Q&A

HENNESSY FUNDS

HENNESSY EQUITY AND INCOME FUND (HEIFX, HEIIX)

[Comments and Opinions]

The Hennessy Equity and Income Fund is a balanced fund with approximately 60% of the Fund invested in value-oriented, large-cap stocks and 40% in primarily investment grade bonds. Recently, we spoke with the Fund's managers to gain insight into the markets they invest in and the portfolio.

PORTFOLIO MANAGEMENT TEAM EQUITY ALLOCATION

The London Company
Sub-Advisor

Stephen M. Goddard, CFA
- Lead Portfolio Manager
- *Over 31 years of investment experience*

Jonathan T. Moody, CFA
- Portfolio Manager
- *Over 28 years of investment experience*

Mark E. DeVaul, CFA, CPA
- Portfolio Manager
- *Over 19 years of professional experience*

J. Brian Campbell, CFA
- Portfolio Manager
- *Over 17 years of industry experience*

OVERALL MORNINGSTAR® RATING

as of 6/30/17

★★★★

(Investor)

Among 727 Allocation—50% to 70% Equity Funds

The Overall Morningstar Rating is based on risk adjusted returns, derived from a weighted average of the 3, 5, and 10 year Morningstar metrics. HEIFX received 3 stars for the three year period, 2 stars for the five year period and 4 stars for the 10 year period ended 6/30/17 among 727, 653 and 429 Allocation—50% to 70% Equity Funds, respectively. Ratings for other share classes may differ.

RISK METRICS (INVESTOR CLASS) as of 6/30/17

	3 Year	5 Year	10 Year
Standard Deviation			
HEIFX	6.56	6.03	8.88
S&P 500	10.35	9.56	15.21
Beta Relative to the S&P 500			
HEIFX	0.61	0.59	0.56

Portfolio Manager Jonathan Moody, CFA, discusses the equity portion of the portfolio and shares his views on current stock valuations, tax repatriation and the potential impact of rising interest rates on dividend-paying companies.

1. Would you please discuss the 2016 performance of the Fund's equity portion?

The higher quality companies we own in the Fund's portfolio were largely out of favor in 2016, as cyclical stocks outperformed defensive companies and higher quality stocks. However, while the Fund's equity investments may underperform over shorter time frames, we take a long-term view with respect to our holdings and are pleased that our value-oriented approach to stock selection has led to lower risk compared to the S&P 500, as measured by standard deviation.

2. With the Dow Jones Industrial Average crossing the 20,000 milestone, what are your thoughts on valuations and current opportunities?

Generally, given current low interest rates, we believe equities are fairly valued with the potential for advancement in the medium term. Despite the Dow passing the historic 20,000 mark, we continue to find attractive, higher-quality businesses with strong balance sheets, low debt levels and shareholder-friendly management teams, priced at what we believe to be a discount to their intrinsic value.

As an example, in the third quarter of 2016, we added Nike, the athletic apparel company. We believe Nike is an excellent business with a strong balance sheet, and it has experienced consistent historical growth. For the past decade, Nike's return on capital has averaged between 35% and 45%. In addition, the company has generated an impressive amount of free cash flow. Nike currently has $2.4 billion in cash, which

(Q&A continued on next page)

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"Given the currently low interest rates, we believe equities, in general, are fairly valued, but potentially have room to advance."

- Jonathan Moody, CFA
The London Company

TOP TEN EQUITY HOLDINGS
as of 6/30/17

Berkshire Hathaway, Inc.	4.3%
Carnival Corp.	3.2%
Apple, Inc.	3.1%
General Dynamics Corp.	2.8%
Progressive Corp.	2.7%
Altria Group, Inc.	2.6%
CarMax, Inc.	2.6%
Visa, Inc.	2.5%
BlackRock, Inc.	2.4%
Dollar Tree, Inc.	2.3%

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

FOR MORE INFORMATION

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the company could use to optimize its balance sheet. Under our assumptions, the company could borrow money to buy back shares and reduce its cost of capital.

3. How might a tax amnesty for repatriating offshore cash affect dividend payouts, capital expenditures and merger and acquisition (M&A) activity?

If the government were to reduce taxes on repatriated overseas profits, we believe the cash would primarily be used for share repurchases and dividend payouts. In 2004, the last time a repatriation holiday was implemented, the National Bureau of Economic Research found that for every dollar companies brought back to the U.S., there was a dollar increase in shareholder payouts. We believe we would see a similar outcome with respect to buybacks and dividend increases if such legislation were to be instituted by the Trump administration.

However, a tax holiday could also spur M&A activity, as companies could use repatriated cash to fund consolidation or buyouts. Regardless of whether these short-term tax policies are implemented, we anticipate continued M&A activity in 2017 due to lower levels of organic growth. Over the past several years, more companies have experienced bottom-line growth through cost-cutting strategies rather than an increase in top-line revenue. Those companies, with high levels of cash relative to historical levels, may actively engage in M&A, and we see areas of potential consolidation in the Information Technology, Healthcare and Consumer Staples sectors.

4. Would you please discuss your case for dividend-paying stocks in a rising interest rate environment?

Dividend-paying stocks reacted negatively to the presidential election, as investors quickly anticipated rising interest rates and a stronger economy. However, we believe dividend-paying stocks continue to look attractive for the following reasons:

1. **Interest rates will likely remain low in 2017 relative to historical averages**. While the U.S. economy continues to grow and wages are increasing more rapidly than they were 18 months ago (and this has some people concerned about increasing rates), capacity utilization has been running in the mid 70% range. This number suggests the economy is not operating anywhere near full capacity and organic demand isn't particularly strong. In addition, central banks overseas are likely to continue to keep their monetary policy loose and interest rates low this year. As a result, we believe the Federal Reserve will continue its policy of gradual interest rate increases in 2017. Even after the increases expected in 2017, interest rates will still be low relative to historical averages.
2. **Leverage has fallen significantly**. Net debt to earnings before interest, tax, depreciation and amortization (EBITDA) for S&P 500 companies was 1.62x compared to over 4x a decade ago as of December 31, 2016.
3. **Dividends should continue to grow over time**. The rate of dividend increases for the market will likely slow because the payout ratio is close to the long-term averages. Repatriation, if passed, could spur dividend increases or special dividends. We believe the portfolio is in good shape to maintain and grow its dividend over time.

(Q&A continued on next page)

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"The market reaction following the U.S. presidential election demonstrated how quickly important events can be discounted by financial markets, impacting interest rates, inflation expectations and the U.S. dollar."

- Gary Cloud, CFA, Financial Counselors, Inc.

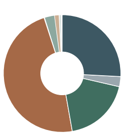
PORTFOLIO CHARACTERISTICS

FIXED INCOME ALLOCATION as of 6/30/17

Effective Duration (Years)	4.09
Effective Maturity (Years)	5.19

BOND QUALITY DISTRIBUTION

as of 6/30/17



Aaa/AAA	26.1%
Aa/AA	2.7%
A	18.6%
Baa/BBB	47.9%
Below Baa/BBB	2.7%
N/A	1.3%
Non-rated	0.8%

PORTFOLIO MANAGEMENT TEAM

FIXED INCOME ALLOCATION

Financial Counselors, Inc.
Sub-Advisor

Gary Cloud, CFA
» Lead Portfolio Manager
» *Over 31 years of investment experience*

Peter G. Greig, CFA
» Portfolio Manager
» *Over 28 years of investment experience*

Portfolio Manager Gary Cloud, CFA, discusses the fixed income portion of the portfolio and factors to consider in 2017.

1. What drove the fixed income portion of the Fund's performance in 2016?

There was a significant performance differential between corporate bonds and U.S. Treasury government obligations within the fixed income markets in 2016. Over 80% of the Fund's fixed income portfolio was invested in corporate bonds, which performed well compared to the benchmark, the Bloomberg Barclays Capital Intermediate U.S. Government/Credit Index, which has an approximately 75% weighting in Treasuries and Agencies.

2. What factors could impact fixed income investments in 2017?

The market reaction following the U.S. presidential election demonstrated how quickly important events can be discounted by financial markets, impacting interest rates, inflation expectations and the U.S. dollar. Looking ahead, a number of factors could have an effect on fixed income markets, including:

- **Global monetary policy may keep U.S. rates from rising too quickly**. The U.S. economy appears stronger than that of other countries. Since growth in Japan and much of Europe remains subdued, monetary authorities in these countries will likely keep their rates low. Therefore, we believe the Fed will be forced to raise rates at a slower pace than it has projected to prevent the dollar from strengthening significantly.
- **Geopolitical events may increase volatility**. The impact of geopolitical events, particularly the potential trade war between the U.S. and China, could add uncertainty and volatility to the fixed income market.

3. How is the current portfolio positioned in light of a potentially rising interest rate environment?

We are not making significant adjustments to the Fund's duration or maturity in anticipation of a higher rate environment. As of June 30, 2017, the effective duration of the portfolio was 4.1 years compared to 4.1 years for the Bloomberg Barclays U.S. Intermediate Government/Credit Index. The effective maturity of the portfolio was 5.2 years compared to 4.4 years for the Index.

However, if rates continue to rise, the Fund has the latitude to hold up to 10% of the portfolio in non-investment grade assets. As of June 30, 2017, approximately 9% of the portfolio was invested in preferred stocks, business development companies, along with a few positions in high-yield bonds and floating-rate bank loans. The remaining 91% of the fixed income portfolio was invested in investment grade debt with an average quality of A2.

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FUND PERFORMANCE as of 6/30/17

			Average Annualized Total Return			
	3 Month	1 Year	3 Year	5 Year	10 Year	Since Inception (6/3/97)
Hennessy Equity and Income Fund						
Investor Class - HEIFX[1]	1.93%	8.62%	4.44%	7.27%	5.96%	6.81%
Institutional Class - HEIIX	2.08%	9.10%	4.81%	7.62%	6.25%	7.01%
Blended Balanced Index[2]	2.23%	10.37%	6.62%	9.44%	6.15%	6.65%
S&P 500 Index	3.09%	17.90%	9.61%	14.63%	7.18%	7.38%
Morningstar % Rank in Category (Investor)*	–	80	48	73	17	–
# of funds in Morningstar Allocation—50% to 70% Equity Funds	–	824	727	653	429	–
Gross Expense Ratio: 1.48% *(Investor Class)* | 1.08% *(Institutional Class)*						

* Based on total returns.

[1] Represents the performance of the Investor Class shares after September 24, 2001 (inception of the share class) and Institutional Class for periods prior to that date.

[2] The Blended Balanced Index consists of 60% common stocks represented by the S&P 500 Index and 40% bonds represented by the Bloomberg Barclays Capital Intermediate U.S. Government/Credit Index.

Performance for periods prior to 10/26/12 is that of the FBR Balanced Fund. The predecessor Balanced Fund had the same investment objective and same investment strategy as the Fund. *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.*

YIELD as of 6/30/17

30-Day SEC Yield	
Investor	0.67%
Institutional	1.04%

Opinions expressed are those of the Portfolio Managers and are subject to change, are not guaranteed and should not be considered investment advice.

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. To obtain a free prospectus, 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. Investments in debt securities typically decrease in value when interest rates rise. The risk is greater for longer term debt securities. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Mortgage- and asset-backed securities are subject to prepayment risk, which is the risk that the borrower will prepay some or all of the principal owed to the issuer. Investments in foreign securities may involve political, economic and currency risks, greater volatility and differences in accounting methods. The Fund may experience higher fees due to investments in pooled investment vehicles (including ETFs).**

Each Morningstar category average represents a universe of funds with similar objectives. The S&P 500 and the Dow Jones Industrial Average are unmanaged indexes commonly used to measure the performance of U.S. stocks. The Bloomberg Barclays Capital Intermediate U.S. Government/Credit Index is an unmanaged index commonly used to measure the performance of U.S. bonds. One cannot invest directly in an index. Credit Quality Bond Ratings typically range from AAA/Aaa (highest) to D (lowest). The credit ratings shown are based on each portfolio security's rating as generally provided by Moody's. If a Moody's rating is not available, then the rating is provided by Standard and Poor's ("S&P"), a Nationally Recognized Statistical Rating Organization ("NRSRO"). The credit quality of the investments in the Fund's portfolio does not apply to the stability or safety of the Fund. SEC Yield is a standardized yield computed by dividing the net investment income per share earned during the 30-day period prior to quarter-end. Duration is a commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration. Standard deviation is a statistical measure of the historical volatility of a mutual fund or portfolio. Beta measures the volatility of the fund, as compared to that of the overall market. The Market's beta is set at 1.00; a beta higher than 1.00 is considered to be more volatile than the market, while a beta lower than 1.00 is considered to be less volatile. Return on capital is a ratio which is estimated by dividing the after-tax operating income by the book value of invested capital. Free cash flow represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

Morningstar Proprietary Ratings reflect risk-adjusted performance as of 6/30/17. 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. Morningstar Percentile Ranking compares a fund's Morningstar risk and return scores with all the funds in the same Category, where 1% = Best and 100% = Worst. **Past performance is no guarantee of future results.**

The Hennessy Funds are distributed by Quasar Distributors, LLC. 07/17