

Q&A



HENNESSY FOCUS FUND (HFCSX, HFCIX)

[Comments and Opinions]

PORTFOLIO MANAGEMENT TEAM

Broad Run Investment Management, LLC Sub-Advisor



David Rainey, CFA
20 years of experience with the Fund
32 years of investment experience



Brian Macauley, CFA
15 years of experience with the Fund
18 years of investment experience



Ira Rothberg, CFA
13 years of experience with the Fund
16 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
hennessyfund.com
advisors@hennessyfund.com

The Hennessy Focus Fund is a concentrated strategy of approximately 20 to 30 holdings. The Fund's Portfolio Managers focus on "compounders" – businesses with the competitive position, growth and management to create outsized value over the next decade or longer. In this Q&A, the Fund's Portfolio Managers discuss the potential impact of the Tax Reform bill and provide updates on a number of holdings.

1. How might the recent Tax Reform bill affect the Fund's holdings?

We believe that overall the Fund's holdings will benefit from the Tax Reform bill. Many of the holdings have domestically-oriented business that in 2017 paid a higher tax rate than the average rate paid by the companies in the S&P 500 Index. We expect, all other things being equal, that the cut in the corporate tax rate should boost earnings for the Fund as a whole by about 10% in 2018.

2. The Fund is known for its bottom-up approach to investing. Would you please discuss one of the Fund's recent investments and why you find it attractive?

In 2017, we added NVR, Inc., a U.S.-based homebuilder that constructs new single-family homes and attached townhouses. The company operates in 14 East Coast states, with a concentration in the Baltimore-Washington D.C. region. NVR has a unique business model that has enabled it to earn a return on equity nearly twice that of typical homebuilders. In contrast to its peers, NVR outsources land ownership and development to partners, reducing its capital intensity and allowing it to focus on efficiently constructing and selling homes. It simplifies the complexity of the homebuilding process by manufacturing components offsite and limiting home design options. And it seeks market share leadership at the local level to leverage its overhead cost and negotiate the best terms with vendors.

We believe the U.S. homebuilding industry has a favorable outlook. The industry is producing 30% fewer homes than it has on average over the last 50 years, so we believe it has only partly rebounded from the Great Recession and should continue to recover. Additionally, with only 2% market share nationally, NVR has plenty of room to grow its share of the homebuilding industry.

We believe it is difficult to replicate NVR's business model, and no competitor to date has succeeded. As a result, we believe NVR has many years of market share gains and strong returns ahead of it. NVR's management team remains well-incentivized; the CEO and Chairman each own more than \$150 million of NVR stock.

3. The stock of Fund holding O'Reilly Automotive, Inc., after years of great performance, had a weak 2017. What are the prospects for the company in your opinion?

After compounding at about 20% annually from 2005 to 2016, shares of O'Reilly fell approximately 13% in 2017. The 2017 share price decline was primarily the result of price-to-earnings (P/E) multiple contraction driven by fears of Amazon ramping up its auto parts

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offerings, and a corresponding industry-wide slowdown in sales for traditional auto-parts retailers. However, we believe the softness in sales was unrelated to Amazon's activities in the market, but was due to other factors, namely two years of mild summer and winter weather and slower growth in miles driven following two years of above-average growth. In addition, the decline in new car sales during the 2008-11 period may have also adversely impacted auto parts sales in 2017, as cars manufactured during 2008-11 would normally be entering their prime aftermarket auto parts consumption phase.

We anticipate a better year for auto parts sales in 2018 driven by more normal weather patterns, and we estimate miles driven will increase by about 1% against an easier comparison.

Overall, we believe the investment story for O'Reilly remains compelling. With a better industry sales environment, we expect the company to post solid same-store sales growth over the upcoming years. The company continues to see margins expand as a result of better vendor pricing, more stores and a shift to private label products. The stock trades at a below market multiple of 16 times our estimate of 2018 earnings, and we believe the company can grow its earnings per share at a mid-teens or a better compound annual growth rate (CAGR) over the next five years.

4. With the number and severity of U.S. natural disasters in 2017, how have the insurance companies in the Fund been impacted?

The direct impact of the hurricanes and Northern California fires on Markel Corp., the insurance underwriter we own in the Fund, appears to be small. Even after including our estimate of the impact on earnings of the fires in Southern California (which the company has yet to report), we believe the company should remain well-capitalized and easily be able to cover its underwriting losses with interest income, dividends and gains from its investment portfolio. Fund holding, Aon PLC, as a broker of insurance products, was not affected directly by the natural disasters.

In a counter intuitive twist, we actually expect our insurance investments to be net beneficiaries of the large losses suffered by the industry this past year as they should benefit directly from the price increases thought to be in the works for 2018 as reinsurers try to recoup their 2017 losses during the annual January 1 reinsurance renewals just recently completed.

5. Do you have a few final words on your outlook for the next year?

S&P Index earnings are expected to increase by about 14% in 2018; 9 percentage points from core growth and 5 percentage points from lower taxes. And while we may not see valuations rise as much as they did in 2017, this rate of earnings growth is quite good. We believe the holdings in the Fund should produce attractive earnings growth in this environment as they benefit from improving economic growth in the U.S.

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. 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.

Current and future holdings are subject to risk.

Earnings per share is a company's profit divided by its number of common outstanding shares. Compound annual growth rate (CAGR) is a useful measure of growth over multiple time periods. **Earnings growth and earnings per share growth are not a measure of future performance.**

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. Return on equity is the amount of net income returned as a percentage of a shareholder's equity. Price-to-earnings (P/E) ratio is the market price per share divided by earnings per share.

As of 12/31/17, the Fund held 5.62%, 8.74%, 4.24%, 7.21% and 0.00% in net assets of Aon, Markel, NVR, O'Reilly and Amazon. Fund holdings and sector allocations are subject to change and should not be considered recommendations to buy or sell any security.

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