Q&A

HENNESSY FUNDS

HENNESSY GAS UTILITY FUND (GASFX/HGASX)

[Comments and Opinions]

Ryan Kelley, CFA
Portfolio Manager
» Over 22 years of investment industry experience

Brian Peery
Portfolio Manager
» Over 26 years of investment industry experience

LIPPER AWARD

LIPPER FUND AWARDS UNITED STATES

2018 Best Utility Fund (GASFX)
For the risk-adjusted performance among 14 Utility Funds for the 10-year period ended 11/30/17.

FUND FACTS

Symbol	
Investor	GASFX
Institutional	HGASX
CUSIP	
Investor	425 88P 833
Institutional	425 88P 759

In the following commentary, Portfolio Managers Ryan Kelley and Brian Peery discuss the changing landscape of energy as it relates to natural gas and the Hennessy Gas Utility Fund.

1. Would you describe the types of companies in the Hennessy Gas Utility Fund, the factors that influence their earnings growth and which have been driving recent performance?

About 55% of the Fund's assets are invested in diversified utilities, companies primarily engaged in the production and distribution of electricity and the distribution of natural gas. Earnings growth for these companies is driven principally by growth in energy consumption. Another 20% of the Fund's assets are invested in local gas distribution companies (LDC). The earnings growth of these companies is tied principally to the growth in the consumption of natural gas. Thus, roughly 75% of the Fund is invested in utility-type companies whose profits are not significantly affected by commodity price fluctuations.

Approximately 23% of the Fund's assets are invested in interstate pipeline companies and liquefied natural gas exporting (LNG) companies. The profitability of these companies tends to be at least partially correlated with the prices of crude oil and natural gas. As a result, their stock prices can fluctuate in line with movements in commodity prices.

Over the last year, both diversified utilities and local gas distribution companies have been performing well as demand for natural gas and energy has continued to grow. This good performance was offset slightly by poor performance from interstate pipeline companies.

2. What market factors are impacting natural gas stocks?

We believe there are two main trends affecting natural gas stocks that investors should be paying attention to: merger and acquisition activity (M&A) and dividend increases.

Many diversified energy companies view the natural gas industry as an attractive, growth sector. There is an abundance of natural gas supply under U.S. political control, natural gas prices are low and competitive and demand is growing. As a result, diversified energy companies have been increasingly seeking access to natural gas assets through M&A to help fuel their dividend and revenue growth. In just the last twelve months ended October 31, 2017, four holdings in the Fund were purchased by larger rivals. The Fund's performance has benefited nicely from such activity as the acquiring companies have generally been paying a premium over current market prices.

Natural gas companies have been raising their dividends at a healthy rate, with some companies boosting dividends as much as 20% this year. We expect this trend to continue since we expect earnings growth in the industry to remain robust. Within the Gas Utility Fund, 51 of the 54 holdings currently pay a dividend, and 45 of them increased their dividend over the past year.

(Q&A continued on next page)

3. How might the move to renewable energy sources in the U.S. impact the Fund?

The growth of energy supplied from renewable sources in the U.S. has certainly been increasing over the last decade. In 2016, renewable energy sources accounted for about 10% of total energy consumption and about 15% of electricity generation (including hydropower). This growth has been driven by Federal regulations mandating the reduction of use of fossil fuels in addition to market forces. While costs of production have been falling, solar and wind are not yet fully cost-competitive in the marketplace. Regardless, we believe that renewable energy sources will become a larger proportion of the energy supply in the U.S. over time and that the Fund will participate in this growth through its holdings of diversified utilities.

Many diversified utilities in the Fund are investing in renewable energy sources. For example, Duke Energy, whose power generation business has long been dominated by coal, has already increased its wind and solar capacity from 239 megawatts (MW) in 2008 to 2,893MW at the end of 2016. The company plans to spend $11 billion in "cleaner generation", including natural gas, over the next ten years. Dominion, one of the Fund's top ten holdings, is also spending significantly on wind and solar capacity. MidAmerican Energy, a subsidiary of Berkshire Hathaway Energy, already uses wind as its fuel source for 48% of its generation capacity.

4. What is your outlook for growth in demand for natural gas from the electricity generation industry?

The electricity generation industry is the largest consumer of natural gas, accounting for just over 36% of total consumption in 2016. Demand for natural gas from the power sector has been growing rapidly, and is up over 60% over the last decade, as power plants have switched to using cleaner-burning, competitively-priced natural gas in place of coal. Coal used to be the principal source of fuel for the electricity generation industry and accounted for about half the electricity generated in the U.S. in 2001. However, its market share has fallen steadily and coal accounted for just 30% of electricity generated in 2016. As electricity generation economics have become more favorable for natural gas, coal plants have been closing or converting to natural gas. From 2007 to 2016, 531 coal plants representing 55.6 GW of capacity were retired across the U.S., and an additional 27 large plants were retired in 2017 representing 22 GW. We believe natural gas will continue to take share from coal as a fuel for the power industry and, as a result, we believe demand for natural gas from electricity producers will continue to grow at a healthy pace.

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

Cheniere Energy, Inc.	5.3%
National Grid, PLC	5.1%
Enbridge, Inc.	5.1%
Kinder Morgan, Inc.	5.1%
TransCanada Corp.	5.1%
Dominion Energy, Inc.	5.0%
Atmos Energy Corp.	4.9%
Sempra Energy	4.6%
WEC Energy Group, Inc.	3.3%
Southern Co.	3.3%

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

Important Disclosures

Opinions expressed are those of Ryan Kelley and Brian Peery 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, please call 800-966-4354 or visit 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. Investments in foreign securities may involve political, economic and currency risks, greater volatility and differences in accounting methods. Investments are focused in the natural gas distribution and transmission industry; sector funds may be subject to a higher degree of market risk. The Fund may experience higher fees due to investments in pooled investment vehicles (including ETFs).

Earnings growth is not representative of the Fund's future performance.

A Lipper Fund Award is awarded to one fund in each Lipper classification for achieving the strongest trend of consistent risk-adjusted performance against its classification peers over a three, five or ten-year period. Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. Lipper Analytical Services, Inc. is an independent mutual fund research and rating service.

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