Common Equity	(k)(q)(r)	Service & Equipment	811	811	41
Ascent Resources Utica Holdings, LLC, Common Equity	(r)(t)	Upstream	148,692,909	44,700	33,307
BL Sand Hills Unit, L.P., Net Profits Interest	(r)(v)	Upstream	N/A	5,180	570
BL Sand Hills Unit, L.P., Overriding Royalty Interest	(v)	Upstream	N/A	740	212
Cimarron Energy Holdco Inc., Common Equity	(r)	Service & Equipment	3,201,631	2,991	1,921
Extraction Oil & Gas, Inc. Common Equity	(k)(r)	Upstream	1,140,637	11,250	22,858
Fortune Creek Co-Invest I L.P., LP Interest	(m)(r)(w)(z)	Midstream	N/A	16,697	553
FourPoint Energy, LLC, Common Equity, Class C-II-A Units	(k)(p)(q)(r)	Upstream	66,000	66,000	31,845
FourPoint Energy, LLC, Common Equity, Class D Units	(k)(p)(q)(r)	Upstream	12,374	8,176	6,032
FourPoint Energy, LLC, Common Equity, Class E-II Units	(p)(r)(cc)	Upstream	274,688	68,672	125,670
FourPoint Energy, LLC, Common Equity, Class E-III Units	(k)(p)(q)(r)(cc)	Upstream	222,750	55,688	107,477
Global Jet Capital Holdings, LP, Preferred Equity	(r)	Service & Equipment	2,785,562	2,786	2,786
Industrial Group Intermediate Holdings, LLC, Common Equity	(k)(q)(r)	Service & Equipment	472,755	473	827
Lusk Operating LLC, Common Equity	(r)(u)(aa)	Upstream	2,000	1,000	—
MB Precision Investment Holdings LLC, Class A-2 Units	(k)(q)(r)	Service & Equipment	490,213	490	98
Ridgeback Resources Inc., Common Equity	(k)(l)(m)(p)(r)(w)	Upstream	9,599,928	58,985	58,985
SandRidge Energy, Inc., Common Equity	(h)(m)(o)(r)	Upstream	447,491	11,187	10,538
Summit Midstream Partners, LLC, Preferred Equity	(l)	Midstream	24,830	24,830	24,955
Sunnova Energy Corp., Common Equity	(p)(r)	Power	6,667,368	25,026	36,204
Sunnova Energy Corp., Preferred Equity	(p)(r)	Power	578,468	3,080	3,141
Swift Worldwide Resources Holdco Limited, Common Equity	(m)(r)(x)	Service & Equipment	3,750,000	6,029	1,875
Synergy Offshore LLC, Preferred Equity	(k)(y)	Upstream	66,250	83,988	89,040
TE Holdings, LLC, Common Equity	(r)(cc)	Upstream	2,225,950	18,921	16,695
TE Holdings, LLC, Preferred Equity	(r)	Upstream	1,475,531	14,734	22,133
Titan Energy, LLC, Common Equity	(k)(p)(r)	Upstream	555,496	17,554	13,332
Warren Resources, Inc., Common Equity	(l)(p)(r)	Upstream	4,415,749	20,754	18,988
White Star Petroleum Holdings, LLC, Common Equity	(r)(cc)	Upstream	4,867,084	4,137	4,745
Total Equity/Other				628,814	683,299
TOTAL INVESTMENTS—116.8%				$3,962,988	3,910,440
LIABILITIES IN EXCESS OF OTHER ASSETS—(16.8%)					(561,546)
NET ASSETS—100.0%					$3,348,894

See notes to consolidated financial statements.

(a) Security may be an obligation of one or more entities affiliated with the named company.

(b) Certain variable rate securities in the Company's portfolio bear interest at a rate determined by a publicly disclosed base rate plus a basis point spread. As of December 31, 2016, the three-month London Interbank Offered Rate, or LIBOR, was 1.00% and the U.S. Prime Lending Rate, or Prime, was 3.75%.

(c) Denominated in U.S. dollars, unless otherwise noted.

(d) Fair value determined by the Company's board of trustees (see Note 7).

(e) Security is an unfunded commitment. The stated rate reflects the spread disclosed at the time of commitment and may not indicate the actual rate received upon funding.

(f) Security or portion thereof held within FSEP Term Funding, LLC and is pledged as collateral supporting the amounts outstanding under the revolving credit facility with Deutsche Bank AG, New York Branch (see Note 8).

(g) Security or portion thereof held within Energy Funding LLC and is pledged as collateral supporting the amounts outstanding under the revolving credit facility with Natixis, New York Branch (see Note 8).

(h) Security or portion thereof held within Berwyn Funding LLC and is pledged as collateral supporting the amounts outstanding under the prime brokerage facility with BNP Paribas Prime Brokerage, Inc., or BNP. Securities held within Berwyn Funding LLC may be rehypothecated from time to time as permitted under Rule 15c-1(a)(1) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, subject to the terms and conditions governing the prime brokerage facility with BNP (see Note 8).

(i) Security or portion thereof held within Wayne Funding LLC and is pledged as collateral supporting the amounts outstanding under the revolving credit facility with Wells Fargo Securities, LLC (see Note 8).

(j) Security or portion thereof held within Gladwyne Funding LLC and is pledged as collateral supporting the obligations outstanding under the repurchase transaction with Goldman Sachs Bank USA (see Note 8).

(k) Security or portion thereof held within Foxfields Funding LLC and is pledged as collateral supporting the obligations outstanding under the term loan facility with Fortress Credit Co LLC (see Note 8).

(l) Security or portion thereof held within Bryn Mawr Funding LLC and is pledged as collateral supporting the amounts outstanding under the revolving credit facility with Barclays Bank PLC (see Note 8).

(m) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended, or the 1940 Act. A business development company may not acquire any asset other than a qualifying asset, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the business development company's total assets. As of December 31, 2016, 77.1% of the Company's total assets represented qualifying assets.

(n) Listed investments may be treated as debt for U.S. generally accepted accounting principles, or GAAP, or tax purposes.

(o) Security or portion thereof held within Berwyn Funding LLC has been rehypothecated under Rule 15c-1(a)(1) of the Exchange Act, subject to the terms and conditions governing the prime brokerage facility with BNP (see Note 8). As of December 31, 2016, the fair value of securities rehypothecated by BNP was $106,488.

See notes to consolidated financial statements.

(p) Under the 1940 Act, the Company generally is deemed to be an "affiliated person" of a portfolio company if it owns 5% or more of the portfolio company's voting securities and generally is deemed to "control" a portfolio company if it owns more than 25% of the portfolio company's voting securities or it has the power to exercise control over the management or policies of such portfolio company. As of December 31, 2016, the Company held investments in portfolio companies of which it is deemed to be an "affiliated person" but is not deemed to "control". The following table presents certain information with respect to such portfolio companies for the year ended December 31, 2016:

Portfolio Company	Fair Value at December 31, 2015	Purchases, Paid-in-Kind Interest and Other	Sales, Repayments and Other	Accretion of Discount	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)	Fair Value at December 31, 2016	Interest Income	Fee Income
Senior Secured Loans—First Lien									
Altus Power America, Inc.	—	$ 88,820	$ (16,875)	—	—	$ 1,349	$ 73,294	$ 5,835	—
Sunnova Asset Portfolio 5 Holdings, LLC	—	$258,383	$(114,519)	$1,991	$566	$ 4,727	$151,148	$21,050	$7,356
Warren Resources, Inc.	—	$ 78,437	—	—	—	—	$ 78,437	$11,477	$ 335
Senior Secured Loans—Second Lien									
Titan Energy Operating, LLC	—	$ 85,609	—	$1,525	—	$ (1,707)	$ 85,427	$ 5,685	—
Senior Secured Bonds									
FourPoint Energy, LLC	$222,069	—	$ (55,688)	$1,535	—	$ 72,793	$240,709	$24,737	—
Ridgeback Resources Inc.	—	$ 3,809	—	—	—	$ 78	$ 3,887	$ 12	—
Equity/Other									
Altus Power America Holdings, LLC, Common Equity	—	$ 12,474	—	—	—	—	$ 12,474	—	—
Altus Power America Holdings, LLC, Preferred Equity	—	$ 23,982	—	—	—	—	$ 23,982	$ 1,554	—
FourPoint Energy, LLC, Common Equity, Class C-II-A Units	$ 46,200	—	—	—	—	$(14,355)	$ 31,845	—	—
FourPoint Energy, LLC, Common Equity, Class D Units	$ 8,724	—	—	—	—	$ (2,692)	$ 6,032	—	—
FourPoint Energy, LLC, Common Equity, Class E-II Units	—	$ 68,672	—	—	—	$ 56,998	$125,670	—	—
FourPoint Energy, LLC, Common Equity, Class E-III Units	—	$ 55,688	—	—	—	$ 51,789	$107,477	—	—
Ridgeback Resources Inc., Common Equity	—	$ 58,985	—	—	—	—	$ 58,985	—	—
Sunnova Energy Corp., Common Equity	—	$ 25,026	—	—	—	$ 11,178	$ 36,204	—	—
Sunnova Energy Corp., Preferred Equity	—	$ 46,196	$ (43,122)	—	$ 6	$ 61	$ 3,141	—	—
Titan Energy, LLC, Common Equity	—	$ 17,554	—	—	—	$ (4,222)	$ 13,332	—	—
Warren Resources, Inc., Common Equity	—	$ 20,754	—	—	—	$ (1,766)	$ 18,988	—	—

(q) Security held within FSEP Investments, Inc., a wholly-owned subsidiary of Foxfields Funding LLC.
(r) Security is non-income producing.
(s) Security is held within EP Altus Investments, LLC, a wholly-owned subsidiary of the Company.
(t) Security held within EP American Energy Investments, Inc., a wholly-owned subsidiary of the Company.
(u) Security held within FSEP-BBH, Inc., a wholly-owned subsidiary of the Company.
(v) Security held within EP Burnett Investments, Inc., a wholly-owned subsidiary of the Company.
(w) Investment denominated in Canadian dollars. Amortized cost and fair value are converted into U.S. dollars as of December 31, 2016.
(x) Investment denominated in British pounds. Amortized cost and fair value are converted into U.S. dollars as of December 31, 2016.
(y) Security held within EP Synergy Investments, Inc., a wholly-owned subsidiary of Foxfields Funding LLC.
(z) Security was on non-accrual status as of December 31, 2016.

See notes to consolidated financial statements.

(aa) Under the 1940 Act, the Company generally is deemed to "control" a portfolio company if it owns more than 25% of the portfolio company's voting securities or it has the power to exercise control over the management or policies of such portfolio company. As of December 31, 2016, the Company held an investment in one portfolio company of which it is deemed to be an "affiliated person" of and deemed to "control". The following table presents certain information with respect to investments in portfolio companies of which the Company was deemed to be an "affiliated person" of and deemed to "control" for the year ended December 31, 2016:

Portfolio Company	Fair Value at December 31, 2015	Purchases, Paid-in-Kind Interest and Other	Sales, Repayments and Other	Accretion of Discount	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)	Fair Value at December 31, 2016	Interest Income	Fee Income
Senior Secured Loans—First Lien									
Lusk Operating LLC	—	$17,414	—	—	—	$(16,383)	$1,031	—	—
Senior Secured Bonds									
Sunnova Asset Portfolio 5 Holdings, LLC	$244,349	—	$(244,349)	—	—	—	—	—	—
Equity/Other									
Lusk Operating LLC, Common Equity	—	—	—	—	—	—	—	—	—
Sunnova Holdings, LLC, Common Equity	$ 29,561	—	$ (29,561)	—	—	—	—	—	—

(bb) Position or portion thereof unsettled as of December 31, 2016.
(cc) Security held within FS Energy Investments, LLC, a wholly-owned subsidiary of the Company.

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FS Energy and Power Fund

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Portfolio Company[(a)]	Footnotes	Industry	Rate[(b)]	Floor	Maturity	Principal Amount[(c)]	Amortized Cost	Fair Value[(d)]
Senior Secured Loans—First Lien—38.5%								
Abaco Energy Technologies LLC	(g)(i)(j)	Service & Equipment	L+700	1.0%	11/20/20	$ 60,938	$ 57,911	$ 31,383
Allied Wireline Services, LLC	(g)(i)(j)(k)	Service & Equipment	L+400, 5.5% PIK (5.5% Max PIK)	1.5%	2/28/19	103,061	101,930	96,234
Alon USA Partners, L.P.	(g)(i)(l)	Downstream	L+800	1.3%	11/26/18	7,158	7,342	7,140
Altus Power America, Inc.	(j)	Power	L+750	1.5%	10/10/21	46,555	46,555	46,090
Altus Power America, Inc.	(e)	Power	L+750	1.5%	10/10/21	37,820	37,820	37,441
AP Exhaust Acquisition, LLC	(g)	Service & Equipment	L+775	1.5%	1/16/21	15,811	15,811	14,842
BBH Operating LLC		Upstream	Prime+500 PIK (8.25% Max PIK)	3.3%	2/26/16	24,441	24,441	17,719
BBH Operating LLC	(e)	Upstream	Prime+500 PIK (8.25% Max PIK)	3.3%	2/26/16	5,559	5,559	4,031
BL Sand Hills Unit, L.P.		Upstream	Prime+650	3.5%	12/17/17	36,626	31,807	34,016
BL Sand Hills Unit, L.P.	(e)	Upstream	Prime+650	3.5%	12/17/17	19,367	16,819	17,987
Cactus Wellhead, LLC	(g)(i)(j)	Service & Equipment	L+600	1.0%	7/31/20	51,844	51,012	37,457
Cimarron Energy Inc.	(g)	Service & Equipment	L+775, 0.0% PIK (3.75% Max PIK)	1.0%	12/15/19	24,250	24,250	24,129
Crestwood Holdings LLC	(f)(g)(j)	Midstream	L+600	1.0%	6/19/19	30,565	30,689	19,816
EnergySolutions, LLC	(i)(j)	Service & Equipment	L+575	1.0%	5/29/20	20,462	20,150	18,211
EP Acquisition LLC	(q)(y)	Upstream	Prime+500 PIK (8.25% Max PIK)	3.3%	2/26/16	525	525	—
Industrial Group Intermediate Holdings, LLC	(i)	Service & Equipment	L+800	1.3%	5/31/20	14,951	14,951	14,801
MB Precision Holdings LLC	(g)	Service & Equipment	L+725	1.3%	1/23/20	12,855	12,855	12,726
Moxie Liberty LLC	(g)(j)	Power	L+650	1.0%	8/21/20	32,432	32,540	30,162
Panda Sherman Power, LLC	(g)(j)	Power	L+750	1.5%	9/14/18	22,643	22,937	20,492
Panda Temple Power, LLC	(j)	Power	L+625	1.0%	3/6/22	9,925	9,747	8,188
Panda Temple Power II, LLC	(g)(j)	Power	L+600	1.3%	4/3/19	27,809	28,132	24,750
ProPetro Services, Inc.	(i)	Service & Equipment	L+625	1.0%	9/30/19	11,612	11,599	7,838
Stallion Oilfield Holdings, Inc.	(g)(i)(j)	Service & Equipment	L+675	1.3%	6/19/18	45,025	45,045	24,404
Stonewall Gas Gathering LLC	(j)	Midstream	L+775	1.0%	1/28/22	26,794	25,803	26,727
Sunnova Asset Portfolio 5 Holdings, LLC	(j)(z)	Power	12.0% PIK (12.0% Max PIK)		11/14/21	250,138	245,363	244,510
Sunnova Asset Portfolio 5 Holdings, LLC	(e)(z)	Power	12.0% PIK (12.0% Max PIK)		11/14/21	7,167	7,167	7,006
Swift Worldwide Resources US Holdings Corp.	(g)(j)	Service & Equipment	L+800	1.3%	4/30/19	59,057	59,057	59,057
UTEX Industries, Inc.	(f)	Service & Equipment	L+400	1.0%	5/21/21	4,485	3,443	3,091
Warren Resources, Inc.	(k)	Upstream	L+850	1.0%	5/22/20	131,175	131,175	106,907
Total Senior Secured Loans—First Lien							1,122,435	997,155
Unfunded Loan Commitments							(67,365)	(67,365)
Net Senior Secured Loans—First Lien							1,055,070	929,790

See notes to consolidated financial statements.

FS Energy and Power Fund

Consolidated Schedule of Investments (Continued)
As of December 31, 2015
(in thousands, except share amounts)

Portfolio Company[(a)]	Footnotes	Industry	Rate[(b)]	Floor	Maturity	Principal Amount[(c)]	Amortized Cost	Fair Value[(d)]
Senior Secured Loans—Second Lien—38.2%								
Alison US LLC	(f)(j)(l)	Service & Equipment	L+850	1.0%	8/29/22	$ 17,222	$ 16,641	$ 13,993
American Energy—Marcellus, LLC		Upstream	L+750	1.0%	8/4/21	10,000	9,874	233
Ameriforge Group Inc.	(f)(g)	Service & Equipment	L+750	1.3%	12/21/20	35,950	36,433	2,831
AP Exhaust Acquisition, LLC		Service & Equipment	12.0%, 0.0% PIK (12.0% Max PIK)		9/28/21	3,243	3,243	2,959
Arena Energy, LP	(i)(k)	Upstream	L+1000	1.0%	1/24/21	65,000	65,000	59,854
Ascent Resources—Utica, LLC	(g)(j)(k)	Upstream	L+950, 2.0% PIK (2.0% Max PIK)	1.5%	9/30/18	280,735	279,572	251,258
Atlas Resource Partners, L.P.	(i)(k)	Upstream	L+900	1.0%	2/23/20	100,000	97,489	79,986
BlackBrush Oil & Gas, L.P.	(f)(i)	Upstream	L+650	1.0%	7/30/21	31,519	30,708	25,268
Brock Holdings III, Inc.	(f)(g)(j)	Service & Equipment	L+825	1.8%	3/16/18	29,605	29,766	22,796
Chief Exploration & Development LLC	(f)(i)	Upstream	L+650	1.0%	5/16/21	19,576	19,504	13,143
Consolidated Precision Products Corp.	(g)(j)	Service & Equipment	L+775	1.0%	4/30/21	11,574	11,529	10,532
Emerald Performance Materials, LLC	(j)	Downstream	L+675	1.0%	8/1/22	5,319	5,296	5,055
Extraction Oil & Gas Holdings, LLC	(i)(j)	Upstream	11.0%		5/29/19	74,186	74,186	74,650
Extraction Oil & Gas Holdings, LLC	(i)(j)	Upstream	10.0%		5/29/19	32,462	32,462	32,259
Fieldwood Energy LLC	(f)(i)	Upstream	L+713	1.3%	9/30/20	41,047	41,951	6,547
Granite Intermediate Holdings, Inc.	(f)	Power	L+725	1.0%	10/15/22	13,150	13,047	10,257
Gruden Acquisition, Inc.	(j)	Service & Equipment	L+850	1.0%	8/18/23	15,000	14,281	14,288
Horn Intermediate Holdings, Inc.	(g)	Service & Equipment	L+775	1.3%	10/2/18	50,250	50,250	49,496
Jonah Energy LLC	(i)(j)	Upstream	L+650	1.0%	5/12/21	25,133	24,821	15,960
MD America Energy, LLC	(f)(g)(j)	Upstream	L+850	1.0%	8/4/19	41,612	40,121	34,815
Neff Rental LLC	(j)	Service & Equipment	L+625	1.0%	6/9/21	15,145	15,182	12,570
Oxbow Carbon LLC	(g)	Midstream	L+700	1.0%	1/19/20	15,000	14,904	12,631
P2 Upstream Acquisition Co.	(g)(j)	Service & Equipment	L+800	1.0%	4/30/21	32,599	32,862	27,302
Templar Energy LLC	(f)(g)(i)	Upstream	L+750	1.0%	11/25/20	89,923	88,451	10,903
Total Safety U.S., Inc.	(f)(g)(j)	Service & Equipment	L+800	1.3%	9/13/20	14,795	14,978	8,335
UTEX Industries, Inc.	(f)(j)	Service & Equipment	L+725	1.0%	5/20/22	36,192	36,232	23,706
Vantage Energy, LLC	(i)(j)	Upstream	L+750	1.0%	12/20/18	30,078	29,933	19,325
Vantage Energy II, LLC	(i)(j)	Upstream	L+750	1.0%	5/8/17	85,000	85,000	82,450
Total Senior Secured Loans—Second Lien							1,213,716	923,402

See notes to consolidated financial statements.

FS Energy and Power Fund

Consolidated Schedule of Investments (Continued)
As of December 31, 2015
(in thousands, except share amounts)

Portfolio Company[a]	Footnotes	Industry	Rate[b]	Floor	Maturity	Principal Amount[c]	Amortized Cost	Fair Value[d]
Senior Secured Bonds—13.4%								
American Energy—Woodford, LLC	(h)(q)(y)	Upstream	12.0% PIK (12.0% Max PIK)		12/30/20	$ 7,806	$ 5,662	$ 1,112
FourPoint Energy, LLC	(j)(k)(o)	Upstream	8.0%		12/31/20	290,813	282,012	226,107
FourPoint Energy, LLC	(e)(o)	Upstream	8.0%		12/31/20	18,563	18,470	14,432
Gastar Exploration USA, Inc.	(h)	Upstream	8.6%		5/15/18	5,690	5,393	2,902
Light Tower Rentals, Inc.	(h)(n)	Service & Equipment	8.1%		8/1/19	17,500	17,313	8,947
Lightstream Resources Ltd.	(k)(l)	Upstream	9.9%		6/15/19	62,400	62,400	52,104
Mirant Mid-Atlantic Trust	(f)(h)(n)	Power	10.1%		12/30/28	23,344	26,097	22,556
SandRidge Energy, Inc.	(h)(n)	Upstream	8.8%		6/1/20	46,700	46,598	14,258
Total Senior Secured Bonds							463,945	342,418
Unfunded Bond Commitment							(18,470)	(18,470)
Net Senior Secured Bonds							445,475	323,948
Subordinated Debt—24.0%								
Alta Mesa Holdings, LP	(h)(n)	Upstream	9.6%		10/15/18	18,451	18,376	6,481
Archrock Partners, L.P.	(h)(l)	Midstream	6.0%		4/1/21	3,055	2,625	2,452
Archrock Partners, L.P.	(h)(l)	Midstream	6.0%		10/1/22	10,533	8,858	8,124
Atlas Energy Holdings Operating Co., LLC	(h)	Upstream	7.8%		1/15/21	28,285	25,869	5,648
Atlas Energy Holdings Operating Co., LLC	(h)	Upstream	9.3%		8/15/21	24,460	23,574	5,022
Bellatrix Exploration Ltd.	(f)(h)(l)	Upstream	8.5%		5/15/20	45,590	44,731	30,716
Brand Energy & Infrastructure Services, Inc.	(f)(h)	Service & Equipment	8.5%		12/1/21	27,500	27,261	23,684
Calpine Corp.	(f)(l)	Power	5.8%		1/15/25	5,100	5,093	4,501
Canbriam Energy Inc.	(h)(j)(l)	Upstream	9.8%		11/15/19	115,200	111,556	104,256
Chaparral Energy Inc.	(h)(n)	Upstream	7.6%		11/15/22	15,225	16,150	3,191
Compressco Partners, LP	(f)(h)(l)	Service & Equipment	7.3%		8/15/22	20,050	19,889	14,862
Crestwood Equity Partners L.P.	(f)(l)	Midstream	6.1%		3/1/22	5,500	5,500	3,827
Dynegy Finance I/II Inc.	(f)(l)	Power	7.6%		11/1/24	17,080	16,654	14,603
Eclipse Resources Corp.	(h)(l)	Upstream	8.9%		7/15/23	27,500	26,949	13,234
EV Energy Partners, L.P.	(h)(n)	Upstream	8.0%		4/15/19	25,560	21,221	12,716
Everest Acquisition LLC	(f)(l)	Upstream	9.4%		5/1/20	14,250	14,250	9,054
Genesis Energy, L.P.	(f)(l)	Midstream	6.8%		8/1/22	12,100	11,688	10,179
GenOn Energy, Inc.	(f)(h)(n)	Power	9.9%		10/15/20	42,698	44,669	31,383
GenOn Energy, Inc.	(h)	Power	7.9%		6/15/17	5,000	4,795	4,371
Global Jet Capital Inc.		Service & Equipment	15.0% PIK (15.0% Max PIK)		1/30/25	635	635	635
Global Jet Capital Inc.		Service & Equipment	15.0% PIK (15.0% Max PIK)		4/30/25	4,030	4,030	4,030
Global Jet Capital Inc.		Service & Equipment	15.0% PIK (15.0% Max PIK)		9/3/25	828	828	828
Global Jet Capital Inc.		Service & Equipment	15.0% PIK (15.0% Max PIK)		9/29/25	779	779	779

See notes to consolidated financial statements.

FS Energy and Power Fund

Consolidated Schedule of Investments (Continued)
As of December 31, 2015
(in thousands, except share amounts)

Portfolio Company[(a)]	Footnotes	Industry	Rate[(b)]	Floor	Maturity	Principal Amount[(c)]	Amortized Cost	Fair Value[(d)]
Global Partners L.P.	(f)(h)(l)(n)	Midstream	6.3%		7/15/22	$ 68,350	$ 68,350	$ 54,424
Jones Energy, Inc.	(h)(n)	Upstream	6.8%		4/1/22	8,000	8,000	4,345
Jupiter Resources Inc.	(h)(l)	Upstream	8.5%		10/1/22	71,125	67,291	28,539
Kenan Advantage Group, Inc.	(f)	Service & Equipment	7.9%		7/31/23	11,970	11,970	11,820
Legacy Reserves LP	(h)	Upstream	8.0%		12/1/20	16,750	16,499	3,371
Legacy Reserves LP	(h)	Upstream	6.6%		12/1/21	14,000	13,847	3,028
Lonestar Resources America Inc.	(h)(n)	Upstream	8.8%		4/15/19	21,500	21,591	13,231
Martin Midstream Partners L.P.	(f)(l)	Midstream	7.3%		2/15/21	15,658	16,144	13,877
Memorial Production Partners L.P.	(h)	Upstream	6.9%		8/1/22	12,250	12,059	3,690
ONEOK, Inc.	(f)(h)(l)(n)	Midstream	7.5%		9/1/23	28,000	26,771	23,363
Seven Generations Energy Ltd.	(f)(l)	Upstream	6.8%		5/1/23	6,150	5,612	5,220
Talos Production LLC	(f)(h)(n)	Upstream	9.8%		2/15/18	43,250	43,258	17,841
Tenrgys, LLC	(i)(j)	Upstream	L+900	2.5%	12/23/18	75,000	75,000	64,875
Whiting Petroleum Corp.	(f)(l)	Upstream	5.0%		3/15/19	4,685	4,124	3,562
Zachry Holdings, Inc.	(f)	Service & Equipment	7.5%		2/1/20	14,300	14,376	13,978
Total Subordinated Debt							860,872	579,740

See notes to consolidated financial statements.

FS Energy and Power Fund

Consolidated Schedule of Investments (Continued)
As of December 31, 2015
(in thousands, except share amounts)

Portfolio Company[(a)]	Footnotes	Industry	Number of Shares	Amortized Cost	Fair Value[(d)]
Equity/Other—12.9%[(m)]					
Abaco Energy Technologies LLC, Common Equity	(q)	Service & Equipment	6,944,444	$ 6,944	$ 1,042
Allied Downhole Technologies, LLC, Common Equity	(k)(p)(q)	Service & Equipment	6,600,000	6,600	4,950
Allied Downhole Technologies, LLC, Warrants, 2/28/2019	(k)(p)(q)	Service & Equipment	5,344,680	1,865	4,009
Altus Power America Holdings, LLC, Preferred Equity		Power	15,518,478	15,464	28,709
Altus Power America Management, LLC, Class B Units	(q)(r)	Power	2,250	—	—
AP Exhaust Holdings, LLC, Common Equity	(k)(p)(q)	Service & Equipment	811	811	405
Ascent Resources Utica Holdings, LLC, Common Equity	(q)(s)	Upstream	15,657,194	14,900	3,131
BBH Operating LLC, Common Equity	(q)(t)	Upstream	1,000	1,000	—
BL Sand Hills Unit, L.P., Net Profits Interest	(q)(u)	Upstream	N/A	4,677	5,966
BL Sand Hills Unit, L.P., Overriding Royalty Interest	(u)	Upstream	N/A	668	227
Cimarron Energy Holdco Inc., Common Equity	(q)	Service & Equipment	2,500,000	2,500	1,750
Extraction Oil & Gas Holdings, LLC, Common Equity	(k)(p)(q)	Upstream	4,191,800	11,250	15,090
Fortune Creek Co-Invest I L.P., LP Interest	(l)(q)(v)(y)	Midstream	N/A	16,697	3,281
FourPoint Energy, LLC, Common Equity, Class C Units	(k)(o)(p)(q)	Upstream	66,000	66,000	46,200
FourPoint Energy, LLC, Common Equity, Class D Units	(k)(o)(p)(q)	Upstream	12,374	8,176	8,724
Global Jet Capital Holdings, LP, Preferred Equity	(q)	Service & Equipment	2,448,883	2,449	2,449
Industrial Group Intermediate Holdings, LLC, Common Equity	(k)(p)(q)	Service & Equipment	371,901	372	614
MB Precision Investment Holdings LLC, Class A-2 Units	(q)	Service & Equipment	490,213	490	466
Plains Offshore Operations Inc., Preferred Equity	(f)	Upstream	21,067	26,321	25,869
Plains Offshore Operations Inc., Warrants, 11/18/2019	(f)(q)	Upstream	427,005	689	—
Summit Midstream Partners, LLC, Preferred Equity		Midstream	39,163	39,163	37,205
Sunnova Holdings, LLC, Common Equity	(q)(z)	Power	1,074,951	25,026	29,561
Swift Worldwide Resources Holdco Limited, Common Equity	(l)(q)(w)	Service & Equipment	3,750,000	6,029	3,870
Synergy Offshore LLC, Preferred Equity	(k)(x)	Upstream	50,000	61,183	89,100
Total Equity/Other				319,274	312,618
TOTAL INVESTMENTS—127.0%				$3,894,407	3,069,498
LIABILITIES IN EXCESS OF OTHER ASSETS—(27.0%)					(651,637)
NET ASSETS—100.0%					$2,417,861

See notes to consolidated financial statements.

(a) Security may be an obligation of one or more entities affiliated with the named company.
(b) Certain variable rate securities in the Company's portfolio bear interest at a rate determined by a publicly disclosed base rate plus a basis point spread. As of December 31, 2015, the three-month London Interbank Offered Rate was 0.61% and the U.S. Prime Lending Rate was 3.50%.
(c) Denominated in U.S. dollars, unless otherwise noted.
(d) Fair value determined by the Company's board of trustees (see Note 7).
(e) Security is an unfunded commitment.
(f) Security or portion thereof held within FSEP Term Funding, LLC and is pledged as collateral supporting the amounts outstanding under the revolving credit facility with Deutsche Bank AG, New York Branch (see Note 8).
(g) Security or portion thereof held within Energy Funding LLC and is pledged as collateral supporting the amounts outstanding under the revolving credit facility with Natixis, New York Branch (see Note 8).
(h) Security or portion thereof held within Berwyn Funding LLC and is pledged as collateral supporting the amounts outstanding under the prime brokerage facility with BNP Paribas Prime Brokerage, Inc., or BNP. Securities held within Berwyn Funding LLC may be rehypothecated from time to time as permitted under Rule 15c-1(a)(1) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, subject to the terms and conditions governing the prime brokerage facility with BNP (see Note 8).
(i) Security or portion thereof held within Wayne Funding LLC and is pledged as collateral supporting the amounts outstanding under the revolving credit facility with Wells Fargo Securities, LLC (see Note 8).
(j) Security or portion thereof held within Gladwyne Funding LLC and is pledged as collateral supporting the obligations outstanding under the repurchase transaction with Goldman Sachs Bank USA (see Note 8).
(k) Security or portion thereof held within Foxfields Funding LLC and is pledged as collateral supporting the obligations outstanding under the term loan facility with Fortress Credit Co LLC (see Note 8).
(l) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended, or the 1940 Act. A business development company may not acquire any asset other than a qualifying asset, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the business development company's total assets. As of December 31, 2015, 87.8% of the Company's total assets represented qualifying assets.
(m) Listed investments may be treated as debt for U.S. generally accepted accounting principles, or GAAP, or tax purposes.
(n) Security or portion thereof held within Berwyn Funding LLC has been rehypothecated under Rule 15c-1(a)(1) of the Exchange Act, subject to the terms and conditions governing the prime brokerage facility with BNP (see Note 8). As of December 31, 2015, the fair value of securities rehypothecated by BNP was $108,340.
(o) Under the 1940 Act, the Company generally is deemed to be an "affiliated person" of a portfolio company if it owns 5% or more of the portfolio company's voting securities. As of December 31, 2015, the Company held investments in a portfolio company of which it is deemed to be an "affiliated person" but is not deemed to "control." The following table presents certain information with respect to such portfolio company for the year ended December 31, 2015:

Portfolio Company	Purchases	Sales and Repayments	Interest Income	Fee Income	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
Senior Secured Bonds						
FourPoint Energy, LLC	$67,722	—	$21,503	$681	—	$(32,843)
Equity/Other						
FourPoint Energy, LLC, Common Equity, Class C Units	—	—	—	—	—	$(37,950)
FourPoint Energy, LLC, Common Equity, Class D Units	—	—	—	—	—	$ (7,177)

See notes to consolidated financial statements.

(p) Security held within FSEP Investments, Inc., a wholly-owned subsidiary of Foxfields Funding LLC.
(q) Security is non-income producing.
(r) Security is held within EP Altus Investments, LLC, a wholly-owned subsidiary of the Company.
(s) Security held within EP American Energy Investments, Inc., a wholly-owned subsidiary of the Company.
(t) Security held within FSEP-BBH, Inc., a wholly-owned subsidiary of the Company.
(u) Security held within EP Burnett Investments, Inc., a wholly-owned subsidiary of the Company.
(v) Investment denominated in Canadian dollars. Amortized cost and fair value are converted into U.S. dollars as of December 31, 2015.
(w) Investment denominated in British pounds. Amortized cost and fair value are converted into U.S. dollars as of December 31, 2015.
(x) Security held within EP Synergy Investments, Inc., a wholly-owned subsidiary of Foxfields Funding LLC.
(y) Security was on non-accrual as of December 31, 2015.
(z) Under the 1940 Act, the Company generally is deemed to "control" a portfolio company if it owns 25% or more of the portfolio company's voting securities or it has the power to exercise control over the management or policies of a portfolio company. As of December 31, 2015, the Company held investments in a portfolio company of which it is deemed to be an "affiliated person" and is also deemed to "control." The following table presents certain information with respect to such portfolio company for the year ended December 31, 2015:

Portfolio Company	Purchases	Sales and Repayments	Interest Income	Fee Income	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
Senior Secured Loans—First Lien						
Sunnova Asset Portfolio 5 Holdings, LLC	$187,636	—	$19,950	$2,162	—	$(1,014)
Equity/Other						
Sunnova Holdings, LLC, Common Equity	$ 25,026	—	—	$6,523	—	$ 4,535

See notes to consolidated financial statements.

Note 1. Principal Business and Organization

FS Energy and Power Fund, or the Company, was formed as a Delaware statutory trust under the Delaware Statutory Trust Act on September 16, 2010 and formally commenced investment operations on July 18, 2011 upon raising gross proceeds in excess of $2,500, or the minimum offering requirement, from sales of its common shares of beneficial interest, or common shares, in its continuous public offering to persons who were not affiliated with the Company or the Company's investment adviser, FS Investment Advisor, LLC, or FS Advisor, a private investment firm that is registered as an investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act, and an affiliate of the Company.

The Company has elected to be regulated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act. The Company is an externally managed, non-diversified, closed-end management investment company that has elected to be treated for U.S. federal income tax purposes, and intends to qualify annually, as a regulated investment company, or RIC, as defined under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code. As of December 31, 2016, the Company had eight wholly-owned financing subsidiaries, seven wholly-owned subsidiaries through which it holds interests in certain portfolio companies and two wholly-owned subsidiaries through which it expects to hold interests in certain portfolio companies. The audited consolidated financial statements include both the Company's accounts and the accounts of its wholly-owned subsidiaries as of December 31, 2016. All significant intercompany transactions have been eliminated in consolidation. Certain of the Company's consolidated subsidiaries are subject to U.S. federal and state income taxes.

The Company's investment objective is to generate current income and long-term capital appreciation by investing primarily in privately-held U.S. companies in the energy and power industry. The Company's investment policy is to invest, under normal circumstances, at least 80% of its total assets in securities of energy and power related, or Energy, companies. The Company considers Energy companies to be those companies that engage in the exploration, development, production, gathering, transportation, processing, storage, refining, distribution, mining, generation or marketing of natural gas, natural gas liquids, crude oil, refined products, coal or power, including those companies that provide equipment or services to companies engaged in any of the foregoing.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying audited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The Company is considered an investment company under GAAP and follows the accounting and reporting guidance applicable to investment companies under Accounting Standards Update No. 2013-08, *Financial Services—Investment Companies*. The Company has evaluated the impact of subsequent events through the date the consolidated financial statements were issued and filed with the Securities and Exchange Commission, or the SEC.

Use of Estimates: The preparation of the audited consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Many of the amounts have been rounded, and all amounts are in thousands, except share and per share amounts.

Cash and Cash Equivalents: The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company's cash and cash equivalents are

Note 2. Summary of Significant Accounting Policies (Continued)

maintained with high credit quality financial institutions, which are members of the Federal Deposit Insurance Corporation.

Valuation of Portfolio Investments: The Company determines the net asset value of its investment portfolio each quarter. Securities are valued at fair value as determined in good faith by the Company's board of trustees. In connection with that determination, FS Advisor provides the Company's board of trustees with portfolio company valuations which are based on relevant inputs, including, but not limited to, indicative dealer quotes, values of like securities, recent portfolio company financial statements and forecasts, and valuations prepared by independent third-party valuation services.

Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosure*, or ASC Topic 820, issued by the Financial Accounting Standards Board, or the FASB, clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. ASC Topic 820 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, which includes inputs such as quoted prices for similar securities in active markets and quoted prices for identical securities where there is little or no activity in the market; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

With respect to investments for which market quotations are not readily available, the Company undertakes a multi-step valuation process each quarter, as described below:

- the Company's quarterly fair valuation process begins with FS Advisor's management team reviewing and documenting preliminary valuations of each portfolio company or investment, which valuations may be obtained from an independent third-party valuation service, if applicable;
- FS Advisor's management team then provides the valuation committee with the preliminary valuations for each portfolio company or investment;
- preliminary valuations are then discussed with the valuation committee;
- the valuation committee reviews the preliminary valuations and FS Advisor's management team, together with its independent third-party valuation services, if applicable, supplements the preliminary valuations to reflect any comments provided by the valuation committee;
- following its review, the valuation committee will recommend that the Company's board of trustees approve its fair valuations; and
- the Company's board of trustees discusses the valuations and determines the fair value of each investment in the Company's portfolio in good faith based on various statistical and other factors, including the input and recommendation of FS Advisor, the valuation committee and any independent third-party valuation services, if applicable.

Determination of fair value involves subjective judgments and estimates. Accordingly, the notes to the Company's consolidated financial statements refer to the uncertainty with respect to the possible effect of such valuations and any change in such valuations on the Company's consolidated financial statements. In making its determination of fair value, the Company's board of trustees may use any approved independent third-party pricing or valuation services. However, the Company's board of trustees is not required to determine fair value in accordance with the valuation provided by any single

Note 2. Summary of Significant Accounting Policies (Continued)

source, and may use any relevant data, including information obtained from FS Advisor or any approved independent third-party valuation or pricing service that it deems to be reliable in determining fair value under the circumstances. Below is a description of factors that FS Advisor's management team, any approved independent third-party valuation services and the Company's board of trustees may consider when determining the fair value of its investments.

Valuation of fixed income investments, such as loans and debt securities, depends upon a number of factors, including prevailing interest rates for like securities, expected volatility in future interest rates, call features, put features and other relevant terms of the debt. For investments without readily available market prices, the Company may incorporate these factors into discounted cash flow models to arrive at fair value. Other factors that may be considered include the borrower's ability to adequately service its debt, the fair market value of the portfolio company in relation to the face amount of its outstanding debt and the quality of collateral securing its debt investments.

For convertible debt securities, fair value generally approximates the fair value of the debt plus the fair value of an option to purchase the underlying security (i.e., the security into which the debt may convert) at the conversion price. To value such an option, a standard option pricing model may be used.

The Company's equity interests in portfolio companies for which there is no liquid public market are valued at fair value. The Company's board of trustees, in its determination of fair value, may consider various factors, such as multiples of earnings before interest, taxes, depreciation and amortization, or EBITDA, cash flows, net income, revenues or, in limited instances, book value or liquidation value. All of these factors may be subject to adjustments based upon the particular circumstances of a portfolio company or the Company's actual investment position. For example, adjustments to EBITDA may take into account compensation to previous owners or acquisition, recapitalization, restructuring or other related items.

FS Advisor's management team, any approved independent third-party valuation services and the Company's board of trustees may also consider private merger and acquisition statistics, public trading multiples discounted for illiquidity and other factors, valuations implied by third-party investments in the portfolio companies or industry practices in determining fair value. FS Advisor's management team, any approved independent third-party valuation services and the Company's board of trustees may also consider the size and scope of a portfolio company and its specific strengths and weaknesses, and may apply discounts or premiums, where and as appropriate, due to the higher (or lower) financial risk and/or the smaller size of portfolio companies relative to comparable firms, as well as such other factors as its board of trustees, in consultation with FS Advisor's management team and any approved independent third-party valuation services, if applicable, may consider relevant in assessing fair value. Generally, the value of the Company's equity interests in public companies for which market quotations are readily available is based upon the most recent closing public market price. Portfolio securities that carry certain restrictions on sale are typically valued at a discount from the public market value of the security.

When the Company receives warrants or other equity securities at nominal or no additional cost in connection with an investment in a debt security, the cost basis in the investment will be allocated between the debt securities and any such warrants or other equity securities received at the time of origination. The Company's board of trustees subsequently values these warrants or other equity securities received at their fair value.

The fair values of the Company's investments are determined in good faith by its board of trustees. The Company's board of trustees is solely responsible for the valuation of the Company's portfolio investments at fair value as determined in good faith pursuant to the Company's valuation policy and

Note 2. Summary of Significant Accounting Policies (Continued)

consistently applied valuation process. The Company's board of trustees has delegated day-to-day responsibility for implementing its valuation policy to FS Advisor's management team, and has authorized FS Advisor's management team to utilize independent third-party valuation and pricing services that have been approved by its board of trustees. The valuation committee is responsible for overseeing FS Advisor's implementation of the valuation policy.

Revenue Recognition: Security transactions are accounted for on the trade date. The Company records interest income on an accrual basis to the extent that it expects to collect such amounts. The Company records dividend income on the ex-dividend date. The Company does not accrue as a receivable interest or dividends on loans and securities if it has reason to doubt its ability to collect such income. The Company's policy is to place investments on non-accrual status when there is reasonable doubt that interest income will be collected. The Company considers many factors relevant to an investment when placing it on or removing it from non-accrual status including, but not limited to, the delinquency status of the investment, economic and business conditions, the overall financial condition of the underlying investment, the value of the underlying collateral, bankruptcy status, if any, and any other facts or circumstances relevant to the investment. If there is reasonable doubt that the Company will receive any previously accrued interest, then the previously recognized interest income will be written-off. Payments received on non-accrual investments may be recognized as income or applied to principal depending upon the collectability of the remaining principal and interest. Non-accrual investments may be restored to accrual status when principal and interest payments become current and are likely to remain current based on the Company's judgment.

Loan origination fees, original issue discount and market discount are capitalized and the Company amortizes such amounts as interest income over the respective term of the loan or security. Upon the prepayment of a loan or security, any unamortized loan origination fees and original issue discount are recorded as interest income. Structuring and other non-recurring upfront fees are recorded as fee income when earned. The Company records prepayment premiums on loans and securities as fee income when it receives such amounts.

Net Realized Gains or Losses, Net Change in Unrealized Appreciation or Depreciation and Net Change in Unrealized Gains or Losses on Foreign Currency: Gains or losses on the sale of investments are calculated by using the specific identification method. The Company measures realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized fees. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized gains or losses when gains or losses are realized and the respective unrealized gain or loss on foreign currency for any foreign denominated investments it may hold. Net change in unrealized gains or losses on foreign currency reflects the change in the value of foreign currency held, receivables or accruals during the reporting period due to the impact of foreign currency fluctuations.

Capital Gains Incentive Fee: The Company entered into an investment advisory and administrative services agreement with FS Advisor, dated as of April 28, 2011, which was amended on August 10, 2012, and which, as amended, is referred to herein as the investment advisory and administrative services agreement. Pursuant to the terms of the investment advisory and administrative services agreement, the incentive fee on capital gains is determined and payable in arrears as of the end of each calendar year (or upon termination of such agreement). Such fee equals 20.0% of the Company's incentive fee capital gains (i.e., the Company's realized capital gains on a cumulative basis from inception, calculated as of the end of the applicable period, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis), less the aggregate amount of any previously

Note 2. Summary of Significant Accounting Policies (Continued)

paid capital gains incentive fees. On a quarterly basis, the Company accrues for the capital gains incentive fee by calculating such fee as if it were due and payable as of the end of such period.

While the investment advisory and administrative services agreement with FS Advisor neither includes nor contemplates the inclusion of unrealized gains in the calculation of the capital gains incentive fee, pursuant to an interpretation of an American Institute of Certified Public Accountants Technical Practice Aid for investment companies, the Company includes unrealized gains in the calculation of the capital gains incentive fee expense and related accrued capital gains incentive fee. This accrual reflects the incentive fees that would be payable to FS Advisor as if the Company's entire portfolio was liquidated at its fair value as of the balance sheet date even though FS Advisor is not entitled to an incentive fee with respect to unrealized gains unless and until such gains are actually realized.

Subordinated Income Incentive Fee: Pursuant to the investment advisory and administrative services agreement, FS Advisor may also be entitled to receive a subordinated incentive fee on income. The subordinated incentive fee on income, which is calculated and payable quarterly in arrears, equals 20.0% of the Company's "pre-incentive fee net investment income" for the immediately preceding quarter and is subject to a hurdle rate, expressed as a rate of return on adjusted capital equal to 1.625% per quarter, or an annualized hurdle rate of 6.5%. As a result, FS Advisor does not earn this incentive fee for any quarter until the Company's pre-incentive fee net investment income for such quarter exceeds the hurdle rate of 1.625%. For purposes of this fee, "adjusted capital" means cumulative gross proceeds generated from sales of the Company's common shares (including proceeds from its distribution reinvestment plan) reduced for distributions from non-liquidating dispositions of the Company's investments paid to shareholders and amounts paid for share repurchases pursuant to the Company's share repurchase program. Once the Company's pre-incentive fee net investment income in any quarter exceeds the hurdle rate, FS Advisor is entitled to a "catch-up" fee equal to the amount of the pre-incentive fee net investment income in excess of the hurdle rate, until the Company's pre-incentive fee net investment income for such quarter equals 2.031%, or 8.125% annually, of adjusted capital. Thereafter, FS Advisor is entitled to receive 20.0% of pre-incentive fee net investment income.

Offering Costs: The Company's offering costs primarily include, among other things, marketing expenses and printing, legal and due diligence fees and other costs pertaining to the Company's continuous public offering of its common shares. Historically, the Company charged offering costs against capital in excess of par value on its consolidated balance sheets. Following discussions with the Staff of the Division of Investment Management of the SEC, the Company determined to change its accounting treatment of offering costs and defer and amortize such costs as an expense over twelve months. The Company evaluated this change in accounting treatment of offering costs, which it implemented effective January 1, 2016, and determined that it did not have a material impact on the Company's consolidated financial position, results of operations or cash flows. Following the closing of the Company's continuous public offering to new investors in November 2016, all deferred offering costs were expensed.

Income Taxes: The Company has elected to be treated for U.S. federal income tax purposes, and intends to qualify annually, as a RIC under Subchapter M of the Code. To maintain qualification as a RIC and maintain RIC tax treatment, the Company must, among other things, meet certain source-of-income and asset diversification requirements, as well as distribute to its shareholders, in respect of each tax year, dividends of an amount generally at least equal to 90% of its "investment company taxable income," which is generally the Company's net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses, determined without

Note 2. Summary of Significant Accounting Policies (Continued)

regarding to any deduction for dividends paid. As a RIC, the Company will not have to pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that it distributes as dividends to its shareholders. The Company intends to make distributions in an amount sufficient to qualify for and maintain its RIC tax treatment each tax year and to not pay any U.S. federal income taxes on income so distributed. The Company will also be subject to nondeductible U.S. federal excise taxes if it does not timely distribute dividends each calendar year of an amount at least equal to the sum of 98% of ordinary income (taking into account certain deferrals and elections) for the calendar year, 98.2% of any capital gain net income (adjusted for certain ordinary losses) for the one-year period ending on October 31 of such calendar year, and any recognized and undistributed ordinary income from prior years for which it paid no income taxes. Certain of the Company's consolidated subsidiaries are subject to U.S. federal and state income taxes. During the years ended December 31, 2016, 2015 and 2014, the Company accrued $209, $313 and $912, respectively, in estimated income and excise taxes payable in respect of income received.

Uncertainty in Income Taxes: The Company evaluates its tax positions to determine if the tax positions taken meet the minimum recognition threshold in connection with accounting for uncertainties in income tax positions taken or expected to be taken for the purposes of measuring and recognizing tax benefits or liabilities in the consolidated financial statements. Recognition of a tax benefit or liability with respect to an uncertain tax position is required only when the position is "more likely than not" to be sustained assuming examination by taxing authorities. The Company recognizes interest and penalties, if any, related to unrecognized tax liabilities as income tax expense in the consolidated statements of operations. During the years ended December 31, 2016, 2015 and 2014, the Company did not incur any interest or penalties.

The Company has analyzed the tax positions taken on federal and state income tax returns for all open tax years, and has concluded that no provision for income tax is required in the Company's financial statements. The Company's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

Distributions: Distributions to the Company's shareholders are recorded as of the record date. Subject to the discretion of the Company's board of trustees and applicable legal restrictions, the Company intends to authorize, declare and pay ordinary cash distributions on a monthly basis. Net realized capital gains, if any, are distributed or deemed distributed at least annually.

Reclassifications: Certain amounts in the consolidated financial statements for the years ended December 31, 2015 and 2014 have been reclassified to conform to the classifications used to prepare the consolidated financial statements for the year ended December 31, 2016. These reclassifications had no material impact on the Company's consolidated financial position, results of operations or cash flows as previously reported.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, *Interest—Imputation of Interest,* or ASU 2015-03, to simplify the presentation of debt issuance costs in financial statements. Under pre-existing guidance, debt issuance costs were recognized as a deferred charge and presented as an asset on the balance sheet. ASU 2015-03 requires that debt issuance costs related to a recognized liability for indebtedness be presented in the balance sheet as a direct deduction from the carrying amount of that liability, consistent with debt discounts. In August 2015, the FASB issued Accounting Standards Update No. 2015-15, *Interest—Imputation of Interest*, or ASU 2015-15, to update the guidance to include SEC staff views regarding the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC indicated that it

Note 2. Summary of Significant Accounting Policies (Continued)

would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.

Commencing January 1, 2016, the Company adopted ASU 2015-03 and changed its method of disclosing debt issuance costs incurred in connection with its repurchase agreement entered into in connection with its financing arrangement with Goldman Sachs Bank USA, or Goldman, and its multiple draw term loan agreement entered into in connection with its financing arrangement with Fortress Credit Co LLC, or Fortress. ASU 2015-03 affects the presentation and disclosure of such costs in the Company's financial statements. There is no change to the Company's recognition and measurement of debt issuance costs. In accordance with ASU 2015-15, the Company elected to continue to present debt issuance costs associated with line-of-credit arrangements as an asset, which is unchanged from its prior method of disclosure.

Comparative financial statements of prior interim and annual periods have been adjusted to apply the new method retrospectively. The adoption and retrospective adjustment of ASU 2015-03 had no material impact on the Company's consolidated financial position, results of operations or cash flows as previously reported.

Note 3. Share Transactions

Below is a summary of transactions with respect to the Company's common shares during the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,					
	2016		2015		2014	
	Shares	Amount	Shares	Amount	Shares	Amount
Gross Proceeds from Offering	51,914,810	$388,426	59,008,526	$547,181	115,484,191	$1,243,930
Reinvestment of Distributions	25,722,629	180,011	18,641,269	152,401	11,419,099	110,766
Total Gross Proceeds	77,637,439	568,437	77,649,795	699,582	126,903,290	1,354,696
Commissions and Dealer Manager Fees	—	(33,699)	—	(48,351)	—	(114,862)
Net Proceeds to Company	77,637,439	534,738	77,649,795	651,231	126,903,290	1,239,834
Share Repurchase Program	(9,685,608)	(67,307)	(4,833,902)	(40,009)	(1,041,178)	(10,262)
Net Proceeds from Share Transactions	67,951,831	$467,431	72,815,893	$611,222	125,862,112	$1,229,572

Public Offering of Shares

In November 2016, the Company closed its continuous public offering of common shares to new investors. The Company sold 449,543,498 common shares (as adjusted for share distributions) for gross proceeds of $4,362,119 in its continuous public offering, including shares issued pursuant to its distribution reinvestment plan during that period. Following the closing of its continuous public offering, the Company has continued to issue shares pursuant to its distribution reinvestment plan. As of March 1, 2017, the Company had raised total gross proceeds of $4,446,227, including $200 of seed capital contributed by the principals of FS Advisor in December 2010 and $20,004 in proceeds raised from the principals of FS Advisor, other individuals and entities affiliated with FS Advisor, certain members of the Company's board of trustees and certain individuals and entities affiliated with GSO

Note 3. Share Transactions (Continued)

Capital Partners LP, or GSO, the Company's investment sub-adviser, in a private placement conducted in April 2011 (see Note 4).

During the years ended December 31, 2016, 2015 and 2014, the Company sold 77,637,439, 77,649,795 and 126,903,290 common shares for gross proceeds of $568,437, $699,582 and $1,354,696, respectively, at an average price per share of $7.32, $9.01 and $10.68, respectively. The gross proceeds received during the years ended December 31, 2016, 2015 and 2014 include reinvested shareholder distributions of $180,011, $152,401 and $110,766, respectively, for which the Company issued 25,722,629, 18,641,269 and 11,419,099 common shares, respectively. During the period from January 1, 2017 to March 1, 2017, the Company issued 4,040,717 common shares pursuant to its distribution reinvestment plan for gross proceeds of $31,268 at an average price per share of $7.74.

The proceeds from the issuance of common shares as presented on the Company's consolidated statements of changes in net assets and consolidated statements of cash flows are presented net of selling commissions and dealer manager fees of $33,699, $48,351 and $114,862 for the years ended December 31, 2016, 2015 and 2014, respectively.

Share Repurchase Program

The Company intends to conduct quarterly tender offers pursuant to its share repurchase program. The Company's board of trustees will consider the following factors, among others, in making its determination regarding whether to cause the Company to offer to repurchase common shares and under what terms:

- the effect of such repurchases on the Company's qualification as a RIC (including the consequences of any necessary asset sales);
- the liquidity of the Company's assets (including fees and costs associated with disposing of assets);
- the Company's investment plans and working capital requirements;
- the relative economies of scale with respect to the Company's size;
- the Company's history in repurchasing common shares or portions thereof; and
- the condition of the securities markets.

The Company currently intends to limit the number of common shares to be repurchased during any calendar year to the number of common shares it can repurchase with the proceeds it receives from the issuance of common shares under its distribution reinvestment plan. At the discretion of the Company's board of trustees, the Company may also use cash on hand, cash available from borrowings and cash from the liquidation of securities investments as of the end of the applicable period to repurchase common shares. In addition, the Company will limit the number of common shares to be repurchased in any calendar year to 10% of the weighted average number of common shares outstanding in the prior calendar year, or 2.5% in each quarter, though the actual number of common shares that the Company offers to repurchase may be less in light of the limitations noted above.

On October 13, 2016, the Company amended the terms of its share repurchase program, or the amended share repurchase program, which was first effective for the Company's quarterly repurchase offer for the fourth quarter of 2016. Prior to amending the share repurchase program, the Company offered to repurchase common shares at a price equal to 90% of the offering price in effect on the date of repurchase. Under the amended share repurchase program, the Company intends to offer to repurchase common shares at a price equal to the price at which common shares are issued pursuant to

Note 3. Share Transactions (Continued)

the Company's distribution reinvestment plan on the distribution date coinciding with the applicable share repurchase date. The price at which common shares are issued under the Company's distribution reinvestment plan is determined by the Company's board of trustees or a committee thereof, in its sole discretion, and will be (i) not less than the net asset value per common share as determined in good faith by the Company's board of trustees or a committee thereof, in its sole discretion, immediately prior to the payment date of the distribution and (ii) not more than 2.5% greater than the net asset value per common share as of such date. The Company's board of trustees may amend, suspend or terminate the share repurchase program at any time, upon 30 days' notice.

The following table provides information concerning the Company's repurchases of common shares pursuant to its share repurchase program during the years ended December 31, 2016, 2015 and 2014:

For the Three Months Ended	Repurchase Date	Shares Repurchased	Percentage of Shares Tendered That Were Repurchased	Percentage of Outstanding Shares Repurchased as of the Repurchase Date	Repurchase Price Per Share	Aggregate Consideration for Repurchased Shares
Fiscal 2014						
December 31, 2013	January 2, 2014	174,181	100%	0.10%	$9.720	$ 1,693
March 31, 2014	April 2, 2014	158,723	100%	0.08%	$9.810	$ 1,557
June 30, 2014	July 2, 2014	401,302	100%	0.17%	$9.900	$ 3,973
September 30, 2014	October 1, 2014	306,972	100%	0.11%	$9.900	$ 3,039
Fiscal 2015						
December 31, 2014	January 7, 2015	450,293	100%	0.15%	$8.820	$ 3,972
March 31, 2015	April 1, 2015	716,857	100%	0.22%	$8.730	$ 6,258
June 30, 2015	July 1, 2015	955,664	100%	0.28%	$8.820	$ 8,429
September 30, 2015	October 7, 2015	2,711,088	100%	0.76%	$7.875	$21,350
Fiscal 2016						
December 31, 2015	January 6, 2016	2,716,924	100%	0.73%	$6.750	$18,339
March 31, 2016	April 6, 2016	2,196,742	100%	0.56%	$6.345	$13,938
June 30, 2016	July 6, 2016	1,788,021	100%	0.43%	$7.200	$12,874
September 30, 2016	October 5, 2016	2,983,921	100%	0.69%	$7.425	$22,156

On January 3, 2017, the Company repurchased 2,239,480 common shares (representing 100% of common shares tendered for repurchase and 0.51% of the shares outstanding as of such date) at $7.700 per share for aggregate consideration totaling $17,244.

Note 4. Related Party Transactions

Compensation of the Investment Adviser and Dealer Manager

Pursuant to the investment advisory and administrative services agreement, FS Advisor is entitled to an annual base management fee of 2.0% of the average value of the Company's gross assets and an incentive fee based on the Company's performance. The Company commenced accruing fees under the investment advisory and administrative services agreement on July 18, 2011, upon commencement of the Company's investment operations. Base management fees are paid on a quarterly basis in arrears.

The incentive fee consists of two parts. The first part of the incentive fee, which is referred to as the subordinated incentive fee on income, is calculated and payable quarterly in arrears, equals 20.0% of the Company's "pre-incentive fee net investment income" for the immediately preceding quarter and is subject to a hurdle rate, expressed as a rate of return on adjusted capital, equal to 1.625% per quarter, or an annualized hurdle rate of 6.5%. As a result, FS Advisor does not earn this incentive fee for any quarter until the Company's pre-incentive fee net investment income for such quarter exceeds

Note 4. Related Party Transactions (Continued)

the hurdle rate of 1.625%. For purposes of this fee, "adjusted capital" means cumulative gross proceeds generated from sales of the Company's common shares (including proceeds from its distribution reinvestment plan) reduced for distributions from non-liquidating dispositions of the Company's investments paid to shareholders and amounts paid for share repurchases pursuant to the Company's share repurchase program. Once the Company's pre-incentive fee net investment income in any quarter exceeds the hurdle rate, FS Advisor is entitled to a "catch-up" fee equal to the amount of the pre-incentive fee net investment income in excess of the hurdle rate, until the Company's pre-incentive fee net investment income for such quarter equals 2.031%, or 8.125% annually, of adjusted capital. This "catch-up" feature allows FS Advisor to recoup the fees foregone as a result of the existence of the hurdle rate. Thereafter, FS Advisor is entitled to receive 20.0% of pre-incentive fee net investment income.

The second part of the incentive fee, which is referred to as the incentive fee on capital gains, is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment advisory and administrative services agreement). This fee equals 20.0% of the Company's incentive fee capital gains, which equal the Company's realized capital gains on a cumulative basis from inception, calculated as of the end of the applicable period, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gains incentive fees. The Company accrues for the capital gains incentive fee, which, if earned, is paid annually. The Company accrues the capital gains incentive fee based on net realized and unrealized gains; however, under the terms of the investment advisory and administrative services agreement, the fee payable to FS Advisor is based on realized gains and no such fee is payable with respect to unrealized gains unless and until such gains are actually realized.

Pursuant to the investment sub-advisory agreement, GSO will receive 50% of all management and incentive fees payable to FS Advisor under the investment advisory and administrative services agreement with respect to each year.

The Company reimburses FS Advisor for expenses necessary to perform services related to the Company's administration and operations, including FS Advisor's allocable portion of the compensation and related expenses of certain personnel of Franklin Square Holdings, L.P., or FS Investments, the Company's sponsor and an affiliate of FS Advisor, providing administrative services to the Company on behalf of FS Advisor. The amount of the reimbursement payable to FS Advisor is the lesser of (1) FS Advisor's actual costs incurred in providing such services and (2) the amount that the Company estimates it would be required to pay alternative service providers for comparable services in the same geographic location. FS Advisor is required to allocate the cost of such services to the Company based on factors such as assets, revenues, time allocations and/or other reasonable metrics. The Company's board of trustees reviews the methodology employed in determining how the expenses are allocated to the Company and the proposed allocation of the administrative expenses among the Company and certain affiliates of FS Advisor. The Company's board of trustees then assesses the reasonableness of such reimbursements for expenses allocated to the Company based on the breadth, depth and quality of such services as compared to the estimated cost to the Company of obtaining similar services from third-party providers known to be available. In addition, the Company's board of trustees considers whether any single third-party service provider would be capable of providing all such services at comparable cost and quality. Finally, the Company's board of trustees, among other things, compares the total amount paid to FS Advisor for such services as a percentage of the Company's net assets to the same ratio as reported by other comparable BDCs. The Company will not reimburse FS Advisor for any services for which it receives a separate fee, or for rent, depreciation, utilities, capital equipment or other administrative items allocated to a controlling person of FS Advisor.

Note 4. Related Party Transactions (Continued)

Under the investment advisory and administrative services agreement, the Company, either directly or through reimbursement to FS Advisor or its affiliates, was responsible for its organization and offering costs in an amount up to 1.5% of gross proceeds raised in the Company's continuous public offering. Organization and offering costs primarily included legal, accounting, printing and other expenses relating to the Company's continuous public offering, including costs associated with technology integration between the Company's systems and those of its selected broker-dealers, marketing expenses, salaries and direct expenses of FS Advisor's personnel, employees of its affiliates and others while engaged in registering and marketing the Company's common shares, which included the development of marketing materials and presentations, training and educational meetings, and generally coordinating the marketing process for the Company.

Prior to satisfaction of the minimum offering requirement and for a period of time thereafter, FS Investments funded certain of the Company's organization and offering costs. Following this period, the Company paid certain of its organization and offering costs directly and reimbursed FS Advisor for offering costs incurred by FS Advisor on the Company's behalf, including marketing expenses, salaries and other direct expenses of FS Advisor's personnel and employees of its affiliates while engaged in registering and marketing the Company's common shares. Organization and offering costs funded directly by FS Investments were recorded by the Company as a contribution to capital. The offering costs were offset against capital in excess of par value on the consolidated financial statements and the organization costs were charged to expense as incurred by the Company. All other offering costs, including costs incurred directly by the Company, amounts reimbursed to FS Advisor for ongoing offering costs and any reimbursements paid to FS Investments for organization and offering costs previously funded, were recorded as a reduction of capital. Commencing January 1, 2016, offering costs incurred by the Company are deferred and amortized as an expense over twelve months. Following the closing of the Company's continuous public offering to new investors in November 2016, all deferred offering costs were expensed.

The dealer manager for the Company's continuous public offering was FS Investment Solutions, LLC (formerly FS^2 Capital Partners, LLC), or FS Investment Solutions, which is one of the Company's affiliates. Under the dealer manager agreement among the Company, FS Advisor and FS Investment Solutions, or the dealer manager agreement, FS Investment Solutions was entitled to receive sales commissions and dealer manager fees in connection with the sale of common shares in the Company's continuous public offering, all or a portion of which were re-allowed to selected broker-dealers and financial representatives. The dealer manager agreement terminated in connection with the closing of the Company's continuous public offering in November 2016.

Note 4. Related Party Transactions (Continued)

The following table describes the fees and expenses accrued under the investment advisory and administrative services agreement and the dealer manager agreement during the years ended December 31, 2016, 2015 and 2014:

			Year Ended December 31,		
Related Party	**Source Agreement**	**Description**	**2016**	**2015**	**2014**
FS Advisor	Investment Advisory and Administrative Services Agreement	Base Management Fee[1]	$76,580	$75,997	$ 61,970
FS Advisor	Investment Advisory and Administrative Services Agreement	Capital Gains Incentive Fee[2]	—	—	$(10,993)
FS Advisor	Investment Advisory and Administrative Services Agreement	Subordinated Incentive Fee on Income[3]	$ 5,774	$31,016	$ 32,072
FS Advisor	Investment Advisory and Administrative Services Agreement	Administrative Services Expenses[4]	$ 3,870	$ 4,056	$ 3,831
FS Advisor	Investment Advisory and Administrative Services Agreement	Offering Costs[5]	$ 3,548	$ 4,238	$ 3,279
FS Investment Solutions	Dealer Manager Agreement	Dealer Manager Fee[6]	$ 6,545	$ 9,251	$ 22,194

(1) During the years ended December 31, 2016, 2015 and 2014, $74,063, $75,571 and $54,809, respectively, in base management fees were paid to FS Advisor. As of December 31, 2016, $20,855 in base management fees were payable to FS Advisor.

(2) During the years ended December 31, 2016 and 2015, the Company did not accrue any capital gains incentive fees. During the year ended December 31, 2014, the Company reversed $10,993 of capital gains incentive fees previously accrued based on the performance of its portfolio. No capital gains incentive fees are actually payable by the Company with respect to unrealized gains unless and until those gains are actually realized. The Company did not pay any capital gains incentive fees to FS Advisor during the year ended December 31, 2016 or 2015. The Company paid FS Advisor $2,857 in capital gains incentive fees during the year ended December 31, 2014. As of December 31, 2016, the Company did not have any accrued capital gains incentive fees.

(3) During the years ended December 31, 2016, 2015 and 2014, $17,822, $31,110 and $26,716, respectively, of subordinated incentive fees on income were paid to FS Advisor. As of December 31, 2016, the Company did not have a subordinated incentive fee on income payable to FS Advisor.

(4) During the years ended December 31, 2016, 2015 and 2014, $3,704, $3,784 and $3,508, respectively, of the accrued administrative services expenses related to the allocation of costs of administrative personnel for services rendered to the Company by FS Advisor and the remainder related to other reimbursable expenses. The Company paid $4,265, $3,837 and $2,596, respectively, in administrative services expenses to FS Advisor during the years ended December 31, 2016, 2015 and 2014.

(5) During the years ended December 31, 2016, 2015 and 2014, the Company incurred offering costs of $4,675, $8,950 and $7,536, respectively, of which $3,548, $4,238 and $3,279, respectively, related to reimbursements to FS Advisor for offering costs incurred on the Company's behalf, including marketing expenses, salaries and other direct expenses of FS Advisor's personnel and employees of its affiliates while engaged in registering and marketing the Company's common shares.

(6) Represents aggregate dealer manager fees retained by FS Investment Solutions and not re-allowed to selected broker-dealers or financial representatives.

Capital Contribution by FS Advisor and GSO

In December 2010, Michael C. Forman and David J. Adelman, the principals of FS Advisor, contributed an aggregate of $200 to purchase 22,444 common shares (as adjusted for share distributions) at $8.91 per share, which represents the initial public offering price (as adjusted for share distributions), net of selling commissions and dealer manager fees. The principals have agreed not to tender these common shares for repurchase as long as FS Advisor remains the Company's investment adviser.

Note 4. Related Party Transactions (Continued)

In April 2011, pursuant to a private placement, Messrs. Forman and Adelman agreed to purchase, through affiliated entities controlled by each of them, 224,444 additional common shares (as adjusted for share distributions) at $8.91 per share (as adjusted for share distributions). The principals have agreed not to tender these common shares for repurchase as long as FS Advisor remains the Company's investment adviser. In connection with the same private placement, certain members of the Company's board of trustees and other individuals and entities affiliated with FS Advisor agreed to purchase 1,459,320 common shares (as adjusted for share distributions), and certain individuals and entities affiliated with GSO agreed to purchase 561,111 common shares (as adjusted for share distributions), in each case at a price of $8.91 per share (as adjusted for share distributions). In connection with the private placement, the Company issued an aggregate of 2,244,875 common shares (as adjusted for share distributions) for aggregate proceeds of $20,004, upon satisfaction of the minimum offering requirement on July 18, 2011. As of March 1, 2017, the Company has issued an aggregate of 5,933,192 common shares (as adjusted for share distributions) for aggregate gross proceeds of approximately $49,675 to members of its board of trustees and individuals and entities affiliated with FS Advisor and GSO, including common shares sold to Messrs. Forman and Adelman in December 2010 and common shares sold in the private placement conducted in April 2011.

Potential Conflicts of Interest

FS Advisor's senior management team is comprised of substantially the same personnel as the senior management teams of FB Income Advisor, LLC, FSIC II Advisor, LLC, FSIC III Advisor, LLC, FSIC IV Advisor, LLC, FS Global Advisor, LLC and FS Energy Advisor, LLC the investment advisers to FS Investments' other affiliated BDCs, affiliated closed-end management investment company and affiliated closed-end management investment company that operates as an interval fund. As a result, such personnel provide investment advisory services to the Company and each of FS Investment Corporation, FS Investment Corporation II, FS Investment Corporation III, FS Investment Corporation IV, FS Global Credit Opportunities Fund and FS Energy Total Return Fund. While none of FS Advisor, FB Income Advisor, LLC, FSIC II Advisor, LLC, FSIC III Advisor, LLC, FSIC IV Advisor, LLC, FS Global Advisor, LLC or FS Energy Advisor, LLC is currently making private corporate debt investments for clients other than the Company, FS Investment Corporation, FS Investment Corporation II, FS Investment Corporation III, FS Investment Corporation IV, FS Global Credit Opportunities Fund or FS Energy Total Return Fund, respectively, any, or all, may do so in the future. In the event that FS Advisor undertakes to provide investment advisory services to other clients in the future, it intends to allocate investment opportunities in a fair and equitable manner consistent with the Company's investment objectives and strategy, if necessary, so that the Company will not be disadvantaged in relation to any other client of FS Advisor or its management team. In addition, even in the absence of FS Advisor retaining additional clients, it is possible that some investment opportunities may be provided to FS Investment Corporation, FS Investment Corporation II, FS Investment Corporation III, FS Investment Corporation IV, FS Global Credit Opportunities Fund and/or FS Energy Total Return Fund rather than to the Company.

Exemptive Relief

As a BDC, the Company is subject to certain regulatory restrictions in making its investments. For example, BDCs generally are not permitted to co-invest with certain affiliated entities in transactions originated by the BDC or its affiliates in the absence of an exemptive order from the SEC. However, BDCs are permitted to, and may, simultaneously co-invest in transactions where price is the only negotiated term. In an order dated June 4, 2013, the SEC granted exemptive relief permitting the Company, subject to the satisfaction of certain conditions, to co-invest in certain privately negotiated investment transactions with certain affiliates of FS Advisor, including FS Investment Corporation, FS

Note 4. Related Party Transactions (Continued)

Investment Corporation II, FS Investment Corporation III, FS Investment Corporation IV, and any future BDCs that are advised by FS Advisor or its affiliated investment advisers, or collectively the Company's co-investment affiliates. The Company believes this relief has and may continue to enhance its ability to further its investment objectives and strategy. The Company believes this relief may also increase favorable investment opportunities for the Company, in part, by allowing it to participate in larger investments, together with the Company's co-investment affiliates, than would be available to it if such relief had not been obtained. Because the Company did not seek exemptive relief to engage in co-investment transactions with its investment sub-adviser, GSO, and its affiliates, it will continue to be permitted to co-invest with GSO and its affiliates only in accordance with existing regulatory guidance (e.g., where price is the only negotiated term).

Expense Reimbursement

Pursuant to an expense support and conditional reimbursement agreement, amended and restated as of May 16, 2013, or the expense reimbursement agreement, FS Investments has agreed to reimburse the Company for expenses in an amount that is sufficient to ensure that no portion of the Company's distributions to shareholders will be paid from its offering proceeds or borrowings. However, because certain investments the Company may make, including preferred and common equity investments, may generate dividends and other distributions to the Company that are treated for tax purposes as a return of capital, a portion of the Company's distributions to shareholders may also be deemed to constitute a return of capital for tax purposes to the extent that the Company may use such dividends or other distribution proceeds to fund its distributions to shareholders. Under those circumstances, FS Investments will not reimburse the Company for the portion of such distributions to shareholders that represent a return of capital for tax purposes, as the purpose of the expense reimbursement arrangement is not to prevent tax-advantaged distributions to shareholders.

Under the expense reimbursement agreement, FS Investments will reimburse the Company quarterly for expenses in an amount equal to the difference between the Company's cumulative distributions paid to its shareholders in each quarter, less the sum of the Company's net investment company taxable income, net capital gains and dividends and other distributions paid to the Company on account of preferred and common equity investments in portfolio companies (to the extent such amounts are not included in net investment company taxable income or net capital gains) in each quarter.

Pursuant to the expense reimbursement agreement, the Company has a conditional obligation to reimburse FS Investments for any amounts funded by FS Investments under such agreement if (and only to the extent that), during any fiscal quarter occurring within three years of the date on which FS Investments funded such amount, the sum of the Company's net investment company taxable income, net capital gains and the amount of any dividends and other distributions paid to the Company on account of preferred and common equity investments in portfolio companies (to the extent not included in net investment company taxable income or net capital gains) exceeds the distributions paid by the Company to its shareholders; provided, however, that (i) the Company will only reimburse FS Investments for expense support payments made by FS Investments with respect to any calendar quarter beginning on or after July 1, 2013 to the extent that the payment of such reimbursement (together with any other reimbursement paid during such fiscal year) does not cause "other operating expenses" (as defined below) (on an annualized basis and net of any expense support payments received by the Company during such fiscal year) to exceed the lesser of (A) 1.75% of the Company's average net assets attributable to its common shares for the fiscal year-to-date period after taking such payments into account and (B) the percentage of the Company's average net assets attributable to its common shares represented by "other operating expenses" during the fiscal year in which such expense

Note 4. Related Party Transactions (Continued)

support payment from FS Investments was made (provided, however, that this clause (B) shall not apply to any reimbursement payment which relates to an expense support payment from FS Investments made during the same fiscal year) and (ii) the Company will not reimburse FS Investments for expense support payments made by FS Investments if the aggregate amount of distributions per share declared by the Company in such calendar quarter is less than the aggregate amount of distributions per share declared by the Company in the calendar quarter in which FS Investments made the expense support payment to which such reimbursement relates. The Company is not obligated to pay interest on the payments it receives from FS Investments. "Other operating expenses" means the Company's total "operating expenses" (as defined below), excluding base management fees, incentive fees, organization and offering expenses, financing fees and costs, interest expense, brokerage commissions and extraordinary expenses. "Operating expenses" means all operating costs and expenses incurred, as determined in accordance with GAAP for investment companies.

The Company or FS Investments may terminate the expense reimbursement agreement at any time. The specific amount of expenses reimbursed by FS Investments, if any, will be determined at the end of each quarter. Upon termination of the expense reimbursement agreement by FS Investments, FS Investments will be required to fund any amounts accrued thereunder as of the date of termination. Similarly, the Company's conditional obligation to reimburse FS Investments pursuant to the terms of the expense reimbursement agreement shall survive the termination of such agreement by either party.

FS Investments is controlled by the Company's chairman, president and chief executive officer, Michael C. Forman, and the Company's vice-chairman, David J. Adelman. There can be no assurance that the expense reimbursement agreement will remain in effect or that FS Investments will reimburse any portion of the Company's expenses in future quarters.

As of December 31, 2016 and 2015 and 2014, the Company had no reimbursements due from FS Investments and no further amounts remained subject to repayment by the Company to FS Investments in the future.

FS Benefit Trust

On May 30, 2013, FS Benefit Trust was formed as a Delaware statutory trust for the purpose of awarding equity incentive compensation to employees of FS Investments and its affiliates. During the years ended December 31, 2016, 2015 and 2014, FS Benefit Trust purchased $142, $104 and $49, respectively, of the Company's common shares at a purchase price equal to 90% of the offering price in effect on the applicable purchase date.

Note 5. Distributions

The following table reflects the cash distributions per share that the Company has declared and paid on its common shares during the years ended December 31, 2016, 2015 and 2014:

For the Year Ended December 31,	Distribution Per Share	Distribution Amount
2014	$0.6882	$163,043
2015	$0.7085	$238,833
2016	$0.7085	$288,982

Effective November 30, 2016, and subject to applicable legal restrictions and the sole discretion of the Company's board of trustees, the Company intends to authorize, declare and pay regular cash distributions on a monthly basis. On December 23, 2016, January 30, 2017 and February 27, 2017, the Company's board of trustees declared regular monthly cash distributions for January 2017, February

Note 5. Distributions (Continued)

2017 and March 2017, respectively. These distributions have been or will be paid monthly to shareholders of record as of monthly record dates previously determined by the Company's board of trustees in the amount of $0.059042 per share. The timing and amount of any future distributions to shareholders are subject to applicable legal restrictions and the sole discretion of the Company's board of trustees.

The Company has adopted an "opt in" distribution reinvestment plan for its shareholders. As a result, if the Company makes a cash distribution, its shareholders will receive distributions in cash unless they specifically "opt in" to the distribution reinvestment plan so as to have their cash distributions reinvested in additional common shares. However, certain state authorities or regulators may impose restrictions from time to time that may prevent or limit a shareholder's ability to participate in the distribution reinvestment plan.

On October 13, 2016, the Company further amended and restated its distribution reinvestment plan, or the amended distribution reinvestment plan, which first applied to the reinvestment of cash distributions paid on or after November 30, 2016. Under the original plan, cash distributions to participating shareholders were reinvested in additional common shares at a purchase price equal to 90% of the public offering price per share in effect as of the date of issuance. Under the amended plan, cash distributions to participating shareholders will be reinvested in additional common shares at a purchase price determined by the Company's board of trustees, or a committee thereof, in its sole discretion, that is (i) not less than the net asset value per common share as determined in good faith by the Company's board of trustees or a committee thereof, in its sole discretion, immediately prior to the payment of the distribution and (ii) not more than 2.5% greater than the net asset value per common share as of such date. Any distributions reinvested under the plan will remain taxable to a U.S. shareholder.

The Company may fund its cash distributions to shareholders from any sources of funds legally available to it, including offering proceeds, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds from the sale of assets, dividends or other distributions paid to the Company on account of preferred and common equity investments in portfolio companies and expense reimbursements from FS Investments. The Company has not established limits on the amount of funds it may use from available sources to make distributions.

For a period of time following commencement of the Company's continuous public offering, substantial portions of the Company's distributions were funded through the reimbursement of certain expenses by FS Investments and its affiliates, including through the waiver of certain investment advisory fees by FS Advisor, that were subject to repayment by the Company within three years. The purpose of this arrangement was to ensure that no portion of the Company's distributions to shareholders was paid from offering proceeds or borrowings. Any such distributions funded through expense reimbursements or waivers of advisory fees were not based on the Company's investment performance.

No portion of the distributions paid during the years ended December 31, 2016, 2015 and 2014 was funded through the reimbursement of operating expenses by FS Investments. During the years ended December 31, 2016, 2015 and 2014, the Company did not repay any amounts to FS Investments for expenses previously reimbursed or waived. There can be no assurance that the Company will continue to achieve the performance necessary to sustain its distributions or that the Company will be able to pay distributions at a specific rate or at all. FS Investments and its affiliates have no obligation to waive advisory fees or otherwise reimburse expenses in future periods.

Note 5. Distributions (Continued)

The following table reflects the sources of the cash distributions on a tax basis that the Company paid on its common shares during the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,					
	2016		2015		2014	
Source of Distribution	Distribution Amount	Percentage	Distribution Amount	Percentage	Distribution Amount	Percentage
Offering proceeds	$ —	—	$ —	—	$ —	—
Borrowings	—	—	—	—	—	—
Net investment income[1]	273,529	95%	224,586	94%	145,745	89%
Short-term capital gains proceeds from the sale of assets	—	—	—	—	10,509	7%
Long-term capital gains proceeds from the sale of assets	—	—	14,247	6%	6,789	4%
Non-capital gains proceeds from the sale of assets	—	—	—	—	—	—
Distributions on account of investments in portfolio companies	15,453	5%	—	—	—	—
Expense reimbursement from sponsor	—	—	—	—	—	—
Total	$288,982	100%	$238,833	100%	$163,043	100%

(1) During the years ended December 31, 2016, 2015 and 2014, 79.8%, 87.2% and 90.9%, respectively, of the Company's gross investment income on a tax basis was attributable to cash income earned, 3.9%, 2.6% and 2.0%, respectively, was attributable to non-cash income earned. In addition, 13.3%, 8.1% and 5.8%, respectively, was attributed to paid-in-kind, or PIK, interest and 3.0%, 2.1% and 1.3%, respectively, was attributed to accretion of discount during the years ended December 31, 2016, 2015 and 2014.

The Company's net investment income on a tax basis for the years ended December 31, 2016 and 2015 and 2014 was $262,430, $234,163 and $145,745, respectively. As of December 31, 2016 and 2015, the Company had $19 and $15,496, respectively, of undistributed ordinary income on a tax basis and distributions received from investments in portfolio companies.

During the year ended December 31, 2016, the Company saw positive developments in its investment portfolio and a subsequent increase in its net asset value. However, certain investments in the portfolio were restructured or experienced defaults due to the recently depressed prices of oil and natural gas, and the Company may experience additional restructurings or defaults in the future. These restructurings and defaults may have an impact on the level of income received by the Company. As a result, the Company is evaluating the current distribution rate payable on its common shares and there can be no assurance that the Company will be able to maintain a monthly cash distribution amount of $0.059042 per common share.

The difference between the Company's GAAP-basis net investment income and its tax-basis net investment income was primarily due to the reclassification of unamortized original issue discount, certain amendment fees and prepayment fees recognized upon prepayment of loans from income for GAAP purposes to realized gains for tax purposes, the impact of certain subsidiaries that are consolidated for purposes of computing GAAP-basis net investment income but are not consolidated for purposes of computing tax-basis net investment income and income recognized for tax purposes on certain transactions but not recognized for GAAP purposes.

Note 5. Distributions (Continued)

The following table sets forth a reconciliation between GAAP-basis net investment income and tax-basis net investment income during the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,		
	2016	2015	2014
GAAP-basis net investment income	$231,647	$227,595	$174,889
Reversal of incentive fee accrual on unrealized gains	—	—	(10,993)
Reclassification of unamortized original issue discount, amendment fees and prepayment fees	(5,791)	(10,185)	(19,579)
GAAP vs. tax-basis consolidation of subsidiaries	18,088	9,252	2,798
Income subject to tax not recorded for GAAP	13,834	9,396	—
Other miscellaneous differences	4,652	(1,895)	(1,370)
Tax-basis net investment income	$262,430	$234,163	$145,745

The Company may make certain adjustments to the classification of shareholders' equity as a result of permanent book-to-tax differences. During the year ended December 31, 2016, the Company increased accumulated undistributed (distributions in excess of) net investment income and accumulated net realized gains (losses) on investments and gain/loss on foreign currency by $14,120 and $64,199, respectively, and reduced capital in excess of par value by $78,319. In addition, during the year ended December 31, 2016, the Company reduced capital in excess of par value by $15,453 to reflect distributions received by the Company from investments in portfolio companies, which will be treated as a return of capital for tax purposes. During the year ended December 31, 2015, the Company increased accumulated undistributed (distributions in excess of) net investment income and accumulated net realized gains (losses) on investments and gain/loss on foreign currency by $6,674 and $8,299, respectively, and reduced capital in excess of par value by $14,973.

The determination of the tax attributes of the Company's distributions is made annually as of the end of the Company's fiscal year based upon the Company's taxable income for the full year and distributions paid for the full year. The actual tax characteristics of distributions to shareholders are reported to shareholders annually on Form 1099-DIV.

As of December 31, 2016 and 2015, the components of accumulated earnings on a tax basis were as follows:

	December 31,	
	2016	2015
Distributable ordinary income, net of distributions received from investments in portfolio companies	$ 19	$ 9,578
Accumulated capital losses[1]	(367,653)	(200,191)
Other temporary differences	79	56
Net unrealized appreciation (depreciation) on investments and unrealized gain/loss on foreign currency[2]	(115,266)	(831,920)
Total	$(482,821)	$(1,022,477)

(1) Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term or long-term losses, as applicable. As of December 31, 2016, the Company had short-term and long-term capital loss carryforwards available to offset future realized capital gains of $63,900 and $303,753, respectively.

Note 5. Distributions (Continued)

(2) As of December 31, 2016 and 2015, the gross unrealized appreciation on the Company's investments and unrealized gain on foreign currency was $224,411 and $44,089, respectively. As of December 31, 2016 and 2015, the gross unrealized depreciation on the Company's investments and unrealized loss on foreign currency was $339,677 and $876,009, respectively.

The aggregate cost of the Company's investments for federal income tax purposes totaled $4,014,678 and $3,895,733 as of December 31, 2016 and 2015, respectively. The aggregate net unrealized appreciation (depreciation) on a tax basis was $(115,266) and $(831,920) as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the Company had deferred tax liabilities of $46,278 and $23,252, respectively, resulting from unrealized appreciation on investments held by the Company's wholly-owned taxable subsidiaries and deferred tax assets of $81,116 and $33,224, respectively, resulting from net operating and capital losses of the Company's wholly-owned taxable subsidiaries. As of December 31, 2016 and 2015, certain wholly-owned taxable subsidiaries anticipated that they would be unable to fully utilize their generated net operating and capital losses, therefore the deferred tax assets were offset by valuation allowances of $34,838 and $9,972, respectively. For the years ended December 31, 2016 and 2015, the Company did not record a provision for taxes related to wholly-owned taxable subsidiaries.

Note 6. Investment Portfolio

The following table summarizes the composition of the Company's investment portfolio at cost and fair value as of December 31, 2016 and 2015:

	December 31, 2016			December 31, 2015		
	Amortized Cost[(1)]	Fair Value	Percentage of Portfolio	Amortized Cost[(1)]	Fair Value	Percentage of Portfolio
Senior Secured Loans—First Lien	$ 947,803	$ 912,491	23%	$1,055,070	$ 929,790	30%
Senior Secured Loans—Second Lien	948,762	873,869	22%	1,213,716	923,402	30%
Senior Secured Bonds	388,512	397,614	10%	445,475	323,948	11%
Subordinated Debt	1,049,097	1,043,167	27%	860,872	579,740	19%
Equity/Other	628,814	683,299	18%	319,274	312,618	10%
	$3,962,988	$3,910,440	100%	$3,894,407	$3,069,498	100%

(1) Amortized cost represents the original cost adjusted for the amortization of premiums and/or accretion of discounts, as applicable, on investments.

As of December 31, 2016, except for Altus Power America, Inc., in which the Company held a first lien senior secured loan, Altus Power America Holdings, LLC, in which the Company held two equity/other investments, FourPoint Energy, LLC, in which the Company held a senior secured bond and four equity/other investments, Ridgeback Resources Inc., in which the Company held a senior secured bond and an equity/other investment, Sunnova Energy Corp., in which the Company held two equity/other investments, Sunnova Asset Portfolio 5 Holdings, LLC, in which the Company held a first lien senior secured loan, Titan Energy Operating, LLC, in which the Company held a second lien senior secured loan and an equity/other investment, Warren Resources Inc., in which the Company held a first lien senior secured loan and an equity/other investment, and Lusk Operating LLC, in which the Company held a first lien senior secured loan and an equity/other investment, the Company was not an "affiliated

Note 6. Investment Portfolio (Continued)

person" of any of its portfolio companies, as defined in the 1940 Act. As of December 31, 2016, except for Lusk Operating LLC, in which the Company held a first lien senior secured loan and an equity/other investment, the Company did not "control" any of its portfolio companies, as defined in the 1940 Act. In general, under the 1940 Act, the Company would be presumed to "control" a portfolio company if it owned more than 25% of its voting securities or it had the power to exercise control over the management or policies of a portfolio company, and would be an "affiliated person" of a portfolio company if it owned 5% or more of its voting securities.

As of December 31, 2015, except for FourPoint Energy, LLC, in which the Company held a senior secured bond and two equity/other investments, Sunnova Holdings, LLC, in which it held one equity/other investment and its wholly-owned subsidiary Sunnova Asset Portfolio 5 Holdings, LLC, in which the Company held one first lien senior secured loan, the Company was not an "affiliated person" of any of its portfolio companies, as defined in the 1940 Act. As of December 31, 2015, except for Sunnova Holdings, LLC, in which the Company held one equity/other investment and its wholly-owned subsidiary Sunnova Asset Portfolio 5 Holdings, LLC, in which the Company held one first lien senior secured loan, the Company did not "control" any of its portfolio companies, as defined in the 1940 Act.

The Company's investment portfolio may contain loans or bonds that are in the form of lines of credit or revolving credit facilities, or other investments, pursuant to which the Company may be required to provide funding when requested by portfolio companies in accordance with the terms of the underlying agreements. As of December 31, 2016, the Company had four senior secured loan investments with aggregate unfunded commitments of $82,404 and four equity/other investments with aggregate unfunded commitments of $14,942. As of December 31, 2016, these unfunded equity/other investments were Altus Power America Holdings, LLC, preferred equity, BL Sand Hills Unit, L.P., net profits interest, BL Sand Hills Unit, L.P., overriding royalty interest and Synergy Offshore LLC. As of December 31, 2015, the Company had four senior secured loan investments with aggregate unfunded commitments of $67,365, one senior secured bond investment with an unfunded commitment of $18,470 and five equity/other investments with aggregate unfunded commitments of $33,890. As of December 31, 2015, these unfunded equity/other investments were Altus Power America Holdings, LLC, BL Sand Hills Unit, L.P., net profits interest, BL Sand Hills Unit, L.P., overriding royalty interest, Sunnova Holdings, LLC and Synergy Offshore LLC. The Company maintains sufficient cash on hand, available borrowings and liquid securities to fund such unfunded commitments should the need arise.

The table below describes investments by industry classification and enumerates the percentage, by fair value, of the total portfolio assets in such industries as of December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
Industry Classification	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Upstream	$2,270,769	58%	$1,689,705	55%
Midstream	343,713	9%	215,906	7%
Downstream	49,623	1%	12,195	0%
Power	523,153	13%	519,593	17%
Service & Equipment	723,182	19%	632,099	21%
Total	$3,910,440	100%	$3,069,498	100%

Note 7. Fair Value of Financial Instruments

Under existing accounting guidance, fair value is defined as the price that the Company would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment. This accounting guidance emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances. The Company classifies the inputs used to measure these fair values into the following hierarchy as defined by current accounting guidance:

Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets.

Level 3: Inputs that are unobservable for an asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

As of December 31, 2016 and 2015, the Company's investments were categorized as follows in the fair value hierarchy:

Valuation Inputs	December 31, 2016	December 31, 2015
Level 1—Price quotations in active markets	$ 46,728	$ —
Level 2—Significant other observable inputs	—	—
Level 3—Significant unobservable inputs	3,863,712	3,069,498
Total	$3,910,440	$3,069,498

The Company's investments as of December 31, 2016 consisted primarily of debt investments that were acquired directly from the issuer. Sixteen senior secured loan investments, three senior secured bond investments and seven subordinated debt investments were valued by independent valuation firms, which determined the fair value of such investments by considering, among other factors, the borrower's ability to adequately service its debt, prevailing interest rates for like investments, call features, anticipated prepayments and other relevant terms of the debt. Twenty-eight of the Company's equity/other investments were valued by an independent valuation firm, which determined the fair value of such investments by considering, among other factors, contractual rights ascribed to such investments, as well as various income scenarios and multiples of EBITDA, cash flows, net income, revenues or, in limited instances, book value or liquidation value. Three equity/other investments, which were traded on an active public market, were valued at their closing price as of December 30, 2016. One senior secured loan investment, which was newly issued and purchased near December 31, 2016, was valued at cost as the Company's board of trustees determined that the cost of such investment was the best indication of its fair value. Except as described above, the Company valued its other investments, including two of its equity/other investments, by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end, which were provided by an independent third-party pricing service and screened for validity by such service.

Note 7. Fair Value of Financial Instruments (Continued)

The Company's investments as of December 31, 2015 consisted primarily of debt investments that were acquired directly from the issuer. Twenty senior secured loan investments, two senior secured bond investments and five subordinated debt investments were valued by independent valuation firms, which determined the fair value of such investments by considering, among other factors, the borrower's ability to adequately service its debt, prevailing interest rates for like investments, call features, anticipated prepayments and other relevant terms of the debt. All of the Company's equity/other investments were also valued by an independent valuation firm, which determined the fair value of such investments by considering, among other factors, contractual rights ascribed to such investments, as well as various income scenarios and multiples of EBITDA, cash flows, net income, revenues or, in limited instances, book value or liquidation value. Except as described above, the Company valued its other investments by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end, which were provided by an independent third-party pricing service and screened for validity by such service.

The Company periodically benchmarks the bid and ask prices it receives from the third-party pricing service and/or dealers, as applicable, against the actual prices at which the Company purchases and sells its investments. Based on the results of the benchmark analysis and the experience of the Company's management in purchasing and selling these investments, the Company believes that these prices are reliable indicators of fair value. However, because of the private nature of this marketplace (meaning actual transactions are not publicly reported), the Company believes that these valuation inputs are classified as Level 3 within the fair value hierarchy. The Company may also use other methods, including the use of independent valuation firms, to determine fair value for securities for which it cannot obtain prevailing bid and ask prices through third-party pricing services or independent dealers or where the Company's board of trustees otherwise determines that the use of such other method is appropriate. The Company periodically benchmarks the valuations provided by the independent valuation firms against the actual prices at which it purchases and sells its investments. The Company's valuation committee of the board of trustees, or the valuation committee, and the board of trustees reviewed and approved the valuation determinations made with respect to these investments in a manner consistent with the Company's valuation policy.

Note 7. Fair Value of Financial Instruments (Continued)

The following is a reconciliation for the years ended December 31, 2016 and 2015 of investments for which significant unobservable inputs (Level 3) were used in determining fair value:

	For the Year Ended December 31, 2016					
	Senior Secured Loans— First Lien	Senior Secured Loans— Second Lien	Senior Secured Bonds	Subordinated Debt	Equity/ Other	Total
Fair value at beginning of period	$ 929,790	$ 923,402	$ 323,948	$ 579,740	$ 312,618	$ 3,069,498
Accretion of discount (amortization of premium)	4,048	3,036	1,440	6,105	1,356	15,985
Net realized gain (loss)	(57,093)	(71,615)	(39,217)	(94,508)	11,002	(251,431)
Net change in unrealized appreciation (depreciation)	89,968	215,421	130,629	275,202	54,404	765,624
Purchases	307,960	203,980	147,795	410,587	377,866	1,448,188
Paid-in-kind interest	13,579	10,486	468	1,062	15,305	40,900
Sales and redemptions	(375,761)	(410,841)	(167,449)	(135,021)	(135,980)	(1,225,052)
Net transfers in or out of Level 3	—	—	—	—	—	—
Fair value at end of period	$ 912,491	$ 873,869	$ 397,614	$1,043,167	$ 636,571	$ 3,863,712
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to investments still held at the reporting date	$ 37,758	$ 76,863	$ 60,527	$ 145,201	$ 97,503	$ 417,852

	For the Year Ended December 31, 2015					
	Senior Secured Loans— First Lien	Senior Secured Loans— Second Lien	Senior Secured Bonds	Subordinated Debt	Equity/ Other	Total
Fair value at beginning of period	$ 854,825	$ 989,972	$ 285,485	$ 940,313	$ 304,582	$ 3,375,177
Accretion of discount (amortization of premium)	3,300	2,101	1,376	1,716	1,425	9,918
Net realized gain (loss)	(34,084)	(2,776)	(16,753)	(147,946)	—	(201,559)
Net change in unrealized appreciation (depreciation)	(98,160)	(220,305)	(82,049)	(96,933)	(39,589)	(537,036)
Purchases	439,617	261,831	196,821	258,418	39,260	1,195,947
Paid-in-kind interest	13,605	5,503	238	611	7,628	27,585
Sales and redemptions	(249,313)	(112,924)	(61,170)	(376,439)	(688)	(800,534)
Net transfers in or out of Level 3	—	—	—	—	—	—
Fair value at end of period	$ 929,790	$ 923,402	$ 323,948	$ 579,740	$ 312,618	$ 3,069,498
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to investments still held at the reporting date	$(109,244)	$(243,622)	$ (80,665)	$ (226,309)	$ (39,589)	$ (699,429)

Note 7. Fair Value of Financial Instruments (Continued)

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements as of December 31, 2016 and 2015 were as follows:

Type of Investment	Fair Value at December 31, 2016	Valuation Technique(1)	Unobservable Input	Range	Weighted Average
Senior Secured Loans—					
First Lien	$ 581,550	Market Comparables	Market Yield (%)	8.0% - 17.8%	11.5%
	1,024	Other(2)	Other(2)	N/A	N/A
	329,917	Market Quotes	Indicative Dealer Quotes	72.0% - 102.0%	93.7%
Senior Secured Loans—					
Second Lien	530,636	Market Comparables	Market Yield (%)	8.8% - 22.9%	12.7%
	343,233	Market Quotes	Indicative Dealer Quotes	12.0% - 105.4%	89.6%
Senior Secured Bonds	326,388	Market Comparables	Market Yield (%)	7.5% - 9.0%	8.0%
			Production Multiples (Mboe/d)	$45,000.0 - $50,000.0	$47,500.0
			Proved Reserves Multiples (Mmboe)	$14.5 - $15.0	$14.8
			EBITDA Multiples (x)	6.8x - 7.3x	7.0x
			PV-10 Multiples (x)	0.8x - 0.9x	0.9x
	71,226	Market Quotes	Indicative Dealer Quotes	84.2% - 109.3%	96.6%
Subordinated Debt	122,821	Market Comparables	Market Yield (%)	7.5% - 15.3%	11.2%
	920,346	Market Quotes	Indicative Dealer Quotes	54.5% - 125.5%	97.7%
Equity/Other	594,404	Market Comparables	EBITDA Multiples (x)	4.5x - 16.3x	9.4x
			Production Multiples (Mmb/d)	$2,225.0 - $55,000.0	$41,329.5
			Proved Reserves Multiples (Mmboe)	$0.7 - $15.0	$8.9
			PV-10 Multiples (x)	0.3x - 2.1x	0.7x
			Capacity Multiple ($/kW)	$2,375.0 - $2,875.0	$2,625.0
			Undeveloped Acreage Multiple ($/acre)	$8,000.0 - $10,000.0	$9,000.0
			Market Yield (%)	10.0% - 14.3%	12.2%
		Discounted Cash Flow	Discount Rate (%)	9.3% - 24.8%	23.7%
	3,339	Other(2)	Other(2)	N/A	N/A
	38,828	Market Quotes	Indicative Dealer Quotes	$7.0 - $16.0	$10.7
Total	$3,863,712				

(1) Investments using a market quotes valuation technique were valued by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end, which were provided by an independent third-party pricing service and screened for validity by such service. For investments utilizing a market comparables valuation technique, a significant increase (decrease) in the market yield, in isolation, would result in a significantly lower (higher) fair value measurement, and a significant increase (decrease) in any of the valuation multiples, in isolation, would result in a significantly higher (lower) fair value measurement. For investments utilizing a discounted cash flow valuation technique, a significant increase (decrease) in the discount rate, in isolation, would result in a significantly lower (higher) fair value measurement.

(2) Fair valued based on expected outcome of proposed corporate transactions, the expected value of the liquidation preference of the investment or other factors.

Note 7. Fair Value of Financial Instruments (Continued)

Type of Investment	Fair Value at December 31, 2015	Valuation Technique[1]	Unobservable Input	Range	Weighted Average
Senior Secured Loans—					
First Lien	$ 670,131	Market Comparables	Market Yield (%)	8.5% - 19.0%	13.0%
			Production Multiples (Mboe/d)	$95,000.0 - $100,000.0	$97,500.0
			Proved Reserves Multiples (Mmboe)	$7.8 - $8.3	$8.0
			PV-10 Multiples (x)	0.4x - 0.4x	0.4x
	259,659	Market Quotes	Indicative Dealer Quotes	46.5% - 100.3%	77.8%
Senior Secured Loans—					
Second Lien	632,912	Market Comparables	Market Yield (%)	9.3% - 19.9%	14.8%
	290,490	Market Quotes	Indicative Dealer Quotes	1.8% - 96.0%	73.1%
Senior Secured Bonds	274,173	Market Comparables	Market Yield (%)	14.0% - 16.5%	14.6%
	49,775	Market Quotes	Indicative Dealer Quotes	14.0% - 96.8%	65.0%
Subordinated Debt	64,875	Market Comparables	Market Yield (%)	17.3% - 17.8%	17.5%
	508,593	Market Quotes	Indicative Dealer Quotes	19.9% - 99.0%	73.2%
	6,272	Other[2]	Other[2]	N/A	N/A
Equity/Other	284,300	Market Comparables	Market Yield (%)	13.0% - 14.0%	13.5%
			EBITDA Multiples (x)	5.0x - 14.3x	9.9x
			Production Multiples (Mboe/d)	$50,000.0 - $100,000.0	$56,271.9
			Proved Reserves Multiples (Mmboe)	$7.8 - $14.0	$9.0
			PV-10 Multiples (x)	0.4x - 1.0x	0.5x
			Capacity Multiple ($/kW)	$2,000.0 - $2,500.0	$2,250.0
		Discounted Cash Flow	Discount Rate (%)	12.0% - 31.3%	30.1%
	28,318	Other[2]	Other[2]	N/A	N/A
Total	$3,069,498				

(1) Investments using a market quotes valuation technique were valued by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end, which were provided by an independent third-party pricing service and screened for validity by such service. For investments utilizing a market comparables valuation technique, a significant increase (decrease) in the market yield, in isolation, would result in a significantly lower (higher) fair value measurement, and a significant increase (decrease) in any of the valuation multiples, in isolation, would result in a significantly higher (lower) fair value measurement. For investments utilizing a discounted cash flow valuation technique, a significant increase (decrease) in the discount rate, in isolation, would result in a significantly lower (higher) fair value measurement. For investments utilizing an option valuation model valuation technique, a significant increase (decrease) in the volatility, in isolation, would result in a significantly higher (lower) fair value measurement.

(2) Fair valued based on expected outcome of proposed corporate transactions, the expected value of the liquidation preference of the investment or other factors.

Note 8. Financing Arrangements

The following table presents a summary of information with respect to the Company's outstanding financing arrangements as of December 31, 2016 and 2015:

	As of December 31, 2016				
Facility	Type of Arrangement	Rate	Amount Outstanding	Amount Available	Maturity Date
Barclays Credit Facility	Revolving	L+3.25%	—	$100,000	May 18, 2021
BNP Facility	Prime Brokerage	L+1.10%[1]	$113,737	$186,263	September 27, 2017[2]
Deutsche Bank Credit Facility	Revolving	L+2.05%[3]	$200,000	$115,000	June 11, 2017
Fortress Facility	Term	L+5.00%[4]	$155,000	—	November 6, 2020
Goldman Facility	Repurchase	L+3.38%[5]	$325,000	—	September 15, 2018
Natixis Credit Facility	Revolving	CP+2.25%	$ 50,328	—	July 11, 2023
Wells Fargo Credit Facility	Revolving	L+2.50% to 2.75%	$ 29,600	$ 30,400	September 9, 2018

(1) Beginning on January 2, 2017, borrowings under the BNP facility will accrue interest at a rate equal to the London Interbank Offered Rate, or LIBOR, plus 1.35%.

(2) As described below, the BNP facility generally is terminable upon 270 days' notice by either party. As of December 31, 2016, neither Berwyn Funding nor BNP had provided notice of its intent to terminate the BNP facility.

(3) Prior to June 11, 2016, borrowings under the Deutsche Bank credit facility accrued interest at a rate equal to LIBOR plus 1.80% per annum. Beginning on June 11, 2016, borrowings under the Deutsche Bank credit facility accrue interest at a rate equal to LIBOR plus 2.05% per annum.

Note 8. Financing Arrangements (Continued)

(4) As described below, borrowings under the Fortress facility accrue interest at a rate equal to LIBOR plus 5.00%, subject to a floor of 0.75%

(5) Prior to September 21, 2016, borrowings under the Goldman facility accrued interest at a rate equal to LIBOR plus 2.75% per annum. Beginning on September 21, 2016, borrowings under the Goldman facility accrue interest at a rate equal to LIBOR plus 3.38% per annum.

The Company's average borrowings and weighted average interest rate, including the effect of non-usage fees, for the year ended December 31, 2016 were $918,992 and 3.69%, respectively. As of December 31, 2016, the Company's weighted average effective interest rate on borrowings was 3.85%.

	As of December 31, 2015				
Facility	Type of Arrangement	Rate	Amount Outstanding	Amount Available	Maturity Date
BNP Facility	Prime Brokerage	L+1.10%	$113,737	$186,263	September 26, 2016[1]
Deutsche Bank Credit Facility	Revolving	L+1.80%	$280,000	$ 60,000	June 11, 2016
Fortress Facility	Term	L+5.00%[2]	$ 89,600	$ 65,400	November 6, 2020
Goldman Facility	Repurchase	L+2.75%	$324,984	$ 16	September 15, 2017
Natixis Credit Facility	Revolving	CP+2.25%	$ 92,173	—	July 11, 2023
Wells Fargo Credit Facility	Revolving	L+2.50% to 2.75%	$140,000	$ 60,000	September 9, 2019

(1) As described below, the BNP facility generally is terminable upon 270 days' notice by either party. As of December 31, 2015, neither Berwyn Funding nor BNP had provided notice of its intent to terminate the facility.

(2) As described below, borrowings under the Fortress facility accrue interest at a rate equal to LIBOR plus 5.00%, subject to a floor of 0.75%.

The Company's average borrowings and weighted average interest rate, including the effect of non-usage fees, for the year ended December 31, 2015 were $1,010,699 and 2.77%, respectively. As of December 31, 2015, the Company's weighted average effective interest rate on borrowings was 2.95%.

Barclays Credit Facility

On May 18, 2016, Bryn Mawr Funding LLC, or Bryn Mawr Funding, a wholly-owned subsidiary, entered into a revolving credit facility, or the Barclays credit facility, with Barclays Bank PLC, or Barclays, as administrative agent, and the lenders from time to time party thereto. The Barclays credit facility provides for borrowings in U.S. dollars and certain agreed upon foreign currencies in an aggregate amount of up to $100,000, including a subfacility for the issuance of letters of credit for Bryn Mawr Funding's account in an aggregate face amount of up to $10,000. Bryn Mawr Funding's obligations to Barclays under the Barclays credit facility are secured by a first priority security interest in substantially all of the assets of Bryn Mawr Funding, including its portfolio of assets and the assets of its subsidiaries, subject to customary exceptions. In addition, the Company has agreed to guaranty the obligations of Barclays and grant a first priority lien in favor of Barclays, for the benefit of the lenders, on the membership interests in Bryn Mawr Funding.

Note 8. Financing Arrangements (Continued)

The Barclays credit facility provides for a four year revolving period followed by a one year term-out period, after which time all outstanding advances and other amounts will become due and payable. Interest under the Barclays credit facility for (i) loans for which the Company elects the eurocurrency option is payable at a rate equal to LIBOR plus 3.25% per annum; and (ii) loans for which the Company elects the base rate option is payable at a rate equal to 2.25% per annum plus the greatest of (a) the U.S. Prime Rate, (b) the federal funds effective rate for such day plus 0.50%, (c) three-month LIBOR plus 1.00% per annum and (d) zero. Bryn Mawr Funding will pay a commitment fee of 0.375% per annum on the unused portion of the commitments under the Barclays credit facility during the revolving period and letter of credit participation fees and a fronting fee on the average daily amount of any letters of credit issued under the Barclays credit facility. Interest and fees are payable in arrears at the end of each interest period or three-month measurement period, as applicable, and, in each case, began on October 31, 2016.

As of December 31, 2016, no amount was outstanding under the Barclays credit facility. The carrying amount outstanding under the Barclays credit facility approximates its fair value. The Company incurred costs of $283 in connection with obtaining the Barclays credit facility, which the Company recorded as deferred financing costs on its consolidated balance sheet and amortizes to interest expense over the life of the Barclays credit facility. As of December 31, 2016, $254 of such deferred financing costs had yet to be amortized to interest expense.

For the year ended December 31, 2016, the components of total interest expense for the Barclays credit facility were as follows:

	Year Ended December 31, 2016
Non-usage fees	$238
Amortization of deferred financing costs	29
Total interest expense	$267

For the year ended December 31, 2016, cash paid for interest expense was $173.

In connection with the Barclays credit facility, Bryn Mawr Funding has made certain representations and warranties and must comply with various covenants and reporting requirements, in each case, customary for financings of this type, including the following financial covenants: (a) the Company's minimum consolidated shareholders' equity, as determined in accordance with GAAP and measured as of each quarter-end, must be at least $1,500,000; (b) the Company must maintain at all times a 200% asset coverage ratio; and (c) Bryn Mawr Funding must maintain, as of each quarter-end, an adjusted asset coverage ratio of 350%.

The Barclays credit facility contains events of default customary for financings of this type as described in the loan documentation. Upon the occurrence of certain events of default, Barclays, at the instruction of the lenders, may terminate the commitments and declare the outstanding advances and all other obligations under the Barclays credit facility immediately due and payable. Upon the occurrence of other events of default, the commitments will automatically terminate and the outstanding advances and other obligations under the Barclays credit facility will become immediately due and payable. During the continuation of certain events of default and subject, in certain cases, to the instructions of the lenders, the Company must pay interest at a default rate.

Borrowings of Bryn Mawr Funding will be considered borrowings of the Company for purposes of complying with the asset coverage requirements under the 1940 Act applicable to BDCs.

Note 8. Financing Arrangements (Continued)

BNP Facility

On December 11, 2013, Berwyn Funding LLC, or Berwyn Funding, the Company's wholly-owned, special-purpose financing subsidiary, entered into a committed facility arrangement, or the BNP facility, with BNP Paribas Prime Brokerage, Inc., or BNP. As amended to date, Berwyn Funding can borrow, from time to time, up to $300,000 from BNP. The BNP facility was effected through a committed facility agreement by and between Berwyn Funding and BNP, or the committed facility agreement, a U.S. PB Agreement by and between Berwyn Funding and BNP and a special custody and pledge agreement by and among Berwyn Funding, BNP and State Street Bank and Trust Company, or State Street, as custodian, each dated as of December 11, 2013, as amended to date, and which are collectively referred to herein as the BNP financing agreements.

The Company may contribute securities to Berwyn Funding from time to time, subject to certain restrictions set forth in the committed facility agreement, and will retain a residual interest in any securities contributed through its ownership of Berwyn Funding or will receive fair market value for any securities sold to Berwyn Funding. Berwyn Funding may purchase additional securities from various sources. Berwyn Funding has appointed the Company to manage its portfolio of securities pursuant to the terms of an investment management agreement. Berwyn Funding will pledge certain of its securities as collateral to secure borrowings under the BNP facility. Such pledged securities will be held in a segregated custody account with State Street. The value of securities required to be pledged by Berwyn Funding is determined in accordance with the margin requirements described in the BNP financing agreements. Berwyn Funding's obligations to BNP under the BNP facility are secured by a first priority security interest in substantially all of the assets of Berwyn Funding, including its portfolio of securities. The obligations of Berwyn Funding under the BNP facility are non-recourse to the Company and the Company's exposure under the BNP facility is limited to the value of the Company's investment in Berwyn Funding. On May 4, 2016, Berwyn Funding entered into an amendment to the BNP financing arrangements that permits Berwyn Funding to enter into trades, including but not limited to purchasing options, through the prime brokerage arrangement provided under the BNP financing arrangements.

Borrowings under the BNP facility accrue interest at a rate equal to three-month LIBOR plus 1.10% per annum. Berwyn Funding is required to pay a non-usage fee of 0.55% per annum to the extent the aggregate principal amount available under the BNP facility is not borrowed. On May 4, 2016, Berwyn Funding entered into an amendment to the BNP facility which will increase the (i) interest rate payable on borrowings to LIBOR plus 1.35% per annum effective on and after January 2, 2017 and (ii) the commitment fee payable on all unused amounts to, effective on and after January 2, 2017, (a) 0.65% per annum on unused amounts so long as 75% or more of the facility amount is utilized or (b) 0.85% per annum on unused amounts if less than 75% of the facility amount is utilized. Berwyn Funding may terminate the committed facility agreement upon 270 days' notice. Subject to certain cancellation rights, and absent a default or facility termination event, BNP is required to provide Berwyn Funding with 270 days' notice prior to terminating or amending the committed facility agreement.

As of December 31, 2016 and 2015, $113,737 was outstanding under the BNP facility. The carrying amount outstanding under the BNP facility approximates its fair value. The Company incurred costs of $449 in connection with obtaining and amending the BNP facility, which the Company recorded as deferred financing costs on its consolidated balance sheets and amortized to interest expense over the 270 day period following the closing date of the BNP facility or the amendment thereto, as applicable. As of December 31, 2016, all of the deferred financing costs had been amortized to interest expense.

Note 8. Financing Arrangements (Continued)

For the years ended December 31, 2016, 2015 and 2014, the components of total interest expense for the BNP facility were as follows:

	Year Ended December 31,		
	2016	2015	2014
Direct interest expense	$2,135	$2,983	$1,822
Non-usage fees	1,038	507	573
Amortization of deferred financing costs	—	76	349
Total interest expense	$3,173	$3,566	$2,744

For the years ended December 31, 2016, 2015 and 2014, the cash paid for interest expense, average borrowings, effective interest rate and weighted average interest rate for the BNP facility were as follows:

	Year Ended December 31,		
	2016	2015	2014
Cash paid for interest expense[1]	$ 3,169	$ 3,528	$ 2,132
Average borrowings under the BNP facility	$113,737	$209,117	$134,436
Effective interest rate on borrowings	2.10%	1.71%	1.36%
Weighted average interest rate (including the effect of non-usage fees)	2.79%	1.67%	1.78%

(1) Interest under the BNP facility is paid monthly in arrears.

In connection with the BNP facility, Berwyn Funding has made certain representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. The BNP facility contains customary events of default and other termination events for similar financing transactions, including (a) the occurrence of a default or similar condition under certain third-party contracts by the Company and Berwyn Funding; (b) any change in BNP's interpretation of applicable law that, in the reasonable opinion of counsel to BNP, has the effect of impeding or prohibiting the BNP facility; (c) certain events of insolvency or bankruptcy by the Company or Berwyn Funding; (d) specified material reductions in the Company's or Berwyn Funding's net asset value; (e) any change in the Company's fundamental or material investment policies; and (f) the termination of the investment advisory and administrative services agreement or if FS Advisor otherwise ceases to act as investment adviser to the Company and is not immediately replaced by an affiliate or other investment adviser acceptable to BNP.

Under the terms of the BNP financing agreements, BNP has the ability to borrow a portion of the pledged collateral, or, collectively, the rehypothecated securities, subject to certain limits. Berwyn Funding may designate any security within the pledged collateral as ineligible to be a rehypothecated security, provided there remain securities eligible to be rehypothecated within the segregated custody account in an amount equal to the outstanding borrowings owed by Berwyn Funding to BNP. Berwyn Funding may recall any rehypothecated security at any time and BNP must return such security or an equivalent security within a commercially reasonable period. In the event BNP does not return the security, Berwyn Funding will have the right to, among other things, apply and set off an amount equal to 100% of the then-current fair market value of such rehypothecated securities against any outstanding borrowings owed to BNP under the BNP facility. Rehypothecated securities are marked-to-market daily and if the value of all rehypothecated securities exceeds 100% of the outstanding borrowings owed by Berwyn Funding under the BNP facility, BNP may either reduce the amount of rehypothecated

Note 8. Financing Arrangements (Continued)

securities to eliminate such excess or deposit into the segregated custody account an amount of cash equal to such excess. Berwyn Funding will continue to receive interest and the scheduled repayment of principal balances on rehypothecated securities. For the years ended December 31, 2016, 2015 and 2014, Berwyn Funding received a fee of $1, $1 and $19, respectively, from BNP for securities that had been rehypothecated pursuant to the BNP financing agreements. As of December 31, 2016 and 2015, the fair value of those securities rehypothecated by BNP was $106,488 and $108,340, respectively.

Borrowings of Berwyn Funding will be considered borrowings by the Company for purposes of complying with the asset coverage requirements under the 1940 Act applicable to BDCs.

Citibank Credit Facility

On March 24, 2015, EP Funding LLC, or EP Funding, the Company's wholly-owned, special-purpose financing subsidiary, repaid and terminated the revolving credit facility, or the Citibank credit facility, with Citibank, N.A., or Citibank, as administrative agent, and the financial institutions and other lenders from time to time party thereto. The Citibank credit facility provided for borrowings in an aggregate principal amount up to $175,000 on a committed basis. Prior to the termination of the Citibank credit facility, borrowings under the Citibank credit facility accrued interest at a rate equal to three-month LIBOR plus 2.75% per annum. Under the Citibank credit facility, EP Funding was subject to a non-usage fee of 0.50% per annum to the extent that the aggregate principal amount available under the Citibank credit facility was not borrowed.

As of December 31, 2016 and 2015, no amounts remained outstanding under the Citibank credit facility. The carrying amount outstanding under the Citibank credit facility approximated its fair value. The Company incurred costs of $657 in connection with obtaining the Citibank credit facility, which the Company recorded as deferred financing costs on its consolidated balance sheets and amortized to interest expense over the life of the Citibank credit facility.

For the years ended December 31, 2015 and 2014, the components of total interest expense for the Citibank credit facility were as follows:

	Year Ended December 31,	
	2015	2014
Direct interest expense	$471	$4,763
Non-usage fees	—	1
Amortization of deferred financing costs	130	328
Total interest expense	$601	$5,092

Note 8. Financing Arrangements (Continued)

For the years ended December 31, 2015 and 2014, the cash paid for interest expense, average borrowings, effective interest rate and weighted average interest rate for the Citibank credit facility were as follows:

	Year Ended December 31,	
	2015	2014
Cash paid for interest expense[1]	$ 1,011	$ 4,903
Average borrowings under the Citibank credit facility[2]	$70,020	$171,151
Effective interest rate on borrowings	—	2.98%
Weighted average interest rate (including the effect of non-usage fees)	2.99%	2.78%

(1) Interest under the Citibank credit facility was paid quarterly in arrears.

(2) Average borrowings for the year ended December 31, 2015 were calculated for the period from January 1, 2015 to the date on which the Company repaid and terminated the facility.

Borrowings of EP Funding were considered borrowings by the Company for purposes of complying with the asset coverage requirements under the 1940 Act applicable to BDCs.

Deutsche Bank Credit Facility

On June 24, 2011, FSEP Term Funding, LLC, or FSEP Funding, the Company's wholly-owned, special-purpose financing subsidiary, entered into a revolving credit facility, or the Deutsche Bank credit facility, with Deutsche Bank AG, New York Branch, or Deutsche Bank, as administrative agent and the lender party thereto. The Deutsche Bank credit facility subsequently was amended multiple times, most recently, to set the maximum commitments under the Deutsche Bank credit facility at $315,000 and extend the maturity date to June 11, 2017.

Under the Deutsche Bank credit facility, the Company has transferred from time to time cash or securities to FSEP Funding as a contribution to capital and retains a residual interest in the contributed cash or securities through the Company's ownership of FSEP Funding. The Company may contribute additional cash or securities to FSEP Funding from time to time and FSEP Funding may purchase additional securities from various sources. FSEP Funding has appointed the Company to manage its portfolio of securities pursuant to the terms of an investment management agreement. FSEP Funding's obligations to the lenders under the Deutsche Bank credit facility are secured by a first priority security interest in substantially all of the assets of FSEP Funding, including its portfolio of securities. The obligations of FSEP Funding under the Deutsche Bank credit facility are non-recourse to the Company and the Company's exposure under the Deutsche Bank credit facility is limited to the value of the Company's investment in FSEP Funding.

During the period from June 24, 2011 to June 10, 2016, interest on borrowings under the Deutsche Bank credit facility accrued at a rate equal to LIBOR for an interest period closest to the weighted average LIBOR interest period of eligible securities owned by FSEP Funding plus 1.80% per annum. Beginning June 11, 2016, interest on borrowings under the Deutsche Bank credit facility is based on LIBOR for an interest period closest to the weighted average LIBOR interest period of eligible securities owned by FSEP Funding plus 2.05% per annum. FSEP Funding is subject to a non-usage fee of 0.75% per annum to the extent that the aggregate principal amount available under the Deutsche Bank credit facility is not borrowed. Any amounts borrowed under the Deutsche Bank credit facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on June 11, 2017.

Note 8. Financing Arrangements (Continued)

As of December 31, 2016 and 2015, $200,000 and $280,000, respectively, was outstanding under the Deutsche Bank credit facility. The carrying amount outstanding under the Deutsche Bank credit facility approximates its fair value. The Company incurred costs of $4,443 in connection with obtaining and amending the Deutsche Bank credit facility, which the Company has recorded as deferred financing costs on its consolidated balance sheets and amortizes to interest expense over the life of the Deutsche Bank credit facility. As of December 31, 2016, $487 of such deferred financing costs had yet to be amortized to interest expense.

For the years ended December 31, 2016, 2015 and 2014, the components of total interest expense for the Deutsche Bank credit facility were as follows:

	Year Ended December 31,		
	2016	2015	2014
Direct interest expense	$5,775	$5,951	$5,046
Non-usage fees	834	456	385
Amortization of deferred financing costs	1,145	1,036	763
Total interest expense	$7,754	$7,443	$6,194

For the years ended December 31, 2016, 2015 and 2014, the cash paid for interest expense, average borrowings, effective interest rate and weighted average interest rate for the Deutsche Bank credit facility were as follows:

	Year Ended December 31,		
	2016	2015	2014
Cash paid for interest expense[(1)]	$ 6,591	$ 6,316	$ 5,294
Average borrowings under the Deutsche Bank credit facility	$216,612	$280,000	$245,260
Effective interest rate on borrowings	2.89%	2.30%	2.04%
Weighted average interest rate (including the effect of non-usage fees)	3.05%	2.29%	2.21%

(1) Interest under the Deutsche Bank credit facility is paid quarterly in arrears.

Borrowings under the Deutsche Bank credit facility are subject to compliance with a borrowing base, pursuant to which the amount of funds advanced to FSEP Funding varies depending upon the types of assets in FSEP Funding's portfolio. The occurrence of certain events described as "Super-Collateralization Events" in the credit agreement that governs the Deutsche Bank credit facility, or a decline in the Company's net asset value below a specified threshold, results in a lowering of the amount of funds that will be advanced against such assets. Super-Collateralization Events include, without limitation: (i) certain key employees ceasing to be directors, principals, officers or investment managers of GSO; (ii) the bankruptcy or insolvency of GSO or FS Advisor; (iii) GSO ceasing to act as the Company's sub-adviser or FS Advisor ceasing to act as the Company's investment adviser; (iv) the Company ceasing to act as FSEP Funding's investment manager, becoming bankrupt or insolvent, defaulting on certain material agreements or failing to maintain a net asset value above a specified threshold; and (v) the Company, GSO or FS Advisor committing fraud or other illicit acts in its or their investment advisory capacities.

In connection with the Deutsche Bank credit facility, FSEP Funding has made certain representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. The Deutsche Bank credit facility contains customary events of default for similar financing transactions, including (a) the failure to make

Note 8. Financing Arrangements (Continued)

principal payments when due or interest payments within three business days of when due; (b) borrowings under the Deutsche Bank credit facility exceeding the applicable advance rates; (c) the purchase by FSEP Funding of certain ineligible assets; (d) the insolvency or bankruptcy of FSEP Funding or the Company; (e) the Company ceasing to act as investment manager of FSEP Funding's assets; (f) the decline of the Company's net asset value below a specified threshold; and (g) fraud or other illicit acts by the Company, FS Advisor or GSO in its or their investment advisory capacities. During the continuation of an event of default, FSEP Funding must pay interest at a default rate.

Borrowings of FSEP Funding will be considered borrowings by the Company for purposes of complying with the asset coverage requirements under the 1940 Act applicable to BDCs.

Fortress Facility

On November 6, 2015, Foxfields Funding LLC, or Foxfields Funding, a wholly-owned financing subsidiary of the Company, entered into a senior secured multiple draw term loan facility, or the Fortress facility, with Fortress as administrative agent, the lenders from time to time party thereto and the other loan parties from time to time party thereto. The Fortress facility, as amended, provides for $155,000 of term loans available to be borrowed during the first two years after the initial closing date of November 6, 2015 with an option for the Company to request, at one or more times during the first two years after the closing date, that existing or new lenders, at their election provide up to $45,000 of additional commitments.

Interest under the Fortress facility for (i) loans bearing interest by reference to LIBOR accrues at a rate equal to LIBOR (subject to a floor of 0.75%) plus 5.00% per annum, and (ii) loans bearing interest by reference to the base rate accrues at 4.00% per annum plus the greater of: (x) the per annum rate of interest announced, from time to time, within Wells Fargo Bank, National Association at its principal office in San Francisco as its "prime rate," and (y) 1.75% per annum. Interest is payable quarterly in arrears and began accruing during the quarter ended March 31, 2016. During the first year after the closing date, Foxfields Funding is subject to a commitment fee at a rate equal to 1.00% per annum of the average daily undrawn amount under the Fortress facility. Under certain conditions, Foxfields Funding will be subject to a prepayment premium if all or any part of the principal balance of the borrowings is prepaid prior to a date that is two years after the closing date. Foxfields Funding incurred certain customary fees, costs and expenses in connection with obtaining the Fortress facility.

As of December 31, 2016 and 2015, $155,000 and $89,600, respectively, was outstanding under the Fortress facility. The carrying amount outstanding under the Fortress facility approximates its fair value. The Company incurred costs of $1,342 in connection with obtaining and amending the Fortress facility, which the Company has recorded as deferred financing costs on its consolidated balance sheets and amortizes to interest expense over the life of the Fortress facility. As of December 31, 2016, $1,045 of such deferred financing costs had yet to be amortized to interest expense.

For the years ended December 31, 2016 and 2015, the components of total interest expense for the Fortress facility were as follows:

	Year Ended December 31,	
	2016	2015
Direct interest expense	$5,890	$507
Non-usage fees	613	140
Amortization of deferred financing costs	270	27
Total interest expense	$6,773	$674

Note 8. Financing Arrangements (Continued)

For the years ended December 31, 2016 and 2015, the cash paid for interest expense, average borrowings, effective interest rate and weighted average interest rate for the Fortress facility were as follows:

	Year Ended December 31,	
	2016	2015
Cash paid for interest expense[(1)]	$ 5,093	$ —
Average borrowings under the Fortress facility[(2)]	$100,679	$56,714
Effective interest rate on borrowings	5.77%	5.75%
Weighted average interest rate (including the effect of non-usage fees)	6.46%	7.33%

(1) Interest under the Fortress facility is paid quarterly in arrears and payments commenced on April 14, 2016.

(2) Average borrowings for the year ended December 31, 2015 are calculated for the period since the Company commenced borrowings thereunder to December 31, 2015.

In connection with the Fortress facility, Foxfields Funding has made certain representations and warranties and must comply with various covenants and reporting requirements customary for facilities of this type, including the following financial covenants: (a) the Company's minimum consolidated shareholders' equity, as determined in accordance with GAAP and measured as of each fiscal quarter-end, must be greater than $1,500,000; (b) the Company must maintain at all times a 200% asset coverage ratio; (c) Foxfields Funding must maintain, as of each quarter-end, an asset coverage ratio of either 300% or 325% depending on the relative composition of its portfolio between debt and equity investments; and (d) the portfolio investments must be issued by not fewer than 10 unrelated obligors at all times, measured as of each quarter-end.

The Fortress facility contains events of default customary for facilities of this type as described in the loan documentation. Upon the occurrence of an event of default, Fortress, at the instruction or with the consent of the lenders, may terminate the commitments and declare the outstanding advances and all other obligations under the Fortress facility immediately due and payable. During the continuation of certain events of default, the Company must pay interest at a default rate.

Borrowings of Foxfields Funding will be considered borrowings by the Company for purposes of complying with the asset coverage requirements under the 1940 Act applicable to BDCs.

Goldman Financing

On September 11, 2014, through its two wholly-owned, special-purpose financing subsidiaries, Gladwyne Funding LLC, or Gladwyne Funding, and Strafford Funding LLC, or Strafford Funding, the Company entered into a debt financing arrangement with Goldman. The amount available under the financing arrangement, as amended, is $325,000. The Company elected to structure the financing in the manner described more fully below in order to, among other things, obtain such financing at a lower cost than would have been available through alternate arrangements.

Under the financing arrangement, assets in the Company's portfolio may be sold and/or contributed by it from time to time to Gladwyne Funding, pursuant to an Amended and Restated Sale and Contribution Agreement, dated as of September 11, 2014, between the Company and Gladwyne Funding, or the Sale and Contribution Agreement. As of December 31, 2016 and 2015, the fair value of assets held by Gladwyne Funding was $790,990 and $642,954, respectively, which includes an initial contribution by the Company of a portfolio of assets with an aggregate par value of $427,061. The assets held by Gladwyne Funding secure the obligations of Gladwyne Funding under certain Floating

Note 8. Financing Arrangements (Continued)

Rate Notes, or the Notes, to be issued from time to time by Gladwyne Funding to Strafford Funding, pursuant to an indenture, dated as of September 11, 2014, as supplemented by the Second Supplemental Indenture dated as of September 21, 2016, or the Indenture, with Citibank N.A., as trustee. Pursuant to the Indenture, the aggregate principal amount of Notes that may be issued by Gladwyne Funding from time to time is $577,750. Interest on the Notes under the Indenture accrues at three-month LIBOR plus a spread of 4.00% per annum. Principal and any unpaid interest on the Notes will be due and payable on the stated maturity date of November 15, 2025. As of December 31, 2016, Strafford Funding had purchased $577,750 of Notes, the maximum principal amount of Notes that may be purchased under the Goldman facility (as defined below).

Pursuant to the Indenture, Gladwyne Funding has made certain representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar transactions. The Indenture contains customary events of default for similar financing transactions, including: (a) the failure to make principal payments on the Notes at their stated maturity or any earlier redemption date or to make interest payments on the Notes within five business days of when due; (b) the failure to disburse amounts in excess of $1 in accordance with the priority of payments; and (c) the occurrence of certain bankruptcy and insolvency events with respect to Gladwyne Funding.

Strafford Funding, in turn, entered into a repurchase transaction with Goldman, pursuant to the terms of a master repurchase agreement and the related annex thereto, each dated as of September 11, 2014, as supplemented by the second amended and restated master confirmation dated as of September 21, 2016, or collectively, the Goldman facility. Pursuant to the Goldman facility, on one or more occasions beginning December 15, 2014, Goldman began purchasing Notes held by Strafford Funding for an aggregate purchase price equal to approximately 56.25% of the principal amount of the Notes purchased. As of December 31, 2016, Goldman had purchased Notes in the principal amount of $577,750 from Strafford Funding, the maximum principal amount of Notes available to be purchased under the Goldman facility, for a total purchase price equal to $325,000.

Strafford Funding will repurchase the Notes sold to Goldman under the Goldman facility no later than September 15, 2018. The repurchase price paid by Strafford Funding to Goldman will be equal to the purchase price paid by Goldman for the repurchased Notes, plus financing fees accrued at the applicable pricing rate under the Goldman facility. Through March 15, 2015, financing fees accrued on the greater of $225,000 or the aggregate purchase price paid by Goldman for such Notes. Thereafter, financing fees accrue on $325,000 (even in prior periods when the aggregate purchase price paid for Notes purchased by Goldman was less than that amount), unless and until the outstanding amount is reduced in accordance with the terms of the Goldman facility.

If the Goldman facility is accelerated prior to September 15, 2018 due to an event of default or the failure of Gladwyne Funding to commit to sell any underlying assets that become defaulted obligations within 30 days and thereafter to use commercially reasonable efforts to sell any such defaulted obligations, then Strafford Funding must pay to Goldman a fee equal to the present value of the aggregate amount of the financing fees that would have been payable to Goldman through September 15, 2018 had the acceleration not occurred. The financing fee under the Goldman facility is equal to three-month LIBOR plus a spread of up to 3.38% per annum for the relevant period.

Pursuant to the Goldman facility, Strafford Funding has made certain representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar transactions. The Goldman facility contains customary events of default for similar financing transactions, including: (a) failure to transfer the Notes to Goldman on the applicable purchase date or repurchase the Notes from Goldman on the applicable repurchase date;

Note 8. Financing Arrangements (Continued)

(b) failure to pay certain fees and make-whole amounts when due; (c) failure to post cash collateral as required; (d) the occurrence of insolvency events with respect to Strafford Funding; and (e) the admission by Strafford Funding of its inability to, or its intention not to, perform any of its obligations under the Goldman facility.

Goldman may require Strafford Funding to post cash collateral if the market value of the Notes (measured by reference to the market value of Gladwyne Funding's portfolio of assets) declines and is less than the required margin amount under the Goldman facility. In such event, in order to satisfy any such margin-posting requirements, Strafford Funding has the option to borrow funds from the Company pursuant to an uncommitted revolving credit agreement, dated as of September 11, 2014 and amended and restated on September 21, 2016, between Strafford Funding, as borrower, and the Company, as lender, or the Revolving Credit Agreement. Borrowings under the Revolving Credit Agreement may not exceed $325,000 and will accrue interest at a rate equal to one-month LIBOR plus a spread of 0.75% per annum.

As of December 31, 2016 and 2015, Notes in an aggregate principal amount of $577,750 had been purchased by Strafford Funding from Gladwyne Funding and subsequently sold to Goldman under the Goldman facility for aggregate proceeds of $325,000 and $324,984, respectively. The carrying amount outstanding under the Goldman facility approximates its fair value. The Company funded each purchase of Notes by Strafford Funding through a capital contribution to Strafford Funding. As of December 31, 2016 and 2015, Strafford Funding's liability under the Goldman facility was $325,000 and $324,984, respectively, plus $649 and $474, respectively, of accrued interest expense. The Notes issued by Gladwyne Funding and purchased by Strafford Funding eliminate in consolidation on the Company's financial statements.

The Company incurred costs of $380 in connection with obtaining and amending the Goldman facility, which the Company has recorded as deferred financing costs on its consolidated balance sheets and amortizes to interest expense over the life of the Goldman facility. As of December 31, 2016, $91 of such deferred financing costs had yet to be amortized to interest expense.

For the years ended December 31, 2016, 2015 and 2014, the components of total interest expense for the Goldman facility were as follows:

	Year Ended December 31,		
	2016	2015	2014
Direct interest expense	$11,927	$9,448	$445
Amortization of deferred financing costs	129	128	32
Total interest expense	$12,056	$9,576	$477

For the years ended December 31, 2016, 2015 and 2014, the cash paid for interest expense, average borrowings, effective interest rate and weighted average interest rate for the Goldman facility were as follows:

	Year Ended December 31,		
	2016	2015	2014
Cash paid for interest expense[1]	$ 11,752	$ 9,419	$ —
Average borrowings under the Goldman facility[2]	$324,989	$251,427	$49,721
Effective interest rate on borrowings	4.23%	3.09%	2.98%
Weighted average interest rate	3.67%	3.76%	2.98%

(1) Interest under the Goldman facility is paid quarterly in arrears.

(2) Average borrowings for the year ended December 31, 2014 are calculated for the period since the Company commenced borrowings thereunder to December 31, 2014.

Note 8. Financing Arrangements (Continued)

In connection with the Notes and the Indenture, Gladwyne Funding also entered into (i) an amended and restated investment management agreement with the Company, as investment manager, dated as of September 11, 2014, pursuant to which the Company will manage the assets of Gladwyne Funding; and (ii) a collateral administration agreement with Virtus Group, LP, or Virtus, as collateral administrator, dated as of September 11, 2014, pursuant to which Virtus will perform certain administrative services with respect to the assets of Gladwyne Funding.

Amounts outstanding under the Goldman facility will be considered borrowings of the Company for purposes of complying with the asset coverage requirements under the 1940 Act applicable to BDCs.

Natixis Credit Facility

On July 11, 2013, Energy Funding LLC, or Energy Funding, the Company's wholly-owned, special-purpose financing subsidiary, entered into a revolving credit facility, or the Natixis credit facility, with Natixis, New York Branch, or Natixis, as administrative agent and lender, Wells Fargo Bank, National Association, as collateral agent and custodian, and the other lenders from time to time party thereto. The Natixis credit facility provided for revolving borrowings through January 11, 2015 in an aggregate principal amount up to $150,000 on a committed basis. After that date, the Company was no longer permitted to borrow under the Natixis credit facility and outstanding amounts began to amortize. During the years ended December 31, 2016 and 2015, the Company repaid $41,845 and $57,827, respectively, of outstanding borrowings under the Natixis credit facility.

The Company contributed cash and debt securities to Energy Funding from time to time, prior to the commencement of the amortization period under the Natixis credit facility, subject to certain restrictions set forth in the Natixis credit facility. The Company continues to retain a residual interest in any assets contributed through its ownership of Energy Funding or it received fair market value for any debt securities sold to Energy Funding. Energy Funding was also permitted to purchase additional debt securities from various sources prior to the commencement of the amortization period under the Natixis credit facility. Energy Funding has appointed the Company to manage its portfolio of debt securities pursuant to the terms of a collateral management agreement. Energy Funding's obligations to the lenders under the Natixis credit facility are secured by a first priority security interest in substantially all of the assets of Energy Funding, including its portfolio of debt securities. The obligations of Energy Funding under the Natixis credit facility are non-recourse to the Company and the Company's exposure under the Natixis credit facility is limited to the value of the Company's investment in Energy Funding.

Remaining outstanding borrowings under the Natixis credit facility accrue interest at a rate equal to the applicable commercial paper rate plus 2.25% per annum. Prior to the commencement of the amortization period, Energy Funding was subject to a non-usage fee of 1.00% per annum to the extent that the aggregate principal amount available under the Natixis credit facility had not been borrowed. Any amounts borrowed under the Natixis credit facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on July 11, 2023.

As of December 31, 2016 and 2015, $50,328 and $92,173, respectively, was outstanding under the Natixis credit facility. The carrying amount outstanding under the Natixis credit facility approximates its fair value. The Company incurred costs of $2,544 in connection with obtaining the Natixis credit facility, which the Company has recorded as deferred financing costs on its consolidated balance sheets and amortizes to interest expense over the life of the Natixis credit facility. As of December 31, 2016, $342 of such deferred financing costs had yet to be amortized to interest expense.

Note 8. Financing Arrangements (Continued)

For the years ended December 31, 2016, 2015 and 2014, the components of total interest expense for the Natixis credit facility were as follows:

	Year Ended December 31,		
	2016	2015	2014
Direct interest expense	$2,217	$3,041	$3,733
Amortization of deferred financing costs	1,044	782	256
Total interest expense	$3,261	$3,823	$3,989

For the years ended December 31, 2016, 2015 and 2014, the cash paid for interest expense, average borrowings, effective interest rate and weighted average interest rate for the Natixis credit facility were as follows:

	Year Ended December 31,		
	2016	2015	2014
Cash paid for interest expense[(1)]	$ 2,309	$ 3,195	$ 3,810
Average borrowings under the Natixis credit facility	$71,692	$116,357	$150,000
Effective interest rate on borrowings	3.38%	2.77%	2.57%
Weighted average interest rate	3.09%	2.61%	2.54%

(1) Interest under the Natixis credit facility is paid quarterly in arrears.

In connection with the Natixis credit facility, Energy Funding has made certain representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. The Natixis credit facility contains customary events of default for similar financing transactions, including (a) the failure to make principal payments when due or interest payments within five business days of when due; (b) Energy Funding becoming an investment company required to be registered under the 1940 Act; (c) certain events of insolvency or bankruptcy of Energy Funding; (d) the resignation or removal of the Company as Energy Funding's collateral manager; (e) FS Advisor or any replacement thereof approved in writing by the majority lenders no longer serving as the investment adviser to the Company; and (f) GSO or any replacement thereof approved in writing by the majority lenders no longer serving as the investment sub-adviser to the Company. Upon the occurrence of an event of default, the majority lenders or Natixis (acting at the direction of the majority lenders) may declare the outstanding principal and interest and all other amounts owing under the Natixis credit facility immediately due and payable. During the continuation of an event of default, Energy Funding must pay interest at a default rate.

Borrowings of Energy Funding will be considered borrowings of the Company for purposes of complying with the asset coverage requirements under the 1940 Act applicable to BDCs.

Wells Fargo Credit Facility

On September 9, 2014, Wayne Funding LLC, or Wayne Funding, the Company's wholly-owned, special purpose financing subsidiary, entered into a revolving credit facility, or the Wells Fargo credit facility, with Wells Fargo Securities, LLC, as administrative agent, each of the conduit lenders and institutional lenders from time to time party thereto and Wells Fargo Bank, National Association, collectively referred to herein as Wells Fargo, as the collateral agent, account bank and collateral custodian under the Wells Fargo credit facility. The Wells Fargo credit facility originally provided for borrowings in an aggregate principal amount up to $200,000 on a committed basis, subject to Wayne Funding's option to reduce the commitment amount as provided in the Wells Fargo credit facility.

Note 8. Financing Arrangements (Continued)

Wayne Funding elected to reduce the commitment amount on February 23, 2016 to $125,000. On October 13, 2016, the Wells Fargo credit facility was further amended to (1) reduce the maximum commitment from $125,000 to $60,000; (2) shorten the maturity date from September 9, 2019 to September 9, 2018; and (3) eliminate the non-usage fee.

The Company may contribute cash, loans or bonds to Wayne Funding from time to time and will retain a residual interest in any assets contributed through its ownership of Wayne Funding or will receive fair market value for any assets sold to Wayne Funding. Wayne Funding may purchase additional assets from various sources. Wayne Funding has appointed the Company to manage its portfolio of assets pursuant to the terms of a collateral management agreement. Wayne Funding's obligations to Wells Fargo under the Wells Fargo credit facility are secured by a first priority security interest in substantially all of the assets of Wayne Funding, including its portfolio of assets. The obligations of Wayne Funding under the Wells Fargo credit facility are non-recourse to the Company and the Company's exposure under the Wells Fargo credit facility is limited to the value of its investment in Wayne Funding.

Borrowings under the Wells Fargo credit facility accrue interest at a rate equal to three-month LIBOR plus a spread ranging between 2.50% and 2.75% per annum, depending on the composition of the portfolio of assets for the relevant period. During the period beginning October 10, 2014 through June 5, 2015, Wayne Funding was subject to a non-usage fee of 0.50% per annum on the unborrowed principal amount available under the Wells Fargo credit facility. Beginning June 6, 2015 and through October 12, 2016, the non-usage fee was equal to the sum of (a) 0.50% per annum on the first $40,000 of unborrowed principal amount available under the Wells Fargo credit facility and (b) 2.00% on any unborrowed principal amount available under the Wells Fargo credit facility in excess of $40,000. Any amounts borrowed under the Wells Fargo credit facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on September 9, 2018. Borrowings under the Wells Fargo credit facility are subject to compliance with a borrowing base, pursuant to which the amount of funds advanced to Wayne Funding varies depending upon the types of assets in Wayne Funding's portfolio.

As of December 31, 2016 and 2015, $29,600 and $140,000, respectively, was outstanding under the Wells Fargo credit facility. The carrying amount outstanding under the facility approximates its fair value. The Company incurred costs of $2,641 in connection with obtaining the Wells Fargo credit facility, which the Company has recorded as deferred financing costs on its consolidated balance sheets and amortizes to interest expense over the life of the Wells Fargo credit facility. As of December 31, 2016, $1,360 of such deferred financing costs had yet to be amortized to interest expense.

For the years ended December 31, 2016, 2015 and 2014, the components of total interest expense for the Wells Fargo credit facility were as follows:

	Year Ended December 31,		
	2016	2015	2014
Direct interest expense	$3,077	$3,917	$219
Non-usage fees	175	575	191
Amortization of deferred financing costs	590	528	163
Total interest expense	$3,842	$5,020	$573

Note 8. Financing Arrangements (Continued)

For the years ended December 31, 2016, 2015 and 2014, the cash paid for interest expense, average borrowings, effective interest rate and weighted average interest rate for the Wells Fargo credit facility were as follows:

	Year Ended December 31,		
	2016	2015	2014
Cash paid for interest expense[1]	$ 3,550	$ 4,369	$ 156
Average borrowings under the Wells Fargo credit facility[2]	$91,283	$129,575	$120,000
Effective interest rate on borrowings	3.58%	3.23%	2.74%
Weighted average interest rate (including the effect of non-usage fees)	3.56%	3.47%	2.27%

(1) Interest under the Wells Fargo credit facility is paid quarterly in arrears.

(2) Average borrowings for the year ended December 31, 2014 are calculated for the period since the Company commenced borrowings thereunder to December 31, 2014.

In connection with the Wells Fargo credit facility, Wayne Funding has made certain representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. The Wells Fargo credit facility contains customary events of default for similar financing transactions, including: (a) the failure to make principal or interest payments within three business days of when due; (b) a borrowing base deficiency that is not cured in accordance with the terms of the Wells Fargo credit facility; (c) the insolvency or bankruptcy of Wayne Funding or the Company; (d) the resignation or removal of the Company as collateral manager; (e) the failure of the Company to maintain an asset coverage ratio of greater than or equal to 2:1; (f) the failure of the Company to have a net asset value of at least $300,000; and (g) the failure of Wayne Funding to qualify as a bankruptcy-remote entity. Upon the occurrence and during the continuation of an event of default, Wells Fargo may declare the outstanding advances and all other obligations under the Wells Fargo credit facility immediately due and payable. During the continuation of an event of default, Wayne Funding must pay interest at a default rate.

In addition, the occurrence of certain events described as "Collateral Manager Events of Default" in the loan and servicing agreement which governs the Wells Fargo credit facility may trigger (i) a requirement that Wayne Funding obtain the consent of Wells Fargo prior to entering into any transaction with respect to portfolio assets and (ii) the right of Wells Fargo to direct Wayne Funding to enter into transactions with respect to any portfolio assets, in each case in Wells Fargo's sole discretion. Collateral Manager Events of Default include non-performance of any obligation under the transaction documents by Wayne Funding, the Company, FS Advisor or GSO, and other events with respect to such entities that are adverse to Wells Fargo and the secured parties under the Wells Fargo credit facility.

Borrowings of Wayne Funding will be considered borrowings of the Company for purposes of complying with the asset coverage requirements under the 1940 Act applicable to BDCs.

Note 9. Commitments and Contingencies

The Company enters into contracts that contain a variety of indemnification provisions. The Company's maximum exposure under these arrangements is unknown; however, the Company has not had prior claims or losses pursuant to these contracts. Management of FS Advisor has reviewed the Company's existing contracts and expects the risk of loss to the Company to be remote.

Note 9. Commitments and Contingencies (Continued)

The Company is not currently subject to any material legal proceedings and, to the Company's knowledge, no material legal proceedings are threatened against the Company. From time to time, the Company may be party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of the Company's rights under contracts with its portfolio companies. While the outcome of any legal proceedings cannot be predicted with certainty, the Company does not expect that any such proceedings will have a material effect upon its financial condition or results of operations.

See Note 6 for a discussion of the Company's unfunded commitments.

Note 10. Senior Securities Asset Coverage

Information about the Company's senior securities is shown in the table below for the years ended December 31, 2016, 2015, 2014, 2013 and 2012.

Year Ended December 31,	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage Per Unit(2)	Involuntary Liquidation Preference per Unit(3)	Average Market Value per Unit (Exclude Bank Loans)(4)
2012	$ 263,299	3.29	—	N/A
2013	$ 624,174	3.69	—	N/A
2014	$1,090,413	3.35	—	N/A
2015	$1,040,494	3.32	—	N/A
2016	$ 873,665	4.83	—	N/A

(1) Total amount of each class of senior securities outstanding at the end of the year presented. For purposes of the asset coverage test, the Company treated the outstanding notional amount of the TRS, less the initial amount of any cash collateral required to be posted, as a senior security. The TRS was entered into on August 11, 2011 and was terminated on May 24, 2013.

(2) Asset coverage per unit is the ratio of the carrying value of the Company's total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness.

(3) The amount to which such class of senior security would be entitled upon the voluntary liquidation of the Company in preference to any security junior to it. The "—" in this column indicates that the SEC expressly does not require this information to be disclosed for certain types of senior securities.

(4) Not applicable because senior securities are not registered for public trading on an exchange.

Note 11. Financial Highlights

The following is a schedule of financial highlights of the Company for the years ended December 31, 2016, 2015, 2014, 2013 and 2012.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Per Share Data:[1]					
Net asset value, beginning of year	$ 6.50	$ 8.57	$ 9.66	$ 9.34	$ 8.74
Results of operations[2]					
Net investment income	0.57	0.67	0.74	0.58	0.33
Net realized and unrealized appreciation (depreciation) on investments and total return swap and gain/loss on foreign currency	1.25	(2.18)	(1.46)	0.36	1.05
Net increase (decrease) in net assets resulting from operations	1.82	(1.51)	(0.72)	0.94	1.38
Shareholder distributions[3]					
Distributions from net investment income	(0.67)	(0.67)	(0.62)	(0.65)	(0.49)
Distributions from net realized gain on investments	—	(0.04)	(0.07)	(0.01)	(0.10)
Distributions representing tax return of capital	(0.04)	—	—	—	(0.04)
Net decrease in net assets resulting from shareholder distributions	(0.71)	(0.71)	(0.69)	(0.66)	(0.63)
Capital share transactions					
Issuance of common shares[4]	—	0.18	0.35	0.09	0.02
Repurchases of common shares[5]	—	—	—	—	—
Offering costs[2]	—	(0.03)	(0.03)	(0.05)	(0.12)
Payments to investment adviser for organization and offering costs[2]	—	—	—	—	(0.07)
Capital contributions of investment adviser[2]	—	—	—	—	0.02
Net increase (decrease) in net assets resulting from capital share transactions	—	0.15	0.32	0.04	(0.15)
Net asset value, end of year	$ 7.61	$ 6.50	$ 8.57	$ 9.66	$ 9.34
Shares outstanding, end of year	440,162,095	372,210,264	299,394,371	173,532,259	64,524,909
Total return[6]	29.53%	(17.34)%	(4.79)%	10.76%	14.45%
Total return (without assuming reinvestment of distributions)[7]	28.00%	(15.87)%	(4.14)%	10.49%	14.07%
Ratio/Supplemental Data:					
Net assets, end of year	$ 3,348,894	$ 2,417,861	$ 2,565,721	$ 1,676,237	$ 602,889
Ratio of net investment income to average net assets[8]	8.19%	8.31%	7.71%	6.04%	3.64%
Ratio of total expenses to average net assets[8]	4.88%	5.55%	5.07%	5.89%	7.09%
Portfolio turnover	35.85%	22.70%	35.55%	53.26%	75.24%
Total amount of senior securities outstanding, exclusive of treasury securities[9]	$ 873,665	$ 1,040,494	$ 1,090,413	$ 624,174	$ 263,299
Asset coverage per unit[10]	4.83	3.32	3.35	3.69	3.29

(1) Per share data may be rounded in order to recompute the ending net asset value per share. The share information utilized to determine per share data for the year ended December 31, 2012 has been retroactively adjusted to reflect a share distribution of 1.0% declared in February 2012.

(2) The per share data was derived by using the weighted average shares outstanding during the applicable year.

(3) The per share data for distributions reflects the actual amount of distributions paid per share during the applicable year.

(4) The issuance of common shares on a per share basis reflects the incremental net asset value changes as a result of the issuance of common shares in the Company's continuous public offering and pursuant to the Company's distribution reinvestment plan. The issuance of common shares at an offering price, net of selling commissions and dealer manager fees, that is greater than the net asset value per share results in an increase in net asset value per share. The per share impact of the Company's issuance of common shares was an increase in net asset value of less than $0.01 per share during each year.

Note 11. Financial Highlights (Continued)

(5) The per share impact of the Company's repurchases of common shares was a reduction to net asset value of less than $0.01 per share during each year.

(6) The total return for each year presented was calculated based on the change in net asset value during the applicable year, including the impact of distributions reinvested in accordance with the Company's distribution reinvestment plan. The total return does not consider the effect of any sales commissions or charges that may be incurred in connection with the sale of the Company's common shares. The total return includes the effect of the issuance of common shares at a net offering price that is greater than net asset value per share, which causes an increase in net asset value per share. The historical calculation of total return in the table should not be considered a representation of the Company's future total return, which may be greater or less than the return shown in the table due to a number of factors, including the Company's ability or inability to make investments in companies that meet its investment criteria, the interest rates payable on the debt securities the Company acquires, the level of the Company's expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which the Company encounters competition in its markets and general economic conditions. As a result of these factors, results for any previous year should not be relied upon as being indicative of performance in future years. The total return calculations set forth above represent the total return on the Company's investment portfolio during the applicable year and do not represent an actual return to shareholders.

(7) The total return (without assuming reinvestment of distributions) for each year presented was calculated by taking the net asset value per share as of the end of the applicable year, adding the cash distributions per share which were declared during the applicable year and dividing the total by the net asset value per share at the beginning of the applicable year. The total return (without assuming reinvestment of distributions) does not consider the effect of any sales commissions or charges that may be incurred in connection with the sale of the Company's common shares. The total return (without assuming reinvestment of distributions) includes the effect of the issuance of common shares at a net offering price that is greater than net asset value per share, which causes an increase in net asset value per share. The historical calculation of total return (without assuming reinvestment of distributions) in the table should not be considered a representation of the Company's future total return (without assuming reinvestment of distributions), which may be greater or less than the return shown in the table due to a number of factors, including the Company's ability or inability to make investments in companies that meet its investment criteria, the interest rates payable on the debt securities the Company acquires, the level of the Company's expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which the Company encounters competition in its markets and general economic conditions. As a result of these factors, results for any previous year should not be relied upon as being indicative of performance in future years. The total return calculations set forth above represent the total return on the Company's investment portfolio during the applicable year and do not represent an actual return to shareholders.

(8) Weighted average net assets during the applicable period are used for this calculation. The following is a schedule of supplemental ratios for the years ended December 31, 2016, 2015, 2014, 2013 and 2012:

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Ratio of accrued capital gains incentive fees to average net assets	—	—	(0.48)%	0.75%	2.30%
Ratio of subordinated income incentive fees to average net assets	0.20%	1.13%	1.41%	0.69%	—
Ratio of interest expense to average net assets	1.31%	1.12%	0.84%	0.84%	0.77%
Ratio of offering costs to average net assets	0.17%	—	—	—	—
Ratio of income and excise taxes to average net assets	0.01%	0.01%	0.04%	0.07%	—

(9) Total amount of each class of senior securities outstanding at the end of the year presented. For purposes of the asset coverage test, the Company treated the outstanding notional amount of the Company's TRS, less the initial amount of any cash collateral required to be posted, as a senior security. The TRS was entered into on August 11, 2011 and was terminated on May 24, 2013.

(10) Asset coverage per unit is the ratio of the carrying value of the Company's total consolidated assets, less liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness.

Note 12. Selected Quarterly Financial Data (Unaudited)

The following is the quarterly results of operations for the years ended December 31, 2016 and 2015. The following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

	Quarter Ended			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Investment income	$ 94,122	$ 89,382	$ 88,326	$ 97,910
Operating expenses				
Total expenses	37,622	33,651	31,300	35,520
Net investment income	56,500	55,731	57,026	62,390
Realized and unrealized gain (loss)	131,673	90,595	399,519	(100,850)
Net increase (decrease) in net assets resulting from operations	$ 188,173	$ 146,326	$ 456,545	$ (38,460)
Per share information-basic and diluted				
Net investment income	$ 0.13	$ 0.13	$ 0.14	$ 0.17
Net increase (decrease) in net assets resulting from operations	$ 0.43	$ 0.35	$ 1.14	$ (0.10)
Weighted average shares outstanding	435,223,922	421,515,796	401,013,506	377,688,379

	Quarter Ended			
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Investment income	$ 102,898	$ 98,758	$ 92,410	$ 85,587
Operating expenses				
Total expenses	42,328	40,122	36,746	32,862
Net investment income	60,570	58,636	55,664	52,725
Realized and unrealized gain (loss)	(407,886)	(340,600)	9,329	263
Net increase (decrease) in net assets resulting from operations	$ (347,316)	$ (281,964)	$ 64,993	$ 52,988
Per share information-basic and diluted				
Net investment income	$ 0.17	$ 0.17	$ 0.17	$ 0.17
Net increase (decrease) in net assets resulting from operations	$ (0.96)	$ (0.81)	$ 0.20	$ 0.17
Weighted average shares outstanding	362,553,878	348,739,636	329,285,131	310,241,395

The sum of quarterly per share amounts does not necessarily equal per share amounts reported for the years ended December 31, 2016 and 2015. This is due to changes in the number of weighted average shares outstanding and the effects of rounding for each period.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Exchange Act Rule 13(a)-15(b), we carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2016. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were (a) designed to ensure that the information we are required to disclose in our reports under the Exchange Act is recorded, processed and reported in an accurate manner and on a timely basis and the information that we are required to disclose in our Exchange Act reports is accumulated and communicated to management to permit timely decisions with respect to required disclosure and (b) operating in an effective manner.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rules 13a-15(f) and 15d-15(f), internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Our internal control over financial reporting includes those policies and procedures that:

1. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company's transactions and the dispositions of assets of the Company;

2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and board of trustees; and

3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's report on internal control over financial reporting is set forth above under the heading "Management's Report on Internal Control over Financial Reporting" in Item 8 of this annual report on Form 10-K.

Attestation Report of the Registered Public Accounting Firm

Our registered public accounting firm has issued an attestation report on our internal control over financial reporting. This report appears on page 92.

Changes in Internal Control Over Financial Reporting

During our fourth quarter of 2016, there has been no change in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) or 15d-15(f)) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

The Company will file a definitive Proxy Statement for its 2017 Annual Meeting of Shareholders with the SEC, pursuant to Regulation 14A promulgated under the Exchange Act, not later than 120 days after the end of its fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of the Company's definitive Proxy Statement that specifically address the items set forth herein are incorporated by reference.

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2017 Annual Meeting of Shareholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

Item 11. Executive Compensation.

The information required by Item 11 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2017 Annual Meeting of Shareholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 12 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2017 Annual Meeting of Shareholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2017 Annual Meeting of Shareholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

Item 14. Principal Accountant Fees and Services.

The information required by Item 14 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2017 Annual Meeting of Shareholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

a. Documents Filed as Part of this Report

The following financial statements are set forth in Item 8:

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b. Exhibits

Please note that the agreements included as exhibits to this annual report on Form 10-K are included to provide information regarding their terms and are not intended to provide any other factual or disclosure information about FS Energy and Power Fund or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement that have been made solely for the benefit of the other parties to the applicable agreement and may not describe the actual state of affairs as of the date they were made or at any other time.

The following exhibits are filed as part of this annual report or hereby incorporated by reference to exhibits previously filed with the SEC:

3.1	Third Amended and Restated Declaration of Trust of FS Energy and Power Fund. *(Incorporated by reference to Exhibit 3.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on March 13, 2012.)*
3.2	Amended and Restated Bylaws of FS Energy and Power Fund. *(Incorporated by reference to Exhibit 3.2 to FS Energy and Power Fund's Current Report on Form 8-K filed on March 13, 2012.)*
4.1	Form of Subscription Agreement. *(Incorporated by reference to FS Energy and Power Fund's final prospectus filed on July 6, 2016 with the Securities and Exchange Commission pursuant to Rule 497 of the Securities Act of 1933, as amended.)*
4.2	Second Amended and Restated Distribution Reinvestment Plan of FS Energy and Power Fund. *(Incorporated by reference to Exhibit 4.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on October 17, 2016.)*
10.1	Investment Advisory and Administrative Services Agreement, dated as of April 28, 2011, by and between FS Energy and Power Fund and FS Investment Advisor, LLC. *(Incorporated by reference to Exhibit (g)(1) filed with Amendment No. 3 to FS Energy and Power Fund's registration statement on Form N-2 (File No. 333-169679) filed on May 6, 2011.)*
10.2	Amendment No. 1 dated as of August 10, 2012, to Investment Advisory and Administrative Services Agreement, dated as of April 28, 2011, by and between FS Energy and Power Fund and FS Investment Advisor, LLC. *(Incorporated by reference to Exhibit 10.2 to FS Energy and Power Fund's Quarterly Report on Form 10-Q filed on August 14, 2012.)*

10.3 Investment Sub-advisory Agreement, dated as of April 28, 2011, by and between FS Investment Advisor, LLC and GSO Capital Partners LP. *(Incorporated by reference to Exhibit (g)(2) filed with Amendment No. 3 to FS Energy and Power Fund's registration statement on Form N-2 (File No. 333-169679) filed on May 6, 2011.)*

10.4 Dealer Manager Agreement, dated as of April 28, 2011, by and between FS Energy and Power Fund and FS Investment Solutions, LLC (formerly FS^2 Capital Partners, LLC) *(Incorporated by reference to Exhibit (h)(1) filed with Amendment No. 3 to FS Energy and Power Fund's registration statement on Form N-2 (File No. 333-169679) filed on May 6, 2011.)*

10.5 Form of Follow-On Dealer Manager Agreement by and among FS Energy and Power Fund, FS Investment Advisor, LLC and FS Investment Solutions, LLC (formerly FS^2 Capital Partners, LLC) *(Incorporated by reference to Exhibit (h)(2) filed with Pre-Effective Amendment No. 3 to FS Energy and Power Fund's registration statement on Form N-2 (File No. 333-184407) filed on May 10, 2013.)*

10.6 2014 Follow-On Dealer Manager Agreement, dated as of January 7, 2015, by and among FS Energy and Power Fund, FS Investment Advisor, LLC and FS Investment Solutions, LLC (formerly FS^2 Capital Partners, LLC) *(Incorporated by reference to Exhibit (h)(3) filed with Post-Effective Amendment No. 1 to FS Energy and Power Fund's registration statement on Form N-2 (File No. 333-199777) filed on April 1, 2015.)*

10.7 Form of Selected Dealer Agreement (Included as Appendix A to the Dealer Manager Agreement). *(Incorporated by reference to Exhibit (h)(1) filed with Amendment No. 3 to FS Energy and Power Fund's registration statement on Form N-2 (File No. 333-169679) filed on May 6, 2011.)*

10.8 Form of 2014 Follow-On Selected Dealer Agreement. *(Included as Exhibit A to the Form of Follow-On Dealer Manager Agreement.) (Incorporated by reference to Exhibit (h)(5) filed with FS Energy and Power Fund's registration statement on Form N-2 (File No. 333-199777) filed on October 31, 2014.)*

10.9 Custodian Agreement, dated as of November 14, 2011, by and between State Street Bank and Trust Company and FS Energy and Power Fund. *(Incorporated by reference to Exhibit 10.6 to FS Energy and Power Fund's Quarterly Report on Form 10-Q filed on November 14, 2011.)*

10.10 Escrow Agreement, dated as of March 29, 2011, by and between FS Energy and Power Fund and UMB Bank, N.A. *(Incorporated by reference to Exhibit (k) filed with Amendment No. 3 to FS Energy and Power Fund's registration statement on Form N-2 (File No. 333-169679) filed on May 6, 2011.)*

10.11 Credit Agreement, dated as of June 24, 2011, by and among FSEP Term Funding, LLC, Deutsche Bank AG, New York Branch, and the other lenders party thereto. *(Incorporated by reference to Exhibit 10.7 to FS Energy and Power Fund's Quarterly Report on Form 10-Q filed on June 27, 2011.)*

10.12 First Amendment to Credit Agreement, dated as of May 30, 2012, by and among FSEP Term Funding, LLC, Deutsche Bank AG, New York Branch, and the other lenders party thereto. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 30, 2012.)*

10.13 Second Amendment to Credit Agreement, dated as of August 28, 2012, by and among FSEP Term Funding, LLC, Deutsche Bank AG, New York Branch, and the other lenders party thereto. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on August 30, 2012.)*

10.14 Third Amendment to Credit Agreement, dated as of October 18, 2012, by and among FSEP Term Funding, LLC, Deutsche Bank AG, New York Branch, and the other lenders party thereto. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on October 18, 2012.)*

10.15 Fourth Amendment to Credit Agreement, dated as of June 24, 2013, by and among FSEP Term Funding, LLC and Deutsche Bank AG, New York Branch. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on June 25, 2013.)*

10.16 Amended and Restated Credit Agreement, dated as of June 11, 2014, by and among FSEP Term Funding, LLC and Deutsche Bank AG, New York Branch. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on June 17, 2014.)*

10.17 First Amendment to Amended and Restated Credit Agreement, dated as of June 11, 2015, by and among FSEP Term Funding, LLC and Deutsche Bank AG, New York Branch *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on June 15, 2015.)*

10.18 Second Amendment to Amended and Restated Credit Agreement, dated as of June 10, 2016, by and among FSEP Term Funding, LLC, as borrower, Deutsche Bank AG, New York Branch, as administrative agent and a lender, and the other lenders party thereto. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on June 16, 2016.)*

10.19 Asset Contribution Agreement, dated as of June 24, 2011, by and between FS Energy and Power Fund and FSEP Term Funding, LLC. *(Incorporated by reference to Exhibit 10.8 to FS Energy and Power Fund's Quarterly Report on Form 10-Q filed on June 27, 2011.)*

10.20 Investment Management Agreement, dated as of June 24, 2011, by and between FS Energy and Power Fund and FSEP Term Funding, LLC. *(Incorporated by reference to Exhibit 10.9 to FS Energy and Power Fund's Quarterly Report on Form 10-Q filed on June 27, 2011.)*

10.21 Security Agreement, dated as of June 24, 2011, by and between FSEP Term Funding, LLC and Deutsche Bank AG, New York Branch. *(Incorporated by reference to Exhibit 10.10 to FS Energy and Power Fund's Quarterly Report on Form 10-Q filed on June 27, 2011.)*

10.22 ISDA 2002 Master Agreement, together with the Schedule thereto and Credit Support Annex to such Schedule, each dated as of August 11, 2011, by and between EP Investments LLC and Citibank, N.A. *(Incorporated by reference to Exhibit 10.11 to FS Energy and Power Fund's Quarterly Report on Form 10-Q filed on August 15, 2011.)*

10.23 Termination and Release Acknowledgment, dated as of May 11, 2012, by Citibank N.A. in favor of FS Energy and Power Fund. *(Incorporated by reference to Exhibit 10.15 to FS Energy and Power Fund's Quarterly Report on Form 10-Q filed on May 15, 2012.)*

10.24 Amendment Agreement, dated as of May 11, 2012, to the ISDA 2002 Master Agreement, together with the Schedule thereto and Credit Support Annex to such Schedule, by and between EP Investments LLC and Citibank, N.A. *(Incorporated by reference to Exhibit 10.16 to FS Energy and Power Fund's Quarterly Report on Form 10-Q filed on May 15, 2012.)*

10.25 Amended and Restated Confirmation Letter Agreement, dated as of May 11, 2012, by and between EP Investments LLC and Citibank, N.A. *(Incorporated by reference to Exhibit 10.17 to FS Energy and Power Fund's Quarterly Report on Form 10-Q filed on May 15, 2012.)*

10.26 Amended and Restated Confirmation Letter Agreement, dated as of October 11, 2012, by and between EP Investments LLC and Citibank, N.A. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on October 12, 2012.)*

10.27 Termination Acknowledgment (TRS), dated as of May 24, 2013, by and between EP Investments LLC and Citibank, N.A. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 31, 2013.)*

10.28 Loan Agreement, dated as of May 24, 2013, by and among EP Funding LLC, the financial institutions and other lenders from time to time party thereto and Citibank, N.A., as administrative agent. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 29, 2013.)*

10.29 Account Control Agreement, dated as of May 24, 2013, by and among EP Funding LLC, Citibank, N.A. and Virtus Group, LP. *(Incorporated by reference to Exhibit 10.2 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 29, 2013.)*

10.30 Security Agreement, dated as of May 24, 2013, by and between EP Funding LLC and Citibank, N.A. *(Incorporated by reference to Exhibit 10.3 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 29, 2013.)*

10.31 Investment Management Agreement, dated as of May 24, 2013, by and between FS Energy and Power Fund and EP Funding LLC. *(Incorporated by reference to Exhibit 10.4 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 29, 2013.)*

10.32 Credit Agreement, dated as of July 11, 2013, by and among Energy Funding LLC, Natixis, New York Branch, Wells Fargo Bank, National Association and the other lenders from time to time party thereto. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on July 16, 2013.)*

10.33 Securities Account Control Agreement, dated as of July 11, 2013, by and among Energy Funding LLC and Wells Fargo Bank, National Association. *(Incorporated by reference to Exhibit 10.2 to FS Energy and Power Fund's Current Report on Form 8-K filed on July 16, 2013.)*

10.34 Collateral Management Agreement, dated as of July 11, 2013, by and between FS Energy and Power Fund and Energy Funding LLC. *(Incorporated by reference to Exhibit 10.3 to FS Energy and Power Fund's Current Report on Form 8-K filed on July 16, 2013.)*

10.35 Amended and Restated Expense Support and Conditional Reimbursement Agreement, dated May 16, 2013, by and between FS Energy and Power Fund and Franklin Square Holdings, L.P. *(Incorporated by reference to Exhibit 99.1 to FS Energy and Power Fund's Current report on Form 8-K filed on May 17, 2013.)*

10.36 Committed Facility Agreement, dated as of December 11, 2013, by and between Berwyn Funding LLC and BNP Paribas Prime Brokerage, Inc. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on December 17, 2013.)*

10.37 First Amendment Agreement, dated as of August 18, 2014, between BNP Paribas Prime Brokerage, Inc., on behalf of itself and as agent for the BNPP Entities, and Berwyn Funding LLC. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on August 21, 2014.)*

10.38 Fifth Amendment to the Committed Facility Agreement, dated as of May 4, 2016 by and between Berwyn Funding LLC and BNP Paribas Prime Brokerage, Inc. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 10, 2016.)*

10.39 U.S. PB Agreement, dated as of December 11, 2013, by and between Berwyn Funding LLC and BNP Paribas Prime Brokerage, Inc. *(Incorporated by reference to Exhibit 10.2 to FS Energy and Power Fund's Current Report on Form 8-K filed on December 17, 2013.)*

10.40 First Amendment to the U.S. PB Agreement, dated as of May 4, 2016, by and between Berwyn Funding LLC and BNP Paribas Prime Brokerage, Inc. *(Incorporated by reference to Exhibit 10.2 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 10, 2016.)*

10.41 Special Custody and Pledge Agreement, dated as of December 11, 2013, by and among State Street Bank and Trust Company, Berwyn Funding LLC and BNP Paribas Prime Brokerage, Inc. *(Incorporated by reference to Exhibit 10.3 to FS Energy and Power Fund's Current Report on Form 8-K filed on December 17, 2013.)*

10.42 Investment Management Agreement, dated as of December 11, 2013, by and between FS Energy and Power Fund and Berwyn Funding LLC. *(Incorporated by reference to Exhibit 10.4 to FS Energy and Power Fund's Current Report on Form 8-K filed on December 17, 2013.)*

10.43 Loan and Servicing Agreement, dated as of September 9, 2014, among Wayne Funding LLC, as borrower, Wells Fargo Securities, LLC, as administrative agent, Wells Fargo Bank, National Association, as collateral agent, account bank and collateral custodian, and the other lenders and lender agents from time to time party thereto. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on September 15, 2014.)*

10.44 First Amendment to the Loan and Servicing Agreement, dated as of October 13, 2016, among Wayne Funding LLC, as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, Wells Fargo Bank, National Association, as institutional lender, and Wells Fargo Bank, National Association, as collateral agent, account bank and collateral custodian. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on October 14, 2016.)*

10.45 Purchase and Sale Agreement, dated as of September 9, 2014, by and between Wayne Funding LLC, as purchaser, and FS Energy and Power Fund, as seller. *(Incorporated by reference to Exhibit 10.2 to FS Energy and Power Fund's Current Report on Form 8-K filed on September 15, 2014.)*

10.46 Collateral Management Agreement, dated as of September 9, 2014, by and between Wayne Funding LLC and FS Energy and Power Fund, as collateral manager. *(Incorporated by reference to Exhibit 10.3 to FS Energy and Power Fund's Current Report on Form 8-K filed on September 15, 2014.)*

10.47 Securities Account Control Agreement, dated as of September 9, 2014, by and among Wayne Funding LLC, as pledgor, Wells Fargo Bank, National Association, as collateral agent, and Wells Fargo Bank, National Association, as securities intermediary. *(Incorporated by reference to Exhibit 10.4 to FS Energy and Power Fund's Current Report on Form 8-K filed on September 15, 2014.)*

10.48 Amended and Restated Sale and Contribution Agreement, dated as of September 11, 2014, by and between FS Energy and Power Fund and Gladwyne Funding LLC. *(Incorporated by reference to Exhibit 10.5 to FS Energy and Power Fund's Current Report on Form 8-K filed on September 15, 2014.)*

10.49 Indenture, dated as of September 11, 2014, by and between Gladwyne Funding LLC and Citibank, N.A., as trustee. *(Incorporated by reference to Exhibit 10.6 to FS Energy and Power Fund's Current Report on Form 8-K filed on September 15, 2014.)*

10.50 First Supplemental Indenture, dated as of December 15, 2014, by and between Gladwyne Funding LLC and Citibank, N.A., as trustee. *(Incorporated by reference to Exhibit 10.1 of FS Energy and Power Fund's Current Report on Form 8-K filed on December 19, 2014.)*

10.51 Second Supplemental Indenture, dated as of September 21, 2016, by and between Gladwyne Funding LLC and Citibank, N.A., as trustee. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on September 22, 2016.)*

10.52 Gladwyne Funding LLC Floating Rate Notes due 2024. *(Incorporated by reference to Exhibit 10.7 to FS Energy and Power Fund's Current Report on Form 8-K filed on September 15, 2014.)*

10.53 September 1996 Version Master Repurchase Agreement between Goldman Sachs Bank USA and Strafford Funding LLC, together with the related Annex and Master Confirmation thereto, each dated as of September 11, 2014. *(Incorporated by reference to Exhibit 10.8 to FS Energy and Power Fund's Current Report on Form 8-K filed on September 15, 2014.)*

10.54 Amended and Restated September 1996 Version Master Repurchase Agreement between Goldman Sachs Bank USA and Strafford Funding LLC, dated as of September 21, 2016. *(Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 22, 2016.)*

10.55 Amended and Restated Master Confirmation, dated as of December 15, 2014, by and between Goldman Sachs Bank USA and Strafford Funding LLC. *(Incorporated by reference to Exhibit 10.2 of FS Energy and Power Fund's Current Report on Form 8-K filed on December 19, 2014.)*

10.56 Second Amended and Restated Master Confirmation, dated as of September 21, 2016, by and between Goldman Sachs Bank USA and Strafford Funding LLC. (*Incorporated by reference to Exhibit 10.56 of FS Energy and Power Fund's Quarterly Report on Form 10-Q filed on November 9, 2016.)*

10.57 Revolving Credit Agreement, dated as of September 11, 2014, by and between FS Energy and Power Fund and Strafford Funding LLC. *(Incorporated by reference to Exhibit 10.9 to FS Energy and Power Fund's Current Report on Form 8-K filed on September 15, 2014.)*

10.58 Amended and Restated Revolving Credit Agreement, dated as of December 15, 2014, by and between FS Energy and Power Fund and Strafford Funding LLC. *(Incorporated by reference to Exhibit 10.3 of FS Energy and Power Fund's Current Report on Form 8-K filed on December 19, 2014.)*

10.59 Amended and Restated Investment Management Agreement, dated as of September 11, 2014, by and between Gladwyne Funding LLC and FS Energy and Power Fund. *(Incorporated by reference to Exhibit 10.10 to FS Energy and Power Fund's Current Report on Form 8-K filed on September 15, 2014.)*

10.60 Collateral Administration Agreement, dated as of September 11, 2014, by and among Gladwyne Funding LLC, FS Energy and Power Fund and Virtus Group, LP. *(Incorporated by reference to Exhibit 10.11 to FS Energy and Power Fund's Current Report on Form 8-K filed on September 15, 2014.)*

10.61 Term Loan and Security Agreement, dated as of November 6, 2015, by and among Foxfields Funding LLC, Fortress Credit Co LLC, as administrative agent, the lenders from time to time party thereto and the other loan parties from time to time party thereto. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on November 12, 2015.)*

10.62 Contribution Agreement, dated as of November 6, 2015, by and between FS Energy and Power Fund and Foxfields Funding LLC. *(Incorporated by reference to Exhibit 10.2 to FS Energy and Power Fund's Current Report on Form 8-K filed on November 12, 2015.)*

10.63 Investment Management Agreement, dated as of November 6, 2015, by and between FS Energy and Power Fund and Foxfields Funding LLC. *(Incorporated by reference to Exhibit 10.3 to FS Energy and Power Fund's Current Report on Form 8-K filed on November 12, 2015.)*

10.64 Securities Account Control Agreement, dated as of November 6, 2015, by and among Foxfields Funding LLC, Fortress Credit Co LLC, as administrative agent and State Street Bank and Trust Company. *(Incorporated by reference to Exhibit 10.4 to FS Energy and Power Fund's Current Report on Form 8-K filed on November 12, 2015.)*

10.65 Guaranty, dated as of November 6, 2015, by and between FS Energy and Power Fund and Fortress Credit Co LLC. *(Incorporated by reference to Exhibit 10.5 to FS Energy and Power Fund's Current Report on Form 8-K filed on November 12, 2015.)*

10.66 Pledge Agreement, dated as of November 6, 2015, by and between FS Energy and Power Fund and Fortress Credit Co LLC. *(Incorporated by reference to Exhibit 10.6 to FS Energy and Power Fund's Current Report on Form 8-K filed on November 12, 2015.)*

10.67 First Amendment to Term Loan and Security Agreement, dated as of November 25, 2015, by and among Foxfields Funding LLC, Fortress Credit Co LLC, as administrative agent, the lenders signatory thereto. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on December 1, 2015.)*

10.68 Senior Secured Revolving Credit Agreement, dated as of May 18, 2016, by and among Bryn Mawr Funding LLC, Barclays Bank PLC, as administrative agent, and the lenders from time to time party thereto. *(Incorporated by reference to Exhibit 10.1 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 24, 2016.)*

10.69 Contribution Agreement, dated as of May 18, 2016, by and between FS Energy and Power Fund and Bryn Mawr Funding LLC. *(Incorporated by reference to Exhibit 10.2 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 24, 2016.)*

10.70 Investment Management Agreement, dated as of May 18, 2016, by and between FS Energy and Power Fund and Bryn Mawr Funding LLC. *(Incorporated by reference to Exhibit 10.3 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 24, 2016.)*

10.71 Control Agreement, dated as of May 18, 2016, by and among Bryn Mawr Funding LLC, Barclays Bank PLC, as collateral agent, and State Street Bank and Trust Company, as custodian. *(Incorporated by reference to Exhibit 10.4 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 24, 2016.)*

10.72 Guaranty, dated as of May 18, 2016, by and between FS Energy and Power Fund and Barclays Bank PLC, as collateral agent. *(Incorporated by reference to Exhibit 10.5 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 24, 2016.)*

10.73 Pledge Agreement, dated as of May 18, 2016, by and between FS Energy and Power Fund and Barclays Bank PLC, as collateral agent. *(Incorporated by reference to Exhibit 10.6 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 24, 2016.)*

10.74 Guarantee, Pledge and Security Agreement, dated as of May 18, 2016, by and among Bryn Mawr Funding LLC, any subsidiary guarantors from time to time party thereto, Barclays Bank PLC, as revolving administrative agent, and Barclays Bank PLC, as collateral agent. *(Incorporated by reference to Exhibit 10.7 to FS Energy and Power Fund's Current Report on Form 8-K filed on May 24, 2016.)*

20.1* Subsidiaries of FS Energy and Power Fund.

31.1* Certification of Chief Executive Officer pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended.

31.2* Certification of Chief Financial Officer pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended.

32.1* Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2* Certification of Chief Financial Officer and Chief Financial Officer pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Filed herewith.

c. Financial statement schedules

No financial statement schedules are filed herewith because (1) such schedules are not required or (2) the information has been presented in the aforementioned consolidated financial statements.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

FS ENERGY AND POWER FUND

Date: March 15, 2017

/s/ Michael C. Forman

Michael C. Forman
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

Date: March 15, 2017	/s/ Michael C. Forman
	Michael C. Forman **Chief Executive Officer and Trustee** **(Principal Executive Officer)**
Date: March 15, 2017	/s/ Edward T. Gallivan, Jr.
	Edward T. Gallivan, Jr. **Chief Financial Officer** **(Principal Accounting and Financial Officer)**
Date: March 15, 2017	/s/ David Adelman
	David Adelman **Trustee**
Date: March 15, 2017	/s/ Sidney Brown
	Sidney Brown **Trustee**
Date: March 15, 2017	/s/ Gregory P. Chandler
	Gregory P. Chandler **Trustee**
Date: March 15, 2017	/s/ Richard Goldstein
	Richard Goldstein **Trustee**
Date: March 15, 2017	/s/ Thomas J. Gravina
	Thomas J. Gravina **Trustee**
Date: March 15, 2017	/s/ Michael Heller
	Michael Heller **Trustee**
Date: March 15, 2017	/s/ Charles P. Pizzi
	Charles P. Pizzi **Trustee**
Date: March 15, 2017	/s/ Richard W. Vague
	Richard W. Vague **Trustee**
Date: March 15, 2017	/s/ R. Richard Williams
	R. Richard Williams **Trustee**

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An investment in FS Energy and Power Fund involves a high degree of risk and may be considered speculative. Investors are advised to read and carefully consider the risk factors and other important information found in FS Energy and Power Fund's reports filed with the U.S. Securities and Exchange Commission.

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 and may continue to in the future.

This is neither an offer to sell nor a solicitation of an offer to buy the securities described herein. FSEP closed to new investors in November 2016.

www.fsinvestments.com
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