

Q&A



HENNESSY LARGE VALUE FUND (HLVFX, HLVIK)

[Comments and Opinions]

PORTFOLIO MANAGEMENT TEAM

RBC Global Asset Management, Inc.
Sub-Advisor



Stuart A. (Sam) Lippe
37 years of investment experience



Barbara S. Browning, CFA
24 years of investment experience



Adam D. Schiner, CFA
26 years of investment experience

FUND FACTS

Symbol	
Investor	HLVFX
Institutional	HLVIK
CUSIP	
Investor	425 88P 502
Institutional	425 88P 601
Total Fund Assets	\$140 M
Number of Holdings	81

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FOR MORE INFORMATION

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We recently sat down with the management team of the Hennessy Large Value Fund. What follows is a summary of the discussion about the Fund’s selection process, its sector-balanced mandate and current sector themes that have emerged in the portfolio.

1. Would you please discuss the investment strategy of the Large Value Fund?

As a fundamentally driven portfolio management team with a bottom-up stock selection process, we seek well-established, undervalued, large-cap companies. In our view, the most compelling opportunities are companies that possess both an attractive valuation and a potential catalyst for change and we are currently seeing opportunities in the \$10 to \$50 billion market capitalization range.

2. What are some of the catalysts you seek?

We look for the following catalysts that could result in a positive revaluation of the company’s stock price over a 12- to 18-month time frame:

- Change in management or corporate restructuring
- Product lifecycle
- Supply/demand shifts
- Market share improvement
- Elimination of temporary weakness

Specifically, we focus on cyclical and secular changes, which we believe allow us to identify companies that are increasing shareholder value, while avoiding value traps.

3. What is your sell discipline?

We look to sell a stock when one of the following four conditions becomes evident:

1. Catalyst for change appears to be reflected in the valuation
2. Fundamentals deteriorate
3. Anticipated catalyst fails to emerge
4. Better opportunity is identified

4. The portfolio has a sector-balanced mandate. Would you please discuss the investment thesis for implementing this approach?

For more than a decade, we have been maintaining sector weightings in the Fund within a range of +/-200 basis points relative to the sector weightings of the Russell 1000 Value Index benchmark. This band gives us the ability to overweight our position in industries that we believe hold the most potential, while shifting away from less favorable industries. However, the Fund continues to maintain an allocation to each sector in the event of a sudden, positive turnaround.

We believe this sector-balanced discipline provides the most prominent risk control for the portfolio, while enhancing our stock selection and macro themes identification at the industry level. We believe investors benefit from this diversification as we attempt to avoid market timing and large macro and sector bets.

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5. What are some of the industry-based themes that your management team has identified?

Industry themes shift from quarter-to-quarter, however our present overweight position in semiconductors is an example of an attractive theme. For example, we have been looking for exposure to the “Internet of Things,” which is the idea of everyday things becoming “connected” or “smart.” This transition is occurring in autos through infotainment offerings, safety features, and fuel efficiency mechanisms that require integrated circuits and sensors to communicate, measure, and process data. The theme is also accelerating in industrial automation, appliances, and fitness wearables. While the “Internet of Things” is still in its infancy, we are seeing strong penetration in autos and other industrial end markets.



In the Consumer Discretionary sector, we currently prefer multi-line department stores such as Target that focuses on the middle consumer, as compared to fashion retailers that cater to either the low-end or high-end customer. While the overall retail environment has been challenging, same store sales and profitability of multi-line retailers have outpaced specialty retailers.

FUND PERFORMANCE as of 12/31/16

	Average Annualized Total Return					
	3 Month	1 Year	3 Year	5 Year	10 Year	Since Inception (9/30/84)
Investor Class - HLVFX	6.67%	11.02%	6.34%	12.40%	4.61%	9.77%
Institutional Class - HLVIK ¹	6.73%	11.15%	6.50%	12.69%	4.86%	9.85%
Russell 1000 Value Index	6.68%	17.34%	8.59%	14.80%	5.72%	11.29%
S&P 500 Index	3.82%	11.96%	8.87%	14.66%	6.95%	11.01%

Gross Expense Ratio: 1.35% (Investor Class) | 1.18% (Institutional Class)

¹Represents the performance of the Institutional Class shares after March 20, 2009 (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.

Important Disclosures

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. The Fund may invest in medium capitalized companies, which may have more limited liquidity and greater price volatility than large capitalization companies.

Each Morningstar category average represents a universe of funds with similar objectives. The S&P 500 and Russell 1000 Value are unmanaged indices commonly used to measure the performance of U.S. Stocks. One cannot invest directly in an index. Basis point is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

As of 12/31/16, the Fund held 0.0% in net assets of Target. Fund holdings and sector allocations are subject to change at any time and should not be considered recommendations to buy or sell any security.

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