Q&A

HENNESSY FUNDS

HENNESSY FINANCIAL FUNDS

SMALL CAP FINANCIAL (HSFNX/HISFX)
LARGE CAP FINANCIAL (HLFNX/HILFX)

[Comments and Opinions]

Dave Ellison, SVP
Portfolio Manager

- Most tenured mutual fund portfolio manager in the Financial Services sector
- Managed both Financial Funds since inception

Ryan Kelley, CFA
Portfolio Manager

- Over 20 years of investment industry experience

SMALL CAP FINANCIAL FUND FACTS

Symbol	
Investor	HSFNX
Institutional	HISFX
CUSIP	
Investor	425 88P 874
Institutional	425 88P 866

LARGE CAP FINANCIAL FUND FACTS

Symbol	
Investor	HLFNX
Institutional	HILFX
CUSIP	
Investor	425 88P 882
Institutional	425 88P 775

FOR MORE INFORMATION

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Portfolio Managers Dave Ellison and Ryan Kelley discuss how rising rates, the Tax Reform bill and deregulation could benefit both the Financials sector and companies in the Hennessy Small Cap Financial and Large Cap Financial Funds.

1. Why do you think future rate increases will help bank margins more than the rate increases we have already seen?

We believe the Federal Reserve's quarter-point interest rate increase in December 2017, as well as potential rate hikes in 2018, will benefit bank lending margins more than the rate increases that occurred over the last 12 to 18 months. Due to interest rate floors on certain loans, only about a third of loans repriced higher as a result of previous rate hikes. Going forward, the majority of adjustable-rate loans should reprice higher as the Fed increases rates.

Higher rates not only benefit lending margins—we believe they also improve the banking sector's competitive position. Years of low interest rates have allowed non-bank lenders to compete more effectively with the banks. However, with higher rates, bank deposits are once again substantially less expensive than wholesale funding, giving banks a cost advantage relative to other non-bank lenders—one they have not enjoyed since the start of the financial crisis.

2. How will the recently passed Tax Reform bill benefit Financials?

Banks appear to be clear beneficiaries of the Tax Reform bill. Most banks currently pay a hefty tax rate, which was on average around 32%, the fourth highest of all the sub-industries in the S&P 500 Index for the 12 months ended September 30, 2017. With a potential reduction in their tax rate to 21%, we estimate that banks' earnings per share could increase by about 16%. However, it is not clear yet what management teams will do with the additional earnings. We believe they could make acquisitions, reinvest in their businesses, raise dividends, buy back stock, or a combination of all four.

The secondary effects of the Tax Reform bill should also be positive for the banking sector. Lowering taxes provides a fiscal boost, stimulating economic activity and adding to inflationary pressure, all of which encourages higher loan demand, higher interest rates and consequently higher margins for the banking sector.

3. How could proposed deregulation measures impact banks?

Bank deregulation measures will help all banks, but we believe they will have a disproportionately beneficial effect on smaller and medium-sized banks. Asset threshold rules used for stress testing, for example, are expected to be increased

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in the first quarter of 2018. As a result, many small and medium-sized banks that today are obliged to adhere to strict compliance standards and maintain high levels of capital are likely to move to a level that requires lower levels of capital and where regulation requirements are less onerous and less costly. This change should enhance profitability by reducing compliance costs, freeing up capital and making merger and acquisition (M&A) transactions less expensive and less complicated.

4. What developments are impacting large financial companies today and how is the Large Cap Financial Fund positioned to benefit?

The Internet and smart phone technology is transforming the global financial transactions industry. The number and value of transactions completed with a credit card, debit card or digital payments system are growing rapidly. The Fund should benefit by investing in companies leveraged to this growth, companies such as Visa and PayPal which have non-cyclical, more predictable business models that we believe are sustainable over time. In addition, with wealth creation in developing countries taking place at a rapid pace, millions of new consumers around the world will be in need of banking services for the first time over the next decade. The Fund is investing in U.S. banks with global franchises, such as Citibank, to potentially take advantage of this growth.

5. What is your investment outlook for the Financials sector?

We believe the outlook for companies in the Financials sector is positive. Measures of capital, credit quality, lending spreads, liquidity and earnings have all improved again this past year. We do not expect major changes to these trends in 2018, and therefore we are looking forward to another year of growth and sustained profitability in the sector.

Important Disclosures

Opinions expressed are those of Dave Ellison and Ryan Kelley are subject to change, are not guaranteed and should not be considered investment advice. References to other mutual funds should not be considered an offer of those securities.

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 are focused in the financial services industry; sector funds may be subject to a higher degree of market risk. The Funds invest in small and medium sized companies, which may have limited liquidity and greater volatility compared to larger companies.

Earnings growth is not representative of the Fund's 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. Earnings-per-share growth is not a measure of future performance.

As of 12/31/17, the Hennessy Large Cap Financial Fund held 4.83%, 4.88% and 5.09% in net assets of Citigroup, Paypal and Visa. The Hennessy Small Cap Financial Fund does not hold any of the securities mentioned. 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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