

# Q&A



## HENNESSY FOCUS FUND (HFCSX, HFCIX)

### [ Comments and Opinions ]

#### PORTFOLIO MANAGEMENT TEAM

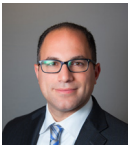
**Broad Run Investment Management, LLC**  
Sub-Advisor



**David Rainey, CFA**  
19 years of experience with the Fund  
31 years of investment experience



**Brian Macauley, CFA**  
14 years of experience with the Fund  
17 years of investment experience



**Ira Rothberg, CFA**  
12 years of experience with the Fund  
15 years of investment experience

#### FUND FACTS

Symbol	
Investor	HFCSX
Institutional	HFCIX
CUSIP	
Investor	425 88P 700
Institutional	425 88P 809

#### FOR MORE INFORMATION

Financial Professional Help Desk  
800-890-7118  
hennessyfunds.com  
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*In the following discussion, the Portfolio Managers discuss current U.S. equity valuations and their selection process.*

#### 1. With the market hitting multiple new highs in 2017, what are your thoughts on valuations?

As bottom-up stock pickers, we do not focus on market or macro factors. However, we like to get a sense for whether we have a valuation headwind or tailwind. With the long-term market valuation metrics we focus on, we see slightly elevated valuations compared to long-term historical averages. Yet, in the current low inflation and interest rate environment, we believe that valuations are partially justified. Given these higher valuations, it may be prudent for investors to anticipate potentially lower long-term returns.

While it may be more difficult to find stocks at particularly attractive values compared to a few years ago, we believe one of the benefits of our concentrated approach is that we only need to find a handful of companies each year to potentially provide investors with the opportunity for above-average returns.

#### 2. Can you please discuss your investment strategy?

The Hennessy Focus Fund is a concentrated strategy, seeking high-quality businesses we believe offer a large growth opportunity, excellent management, low “tail risk” and an attractive valuation. As of September 30, 2017, the Fund owns 22 companies, with 68% of assets in the top 10. We conduct thorough, fundamental research on the businesses we select for inclusion in the Fund, and we patiently wait for the right entry points. This deep understanding of each of the companies in the portfolio provides us with the confidence to hold them for five to ten years, or longer, which has led to a relatively low portfolio turnover rate for the Fund, just 3% for the twelve months ended 9/30/17.

Given our process, there may be a lag between when we sell a holding and when we purchase a new company. Therefore, at times, there may be a higher cash balance in the Fund, as we wait to put that cash to work in compelling ideas over time.

Importantly, the Fund is not managed against a benchmark. The portfolio’s high active share (98% as of 9/30/17)<sup>1</sup> is due to market cap dispersion, industry concentration and weighting of holdings.

#### 3. Would you please discuss the investment case for one of the Fund’s holdings?

American Tower, the Fund’s largest holding, is the largest independent owner and operator of cell towers in the U.S., with a growing presence overseas. Historically, the stock has grown its cash earnings at a mid-teens rate for multiple years while remaining reasonably valued.

A vast majority of American Tower’s revenue is earned from leasing space on towers to high-credit-quality wireless carriers. Contracts typically have five to

*(Q&A continued on next page)*

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(continued)

10-year initial terms with multiple five-year renewal options as well as annual escalators that average about 3% in the U.S. This structure provides significant recurring revenue with contractual visibility and minimal churn. With the continued secular demand for mobile data and the rollout of new network protocols, we anticipate that American Tower can continue to bring in revenue at a minimal incremental cost.

Relative to domestic peers, American Tower has the largest international portfolio of cell sites providing exposure to faster growing cell tower demand in emerging economies. Given our conviction in the overall strength of American Tower, we believe, that through organic growth and acquisition, the company should continue its growth trajectory and compound the value of our investment over time.

### Important Disclosures

Opinions expressed are those of the Focus Fund 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, which can be obtained by calling 800-890-7118 or visiting [hennessyfunds.com](http://hennessyfunds.com). Please read the prospectus carefully before investing.*

**Mutual fund investing involves risk; Principal loss is possible. A non-diversified fund, one that may concentrate its assets in fewer holdings than a diversified fund, is more exposed to individual stock volatility than a diversified fund. The Fund invests in small and medium capitalized companies, which involves additional risks such as limited liquidity and greater volatility. Investments in foreign securities may involve greater volatility and political, economic and currency risk and differences in accounting methods. Earnings growth is not a measure of the Fund's future performance.**

<sup>1</sup>Active share was calculated using Morningstar's benchmarks (iShares Russell Mid-Cap Growth ETF for the Focus Fund), which differ from the Funds' primary benchmarks. References to other investment products should not be interpreted as an offer of these securities.

Portfolio turnover is a measure of how frequently assets within a fund are bought and sold by the managers. Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index. Churn (rate) is the percentage of subscribers to a service who discontinue their subscriptions to that service within a given time period. **EPS growth is not a measure of future performance.**

As of 9/30/17, the Fund held 10.8% in net assets of American Tower Corp. Fund holdings and sector allocations are subject to change and should not be considered recommendations to buy or sell any security.

The Hennessy Funds are distributed by Quasar Distributors, LLC.

10/17