

Q&A



HENNESSY CORNERSTONE MID CAP 30 FUND (HFMDX, HIMDX)

[Comments and Opinions]



Brian Peery

Portfolio Manager

» Over 25 years of investment industry experience



Ryan Kelley, CFA

Portfolio Manager

» Over 20 years of investment industry experience

Following the Hennessy Cornerstone Mid Cap 30 Fund's most recent rebalance, Portfolio Managers Brian Peery and Ryan Kelley discuss changes to the portfolio's composition of U.S. based, mid-cap equities that exhibit both value and momentum characteristics. They also discuss a major theme that has emerged and their investment outlook for 2018.

1. What were some notable shifts in sector weightings after the most recent rebalance?

Perhaps the most notable shift in the portfolio weightings was an increase in the Consumer Discretionary sector. Stocks in the homebuilding, gaming and auto industries were added to the Fund, resulting in an increase in exposure to the sector from 23% after the rebalance in late 2016 to about 33% following the most recent rebalance. Interestingly, despite the Fund's heavy weighting in the Consumer Discretionary sector, no retailer remains in the Fund. While some retail stocks did meet the Fund's criteria, stocks in other consumer-oriented industries had better price appreciation over the last 12 months and were ultimately selected for the Fund.

We believe the current economic environment is favorable for consumer-related stocks and the increased weighting in the Consumer Discretionary sector is a reflection of overall strength in consumption patterns, bolstered by a strong labor market and high and rising consumer confidence.

The Fund's Industrials sector weighting also climbed from approximately 20% after the rebalance in late 2016 to about 33% following the most recent rebalance. The outlook for industrial companies remains positive. Industrials stocks that met the Fund's stringent criteria include Rush Enterprises, Inc., XPO Logistics and Manitowoc.

2. What theme has emerged from the most recent rebalance?

One central theme that has unfolded from the most recent rebalance is the focus on rebuilding America after the 2017 natural disasters. The Fund owns several stocks tied to the anticipated wave of reconstruction following the destruction caused by Hurricanes Harvey, Irma and Maria as well as the California wild fires.

For example, the portfolio includes the following construction-related companies:

- **Boise Cascade** sells lumber and wood products.
- Homebuilders **KB Home** and **LGI Homes, Inc.** operate in areas most impacted by recent natural disasters.
- **Builders FirstSource** supplies building products to professional homebuilders.

FUND FACTS

Symbol	
Investor	HFMDX
Institutional	HIMDX
CUSIP	
Investor	425 888 302
Institutional	425 888 609

FOR MORE INFORMATION

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3. What is your 2018 investment outlook for the Hennessy Cornerstone Mid Cap 30 Fund?

We believe there could be two strong drivers of Fund performance over the next 12 months:

- 1. Strong revenue and earnings growth.** Revenues and earnings for many companies in the Fund are anticipated to grow at a robust rate of 10% to 15% over the next twelve months.
- 2. Newly signed Tax Reform bill.** We believe mid-cap stocks are clear beneficiaries of the Tax Reform bill. The Fund holds mid-sized companies with primarily domestic businesses that have historically been taxed at a rate between 32% and 35%. With a much lower tax rate of 21%, the Fund's holdings could see a significant boost to their earnings per share in 2018.

After a year of strong performance for most stocks and sectors and a significant upward move in valuations, the market may focus more on fundamentals in 2018. We anticipate that investors will continue to invest in growth companies, but may be more sensitive to the valuations they are being asked to pay. In short, we believe investors will be looking for growth at a more reasonable price. In this environment, we believe the Fund, which seeks stocks with solid growth characteristics and attractive valuations, should perform well.

TOP TEN HOLDINGS *as of 12/31/17*

XPO Logistics, Inc.	3.8%
Builders FirstSource, Inc.	3.8%
SiteOne Landscape Supply, Inc.	3.7%
Pinnacle Entertainment, Inc.	3.7%
HollyFrontier Corp.	3.7%
LGI Homes, Inc.	3.6%
CVR Energy, Inc.	3.6%
Alcoa Corp.	3.6%
Thor Industries, Inc.	3.6%
Penn National Gaming, Inc.	3.6%

Important Disclosures

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 hennessyfund.com. Please read the prospectus carefully before investing.

Past performance does not guarantee future results.

Mutual fund investing involves risk; Principal loss is possible. The Fund invests in small and medium capitalized companies, which may have limited liquidity and greater price volatility than large capitalization companies. The Fund's formula-based strategy may cause the Fund to buy or sell securities at times when it may not be advantageous.

Earnings per share is a company's profit divided by its number of common outstanding shares. **Earnings growth is not a measure of the Fund's future performance.**

Diversification does not assure a profit nor protect against loss in a declining market.

Fund holdings are subject to change and should not be considered a recommendation to buy or sell any security.

The Hennessy Funds are distributed by Quasar Distributors, LLC.