

FS Investment Advisor, LLC

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This brochure provides information about the qualifications and business practices of FS Investment Advisor, LLC (“**FSIA**” or the “**Adviser**”). If you have any questions about the contents of this brochure, please contact us at (215) 495-1150. The information contained in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “**SEC**”) or by any state securities authority.

FSIA is an investment adviser registered with the SEC. Please note that registration does not imply a certain level of skill or training.

Additional information about FSIA is also available on the SEC’s website at www.adviserinfo.sec.gov.

ITEM 2 – Material Changes

On July 28, 2010, the SEC published “Amendments to Form ADV” addressing the information required to be included in the brochure disclosure document (the “**Brochure**”) that FSIA provides to clients as required by the rules promulgated by the SEC under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). This Brochure, dated March 27, 2015, updates the Brochure dated as of March 28, 2014, but contains no material changes.

Currently, FSIA’s Brochure may be requested by contacting Michelle Logue, Chief Compliance Officer, at (215) 495-1172 or michelle.logue@franklinsquare.com.

ITEM 3 – Table of Contents

| | |
|--|----|
| Item 1 – Cover Page | 1 |
| Item 2 – Material Changes | 2 |
| Item 3 – Table of Contents | 3 |
| Item 4 – Advisory Business | 4 |
| Item 5 – Fees and Compensation | 5 |
| Item 6 – Performance-Based Fees and Side-by-Side Management | 7 |
| Item 7 – Types of Clients | 7 |
| Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss | 7 |
| Item 9 – Disciplinary Information | 9 |
| Item 10 – Other Financial Industry Activities and Affiliations | 9 |
| Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading | 12 |
| Item 12 – Brokerage Practices | 12 |
| Item 13 – Review of Accounts | 14 |
| Item 14 – Client Referrals and Other Compensation | 14 |
| Item 15 – Custody | 15 |
| Item 16 – Investment Discretion | 15 |
| Item 17 – Voting Client Securities | 16 |
| Item 18 – Financial Information | 16 |
| Item 19 – Requirements for State-Registered Advisers | 17 |

ITEM 4 – Advisory Business

FSIA was formed in September 2010 for the purpose of providing investment advisory and administrative services to a business development company and other investment funds. At present, the Adviser has a single client, FS Energy and Power Fund (the “**Company**”), a non-diversified, closed-end management investment company that has elected to be regulated as a business development company (“**BDC**”) under the Investment Company Act of 1940, as amended (the “**1940 Act**”). The Adviser may, subject to any limitations described in the investment advisory and administrative services agreement between the Adviser and the Company, advise other BDCs, investment companies, private investment funds, institutional investors or other persons or entities (collectively with the Company, the “**Clients**”), at which time the Adviser will make any necessary amendments to this Brochure.

The Adviser is responsible for identifying potential investments for its Clients. The Adviser evaluates such investments and their appropriateness based on the investment objectives and policies of its Clients, as adopted by their boards of directors, trustees or other governing bodies. If the Adviser determines that certain investments are appropriate, and the Adviser’s investment committee unanimously approves such investments, the Adviser will effectuate the investments on behalf of its respective Clients. The Adviser also has the discretion, without limitation, to determine the broker-dealer used in effecting any investment and commissions to be paid. While brokerage commissions will not generally be implicated, in determining the appropriate level of commissions, the Adviser may consider the level of products, research and services to be obtained.

The Adviser then closes, monitors and continually services any investments made. Using a security analysis methodology that includes a combination of fundamental and cyclical analysis with a consideration of, among other things, a potential investment’s credit rating, if applicable, the Adviser will determine what securities are appropriate for purchase, sale or retention by its Clients.

From time to time, the Adviser may enter into sub-advisory arrangements with registered investment advisers (each, a “**Sub-Adviser**”) that possess skills that the Adviser believes will aid it in achieving its Clients’ investment objectives. Any such Sub-Adviser may, among other things, assist the Adviser in identifying investment opportunities and making investment recommendations to the Adviser. The Adviser will be responsible for compensating any such Sub-Adviser.

The Adviser provides investment supervisory services to each of its Clients pursuant to an investment advisory and administrative services agreement. Any such agreement will automatically terminate in the event of its assignment. The investment advisory and administrative services agreement between the Adviser and the Company provides for its termination without penalty (i) by the Company upon 60 days’ written notice to the Adviser, (a) upon the vote of a majority of the outstanding voting securities of the

Company, or (b) by the vote of the Company's independent trustees, or (ii) by the Adviser upon 120 days' written notice to the Company.

With respect to its advice to the Company, the Adviser focuses primarily on the debt and income-oriented equity securities of privately held U.S. companies in the energy and power industry. The Adviser 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. Income-oriented securities include senior secured debt, subordinated debt, preferred equity securities and common equity securities that pay dividends (which may include interests in master limited partnerships, or MLPs). The Adviser may render advice to the Company with respect to other investments in energy and power related companies, including net profits interests, royalty interests, volumetric production payments, project financing, overriding royalties, warrants and lease interests. However, it may also offer advice to the Company and other Clients on a broad range of securities (whether or not within the energy and power industries), including equity securities that may be exchange-listed, traded over-the-counter or issued by foreign entities, warrants, commercial paper, certificates of deposit, mutual fund shares, U.S. government securities, option contracts on securities, interests in partnerships investing in real estate, oil and gas interests and commodities.

As of December 31, 2014, the Adviser managed approximately \$3.3 billion in Client assets, which the Adviser manages on a discretionary basis.

The principal owner of the Adviser is Franklin Square Holdings, L.P., an entity controlled by Messrs. Michael C. Forman and David J. Adelman.

ITEM 5 – Fees and Compensation

The Adviser has no set policy regarding the calculation of fees for its services and it will determine such fees on a Client-by-Client basis, as negotiated with each Client.

The Adviser deducts fees from the Company's assets and will deduct fees from the assets of any future Clients. With respect to the Company, the Adviser currently is entitled to a base management fee and a two-part incentive fee. The base management fee is calculated at an annual rate of 2.0% of the Company's average gross assets. The base management fee is payable quarterly in arrears, and is calculated based on the average value of the Company's gross assets at the end of the two most recently completed calendar quarters. The base management fee may or may not be taken in whole or in part at the discretion of the Adviser. All or any part of the base management fee not taken as to any quarter will be deferred without interest and may be taken in such other quarter as the Adviser may determine. The base management fee for any partial month or quarter will be appropriately prorated.

The incentive fee has two parts. The first part, which is referred to as the “Subordinated Incentive Fee on Income,” is calculated and payable quarterly in arrears based upon the Company’s “Pre-Incentive Fee Net Investment Income” for the immediately preceding quarter. The Subordinated Incentive Fee on Income is subject to a quarterly hurdle rate, expressed as a rate of return on adjusted capital at the beginning of the most recently completed calendar quarter, of 1.625% (6.5% annualized), subject to a “catch up” feature (as described below).

For this purpose, “Pre-Incentive Fee Net Investment Income” means interest income, dividend income and any other income (including any other fees, other than fees for providing managerial assistance, such as commitment, origination, structuring, diligence and consulting fees or other fees that the Company receives from portfolio companies) accrued during the calendar quarter, minus the Company’s operating expenses for the quarter (including the base management fee, expenses reimbursed to the Adviser under the investment advisory and administrative services agreement and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with paid-in-kind interest and zero coupon securities), accrued income that the Company has not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation.

The calculation of the Subordinated Incentive Fee on Income for each quarter is as follows:

- No incentive fee is payable to the Adviser in any calendar quarter in which the Company’s Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.625% (6.5% annualized) (the “**Hurdle Rate**”).
- 100% of the Company’s Pre-Incentive Fee Net Investment Income, if any, that exceeds the Hurdle Rate but is less than or equal to 2.031% in any calendar quarter (8.125% annualized) is payable to the Adviser. This portion of the Company’s Pre-Incentive Fee Net Investment Income which exceeds the Hurdle Rate but is less than or equal to 2.031% is referred to as the “catch-up.” The “catch-up” provision is intended to provide the Adviser with an incentive fee of 20.0% on all of the Company’s Pre-Incentive Fee Net Investment Income when the Company’s Pre-Incentive Fee Net Investment Income reaches 2.031% in any calendar quarter.
- 20.0% of the amount of the Company’s Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.031% in any calendar quarter (8.125% annualized) is payable to the Adviser once the Hurdle Rate is reached and the “catch-up” is achieved (20.0% of all Pre-Incentive Fee Net Investment Income thereafter is allocated to the Adviser).

The second part of the incentive fee, 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.

As the Adviser establishes other relationships it may arrange to receive fixed fees or fees paid on some other negotiated basis.

While brokerage commissions will not generally be payable by the Adviser, see Item 12 for information regarding certain trading execution costs that may be incurred by Clients of the Adviser.

ITEM 6 – Performance-Based Fees and Side-by-Side Management

As noted above in Item 5, the Adviser expects to receive performance-based fees. See also Item 10 below for information regarding certain potential conflicts of interest relating to the Adviser’s current client, the Company, and how such potential conflicts are mitigated.

ITEM 7 – Types of Clients

The Adviser provides investment advice to the Company. As discussed in Item 4, the Adviser may, subject to any limitations described in the investment advisory and administrative services agreement between the Adviser and the Company, advise other BDCs, investment companies, private investment funds, institutional investors or other persons or entities.

ITEM 8 – Methods of Analysis, Investment Strategies and Risk of Loss

The Adviser is responsible for evaluating potential investments for its Clients, including the Company. Any Sub-Adviser engaged by the Adviser may, among other things, assist the Adviser in identifying investment opportunities and make investment recommendations to the Adviser. The Adviser and any Sub-Adviser will review such investments and their appropriateness based on the investment objectives and policies of the Clients, as adopted by the Clients’ boards of directors or other oversight bodies. If the Adviser, together with any Sub-Adviser, determines that such investments are appropriate and the Adviser’s investment committee unanimously approves such investment, the Adviser, with the assistance of any Sub-Adviser, will effectuate investments on behalf of the Clients. The Adviser may delegate to any Sub-Adviser the discretion to determine the broker-dealer used in effecting any investment and any

commissions to be paid. While brokerage commissions will not generally be implicated, in determining the appropriate level of commissions, the Adviser may consider the level of products, research and services to be obtained.

The Adviser, with the assistance of any Sub-Adviser, closes, monitors and continually services any investments made. Using a security analysis methodology that includes a combination of fundamental and cyclical analysis with a consideration of, among other things, a potential investment's credit rating, if applicable, the Adviser, with the assistance of any Sub-Adviser, determines what securities are appropriate for purchase, sale or retention by its Clients. Relying on financial newspapers, magazines and trade journals, inspections of corporate activities, research material, annual reports and other filings with the SEC, company press releases and detailed management interviews, corporate rating services and other third-party data collection, the Adviser, with the assistance of any Sub-Adviser, principally offers advice related to income-oriented securities of private energy and power related companies. The Adviser, with the assistance of any Sub-Adviser, may render advice with respect to other investments in energy and power related companies, including net profits interests, royalty interests, volumetric production payments, project financing, overriding royalties, warrants and lease interests. However, the Adviser and any Sub-Adviser may also offer advice to the Company and other Clients on a broad range of securities (whether or not within the energy and power industries), including equity securities that may be exchange listed, traded over-the-counter or issued by foreign entities, warrants, derivatives, structured products, commercial paper, certificates of deposit, convertible debt securities, mutual fund shares, U.S. government securities, interests in partnerships investing in real estate, oil and gas interests and commodities. In addition, the Adviser and any Sub-Adviser may offer advice on the investment in other BDC securities. The Adviser utilizes various investment strategies, including, among others, leverage, both long and short-term purchases and hedging techniques when appropriate.

Investing in securities involves a risk of loss that Clients must be prepared to bear. Investments of the type that the Adviser recommends are subject to financial market risks, including changes in interest rates, which may have a substantial negative impact on the value of Clients' investments. In addition, since the Adviser primarily recommends investments in income-oriented securities of private energy and power related companies, including small and middle market companies, such investments are subject to specific risks relating to the type of security held, the issuer of such security, and various other risks. For senior secured debt investments, the collateral securing these investments may decrease in value or lose its entire value over time or may fluctuate based on the performance of the portfolio company which may lead to a loss in principal. Subordinated debt investments are typically unsecured and this may involve a heightened level of risk, including a loss of principal or the loss of the entire investment. Preferred and common equity securities are subject to all of the risks associated with equity investing, including a loss of principal or the loss of the entire investment. In addition, because investments recommended by the Adviser will primarily be issued by energy and power related companies, such investments are subject to specific risks relating to those industries, including, but not limited to,

commodity price risk. Further, securities recommended by the Adviser may have limited or no liquidity. The Adviser may also recommend that Clients borrow funds to make investments. As a result, such Clients would be exposed to the risks of borrowing, also known as leverage. Leverage increases the volatility of investments by magnifying the potential for gain and loss on amounts invested.

ITEM 9 – Disciplinary Information

The Adviser has not been involved in any disciplinary actions or legal or administrative proceedings related to its business activities.

ITEM 10 – Other Financial Industry Activities and Affiliations

The Adviser is affiliated with FS² Capital Partners, LLC (“**FS²**”), a broker-dealer registered with the SEC and the Financial Industry Regulatory Authority, Inc. (“**FINRA**”). FS² acts as the dealer manager for the distribution of the common shares of beneficial interest of the Company and is a wholly-owned subsidiary of Franklin Square Holdings, L.P. Franklin Square Holdings, G.P., LLC is the general partner of Franklin Square Holdings, L.P. and is owned and controlled by Messrs. Forman and Adelman.

The Adviser is also affiliated with: (i) FB Income Advisor, LLC, a registered investment adviser under the Advisers Act, which provides advisory services to FS Investment Corporation (“**FSIC**”), a non-diversified, closed-end management investment company that has elected to be regulated as a BDC under the 1940 Act; (ii) FSIC II Advisor, LLC, a registered investment adviser under the Advisers Act, that provides advisory services to FS Investment Corporation II (“**FSIC II**”), a non-diversified, closed-end management investment company that has elected to be regulated as a BDC under the 1940 Act; (iii) FS Global Advisor, LLC, a registered investment adviser under the Advisers Act, which provides advisory services to FS Global Credit Opportunities Fund (“**FSGCO**”), a non-diversified, closed-end management investment company that is registered under the 1940 Act; (iv) FSIC III Advisor, LLC, a registered investment adviser under the Advisers Act, which provides advisory services to FS Investment Corporation III (“**FSIC III**”), a non-diversified, closed-end management investment company that has elected to be regulated as a BDC under the 1940 Act; and FSEP II Advisor, LLC, a registered investment adviser under the Advisers Act. FS² acts as the dealer manager for the distribution of the shares of the Company, FSIC III and FSGCO and distributed shares of FSIC and FSIC II prior to the closing of their public offerings in May 2012 and March 2014, respectively.

Currently, the Adviser has engaged GSO Capital Partners LP (“**GSO**”) to act as its investment sub-adviser with respect to the Company. GSO assists the Adviser in identifying investment opportunities for the Company and makes recommendations to the Adviser on specific investments that are subject to approval by the Adviser,

according to guidelines set by the Adviser. GSO is a registered investment adviser under the Advisers Act and is the credit platform of The Blackstone Group L.P.

Conflicts of interest with the Adviser's current Client, the Company, related to these relationships include the following:

- The managers, officers and other personnel of the Adviser allocate their time between advising the Company and managing other investment activities and business activities in which they may be involved, including managing and operating FSIC, FSIC II, FSIC III and FSGCO;
- The compensation payable by the Company to the Adviser and other affiliates will be approved by the Company's Board of Trustees consistent with the exercise of the requisite standard of care applicable to trustees under Delaware law and the Company's declaration of trust and bylaws. Such compensation is payable, in most cases, whether or not the Company's shareholders receive distributions;
- Regardless of the quality of the assets acquired, the services provided to the Company or whether the Company makes distributions to its shareholders, the Adviser and GSO will receive certain fees in connection with the management of the Company's portfolio and sale of the Company's portfolio investments;
- The personnel of GSO allocate their time between assisting the Adviser in identifying investment opportunities and making investment recommendations and performing similar functions for other business activities in which they may be involved, including in connection with GSO's role as investment sub-adviser to FSGCO and in their capacity as personnel of the parent of the investment sub-adviser to FSIC and FSIC II and FSIC III;
- The Company may compete with certain of its affiliates for investments, including FSIC, FSIC II, FSIC III and FSGCO, subjecting the Adviser and its affiliates to certain conflicts of interest in evaluating the suitability of investment opportunities and making or recommending investments on the Company's behalf;
- Because the dealer manager, FS², is an affiliate of the Adviser, its due diligence review and investigation of the Company cannot be considered to be an independent review;
- The Company may compete with other funds managed by GSO or affiliates of GSO for investment opportunities, subjecting GSO and its affiliates to certain conflicts of interest in evaluating the suitability of investment opportunities and making or recommending investments to the Adviser;
- From time to time, to the extent consistent with the 1940 Act and the rules and regulations promulgated thereunder, the Company and other Clients for which

the Adviser or GSO provide investment management services or carry on investment activities may make investments at different levels of an investment entity's capital structure or otherwise in different classes of an issuer's securities. These investments may give rise to inherent conflicts of interest or perceived conflicts of interest between or among the various classes of securities that may be held by the Company and such other Clients;

- The Adviser, GSO and their respective affiliates may give advice and recommend securities to other Clients which may differ from advice given to, or securities recommended or bought for, the Company, even though their investment objectives may be similar to the Company's;
- GSO and its affiliates may have existing business relationships or access to material, non-public information that would prevent GSO from recommending certain investment opportunities that would otherwise fit within the Company's investment objectives and strategies;
- The Adviser, GSO and their respective affiliates are not restricted from forming additional investment funds, from entering into other investment advisory relationships or from engaging in other business activities, even though such activities may compete with the Company and/or may require substantial time and resources of the Adviser and GSO. Affiliates of GSO, whose primary business includes the origination of investments, engage in investment advisory business with accounts that compete with the Company. Affiliates of GSO have no obligation to make their originated investment opportunities available to the Company;
- To the extent permitted by the 1940 Act and SEC staff interpretations and subject to the allocation policies of the Adviser, GSO and any of their respective affiliates, as applicable, the Adviser, GSO and any of their respective affiliates may determine it is appropriate for the Company and one or more other investment accounts managed by the Adviser, GSO or any of their respective affiliates to participate in an investment opportunity. In an order dated June 4, 2013, the SEC granted exemptive relief permitting the Adviser, subject to the satisfaction of certain conditions, to co-invest in certain privately negotiated investment transactions with the Company's co-investment affiliates, including FSIC, FSIC II and FSIC III. Any of these co-investment opportunities may give rise to conflicts of interest or perceived conflicts of interest among the Company and the other participating accounts. To mitigate these conflicts, the Adviser and/or GSO, as applicable, will seek to execute such transactions for all of the participating investment accounts, including the Company, on a fair and equitable basis and in accordance with their respective allocation policies, taking into account such factors as the relative amounts of capital available for new investments and the investment programs and portfolio positions of the Company, the clients for which participation is appropriate and any other factors deemed appropriate;

- The entities in which the Company invests may be counterparties or participants in agreements, transactions or other arrangements with portfolio companies of other investment funds managed by GSO that, although GSO determines to be consistent with the requirements of such investment funds' governing agreement, may not have otherwise been entered into but for the affiliation with GSO, and which may involve fees and/or servicing payments to GSO-affiliated entities, subject to applicable law. For example, GSO may offer portfolio companies of its investment funds, including the Company's portfolio companies, the opportunity to enter into agreements regarding group procurement (such as a group purchasing organization), benefits management, purchase of insurance policies (which may be pooled across portfolio companies and discounted due to scale) and other operational, administrative or management related matters from a third party or a GSO affiliate, and other similar operational initiatives that, subject to applicable law, may result in commissions or similar payments, including related to a portion of the savings achieved by the portfolio company; and
- Employees of GSO may serve as directors or advisory board members of certain portfolio companies or other entities. In connection with such services and subject to applicable law, GSO may receive director's fees or other similar compensation. Such amounts, which have not been, and are not expected to be, material, will not be passed through to the Company.

To mitigate these conflicts, the Adviser and/or GSO, as applicable, will seek to execute such transactions for all of the participating investment accounts, including the Company, on a fair and equitable basis and in accordance with their respective allocation policies, taking into account such factors as the relative amounts of capital available for new investments and the investment programs and portfolio positions of the Company, the Clients for which participation is appropriate and any other factors deemed appropriate. In addition, the Chief Compliance Officer of the Adviser and the Company periodically meet with personnel of GSO, including its Chief Compliance Officer, to, among other things, review policies and procedures that are applicable to GSO in its capacity as investment sub-adviser to the Company, and GSO's compliance with such policies and procedures.

Further, as discussed above, the Adviser, its personnel, and certain affiliates may experience conflicts of interest in allocating management time, services, and functions among the Company and any other business ventures in which they or any of their key personnel, as applicable, are or may become involved. This could result in actions that are more favorable to other affiliated entities than to the Company. However, the Adviser believes that it and its affiliates have sufficient personnel to discharge fully their responsibilities to all activities in which they are involved.

ITEM 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

The Adviser has adopted a code of ethics pursuant to Rule 204A-1 of the Advisers Act that establishes procedures governing the conduct and securities transactions of each of the Adviser's officers, employees and supervised persons. The "Code of Ethics" (the "**Code**") is designed to prevent violations of the fiduciary responsibilities owed by FSIA to its Clients, including the Company. It contains provisions relating to the confidentiality of firm information, a discussion of media relations, a policy on gifts and personal securities trading procedures, among other things. All supervised persons of the Adviser are required to acknowledge the terms of the Code annually and when it is amended.

The Code is designed to ensure that the personal securities transactions, activities and interests of the officers, employees and supervised persons of the Adviser will not interfere with (i) making decisions in the best interest of its advisory Clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code, transactions involving certain classes of securities have been designated as exempt transactions, based upon a determination that trading in these securities would not materially interfere with the best interests of FSIA's Clients. In addition, the Code requires pre-clearance of certain transactions. Employee trading is monitored under the Code to reasonably prevent conflicts of interest between the Adviser and its Clients. Generally, the securities purchased for the Adviser's Clients are not available to a retail investor. The Adviser also has a separate policy with respect to Insider Trading.

The Adviser's Clients or prospective Clients may request a copy of the Code by contacting the Chief Compliance Officer, FS Investment Adviser, LLC, 201 Rouse Boulevard, Philadelphia, Pennsylvania 19112.

As discussed in Item 10 above, conflicts of interest may arise from time to time as a result of the Adviser's or GSO's relationships with their respective affiliates. For more information on the conflicts that may arise and how they will be addressed, see Item 10.

ITEM 12 – Brokerage Practices

The assets that the Adviser obtains for its Clients are, generally, acquired and disposed of in privately negotiated transactions effectuated through a dealer network in which the dealer acts as principal and does not charge explicit commissions. As a result, the Adviser has not entered into any soft dollar arrangements. When appropriate, the Adviser is primarily responsible for the execution of the publicly-traded securities portion of a Client's portfolio transactions and the allocation of brokerage commissions. The Adviser may delegate this responsibility to Sub-Adviser.

Portfolio transactions processed by a Sub-Adviser for Clients will be allocated to brokers and dealers on the basis of best execution (which may include, among other items, the consideration of such broker's or dealer's ability to effect transactions, its facilities and financial responsibility). The SEC generally describes "best execution" as a duty to

execute securities transactions so that a Client's total costs or proceeds in each transaction are the most favorable under the circumstances. The SEC also has stated that when seeking best execution the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution.

Accordingly, a Sub-Adviser considers the full range and quality of a broker's services including, (i) for executing brokers: expertise and ability to perform execution services; ability to execute transactions in liquid markets at competitive prices without disrupting the market for a particular security; ability to execute transactions in illiquid markets at competitive prices without disrupting the market for a particular security; range of services provided and products offered (e.g., securities lending, margin lending, capital introduction, start-up services, reporting, research, valuation); quality and timeliness of market information provided; ability of broker to maintain confidentiality; credit worthiness and financial responsibility and (ii) for clearing brokers: operational expertise; ability to maintain confidentiality; credit worthiness; financial responsibility; fees; and commission rate or spread involved.

The Client's securities transactions can be expected to generate brokerage commissions and other compensation, all of which the Client, and not the Adviser, or Sub-Adviser, will be obligated to pay.

Sub-Adviser's brokers and other service providers also may be Clients or investors in the Company. As consideration for services provided, these brokers and other service providers will receive reasonable and customary fees or commissions. Notwithstanding the foregoing, the Sub-Adviser does not "pay up" for research or other services provided by any brokers through the commission rate (e.g., the Sub-Adviser does not use "soft dollars").

ITEM 13 – Review of Accounts

The Adviser, with the assistance of any Sub-Adviser it may engage, manages active portfolios for its Clients. These portfolios are reviewed daily by the Adviser and Sub-Adviser to consider, among other things, their composition, performance and compliance with applicable legal requirements. The supervised persons who conduct the review are Michael C. Forman, Gerald F. Stahlecker, Sean Coleman and Zachary K. Klehr. These individuals are the Adviser's Chairman and Chief Executive Officer, Executive Vice President, Managing Director and Executive Vice President, respectively.

In addition, with respect to the Company's portfolio, the assets are valued and reviewed on a quarterly basis by the Company's board of trustees based on the recommendation of its Valuation Committee. Under the 1940 Act, the Company is required to carry any portfolio assets at market value or, if there is no readily available market value, at fair value as determined in good faith by the Company's board of trustees. Given the current focus of the Company, the majority of the investments the Adviser recommends are not publicly traded, but are, instead, traded on a privately negotiated over-the-counter secondary market for institutional investors. As a result, these assets are held at fair value as recommended by the Valuation Committee and approved by the Company's board of trustees.

Certain factors that may be considered in determining the fair value of the Adviser's investments for its Clients 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 publicly-traded companies, discounted cash flow analysis 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, the Company's determination of fair value may differ materially from the values that would have been used if a ready market for these investments existed. The Company's board of trustees receives written weekly, monthly and quarterly reporting about its portfolio.

ITEM 14 – Client Referrals and Other Compensation

FSIA does not retain consultants or other parties to solicit Clients on its behalf.

ITEM 15 - Custody

The Adviser does not custody assets and requires any Client to appoint a qualified custodian(s).

ITEM 16 – Investment Discretion

The Adviser has full discretion to invest on behalf of its Clients. The Adviser will evaluate all investments and their appropriateness based on the investment objectives and policies of its Clients.

ITEM 17 – Voting Client Securities

The Adviser may recommend investments in equity securities. FSIA recognizes that, as an investment adviser registered under the Advisers Act, the Adviser has a fiduciary duty to act solely in the best interests of its Clients. As part of this duty, the Adviser has adopted proxy voting policies and procedures. The Adviser recognizes that it must vote Client securities in a timely manner free of conflicts of interest and in the best interests of its Clients.

Under the proxy voting policies and procedures, the Adviser will vote proxies related to portfolio securities in the best interest of its Client's shareholders. The Adviser 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 the Adviser's Clients. Although the Adviser will generally vote against those proposals that would have a negative impact on its Client's portfolio securities, the Adviser may vote for such a proposal if there exists compelling long-term reasons to do so.

The Adviser's proxy voting decisions are made by the senior officers who are responsible for monitoring each of the investments held by its Clients. To ensure that its vote is not a product of a conflict of interest, the Adviser requires that: (i) anyone involved in the decision-making process disclose to the Adviser's 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 (ii) employees involved in the decision-making process or vote administration are prohibited from revealing how the Adviser intends to vote on a proposal in order to reduce any attempted influence from interested parties.

Additional information about how the Adviser votes any proxies can be obtained by making a written request for proxy voting information to: Chief Compliance Officer, FS Investment Advisor, LLC, 201 Rouse Boulevard, Philadelphia, Pennsylvania 19112.

ITEM 18 – Financial Information

FSIA has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to its Clients, and has not been the subject of a bankruptcy proceeding.

ITEM 19 – Requirements for State-Registered Advisers

Not applicable.