

Q&A



HENNESSY JAPAN FUND
(HJPNX/HJPIX)
HENNESSY JAPAN SMALL CAP FUND
(HJPSX/HJSIX)

[Comments and Opinions]

Key Points to Emphasize about Japan

- The Japanese government has a nominal GDP target of 600 trillion yen for the year 2020, an increase of over 13% compared to nominal GDP in 2016.
- Encouraging “equal pay for equal work” is an important initiative to help boost incomes and address labor market inefficiencies.
- Japanese stocks offer investors good prospects for higher earnings and increasing return on equity, while still trading on what we believe are reasonable valuations.

PORTFOLIO MANAGEMENT



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- » Analyst and Portfolio Manager with SPARX since 1999



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ABOUT THE FUNDS' SUB-ADVISOR

Tokyo-based SPARX Asset Management Co., Ltd. is the sub-advisor to the Hennessy Japan Funds. Since its founding in 1989, SPARX has grown to be one of the largest and most experienced Asia-based asset management specialists.

In the following commentary, the Portfolio Management teams of the Hennessy Japan Fund and Hennessy Japan Small Cap Fund explain the investment case for Japan, discussing the government's plans to stimulate economic growth and the current drivers of corporate profits growth.

1. How does the government plan to stimulate growth under Abenomics 2.0?

Under Abenomics 2.0, Prime Minister Shinzo Abe announced measures in three main areas: demographics, welfare spending and industrial policy designed to help fuel long-term growth. In the first two areas, the impact of government initiatives, which include incentives to help increase the birth rate and improve senior services, will take time to materialize. We are optimistic however, that the industrial policy initiatives will have a measurable impact over the next few years and will drive faster economic growth, allowing the government to meet its target of 600 trillion yen in nominal GDP by the year 2020. Under the industrial policy banner, several strategic public and private initiatives are already underway, including:

- » Creating new markets focused on health care and housing reforms along with energy-related investments.
- » Spending on infrastructure in Tokyo for the 2020 Summer Olympic games.
- » Promoting tourism to increase spending by foreign visitors.

With regard to Japan's tourism industry, from January through November 2016, 22 million tourists visited the country, up 20% over the previous year and higher than the government's 2016 target of 20 million. The government is looking at a target of 40 million visitors by 2020, which would represent a growth rate in the number of tourists of approximately 20% annually, in-line with historical growth rates. We believe tourism in Japan has plenty of room to grow, as the total number of visitors is still small compared to many other countries, and the tourism industry in Japan, at just 0.6% of GDP, is relatively small.

2. What other reforms might have a significant effect on Japan's economic growth rate?

The government is addressing the need for labor market reform and is trying to narrow the gap in wages between full-time and part-time workers and increase the number of full-time employees through an “equal pay for equal work” guideline. Currently, approximately 40% of Japan's employed workers are paid below-market salaries as contract and temporary part-time workers. Japanese companies have opted to control labor costs by hiring workers on a short-term or part-time basis at a low salary, while preserving their lifetime employment culture for their remaining full-time workers. The “equal pay for equal work” principle should help to address this labor inequality, resulting in more companies offering employees performance-based pay, more full-time positions and higher salaries. We also hope that these reforms will encourage more women to return to the workforce.

(Q&A continued on next page)

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“We believe one of the most important factors to influence Japanese stocks this year will be corporate earnings growth.”

- Masa Takeda

OVERALL MORNINGSTAR RATING

as of 3/31/17

Hennessy Japan Fund
(Investor)



Hennessy Japan Small Cap Fund
(Investor)



Among 33 Japan Stock 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.

Ratings are for the Investor Class and ratings for other share classes may differ.

JAPAN FUND FACTS

| | |
|--------------------|-----------|
| Symbol | |
| Investor | HJPNX |
| Institutional | HJPIX |
| CUSIP | |
| Investor | 425894102 |
| Institutional | 425894201 |
| Inception Date | 10/31/03 |
| Number of Holdings | 22 |

JAPAN SMALL CAP FUND FACTS

| | |
|--------------------|-----------|
| Symbol | |
| Investor | HJPSX |
| Institutional | HJSIX |
| CUSIP | |
| Investor | 425894300 |
| Institutional | 42588P767 |
| Inception Date | 8/31/07 |
| Number of Holdings | 63 |

A second key economic reform is centered on corporate governance. Abe's commitment to improving corporate governance standards in order to strengthen companies' earning power has been a strong incentive for Japanese companies to use capital more efficiently. With guidelines set under the Japan Stewardship Code for institutional investors and increased appointments of independent directors on boards, we have already seen public companies improve shareholder returns, as measured by returns on equity, which have risen to almost 10% recently compared with just 5% five years ago.

Investors should keep in mind that no single policy can make significant improvements; rather, in aggregate, the structural reforms should help the country make steady progress.

Importantly, Prime Minister Abe has a high approval rating of over 60% as of December 2016. With strong public support and a stable political environment, the government should have ample time and support to implement the initiatives on their agenda.

3. What is the most important factor expected to influence Japanese stocks in 2017?

We believe one of the most important factors to influence Japanese stocks this year will be corporate earnings growth. If the Federal Reserve raises interest rates in 2017 as they are currently expected to do, it is likely that the Japanese yen will weaken further, boosting earnings growth for Japanese exporters, which account for a large portion of the Japanese market. In addition, we believe a prosperous export sector should generate positive spillover effects for domestic companies going forward.

We believe the estimated double-digit earnings growth for the fiscal year ended March 2017 may be exceeded and that earnings outlooks for Japanese companies could be revised upward over the next twelve months should the yen remain at current levels.

We believe it is important to remember that one of the reasons why profits growth in Japan is so strong today is that Japanese companies were forced to restructure their businesses in 2008-2011 in order to survive during a period of significant yen appreciation. Today, with a much weaker yen, many companies have seen profitability rise to record levels and have been generating abundant cash flows, which are being reinvested or set aside for potential future dividend payments.

4. Would you please comment on current market valuations?

We do not believe stocks in Japan are overpriced, rather we think they are fairly or slightly attractively valued, and we continue to find strong, well-run businesses at attractive valuations. Compared with international markets, Japanese equities do not look expensive. The Tokyo Price Index (TOPIX) was trading at 16x forward earnings as of December 31, 2016, while the S&P 500 Index was trading at almost 19x. Further, even though the TOPIX has roughly doubled in yen terms over the last four years, earnings per share of the TOPIX have also doubled over the same period, leaving price-to-earnings (PE) multiples no higher than they were in 2012 and near the low end of their historical range.

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HIGHLIGHTS as of 3/31/17

- » The Japan Fund is the only fund in the Morningstar Japan Stock Category to achieve top quartile results for the past 1, 3, 5 and 10 year periods.
- » The Japan Small Cap Fund is the only fund in the Morningstar Japan Stock Category to achieve top decile performance over the past 1, 3 and 5 year periods.

FOR MORE INFORMATION

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FUND PERFORMANCE as of 3/31/17

| Hennessy Japan Fund | Average Annualized Total Return | | | | | |
|--|---------------------------------|--------|-----------------------------|--------|---------|----------------------------|
| | 3 Month | 1 Year | 3 Year | 5 Year | 10 Year | Since Inception (10/31/03) |
| Investor Class - HJPNX | 5.61% | 16.66% | 12.37% | 12.98% | 5.40% | 8.73% |
| Institutional Class - HJPIX | 5.70% | 17.10% | 12.70% | 13.27% | 5.60% | 8.94% |
| Russell/Nomura Total Market Index | 5.44% | 15.42% | 7.30% | 7.66% | 1.42% | 4.68% |
| Tokyo Price Index (TOPIX) | 5.27% | 15.79% | 7.30% | 7.79% | 1.32% | 4.59% |
| Morningstar % Rank in Category (Investor) ¹ | — | 22 | 10 | 12 | 10 | — |
| # of funds in Japan Stock Category | — | 56 | 33 | 28 | 12 | — |
| Gross Expense Ratio: | 1.49% (Investor Class) | | 1.11% (Institutional Class) | | | |

| Hennessy Japan Small Cap Fund | Average Annualized Total Return | | | | |
|--|---------------------------------|--------|-----------------------------|--------|---------------------------|
| | 3 Month | 1 Year | 3 Year | 5 Year | Since Inception (8/31/07) |
| Investor Class - HJPSX | 14.83% | 23.88% | 13.44% | 15.74% | 9.83% |
| Institutional Class - HJSIX ² | 15.07% | 24.26% | 13.64% | 15.86% | 9.89% |
| Russell/Nomura Small Cap Index | 7.25% | 17.68% | 10.43% | 9.96% | 5.61% |
| Tokyo Price Index (TOPIX) | 5.27% | 15.79% | 7.30% | 7.79% | 1.89% |
| Morningstar % Rank in Category (Investor) ¹ | — | 2 | 4 | 1 | — |
| # of funds in Japan Stock Category | — | 56 | 33 | 28 | — |
| Gross Expense Ratio: | 1.84% (Investor Class) | | 1.51% (Institutional Class) | | |

¹Based on total returns. ²Represents the performance of the Institutional Class shares after June 15, 2015 (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.

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 summary and statutory 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 Funds may invest in small and medium capitalized companies, which may have more limited liquidity and greater price volatility than large capitalization companies. The Funds invest in the stocks of companies operating in Japan; single-country funds may be subject to a higher degree of risk. The Funds 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 Russell/Nomura Total Market Index is a market capitalization-weighted index of Japanese equities. The Tokyo Stock Price Index (TOPIX) is a market capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange. The Russell/Nomura Small Cap Index represents the universe of small capitalization companies in the Japanese equity markets. The Russell/Nomura and TOPIX indices are presented in U.S. Dollar terms. 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. Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income. Earnings per share is a company's profit divided by its number of common outstanding shares. Price-to-earnings ratio is the market price per share divided by earnings per share. **Earnings growth is not representative of the Fund's future performance.**

Morningstar Proprietary Ratings reflect risk-adjusted performance as of 3/31/17. The Morningstar RatingTM 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 RatingTM 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 RatingTM 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. HJPNX received 5 stars for the three and ten year periods and 4 stars for the five year period ended 3/31/17 among 33, 12 and 28 Japan Stock Funds, respectively. HJPSX received 5 stars for the three and five year periods ended 3/31/17 among 33 and 28 Japan Stock Funds, respectively. Ratings for other share classes may differ. 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.**

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