

Japan's Tourism Industry Taking Off

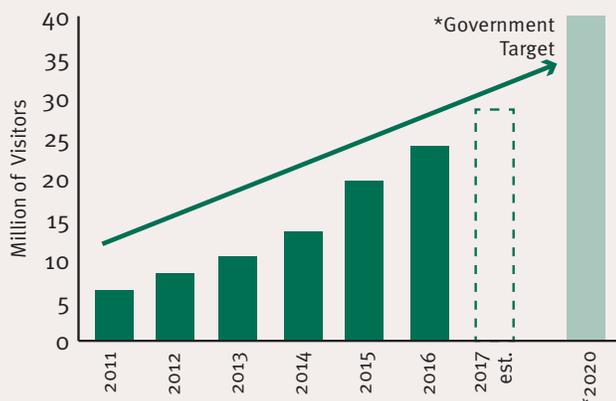
Tourism is a growing industry in Japan and has the potential to contribute meaningfully to economic growth over the next decade. Over the past five years, the number of tourists has increased by an average of approximately 27% each year, and the number is expected to continue to rise. With the average tourist spending \$1,400, tourism in total currently equates to approximately 0.7% of Japan's gross domestic product (GDP). We believe tourism has ample room for growth, and as it expands its impact on overall economic growth could be significant.

Promoting Tourism

The government has made tourism an important part of its goal to reach 600 trillion yen (\$5 trillion) in nominal GDP by 2020. Over the last couple of years, the government has enacted a series of policy changes aimed at turning Japan into a "tourism oriented country," which include the relaxation of visa requirements and an increase in the number of low-cost

RISING TOURISM IN JAPAN

Assuming approximately 28.5 million tourists visit Japan in 2017, the government may achieve its target of 40 million tourists by 2020.



Source: Japan National Tourism Organization

Key Takeaways

- » Tourism has the potential to be a positive economic influence in Japan
- » The country is set to meet the government's target of 40 million tourists by 2020
- » The 2020 Olympics in Tokyo provide an opportunity for Japan to expand its tourist base beyond Asia

air carrier routes. In 2017, a record number of tourists, 28.5 million, are expected to visit Japan, a 20% increase over 2016.¹ Approximately 87% of Japan's visitors this year are expected to come from Asian countries, including China, Taiwan, South Korea and Hong Kong.

Additionally, the depreciation of the yen has made Japanese goods and services more affordable to foreigners. Spending by tourists also continues to climb. In the first nine months of 2017, spending by visitors rose 15% compared to same period in 2016 and the Japan Tourism Agency believes full-year spending could exceed \$35 billion.²

We believe tourism in Japan has ample room to grow, as the total number of visitors remains small compared to many other countries. For example, in France, the world's top tourist destination with 83 million foreign tourists annually, the tourism industry accounts for 7% of GDP. Despite being the third largest economy in the world, Japan is ranked 22nd in the number of inbound visitors.³

Casino Gambling

Casino resorts could further boost tourism growth. In December 2016, the Japanese parliament approved a bill to legalize casino gambling. The Asia-Pacific region has become the largest casino gambling market, with revenue in Macau and Singapore reaching nearly \$28 billion and \$4 billion, respectively, in 2016. By comparison, gaming revenue in Las Vegas was \$6 billion

1. Japan National Tourism Organization.
 2. International tourism, number of arrivals, The World Bank.
 3. "Asian visitors drive record tourist spending in Japan," Nikkei Asian Review, October 19, 2017.

Sector Highlight: Japan

in 2016. According to Hong Kong-based investment bank, CLSA, if Japan opened just two resorts in major population areas, annual gaming revenue could potentially climb to over \$25 billion, which alone could add more than 0.5% to GDP.⁴

In Japan, resorts that combine gambling with shopping and convention halls could see significant growth in tourism and revenue.

2020 Olympic Games

We believe the 2020 Summer Olympic Games in Tokyo are likely to be a big draw for tourists to Japan. In preparation for the games, it is estimated that Japan will spend approximately 6 trillion yen (\$53 billion) on transportation infrastructure including expanding ports, increasing airport capacity and strengthening transportation hubs.⁵ The country also anticipates additional capital investments in hotels, offices and commercial complexes.

The 2020 Games will provide an opportunity to showcase Japan's technological know-how. Plans include the creation of an Olympic robot village to help guests with directions, transportation and translation. Japan plans to impress athletes and tourists with autonomous taxis, algae-fueled planes and buses, 5G wireless technology and superspeed magnetic levitation trains.⁶

An Opportunity to Benefit from Japan's Growth

Tourism is one of many areas contributing to the recovery of Japan's economy. For investors seeking exposure to Japan's potential growth, consider the Hennessy Japan Fund (HJPNX/HJPIX) and the Hennessy Japan Small

Cap Fund (HJPSX/HJSIX), both offering "best ideas" portfolios. The Japan Fund is comprised of globally oriented mid- to large-cap companies. The Japan Small Cap Fund invests in more domestically focused companies with a market capitalization in the bottom 15% among all Japanese companies.

Both Funds are sub-advised by Tokyo-based SPARX Asset Management. As one of the largest and most experienced independent Asia-based asset management specialists, SPARX's "feet on the street" research team provides a significant and crucial advantage for shareholders.

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4. Einhorn, Bruce, Huang, Grace and Wei, Daniela. "Japan's Big Bet on Casinos," Bloomberg Businessweek, December 21, 2016.

5. Cooper, Chris and Matsuda, Kiyotaka. "Abe Plans \$61 Billion Infrastructure Spending for Japan Revival," Bloomberg.com, August 2, 2016.

6. Futurism.com.

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. This and other important information can be found in the Fund's statutory and summary prospectuses, which can be obtained by calling 800-890-7118 or visiting hennessyfunds.com. Please read the prospectus carefully before investing.

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