

1. Perspective on the energy markets

- The energy sector has significantly underperformed the broader markets over the last several years due to an oversupply of energy driven by the massive growth in U.S. energy production, the impact of climate-change regulation and reduced investor demand for energy assets.
- These longer-term challenges were further compounded by the recent collapse in oil prices. This was driven by the uncertain impact of the COVID-19 virus on global growth and the failure of Saudi Arabia, Russia and other oil-producing countries to reach an agreement around crude oil production.
- For context, as of March 20, 2020, oil prices fell from a year-to-date high of approximately \$65 per barrel to the mid-\$20s per barrel. Energy stocks and high yield bonds have significantly underperformed the broader indexes during this period.
- The rapid decline in energy prices has placed additional pressure on energy companies, especially upstream companies whose operations are typically closely tied to commodity prices.
- Furthermore, investor appetite for energy investments has declined. As investors and commercial banks reduce their exposure to the energy sector, many energy companies find themselves deeply in need of capital.

PERFORMANCE

Prices	2/19	3/20
Commodities		
WTI crude	\$53.29	\$22.43
Brent crude	\$59.12	\$26.98
Henry Hub natural gas	\$1.98	\$1.60
Equity		
S&P 500	2/20 – 3/20	YTD
	-31.79%	-28.33%
S&P 500 Energy	-52.79%	-57.00%
Fixed income		
ICE BAML U.S. High Yield Index	-19.72%	-18.73%
ICE BAML U.S. High Yield Energy Index	-42.62%	-43.84%

WHY IT MATTERS FOR FSEP SHAREHOLDERS

- This matters for shareholders of FS Energy & Power Fund given both the Fund's investment strategy of lending to private U.S. energy companies and its exposure to upstream companies, which represented 49% of the portfolio as of December 31, 2019 based on fair value.
- Given current market conditions and the potential for additional stress in the portfolio, we are taking a number of steps to retain capital, enhance the fund's liquidity and work with our portfolio companies to manage through these challenging times.

2. What is the news?

Suspension of regular monthly distributions

- The Board has not declared regular cash distributions for any period after March 31, 2020.
- FS/EIG and the Board expect that future cash distributions will be suspended until market conditions and fund operations support the resumption of distributions.

Suspension of quarterly tender and distribution reinvestment plan

- In light of the challenging market conditions and in an effort to retain capital, the Board approved the termination of the previously announced tender offer for the quarter ended March 31, 2020.
- The Board also determined to suspend the Fund's share repurchase program. FS/EIG and the Board will reassess the ability to recommence the program based on, among other considerations, market conditions and the Fund's financial operations.

Deferral of management fees

- FS expects to defer the payment of management fees to which it is entitled from the Advisor accrued during the three months ended March 31, 2020 and will assess market conditions and the Fund's financial operations, among other considerations, when determining if and when to collect the deferred fees in the future.

WHY IT MATTERS FOR FSEP SHAREHOLDERS

- Distributions will be suspended until further notice beginning in April. The Fund will make its regular monthly distribution for March, payable on or around March 31st.
- Investors that elected to reinvest their shares through the DRP will be able to do so in connection with the March distribution.
- No shares tendered for Q1 2020 will be repurchased by the Fund.
- FS/EIG Advisor currently expects to defer the payment of 75% of the management fees to which it is entitled from the Fund commencing with the fee due for the quarter ended March 31, 2020. FS/EIG Advisor will assess market conditions and the Fund's financial operations, among other considerations, when determining if and when to terminate the deferral and/or to collect all or part of the deferred fees in the future.

3. Why was the distribution suspended?

- We believe retaining capital and enhancing fund liquidity is critical to preserving shareholder value in the current environment.
- Continuing to pay distributions may inhibit our ability to deploy cash and assets in ways that could otherwise be utilized to preserve shareholder value. For example, we believe having cash on hand is critical to fulfilling existing commitments as well as satisfying the requirements of the Fund's borrowing facilities.
- Recognizing that the Fund's primary investment objective is to generate income, the payment of distributions in today's uncertain environment may ultimately hurt our ability to pay income in the future and negatively impact long-term shareholder value if we are unable to satisfy the requirements of the Fund's borrowing facilities or fulfill our obligations to our portfolio companies.



FS Energy & Power Fund FAQ

4. Why was the tender suspended?

- Similar to the reasons noted above regarding the rationale to suspend the distributions, we believe retaining capital and enhancing fund liquidity is critical to preserving shareholder value in the current environment.
- While the number of shares offered to be repurchased through the Fund's quarterly tender offer is capped based on the availability of shares issued through the fund's distribution reinvestment plan, or DRP, the Fund repurchased approximately \$15 million worth of shares per quarter in 2019.
- Given the known stress in the portfolio and the potential for increasingly challenging operating conditions for our portfolio companies, we believe suspending the tender is a necessary step to retaining capital and enhancing the Fund's liquidity.

5. What steps is FS/EIG taking to manage through the current environment?

- First and foremost, we are seeking ways to retain capital and enhance the Fund's liquidity, including the suspension of the distribution, quarterly tender and DRP.
- We are in regular contact with our borrowers and are closely monitoring their performance and liquidity positions, especially those of our more stressed borrowers.
- Another area of focus is reducing the Fund's exposure to non-income-producing debt and equity investments. The equity investments tend to be highly illiquid, meaning there is not an active market to sell the investments. We will look to sell these investments over time when market conditions improve.
- Finally, we have worked closely with the Fund's leverage providers to optimize our borrowings and continue to evaluate ways to achieve our goal of retaining capital and enhancing liquidity for the Fund.

6. Have you considered selling the portfolio or letting the assets mature to return capital to investors?

- We are constantly evaluating ways to provide liquidity to our investors.
- We do not believe a liquidation of the portfolio in the current environment is the best path to preserving shareholder value. Energy markets are significantly challenged. There is little to no market today for the Fund's non-performing assets.
- In addition, allowing the portfolio to mature would result in the Fund having fewer dollars to reinvest into income-generating assets, placing further pressure on the Fund's ability to sustain a distribution in the future.

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.

FS Investment Solutions, LLC 201 Rouse Boulevard, Philadelphia, PA 19112 www.fsinvestmentsolutions.com
877-628-8575 Member FINRA/SIPC

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