Q&A

HENNESSY FUNDS

HENNESSY CORNERSTONE MID CAP 30 FUND (HFMDX, HIMDX)

[Comments and Opinions]

Brian Peery
Portfolio Manager
» Over 25 years of investment industry experience

OVERALL MORNINGSTAR RATING

as of 6/30/17
★★★
(Investor)
Among 368 Mid-Cap Blend Funds
The Overall Morningstar Rating is based on risk adjusted returns, derived from a weighted average of the 3, 5, and 10 year (if applicable) Morningstar metrics. HFMDX received 2 stars for the three and five year periods and 3 stars for the 10 year period ended 6/30/17 among 368, 328 and 220 Mid-Cap Blend Funds, respectively.

FUND FACTS

Symbol	
Investor	HFMDX
Institutional	HIMDX
CUSIP	
Investor	425 888 302
Institutional	425 888 609
Total Fund Assets	$1.0 B

FOR MORE INFORMATION

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Following the Fund's most recent rebalancing, Portfolio Manager Brian Peery discussed the portfolio's composition and market expectations over 2017.

1. **As a concentrated portfolio comprised of only 30 mid-cap companies, the Fund is selective. What criteria do you use to choose stocks and what differentiates this year's portfolio?**

The Hennessy Cornerstone Mid Cap 30 Fund focuses on primarily domestic mid-cap equities that exhibit both value and momentum characteristics. At the time of purchase, companies must have a price-to-sales ratio below 1.5, increasing annual earnings and stock price momentum. With a broad range of companies between $1 and $10 billion in market capitalization, the Fund's median market cap was approximately $4.3 billion as of the end of June 2017.

Over the past few years, we have seen an increasing number of mid-cap companies paying dividends as a way to reward shareholders. In the current portfolio, approximately 70% of the stocks paid dividends in 2016—the highest number since the Fund's inception in 2003. Additionally, a majority of our mid-cap holdings have engaged in merger and acquisition activity with many of these transactions completed with cash.

2. **Would you please discuss sector weightings of the current portfolio compared to the previous portfolio?**

The largest decrease in the portfolio's weightings was in the Consumer Discretionary sector. However, the Fund continues to hold a healthy weighting in this sector of approximately 20% compared to nearly 47% in 2015. We continue to favor the sector as growth in consumption remains strong, debt levels are lower and the job market continues to improve, resulting in higher wage growth. Consumer Discretionary stocks that met our stringent criteria include several specialty retail stores, including Urban Outfitters, restaurant chain Cheesecake Factory and RV manufacturer, Thor Industries.

At the time of the rebalance, we found an increased number of attractive stocks in the Information Technology, Industrials and Materials sectors. As of June 30, 2017, Technology companies made up about 30% of the portfolio while Industrials and Materials stocks comprised approximately 23% and 14%, respectively. The Fund's current Technology holdings are not the industry's news-generating behemoths, but rather companies that provide information technology products and services related to national security, cloud computing, global electronics and consumer transaction technologies. Many of these companies have solid balance sheets with ample cash balances and relatively low debt.

3. **With approximately two-thirds of the portfolio invested in Technology, Industrials and Materials companies, what trends in 2017 could drive their performance?**

In the current expansion, companies have not increased capital spending as fast as they have historically, with cash building up on balance sheets as a result. With the new administration highlighting the prospect of tax reform and deregulation, we believe capital spending could start to rise more rapidly, leading to increased demand for technology and industrial products and services, potentially driving stock prices in those sectors higher.

(Q&A continued on next page)

Additionally, the following macroeconomic factors may serve as potential drivers:

1. **Wage growth.** Wage increases, particularly a move toward higher minimum wages, could lead companies to spend more on technology to increase efficiency and productivity and increase automation as opposed to hiring more expensive labor.
2. **Fiscal boost at home.** The infrastructure initiative proposed by the incoming administration could boost construction spending and economic growth in the U.S., potentially benefitting Materials and Industrial sector stocks.
3. **Monetary policy abroad.** Many foreign central banks are keeping interest rates low and monetary policy loose to try and encourage faster economic growth. Faster growth abroad, especially in Asia, should lead to stronger demand and potentially higher prices for U.S. Materials companies.
4. **Defense spending.** Under the new administration, rising defense and military spending could drive opportunities for the Industrials sector.

FUND PERFORMANCE as of 6/30/17

		Average Annualized Total Return			
	1 Year	3 Year	5 Year	10 Year	Since Inception (9/17/03)
Investor Class - HFMDX	12.86%	4.28%	12.74%	6.82%	10.76%
Institutional Class - HIMDX[1]	13.29%	4.60%	13.09%	7.16%	11.02%
Russell Midcap Index	16.48%	7.69%	14.72%	7.67%	10.55%
S&P 500 Index	17.90%	9.61%	14.63%	7.18%	8.66%
Gross Expense Ratio: 1.35% *(Investor Class)* | 0.97% *(Institutional Class)*					

[1]Represents the performance of the Institutional Class shares after March 3, 2008 (inception of the share class) and Investor Class for periods prior to that date. *Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting hennessyfunds.com.*

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

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.

Each Morningstar category average represents a universe of funds with similar objectives. The Russell Midcap Index is an unmanaged index commonly used to measure the performance of U.S. medium-capitalization stocks. The S&P 500 Index is an unmanaged index commonly used to measure the performance of U.S. stocks. One cannot invest directly in an index. **Price-to-sales ratio** is a tool for calculating a stock's valuation relative to other companies. It is calculated by dividing a stock's current price by its revenue per share. **Diversification does not assure a profit nor protect against loss in a declining market.**

As of 6/30/17, the Fund held 2.8%, 3.9% and 1.7% in net assets of Cheesecake Factory, Thor Industries and Urban Outfitters. Fund holdings and sector allocations are subject to change and should not be considered recommendations to buy or sell any security.

Morningstar Proprietary Ratings reflect risk-adjusted performance as of 6/30/2017. The Morningstar Rating™ for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history, without adjustment for sales loads. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating™ for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating™ metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. **Past performance does not guarantee future results.**