



The Rise of Natural Gas Exports

The U.S. is in a position to be energy self-sufficient and a net exporter of natural gas by 2018.¹ A significant driver: U.S. exports of liquefied natural gas (LNG) globally and pipeline exports to Mexico. In fact, as of January 2017, these exports experienced a 30% year-over-year gain.

LNG Exports

In 2016, U.S. exportation of natural gas began in earnest with the opening of the new LNG Sabine Pass terminal in Louisiana. According to the Energy Information Administration (EIA) the terminal was “a milestone reflecting a decade of natural gas production growth that has put the United States in a new position in worldwide energy trade.”²

During its first year of operation, nearly 70 LNG shipments left Sabine Pass, with tankers headed to

Summary

- » U.S. is in a position to be energy self-sufficient and a net exporter of natural gas
- » Natural gas exports (LNG supplied globally and pipelines to Mexico) increased 30% year-over-year from 2015 to 2016
- » LNG exports could grow to approximately 13% of U.S. natural gas production by 2021

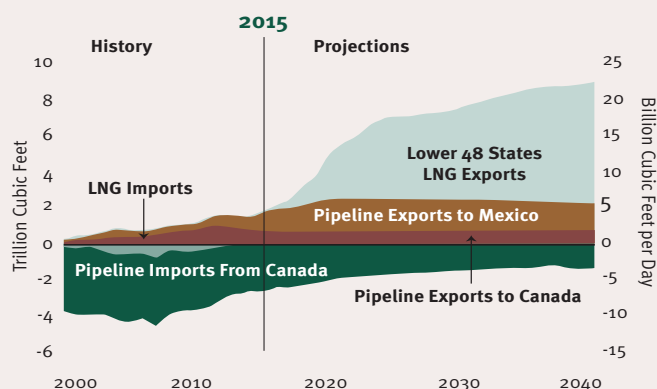
South America, the Middle East, Europe, India and Asia. As of January 2017, over 40% of the U.S. LNG cargoes went to North or South America and approximately 25% were shipped to the Middle East and India.³

Over the next several years, more U.S. LNG export terminals are expected to come online, including four facilities anticipated to be complete by 2021. From 2015 to 2016, LNG exports have increased from 4.2 billion cubic feet per day (bcf/d) to 5.5 bcf/d, which represents approximately 7% of U.S. production. With the additional facilities, the EIA estimates that the five plants may have an export capacity of 9.2 bcf/d, equivalent to about 13% of U.S. natural gas production.⁴

An additional development driving increased exports is the expansion of the Panama Canal, which widened and deepened the waterway to accommodate LNG tankers and has significantly reduced shipping costs and travel time from the U.S. to key markets in Asia and the west coast of Latin America. According to Bloomberg.com, the deeper channels will be “shaving 11 days and one-third the cost of the typical round trip to Asia.” By 2021, 550 tankers could be making the trip across the Panama Canal.⁵

U.S. NATURAL GAS IMPORTS AND EXPORTS

Natural gas exports are projected to grow five-fold between 2015 and 2040.



Source: EIA

(Continued on next page)

1. U.S. Energy Information Administration (EIA).
2. “Growth in domestic natural gas production leads to development of LNG export terminals,” U.S. Energy Information Administration, March 4, 2016.
3. “US’ Sabine Pass LNG exports hit record high in January,” S&P Global Platts, February 10, 2017.
4. “Liquefied natural gas exports expected to drive growth in U.S. natural gas trade,” U.S. Energy Information Administration, February 22, 2017.
5. Malik, Naureen and Nussbaum, Alex. “A New Trade Route for Natural Gas Opens in Panama,” Bloomberg.com, August 9, 2016.

Sector Highlight: Natural Gas

Exports to Mexico

Exports to Mexico have increased significantly as well, accounting for over half of all U.S. natural gas exports since April 2015, according to the EIA. In January 2017, pipeline exports to Mexico increased nearly 30% over the previous year.⁶

We anticipate increased volumes of natural gas to be exported to Mexico due to the country's growing electricity demand as well as its declining domestic natural gas production. Benefitting from cheaper natural gas from the U.S., Mexico announced a plan to expand its pipeline network to include 12 pipeline additions, which will add over 3,200 miles of pipelines through Mexico.⁷

To accommodate this growing demand, several new pipeline projects in the U.S. are currently under construction. As of the end of 2016, pipeline capacity was over 7 bcf/d, and the EIA projects this figure to double over the next three years due to four U.S. pipeline projects under construction in Texas.⁸

LNG Price Spreads

Although U.S. LNG exporters face global competition, the price of natural gas remains less expensive in the U.S. than in many other countries. Even after shipping costs are included, U.S. LNG remains less expensive

than in many continents. As of December 2016, LNG prices at the terminals in South America, Asia, and select countries in Europe were more than double the terminal price in the U.S.⁹

An Opportunity to Benefit from Growth in Exportation

The Hennessy Gas Utility Fund (GASFX/HGASX) offers investors exposure to the natural gas sector. The Fund invests in distribution companies that supply the growing demand for natural gas and may represent a compelling long-term opportunity for investors.

Portfolio Managers - Hennessy Gas Utility Fund



Winsor "Skip" Aylesworth
Portfolio Manager

- » Over three decades of investment industry experience
- » Portfolio Manager of the Fund since 2001



Ryan Kelley, CFA
Portfolio Manager

- » Over 20 years of investment industry experience

About Hennessy Funds

Hennessy Funds has a longstanding track record of proven performance and offers a broad range of mutual funds, with strategies that can play a role in nearly every investor's portfolio allocation. Our line-up includes traditional equity, specialty category and sector funds, as well as more conservative multi-asset products.

6. "Natural Gas Market Indicators," American Gas Association, January 27, 2017.

7. "U.S. natural gas exports to Mexico continue to grow," U.S. Energy Information Administration, November 29, 2016.

8. "New U.S. border-crossing pipelines bring shale gas to more regions in Mexico," U.S. Energy Information Administration, December 1, 2016.

9. "Federal Energy Regulatory Commission, "National Natural Gas Market Overview: World LNG Landed Prices," January 2017.

Past performance does not guarantee future results.

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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