HENNESSY
FUNDS

# SEMI-ANNUAL REPORT

## APRIL 30, 2017

# HENNESSY LARGE CAP FINANCIAL FUND

*Investor Class* **HLFNX**
*Institutional Class* **HILFX**

*Investing, Uncompromised*

hennessyfunds.com | 1-800-966-4354

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# *Contents*

# *Dear Hennessy Funds Shareholder:*

Investors in the U.S. and abroad have enjoyed a strong rally in global equity markets over the six months ended April 30, 2017. In the international political arena, investors appeared to be happy to see a moderate, pro-European Union president elected in France, swinging the pendulum back towards political stability in Europe following the disruption caused by the Brexit vote last year.

The political climate here in the U.S. has been interesting. The new Trump administration has had an unpredictable first few months, grabbing headlines with new policies and executive orders almost daily. However, the markets once again weathered the roller coaster of politics and are instead focusing on what the Trump administration's stated policy objectives might bring in the future. Equity investors were especially happy to see a concrete tax reform proposal including a 15% corporate tax rate and a 10% amnesty rate for the $2.6 trillion of corporate cash sitting abroad, which is effectively barred from repatriation by a hefty tax penalty.

While politics was certainly a factor, we believe the more important influence on the stock market during the period was the performance of the U.S. economy, which is showing steady growth and controlled inflation, as well as a continued recovery in earnings growth for blue chip companies. We believe those solid fundamentals provided the most powerful underlying drivers for the market's advance.

Over the last year, the U.S. economy has grown at a moderate rate of about 2% (as measured by real GDP), but investors have been pleased to see a strong recovery in the growth of industrial production, exports and durable goods orders over the last six months. The job market, meanwhile, has remained robust, with over 175,000 jobs added per month, on average, since September, helping to push the unemployment rate down to 4.4% in April. Continued moderate wage growth and inflation numbers have kept inflation expectations anchored at around 2%, and market participants appear relaxed about the two additional quarter-point interest rate hikes that the Federal Reserve is signaling for the balance of the calendar year.

In our view, the U.S. equity market is not overvalued. Bond yields are still very low relative to historical averages, while the prospective PE multiples for the Dow Jones Industrial Average and S&P 500 Index are just above long-term averages at 17x and 18x, respectively. We believe that equity valuations could go considerably higher and still be at appropriate levels relative to bond yields. The dividend yield on the Dow Jones Industrial Average, currently at 2.35%, is higher than the yield on the 10-year U.S. Government Bond.

In addition, we believe that sentiment indicators are still very positive. Investors, while not particularly anxious, are certainly not euphoric, or even complacent. There are always those that worry that the bull market is more than eight years old and is "due" for a bear phase. Others fear that rising interest rates will cause equity valuations to be questioned. And whenever softer economic data is reported, there are folks that predict the economy could slip back into recession. All this doubt suggests to us that we are far from a market top.

And finally, we believe U.S. companies are in good shape. The financial system – so critical to the health of the corporate sector overall – is in a strong position. Banks have rebuilt their businesses since the crisis and are now solidly profitable. Bank capital ratios are higher, loan growth is solid and credit quality is excellent. Corporate profits as a whole are growing at their fastest rate since the third quarter of 2011, and many corporate balance sheets are cash-rich, with relatively little debt.

We are hopeful that these economic and investment factors, taken together, can provide support for the market to deliver solid returns in the year to come. Should the market see some of its favorite President Trump policies enacted in that time, we believe that would be icing on the cake.

Thank you for your continued confidence and investment in our funds. If you have any questions or would like to speak with us directly, please don't hesitate to call us at (800) 966-4354.

Best regards,

Neil J. Hennessy
President and Chief Investment Officer

**Past performance does not guarantee future results.**

**Mutual fund investing involves risk. Principal loss is possible.**

Opinions expressed are those of Neil Hennessy and are subject to change, are not guaranteed and should not be considered investment advice.

The Dow Jones Industrial Average and S&P 500 Index are unmanaged indices commonly used to measure the performance of U.S. stocks.  One cannot invest directly in an index.

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

Dividend Yield is calculated as the annual dividends paid by a company divided by the price of a share of their stock.

# *Performance Overview (Unaudited)*

**AVERAGE ANNUAL TOTAL RETURN FOR PERIODS ENDED APRIL 30, 2017**

| | Six Months[1] | One Year | Five Years | Ten Years |
|---|---|---|---|---|
| Hennessy Large Cap Financial Fund – Investor Class (HLFNX) | 18.82% | 23.46% | 11.75% | 4.21% |
| Hennessy Large Cap Financial Fund – Institutional Class (HILFX)[2] | 19.11% | 23.99% | 11.94% | 4.30% |
| Russell 1000® Financial Services Index | 16.09% | 21.74% | 15.06% | 1.19% |
| Russell 1000® Index | 13.46% | 18.03% | 13.63% | 7.25% |

Expense ratios: 1.68% (Investor Class); 1.23% (Institutional Class)

(1) Periods less than one year are not annualized.

(2) The inception date of Institutional Class shares is June 15, 2015. Performance shown prior to the inception of Institutional Class shares reflects the performance of Investor Class shares and includes expenses that are not applicable to and are higher than those of Institutional Class shares.

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*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. The performance table does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. 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. Performance for periods prior to October 26, 2012, is that of the FBR Large Cap Financial Fund.*

The Russell 1000® Financial Services Index is an unmanaged index commonly used to measure the performance of large-capitalization financial sector stocks. The Russell 1000® Index is an unmanaged index commonly used to measure the performance of U.S. stocks. One cannot invest directly in an index.

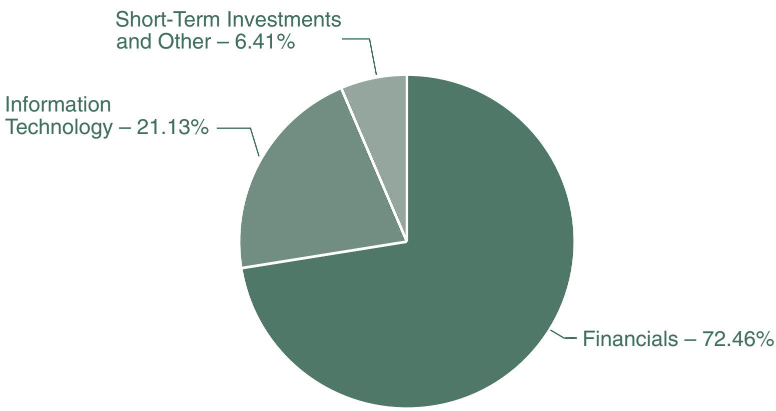
The expense ratios presented are from the most recent prospectus. The expense ratios for the current reporting period are available in the Financial Highlights section of this report.

# *Financial Statements*

**Schedule of Investments** *as of April 30, 2017 (Unaudited)*

## HENNESSY LARGE CAP FINANCIAL FUND

(% of Net Assets)




| TOP TEN HOLDINGS (EXCLUDING CASH/CASH EQUIVALENTS) | % NET ASSETS |
|---|---|
| PayPal Holdings, Inc. | 5.89% |
| Visa, Inc., Class A | 5.54% |
| Berkshire Hathaway, Inc., Class B | 5.10% |
| Bank of America Corp. | 5.04% |
| Global Payments, Inc. | 4.91% |
| MasterCard, Inc., Class A | 4.79% |
| The Goldman Sachs Group, Inc. | 4.61% |
| JPMorgan Chase & Co. | 4.48% |
| East West Bancorp, Inc. | 4.28% |
| Fifth Third Bancorp | 4.11% |

Note: For presentation purposes, the Fund has grouped some of the industry categories. For purposes of categorizing securities for compliance with section 8(b)(1) of the Investment Company Act of 1940, as amended, the Fund uses more specific industry classifications.

## COMMON STOCKS – 93.59%

| | Number of Shares | Value | % of Net Assets |
|---|---|---|---|
| **Financials – 72.46%** | | | |
| Bank of America Corp. | 63,000 | $ 1,470,420 | 5.04% |
| Berkshire Hathaway, Inc., Class B (a) | 9,000 | 1,486,890 | 5.10% |
| Capital One Financial Corp. | 8,000 | 643,040 | 2.20% |
| Citigroup, Inc. | 20,000 | 1,182,400 | 4.06% |
| Citizens Financial Group, Inc. | 30,000 | 1,101,300 | 3.78% |
| Comerica, Inc. | 14,000 | 989,800 | 3.39% |
| East West Bancorp, Inc. | 23,000 | 1,248,210 | 4.28% |
| Fifth Third Bancorp | 49,000 | 1,197,070 | 4.11% |
| First Republic Bank | 7,500 | 693,450 | 2.38% |
| JPMorgan Chase & Co. | 15,000 | 1,305,000 | 4.48% |
| Moody's Corp. | 9,000 | 1,064,880 | 3.65% |
| Morgan Stanley | 23,000 | 997,510 | 3.42% |
| Regions Financial Corp. | 65,000 | 893,750 | 3.06% |
| SunTrust Banks, Inc. | 20,000 | 1,136,200 | 3.90% |
| Synchrony Financial | 30,000 | 834,000 | 2.86% |
| The Goldman Sachs Group, Inc. | 6,000 | 1,342,800 | 4.61% |
| The PNC Financial Services Group, Inc. | 9,500 | 1,137,625 | 3.90% |
| U.S. Bancorp (c) | 10,000 | 512,800 | 1.76% |
| Wells Fargo & Co. | 18,000 | 969,120 | 3.32% |
| Zions Bancorporation | 23,000 | 920,690 | 3.16% |
| | | 21,126,955 | 72.46% |
| **Information Technology – 21.13%** | | | |
| Global Payments, Inc. | 17,500 | 1,430,800 | 4.91% |
| MasterCard, Inc., Class A | 12,000 | 1,395,840 | 4.79% |
| PayPal Holdings, Inc. (a) | 36,000 | 1,717,920 | 5.89% |
| Visa, Inc., Class A | 17,700 | 1,614,594 | 5.54% |
| | | 6,159,154 | 21.13% |
| **Total Common Stocks** (Cost $22,886,644) | | 27,286,109 | 93.59% |

The accompanying notes are an integral part of these financial statements.

## SHORT-TERM INVESTMENTS – 7.44%

| | Number of Shares | Value | % of Net Assets |
|---|---|---|---|
| **Money Market Funds – 7.44%** | | | |
| Fidelity Government Portfolio, Institutional Class, 0.60% (b) | 1,480,000 | $ 1,480,000 | 5.08% |
| The Government & Agency Portfolio, Institutional Class, 0.67% (b) | 689,322 | 689,322 | 2.36% |
| | | 2,169,322 | 7.44% |
| **Total Short-Term Investments** (Cost $2,169,322) | | 2,169,322 | 7.44% |
| **Total Investments** (Cost $25,055,966) – 101.03% | | 29,455,431 | 101.03% |
| Liabilities in Excess of Other Assets – (1.03)% | | (301,121) | (1.03)% |
| **TOTAL NET ASSETS** – 100.00% | | $29,154,310 | 100.00% |

Percentages are stated as a percent of net assets.

(a) Non-income producing security.
(b) The rate listed is the fund's 7-day yield as of April 30, 2017.
(c) Investment in affiliated security. Quasar Distributors, LLC, which serves as the Fund's distributor, is a subsidiary of U.S. Bancorp. Details of transactions with this affiliated company for the six-month period ended April 30, 2017, are as follows:

| Issuer | U.S. Bancorp |
|---|---|
| Beginning Cost | $ 751,400 |
| Purchase Cost | $ 110,576 |
| Sales Cost | $ (425,721) |
| Ending Cost | $ 436,255 |
| Dividend Income | $ 7,840 |
| Realized Gain | $ 99,600 |
| Shares | 10,000 |
| Market Value | $ 512,800 |

### Summary of Fair Value Exposure at April 30, 2017

The following is a summary of the inputs used to value the Fund's net assets as of April 30, 2017 (see Note 3 in the accompanying notes to the financial statements):

| **Common Stocks** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Financials | $21,126,955 | $ — | $ — | $21,126,955 |
| Information Technology | 6,159,154 | — | — | 6,159,154 |
| **Total Common Stocks** | $27,286,109 | $ — | $ — | $27,286,109 |
| **Short-Term Investments** | | | | |
| Money Market Funds | $ 2,169,322 | $ — | $ — | $ 2,169,322 |
| **Total Short-Term Investments** | $ 2,169,322 | $ — | $ — | $ 2,169,322 |
| **Total Investments** | $29,455,431 | $ — | $ — | $29,455,431 |

Transfers between levels are recognized at the end of the reporting period. During the six-month period ended April 30, 2017, the Fund recognized no transfers between levels.

The accompanying notes are an integral part of these financial statements.

# *Financial Statements*

## Statement of Assets and Liabilities *as of April 30, 2017 (Unaudited)*

| | |
|---|---|
| **ASSETS:** | |
| Investments in unaffiliated securities, at value (cost $24,619,711) | $28,942,631 |
| Investments in affiliated securities, at value (cost $436,255) | 512,800 |
| Total Investments in securities, at value (cost $25,055,966) | 29,455,431 |
| Dividends and interest receivable | 30,805 |
| Receivable for fund shares sold | 124 |
| Receivable for securities sold | 611,204 |
| Prepaid expenses and other assets | 23,998 |
| Total Assets | 30,121,562 |
| **LIABILITIES:** | |
| Payable for securities purchased | 822,821 |
| Payable for fund shares redeemed | 71,256 |
| Payable to advisor | 21,638 |
| Payable to administrator | 4,767 |
| Payable to auditor | 10,264 |
| Accrued distribution fees | 3,364 |
| Accrued service fees | 2,165 |
| Accrued interest payable | 91 |
| Accrued trustees fees | 3,168 |
| Accrued expenses and other payables | 27,718 |
| Total Liabilities | 967,252 |
| **NET ASSETS** | $29,154,310 |
| **NET ASSETS CONSIST OF:** | |
| Capital stock | $24,933,206 |
| Accumulated net investment loss | (51,760) |
| Accumulated net realized loss on investments | (126,601) |
| Unrealized net appreciation on investments | 4,399,465 |
| Total Net Assets | $29,154,310 |
| **NET ASSETS** | |
| **Investor Class:** | |
| Shares authorized (no par value) | Unlimited |
| Net assets applicable to outstanding Investor Class shares | $26,215,714 |
| Shares issued and outstanding | 1,366,800 |
| Net asset value, offering price and redemption price per share | $19.18 |
| **Institutional Class:** | |
| Shares authorized (no par value) | Unlimited |
| Net assets applicable to outstanding Institutional Class shares | $ 2,938,596 |
| Shares issued and outstanding | 154,165 |
| Net asset value, offering price and redemption price per share | $19.06 |

The accompanying notes are an integral part of these financial statements.

# Financial Statements

## Statement of Operations *for the six months ended April 30, 2017 (Unaudited)*

| | |
|---|---|
| **INVESTMENT INCOME:** | |
| Dividend income from unaffiliated securities | $ 212,570 |
| Dividend income from affiliated securities | 7,840 |
| Interest income | 2,559 |
| Total investment income | 222,969 |
| **EXPENSES:** | |
| Investment advisory fees (See Note 5) | 135,221 |
| Sub-transfer agent expenses – Investor Class (See Note 5) | 30,125 |
| Sub-transfer agent expenses – Institutional Class (See Note 5) | 104 |
| Distribution fees – Investor Class (See Note 5) | 20,972 |
| Federal and state registration fees | 16,218 |
| Administration, fund accounting, custody and transfer agent fees (See Note 5) | 14,425 |
| Service fees – Investor Class (See Note 5) | 13,982 |
| Compliance expense (See Note 5) | 12,927 |
| Audit fees | 10,264 |
| Trustees' fees and expenses | 7,104 |
| Reports to shareholders | 5,839 |
| Interest expense (See Note 7) | 2,150 |
| Legal fees | 744 |
| Other expenses | 4,654 |
| Total expenses | 274,729 |
| **NET INVESTMENT LOSS** | $ (51,760) |
| **REALIZED AND UNREALIZED GAINS:** | |
| Net realized gain on: | |
| Unaffiliated investments | $2,983,734 |
| Affiliated investments | 99,600 |
| Net change in unrealized appreciation on investments | 1,865,575 |
| Net gain on investments | 4,948,909 |
| **NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS** | $4,897,149 |

The accompanying notes are an integral part of these financial statements.

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# *Financial Statements*

## Statements of Changes in Net Assets

| | Six Months Ended April 30, 2017 (Unaudited) | Year Ended October 31, 2016 |
|---|---|---|
| **OPERATIONS:** | | |
| Net investment income (loss) | $ (51,760) | $ 124,972 |
| Net realized gain (loss) on investments | 3,083,334 | (3,033,040) |
| Net change in unrealized appreciation (depreciation) on investments | 1,865,575 | (2,828,079) |
| Net increase (decrease) in net assets resulting from operations | 4,897,149 | (5,736,147) |
| **DISTRIBUTIONS TO SHAREHOLDERS FROM:** | | |
| Net investment income | | |
| Investor Class | (158,906) | (132,180) |
| Institutional Class | (29,650) | (3,703) |
| Net realized gains | | |
| Investor Class | — | (9,653,373) |
| Institutional Class | — | (61,676) |
| Total distributions | (188,556) | (9,850,932) |
| **CAPITAL SHARE TRANSACTIONS:** | | |
| Proceeds from shares subscribed – Investor Class | 3,977,077 | 87,222,461 |
| Proceeds from shares subscribed – Institutional Class | 2,529,368 | 415,907 |
| Dividends reinvested – Investor Class | 154,596 | 9,523,602 |
| Dividends reinvested – Institutional Class | 29,650 | 65,379 |
| Cost of shares redeemed – Investor Class | (9,228,126) | (155,323,687) |
| Cost of shares redeemed – Institutional Class | (38,351) | (319,893) |
| Net decrease in net assets derived from capital share transactions | (2,575,786) | (58,416,231) |
| **TOTAL INCREASE (DECREASE) IN NET ASSETS** | 2,132,807 | (74,003,310) |
| **NET ASSETS:** | | |
| Beginning of period | 27,021,503 | 101,024,813 |
| End of period | $29,154,310 | $ 27,021,503 |
| **Undistributed net investment income (loss), end of period** | $ (51,760) | $ 188,556 |
| **CHANGES IN SHARES OUTSTANDING:** | | |
| Shares sold – Investor Class | 206,389 | 5,612,390 |
| Shares sold – Institutional Class | 133,225 | 22,100 |
| Shares issued to holders as reinvestment of dividends – Investor Class | 8,027 | 567,448 |
| Shares issued to holders as reinvestment of dividends – Institutional Class | 1,551 | 3,885 |
| Shares redeemed – Investor Class | (491,584) | (10,022,406) |
| Shares redeemed – Institutional Class | (1,963) | (20,446) |
| Net decrease in shares outstanding | (144,355) | (3,837,029) |

The accompanying notes are an integral part of these financial statements.

# Financial Statements

## Financial Highlights

**For an Investor Class share outstanding throughout each period**

| | Six Months Ended April 30, 2017 (Unaudited) |
|---|---|
| **PER SHARE DATA:** | |
| Net asset value, beginning of period | $16.23 |
| **Income from investment operations:** | |
| Net investment income (loss) | (0.03) |
| Net realized and unrealized gains (losses) on investments | 3.08 |
| Total from investment operations | 3.05 |
| **Less distributions:** | |
| Dividends from net investment income | (0.10) |
| Dividends from net realized gains | — |
| Total distributions | (0.10) |
| Net asset value, end of period | $19.18 |
| **TOTAL RETURN** | 18.82%[2] |
| **SUPPLEMENTAL DATA AND RATIOS:** | |
| Net assets, end of period (millions) | $26.22 |
| Ratio of expenses to average net assets | 1.86%[3] |
| Ratio of net investment income (loss) to average net assets | (0.37)%[3] |
| Portfolio turnover rate[4] | 44%[2] |

(1) Amount is less than $0.01.
(2) Not annualized.
(3) Annualized.
(4) Portfolio turnover is calculated on the basis of the Fund as a whole.

The accompanying notes are an integral part of these financial statements.

| Year Ended October 31, | | | | |
|---|---|---|---|---|
| 2016 | 2015 | 2014 | 2013 | 2012 |
| $18.36 | $20.87 | $19.01 | $14.16 | $11.91 |
| 0.07 | 0.01 | 0.00[1] | (0.03) | 0.01 |
| (0.49) | (0.40) | 2.44 | 4.89 | 2.24 |
| (0.42) | (0.39) | 2.44 | 4.86 | 2.25 |
| (0.02) | — | — | (0.01) | — |
| (1.69) | (2.12) | (0.58) | — | — |
| (1.71) | (2.12) | (0.58) | (0.01) | — |
| $16.23 | $18.36 | $20.87 | $19.01 | $14.16 |
| (2.57)% | (2.57)% | 13.04% | 34.37% | 18.89% |
| $26.67 | $100.73 | $98.07 | $88.30 | $64.66 |
| 1.66% | 1.57% | 1.49% | 1.57% | 1.57% |
| 0.16% | 0.03% | (0.01)% | (0.22)% | 0.09% |
| 141% | 74% | 58% | 75% | 93% |

The accompanying notes are an integral part of these financial statements.

# Financial Statements

## Financial Highlights

**For an Institutional Class share outstanding throughout each period**

| | Six Months Ended April 30, 2017 (Unaudited) | Year Ended October 31, 2016 | Period Ended October 31, 2015[1] |
|---|---|---|---|
| **PER SHARE DATA:** | | | |
| Net asset value, beginning of period | $16.26 | $18.39 | $19.72 |
| **Income from investment operations:** | | | |
| Net investment income | 0.18 | 0.02 | 0.01 |
| Net realized and unrealized gains (losses) on investments | 2.93 | (0.36) | (1.34) |
| Total from investment operations | 3.11 | (0.34) | (1.33) |
| **Less distributions:** | | | |
| Dividends from net investment income | (0.31) | (0.09) | — |
| Dividends from net realized gains | — | (1.70) | — |
| Total distributions | (0.31) | (1.79) | — |
| Net asset value, end of period | $19.06 | $16.26 | $18.39 |
| **TOTAL RETURN** | 19.11%[2] | (2.14)% | (6.74)%[2] |
| **SUPPLEMENTAL DATA AND RATIOS:** | | | |
| Net assets, end of period (millions) | $2.94 | $0.35 | $0.29 |
| Ratio of expenses to average net assets | 1.43%[3] | 1.24% | 1.19%[3] |
| Ratio of net investment income (loss) to average net assets | (0.06)%[3] | 0.52% | 0.25%[3] |
| Portfolio turnover rate[4] | 44%[2] | 141% | 74%[2] |

(1) Institutional Class shares commenced operations on June 15, 2015.
(2) Not annualized.
(3) Annualized.
(4) Portfolio turnover is calculated on the basis of the Fund as a whole.

The accompanying notes are an integral part of these financial statements.

### 1). ORGANIZATION

The Hennessy Large Cap Financial Fund (the "Fund") is a series of Hennessy Funds Trust (the "Trust"), which was organized as a Delaware statutory trust on September 17, 1992. The Fund is an open-end management investment company registered under the Investment Company Act of 1940, as amended. The Fund did not have Institutional Class shares until June 15, 2015. The investment objective of the Fund is capital appreciation. The Fund is a non-diversified fund.

The Fund offers Investor Class and Institutional Class shares. Each class of shares differs principally in its respective 12b-1 distribution and service, shareholder servicing, and sub-transfer agent expenses (there are no sales charges). Each class has identical rights to earnings, assets, and voting privileges, except for class-specific expenses and exclusive rights to vote on matters affecting only an individual class.

As an investment company, the Fund follows the investment company accounting and reporting guidance of the Financial Accounting Standards Board ("FASB") Accounting Standard Codification Topic 946 "Financial Services—Investment Companies."

### 2). SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of the financial statements. These policies conform with U.S. generally accepted accounting principles ("GAAP").

a). Investment Valuation – All investments in securities are recorded at their estimated fair value, as described in Note 3.

b). Federal Income Taxes – No provision for federal income taxes or excise taxes has been made since the Fund has elected to be taxed as a "regulated investment company" and intends to distribute substantially all of its taxable income to its shareholders and otherwise comply with the provisions of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Net investment income/loss and realized gains/losses for federal income tax purposes may differ from that reported in the financial statements because of temporary book and tax basis differences. Temporary differences are primarily the result of the treatment of wash sales for tax reporting purposes. The Fund recognizes interest and penalties related to income tax benefits, if any, in the Statement of Operations as an income tax expense. Distributions from net realized gains for book purposes may include short-term capital gains, which are included as ordinary income to shareholders for tax purposes.

c). Accounting for Uncertainty in Income Taxes – The Fund has accounting policies regarding recognition and measurement of tax positions taken or expected to be taken on a tax return. The tax returns of the Fund for the prior three fiscal years are open for examination. The Fund has reviewed all open tax years in major jurisdictions and concluded that there is no impact on the Fund's net assets and no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken on a tax return. The Fund's major tax jurisdictions are U.S. federal and Delaware.

d). Income and Expenses – Dividend income is recognized on the ex-dividend date or as soon as information is available to the Fund. Interest income, which includes the amortization of premium and accretion of discount, is recognized on an accrual basis. The Fund is charged for those expenses that are directly attributable to the portfolio, such as advisory, administration, and certain shareholder service fees. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains/losses on investments are allocated to each class of shares based on its respective net assets.

e). Distributions to Shareholders – Dividends from net investment income for the Fund, if any, are declared and paid annually, usually in December. Distributions of net realized capital gains, if any, are declared and paid annually, usually in December.

f). Security Transactions – Investment and shareholder transactions are recorded on the trade date. The Fund determines the gain or loss realized from the investment transactions by comparing the original cost of the security lot sold with the net sale proceeds. Discounts and premiums on securities purchased are accreted/amortized over the life of the respective security.

g). Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported change in net assets during the reporting period. Actual results could differ from those estimates.

h). Share Valuation – The net asset value ("NAV") per share of the Fund is calculated by dividing the sum of the value of the securities held by the Fund, plus cash or other assets, minus all liabilities (including estimated accrued expenses) by the total number of shares outstanding for the Fund, rounded to the nearest cent. The Fund's shares will not be priced on days the New York Stock Exchange is closed for trading. The offering and redemption price per share for the Fund is equal to the Fund's NAV per share.

i). Foreign Currency – Values of investments denominated in foreign currencies, if any, are converted into U.S. dollars using the spot market rate of exchange at the time of valuation. Purchases and sales of investments and income are translated into U.S. dollars using the spot market rate of exchange prevailing on the respective dates of such transactions. The Fund does not isolate the portion of the results of operations resulting from fluctuations in foreign exchange rates on investments from fluctuations resulting from changes in the market prices of securities held. Such fluctuations are included with the net realized and unrealized gain/loss on investments. Foreign investments present additional risks due to currency fluctuations, economic and political factors, lower liquidity, government regulations, differences in accounting standards, and other factors.

j). Forward Contracts – The Fund may enter into forward currency contracts to reduce its exposure to changes in foreign currency exchange rates on its foreign holdings and to lock in the U.S. dollar cost of firm purchase and sale commitments for securities denominated in foreign currencies. A forward currency contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the U.S. dollar cost of the original contract and the value of the foreign currency in U.S. dollars upon closing of such contract is included in net realized gain/loss from foreign currency transactions. During the six months ended April 30, 2016, the Fund did not enter into any forward contracts.

k). Derivatives – The Fund may invest in, or enter into, derivatives, such as options, futures contracts, options on futures contracts, and swaps, for a variety of reasons, including to hedge certain risks, to provide a substitute for purchasing or selling particular securities, or to increase potential income gain. Derivatives are financial contracts based on an underlying or notional amount, require no initial investment or an initial net investment that is smaller than would normally be required to have a similar response to changes in market factors, and require or permit net settlement. Derivatives may allow the Fund to increase or decrease the level of risk to which the Fund is exposed more quickly and efficiently than transactions in other types of instruments. The main purpose of utilizing derivative instruments is for hedging purposes.

The Fund follows the financial accounting reporting rules as required by the Derivatives and Hedging Topic of the FASB Accounting Standards Codification. Under such rules, the Fund is required to include enhanced disclosure that enables investors to understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivatives instruments affect an entity's results of operations and financial position. During the six months ended April 30, 2017, the Fund did not hold any derivative instruments.

l). Repurchase and Reverse Repurchase Agreements – The Fund may enter into repurchase agreements and reverse repurchase agreements with member banks or security dealers of the Federal Reserve Board whom the investment advisor deems creditworthy. Transactions involving repurchase agreements and reverse repurchase agreements are treated as collateralized financing transactions, and are recorded at their contracted resell or repurchase amounts, which approximates fair value. Interest on repurchase agreements and reverse repurchase agreements is included in interest receivable and interest payable, respectively.

In connection with repurchase agreements, securities pledged as collateral are held by the custodian bank until the respective agreements mature. Provisions of the repurchase agreements ensure that the market value of the collateral, including accrued interest thereon, is sufficient to cover the repurchase amount in the event of default of the counterparty. If the counterparty defaults and the fair value of the collateral declines or if the counterparty enters an insolvency proceeding, realization of the collateral by the Fund may be delayed or limited.

During the six months ended April 30, 2017, the Fund did not enter into any repurchase agreements or reverse repurchase agreements.

m). New Accounting Pronouncements – In October 2016, the U.S. Securities and Exchange Commission adopted new rules and amended existing rules (together, "final rules") intended to modernize the reporting and disclosure of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X is August 1, 2017. Management has reviewed the requirements and believes the adoption of the final rules will not have a material impact on the Fund's financial statements and related disclosures.

### 3). SECURITIES VALUATION

The Fund follows authoritative fair valuation accounting standards that establish an authoritative definition of fair value and set out a hierarchy for measuring fair value. These standards require additional disclosures about the various inputs and valuation techniques used to develop the measurements of fair value and a discussion of changes in valuation techniques and related inputs during the period. These inputs are summarized in the three broad levels listed below:

Level 1 – Unadjusted, quoted prices in active markets for identical instruments that the Fund has the ability to access at the date of measurement.

Level 2 – Other significant observable inputs (including, but not limited to, quoted prices in active markets for similar instruments, quoted prices in markets that are not active for identical or similar instruments, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets (such as interest rates, prepayment speeds, credit risk curves, default rates, and similar data)).

Level 3 – Significant unobservable inputs (including the Fund's own assumptions about what market participants would use to price the asset or liability based on the best available information) when observable inputs are unavailable.

Following is a description of the valuation techniques applied to the Fund's major categories of assets and liabilities measured at fair value on a recurring basis.

*Equity Securities* – Equity securities, including common stocks, preferred stocks, foreign-issued common stocks, exchange-traded funds, closed-end mutual funds, partnerships, rights, and real estate investment trusts, that are traded on a securities exchange for which a last-quoted sales price is readily available will generally be valued at the last sales price as reported by the primary exchange on which the securities are listed. Securities listed on The NASDAQ Stock Market ("NASDAQ") will generally be valued at the NASDAQ Official Closing Price, which may differ from the last sales price reported. Securities traded on a securities exchange for which a last-quoted sales price is not readily available will generally be valued at the mean between the bid and ask prices. To the extent these securities are actively traded and valuation adjustments are not applied, they are classified in Level 1 of the fair value hierarchy. Securities traded on foreign exchanges generally are not valued at the same time the Fund calculates its NAV because most foreign markets close well before such time. The earlier close of most foreign markets gives rise to the possibility that significant events, including broad market moves, may have occurred in the interim. In certain circumstances, it may be determined that a security needs to be fair valued because it appears that the value of the security might have been materially affected by events occurring after the close of the market in which the security is principally traded, but before the time the Fund calculates its NAV, such as by a development that affects an entire market or region (e.g., weather-related events) or a potentially global development (e.g., a terrorist attack that may be expected to have an effect on investor expectations worldwide).

*Registered Investment Companies* – Investments in registered investment companies (e.g., mutual funds) are generally priced at the ending NAV provided by the applicable registered investment company's service agent and will be classified in Level 1 of the fair value hierarchy.

*Debt Securities* – Debt securities, including corporate bonds, asset-backed securities, mortgage-backed securities, municipal bonds, U.S. Treasuries, and U.S. government agency issues, are generally valued at market on the basis of valuations furnished by an independent pricing service that utilizes both dealer-supplied valuations and formula-based techniques. The pricing service may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, and fundamental data relating to the issuer. In addition, the model may incorporate observable market data, such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data. Certain securities are valued primarily using dealer quotations. These securities are generally classified in Level 2 of the fair value hierarchy.

*Short-Term Securities* – Short-term equity investments, including money market funds, are valued in the manner specified above. Short-term debt investments with an original term to maturity of 60 days or less are valued at amortized cost, which approximates fair market value. If the original term to maturity of a short-term debt investment exceeded 60 days, then the values as of the 61st day prior to maturity are amortized. Amortized cost is not used if its use would be inappropriate due to credit or other impairments of the issuer, in which case the security's fair value would be determined, as described below. Short-term securities are generally classified in Level 1 or Level 2 of the fair market hierarchy depending on the inputs used and market activity levels for specific securities.

The Board of Trustees of the Fund (the "Board") has adopted fair value pricing procedures that are followed when a price for a security is not readily available or if a significant event has occurred that indicates the closing price of a security no longer represents the true value of that security. Fair value pricing determinations are made in good faith in accordance with these procedures. There are numerous criteria that will be given consideration in determining a fair value of a security, such as the trading volume of a security and markets, the value of other similar securities, and news events with direct bearing to a security or markets. Fair value pricing results in an estimated price for a security that reflects the amount the Fund might reasonably expect to receive in a current sale. Depending on the relative significance of the valuation inputs, these securities may be classified in either Level 2 or Level 3 of the fair value hierarchy.

The fair valuation of foreign securities may be determined with the assistance of a pricing service using correlations between the movement of prices of such securities and indices of domestic securities and other appropriate indicators, such as closing market prices of relevant American Depositary Receipts or futures contracts. The effect of using fair value pricing is that the Fund's NAV will reflect the affected portfolio securities' values as determined by the Board or its designee instead of being determined by the market. Using a fair value pricing methodology to price foreign securities may result in a value that is different from a foreign security's most recent closing price and from the prices used by other investment companies to calculate their NAVs and are generally considered Level 2 prices in the fair valuation hierarchy. Because the Fund may invest in foreign securities, the value of the Fund's portfolio securities may change on days when you will not be able to purchase or redeem your shares.

The Board has delegated day-to-day valuation matters to a Valuation Committee comprised of one or more representatives from Hennessy Advisors, Inc. (the "Advisor"), the Fund's investment advisor. The function of the Valuation Committee is to value securities where current and reliable market quotations are not readily available. All actions taken by the Valuation Committee are reviewed by the Board.

The Fund has performed an analysis of all existing investments to determine the significance and character of all inputs to their fair value determination. Various inputs are used in determining the value of the Fund's investments. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Details related to the fair valuation hierarchy of the Fund's securities as of April 30, 2017, are included in the Schedule of Investments.

#### 4). INVESTMENT TRANSACTIONS

Purchases and sales of investment securities (excluding government and short-term investments) for the Fund during the six months ended April 30, 2017, were $12,478,050 and $15,806,555, respectively.

There were no purchases or sales/maturities of long-term U.S. government securities for the Fund during the six months ended April 30, 2017.

The Fund is permitted to purchase or sell securities from or to another fund in the Hennessy Funds family of funds (the "Hennessy Funds") under specified conditions outlined in procedures adopted by the Board of Trustees. The procedures have been designed to ensure that any purchase or sale of securities by the Fund from or to another Hennessy Fund complies with Rule 17a-7 of the Investment Company Act of 1940, as amended. During the six months ended April 30, 2017, the Fund did not engage in purchases and sales of securities pursuant to Rule 17a-7 of the Investment Company Act of 1940, as amended.

#### 5). INVESTMENT MANAGEMENT FEE AND OTHER TRANSACTIONS WITH AFFILIATES

The Advisor provides the Fund with investment management services under an Investment Advisory Agreement. The Advisor furnishes all investment advice, office space, facilities, and provides most of the personnel needed by the Fund. As compensation for its services, the Advisor is entitled to a monthly fee from the Fund. The fee is based upon the average daily net assets of the Fund at the annual rate of 0.90%. The net investment advisory fees expensed by the Fund during the six months ended April 30, 2017, are included in the Statement of Operations.

The Board has approved a Shareholder Servicing Agreement for Investor Class shares of the Fund, which was instituted to compensate the Advisor for the non-investment management services it provides to the Fund. The Shareholder Servicing Agreement provides for a monthly fee paid to the Advisor at an annual rate of 0.10% of the average daily net assets of the Fund attributable to Investor Class shares. The shareholder service fees expensed by the Fund during the six months ended April 30, 2017, are included in the Statement of Operations.

The Fund has adopted a plan pursuant to Rule 12b-1 under the Investment Company Act of 1940, as amended, that authorizes payments in connection with the distribution of the Fund's shares at an annual rate of up to 0.25% of the Fund's average daily net assets attributable to Investor Class shares. Even though the authorized rate is up to 0.25%, the Fund is currently only using 0.15% of its average daily net assets attributable to Investor Class shares for such purposes. Amounts paid under the plan may be spent on any activities or expenses primarily intended to result in the sale of shares, including, but not limited to, advertising, shareholder account servicing, the printing and mailing of prospectuses to other than current shareholders, the printing and mailing of sales literature, and compensation for sales and marketing activities or to financial institutions and others, such as dealers and distributors. The distribution fees expensed by the Fund during the six months ended April 30, 2017, are included in the Statement of Operations.

The Fund has entered into agreements with various brokers, dealers, and financial intermediaries in connection with the sale of shares of the Fund. The agreements provide for periodic payments by the Fund to the brokers, dealers, and financial intermediaries for providing certain shareholder maintenance services (sub-transfer agent expenses). These shareholder services include the pre-processing and quality control of new accounts, shareholder correspondence, answering customer inquiries regarding account status, and facilitating shareholder telephone transactions. The sub-transfer agent fees expensed by the Fund during the six months ended April 30, 2017, are included in the Statement of Operations.

U.S. Bancorp Fund Services, LLC ("USBFS") provides the Fund with administrative, fund accounting, and transfer agent services, and necessary office equipment. As administrator, USBFS is responsible for activities such as (i) preparing various federal and state regulatory filings, reports, and returns for the Fund, (ii) preparing reports and materials to be supplied to the Board, (iii) monitoring the activities of the Fund's custodian, transfer agent, and accountants, and (iv) coordinating the preparation and payment of the Fund's expenses and reviewing the Fund's expense accruals. U.S. Bank, N.A., an affiliate of USBFS, serves as the Fund's custodian. The administrative, fund accounting, custody, and transfer agent fees expensed by the Fund during the six months ended April 30, 2017, are included in the Statement of Operations.

Quasar Distributors, LLC acts as the Fund's principal underwriter in a continuous public offering of the Fund's shares. Quasar Distributors, LLC is an affiliate of USBFS and U.S. Bank, N.A.

The officers of the Fund are affiliated with the Advisor. Such officers, with the exception of the Chief Compliance Officer and the Senior Compliance Officer, receive no compensation from the Fund for serving in their respective roles. The Fund, along with the other Hennessy Funds, makes reimbursement payments, on an equal basis, to the Advisor for a portion of the salary and benefits associated with the office of the Chief Compliance Officer and for all of the salary and benefits associated with the office of the Senior Compliance Officer. The compliance fees expensed by the Fund during the six months ended April 30, 2017, are included in the Statement of Operations.

### 6). GUARANTEES AND INDEMNIFICATIONS

Under the Hennessy Funds' organizational documents, their officers and trustees are indemnified by the Hennessy Funds against certain liabilities arising out of the performance of their duties to the Hennessy Funds. Additionally, in the normal course of business, the Hennessy Funds enter into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. Currently, the Fund expects the risk of loss to be remote.

### 7). LINE OF CREDIT

The Fund has an uncommitted line of credit with the other Hennessy Funds in the amount of the lesser of (i) $100,000,000 or (ii) 33.33% of each Hennessy Fund's net assets, or 30% for the Hennessy Gas Utility Fund and 10% for the Hennessy Balanced Fund, intended to provide short-term financing, if necessary, subject to certain restrictions, in connection with shareholder redemptions. The credit facility is with the Hennessy Funds' custodian bank, U.S. Bank, N.A. Borrowings under this arrangement bear interest at the bank's prime rate and are secured by all of the Fund's assets (as to its own borrowings only). During the six months ended April 30, 2017, the Fund had an outstanding average daily balance and a weighted average interest rate of $21,646 and 3.75%, respectively. The interest expensed by the Fund during the six months ended April 30, 2017, is included in the Statement of Operations. The maximum amount outstanding for the Fund during the period was $779,000. At April 30, 2017, the Fund did not have any borrowings outstanding under the line of credit.

## 8). FEDERAL TAX INFORMATION

As of October 31, 2016, the Fund's most recent fiscal year end, the components of accumulated earnings (losses) for income tax purposes were as follows:

| | |
|---|---|
| Cost of investments for tax purposes | $ 25,780,118 |
| Gross tax unrealized appreciation | $ 2,655,508 |
| Gross tax unrealized depreciation | (1,539,270) |
| Net tax unrealized appreciation | $ 1,116,238 |
| Undistributed ordinary income | $ 188,556 |
| Undistributed long-term capital gains | — |
| Total distributable earnings | $ 188,556 |
| Other accumulated loss | $ (1,792,283) |
| Total accumulated loss | $ (487,489) |

The difference between book-basis unrealized appreciation/depreciation (as shown in the Statement of Assets and Liabilities) and tax-basis unrealized appreciation/depreciation (as shown above) is attributable primarily to wash sales.

At October 31, 2016, the Fund's most recent fiscal year end, the Fund had capital loss carryforwards that expire as follows:

| | |
|---|---|
| $ 1,792,283 | Indefinite ST |

At October 31, 2016, the Fund's most recent fiscal year end, the Fund did not defer, on a tax basis, any late year ordinary losses.

During the fiscal years ended October 31, 2017 (year to date) and 2016, the tax character of distributions paid by the Fund was as follows

| | Six Months Ended April 30, 2017 | Year Ended October 31, 2016 |
|---|---|---|
| Ordinary income[(1)] | $188,556 | $ 114,806 |
| Long-term capital gain | — | 9,736,126 |
| | $188,556 | $9,850,932 |

(1) Ordinary income includes short-term gain/loss.

## 9). EVENTS SUBSEQUENT TO PERIOD END

Management has evaluated the Fund's related events and transactions that occurred subsequent to April 30, 2017, through the date of issuance of the Fund's financial statements. Management has determined that there were no subsequent events requiring recognition or disclosure in the financial statements.

# *Expense Example (Unaudited)*

April 30, 2017



As a shareholder of the Fund, you incur two types of costs: (1) transaction costs, including sales charges (loads) on purchase payments, reinvested dividends, or other distributions; redemption fees; and exchange fees; and (2) ongoing costs, including management fees; service fees; and other Fund expenses. This Example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. The Example is based on an investment of $1,000 invested at the beginning of the period and held for the entire period from November 1, 2016, through April 30, 2017.

**Actual Expenses**

The first line of the table below under the "Investor Class" and "Institutional Class" headings provides information about actual account values and actual expenses. Although the Fund charges no sales loads or transaction fees, you will be assessed fees for outgoing wire transfers, returned checks and stop payment orders at prevailing rates charged by U.S. Bancorp Fund Services, LLC, the Fund's transfer agent. If you request that a redemption be made by wire transfer, currently a $15 fee is charged by the Fund's transfer agent. IRA accounts will be charged a $15 annual maintenance fee. The example below includes, but is not limited to, management fees, shareholder servicing fees, fund accounting, custody, and transfer agent fees. However, the example below does not include portfolio trading commissions and related expenses, and other extraordinary expenses as determined under generally accepted accounting principles. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the first line of the table under the "Investor Class" or "Institutional Class" headings in the column entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

**Hypothetical Example for Comparison Purposes**

The second line of the table below under the "Investor Class" and "Institutional Class" headings provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratios and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as sales charges (loads), or exchange fees. Therefore, the second line of the table under the "Investor Class" and "Institutional Class" headings is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

| | Beginning Account Value November 1, 2016 | Ending Account Value April 30, 2017 | Expenses Paid During Period[(1)] November 1, 2016 – April 30, 2017 |
|---|---|---|---|
| **Investor Class** | | | |
| Actual | $1,000.00 | $1,188.20 | $10.09 |
| Hypothetical (5% return before expenses) | $1,000.00 | $1,015.57 | $ 9.30 |
| **Institutional Class** | | | |
| Actual | $1,000.00 | $1,191.10 | $ 7.77 |
| Hypothetical (5% return before expenses) | $1,000.00 | $1,017.70 | $ 7.15 |

(1) Expenses are equal to the Fund's annualized expense ratio of 1.86% for Investor Class shares or 1.43% for Institutional Class shares, as applicable, multiplied by the average account value over the period, multiplied by 181/365 days (to reflect one-half year period).

# Proxy Voting Policy and Proxy Voting Records

A description of the policies and procedures the Fund uses to determine how to vote proxies relating to portfolio securities is available without charge: (1) by calling 1-800-966-4354; (2) on the Hennessy Funds' website at hennessyfunds.com/proxy-voting/policy.fs; or (3) on the U.S. Securities and Exchange Commission's (the "SEC") website at www.sec.gov. The Fund's proxy voting record is available without charge on both the Hennessy Funds' website at hennessyfunds.com/proxy-voting/vote.fs and the SEC's website at www.sec.gov no later than August 31 for the prior 12 months ending June 30.

# Quarterly Schedule of Investments

The Fund files a complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q will be available on the SEC's website at www.sec.gov. The Fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. Information included in the Fund's Forms N-Q will also be available upon request by calling 1-800-966-4354.

# Federal Tax Distribution Information (Unaudited)

For the fiscal year ended October 31, 2016, certain dividends paid by the Fund may be subject to a maximum tax rate of 23.8%, as provided for by the Jobs and Growth Tax Relief Reconciliation Act of 2003. The percentage of dividends declared from ordinary income designated as qualified dividend income was 100%.

For corporate shareholders, the percent of ordinary income distributions that qualified for the corporate dividends received deduction for the fiscal year ended October 31, 2016, was 100%.

The percentage of taxable ordinary income distributions that is designated as a short-term capital gain distribution under Section 871(k)(2)(C) of the Internal Revenue Code of 1986, as amended, for the Fund was 0%.

# Householding of Reports and Prospectuses

To help keep the Fund's costs as low as possible, we generally deliver a single copy of most financial reports and prospectuses to shareholders who share an address, even if the accounts are registered under different names. This process, known as "householding," does not apply to account statements. You may request an individual copy of a prospectus or financial report at any time. If you would like to receive separate mailings, please call the Administrator at 1-800-261-6950 or 1-414-765-4124 and individual delivery will begin within 30 days of your request. If your account is held through a financial institution or other intermediary, please contact them directly to request individual delivery.

# *Board Approval of Investment Advisory Agreement*

At its meeting on March 8, 2017, the Board of Trustees of the Fund (the "Board," and the members thereof, the "Trustees") unanimously approved the continuation of the investment advisory agreement of the Fund with Hennessy Advisors, Inc. (the "Advisor"). As part of the process of approving the continuation of the advisory agreement, the Trustees reviewed their fiduciary duties with respect to approving the advisory agreement and the relevant factors for them to consider. In addition, the Trustees who are not deemed "interested persons" (as that term is defined by the Investment Company Act of 1940, as amended) of the Fund (the "Independent Trustees") met in executive session to discuss the approval of the advisory agreement.

In advance of the meeting, the Advisor sent detailed information to the Trustees to assist them in their evaluation of the advisory agreement. This information included, but was not limited to, (i) a memorandum from outside legal counsel that described the fiduciary duties of the Board with respect to approving the continuation of the advisory agreement and the relevant factors for consideration, (ii) a memorandum from the Advisor that listed the factors relevant to the Board's approval of the continuation of the advisory agreement and also referenced the documents that had been provided to help the Board assess each such factor, (iii) an inventory of the range of services provided by the Advisor for the Fund, (iv) a written discussion of economies of scale, (v) the advisory agreement, (vi) a recent Fund fact sheet, which included, among other things, performance information over various time periods, (vii) a peer expense comparison of both the net expense ratio and investment advisory fee of the Fund, (viii) the Advisor's most recent Form 10-K and Form 10-Q, which includes information about the Advisor's profitability, (ix) information about brokerage commissions, (x) information about the Fund's compliance program, and (xi) the Advisor's current Form ADV Part I.

All of the factors discussed were considered as a whole by the Trustees, and also by the Independent Trustees meeting in executive session. The factors were viewed in their totality by the Trustees, with no single factor being the principal or determinative factor in the Trustees' determination of whether to approve the continuation of the advisory agreement. The Trustees recognized that the management and fee arrangements for the Fund are the result of years of review and discussion between the Independent Trustees and the Advisor, that certain aspects of such arrangements may receive greater scrutiny in some years than in others, and that the Trustees' conclusions may be based, in part, on their consideration of these same arrangements and information received during the course of the year and in prior years.

Prior to approving the continuation of the advisory agreement, the Trustees, including the Independent Trustees in executive session, considered, among other items:

(1) The nature and quality of the advisory services provided by the Advisor.

(2) A comparison of the fees and expenses of the Fund to other similar funds.

(3) Whether economies of scale are recognized by the Fund.

(4) The costs and profitability of the Fund to the Advisor.

(5) The performance of the Fund.

(6) Any benefits to the Advisor from serving as an investment advisor to the Fund other than the advisory fee).

The material considerations and determinations of the Trustees, including the Independent Trustees, were as follows:

(1) The Trustees considered the services identified below that are provided by the Advisor. Based on this review, the Trustees concluded that the Advisor provides high-quality services to the Fund, and they noted that their overall confidence in the Advisor is high. The Trustees also concluded that they were satisfied with the nature, extent, and quality of the advisory services provided to the Fund by the Advisor, and that the nature and extent of the services provided by the Advisor are appropriate to assure that the Fund's operations are conducted in compliance with applicable laws, rules, and regulations.

(a) The Advisor acts as the portfolio manager for the Fund. In this capacity, the Advisor does the following:

(i) manages the composition of the Fund's portfolio, including the purchase, retention, and disposition of portfolio securities in accordance with the Fund's investment objectives, policies, and restrictions;

(ii) ensures compliance with "best execution" for the Fund's portfolio;

(iii) manages the use of soft dollars for the Fund; and

(iv) manages proxy voting for the Fund.

(b) The Advisor performs a daily reconciliation of portfolio positions and cash for the Fund.

(c) The Advisor monitors the Fund's compliance with its investment objectives and restrictions.

(d) The Advisor monitors compliance with federal securities laws and performs activities such as maintaining a compliance program, conducting ongoing reviews of the compliance programs of the Fund's service providers, conducting on-site visits to the Fund's service providers, monitoring incidents of abusive trading practices, reviewing Fund expense accruals, payments, and fixed expense ratios, evaluating insurance providers for fidelity bond coverage and D&O/E&O insurance coverage, conducting employee compliance training, reviewing reports provided by service providers, maintaining books and records, and preparing an annual compliance report to the Board.

(e) The Advisor oversees service providers that provide accounting, administration, distribution, transfer agency, custodial, sales and marketing, public relations, audit, information technology, and legal services to the Fund.

(f) The Advisor maintains in-house marketing and distribution departments on behalf of the Fund.

(g) The Advisor is actively involved with preparing regulatory filings for the Fund, including writing and annually updating the Fund's prospectus and related documents.

(h) The Advisor prepares a written summary of the Fund's performance for the most recent twelve-month period for each annual report of the Fund.

(i) The Advisor oversees distribution of the Fund through third-party broker/dealers and independent financial institutions such as Charles Schwab, Inc., Fidelity, TD Waterhouse, and Pershing. The Advisor participates in "no transaction fee" ("NTF") programs with these companies on behalf of the Fund, which allow customers to purchase the Fund through third-party distribution channels without paying a transaction fee. The Advisor compensates, in part, a number of these third-party providers of NTF programs out of its own revenues.

(j) The Advisor pays the incentive compensation of the Fund's compliance officers and employs other staff, such as legal, marketing, national accounts and distribution, sales, administrative, and trading oversight personnel, as well as management executives.

(k) The Advisor provides a quarterly compliance certification to the Board.

(l) The Advisor prepares or reviews Board materials, frequently presents to the Board or leads Board discussions, prepares or reviews meeting minutes, and arranges for Board training and education.

(2) The Trustees compared the performance of the Fund to benchmark indices over various time periods and they also noted that they review and discuss reports comparing the investment performance of the Fund to various indices at each quarterly Board meeting. Based on all such information, the Trustees believe that the Advisor manages the Fund in a manner that is materially consistent with its stated investment objective and style. The Trustees concluded that the performance of the Fund over various time periods warranted the continuation of the advisory agreement.

(3) The Trustees reviewed the advisory fees and overall expense ratios of the Fund compared to other funds similar in asset size and investment objective to the Fund using data from Morningstar. As part of the discussion with management, the Trustees ensured that they understood and were comfortable with the criteria used to determine the mutual funds included in the Morningstar categories for purposes of the materials considered at the meeting. The Trustees determined that the advisory fee and overall expense ratio of the Fund falls within the range of the advisory fees and overall expense ratios of other comparable funds and concluded that they are reasonable and warranted continuation of the advisory agreement.

(4) The Trustees also considered whether economies of scale were being realized by the Advisor that should be shared with the Fund's shareholders. The Trustees noted that many of the expenses incurred to manage the Fund are asset-based fees and thus do not result in material economies of scale being realized as the assets of the Fund increase. For example, mutual fund platform fees increase as the Fund's assets grow. The Trustees also considered the Advisor's efforts to contain expenses, and took into account the Advisor's significant marketing efforts to increase Fund assets. The Trustees noted that at current asset levels it did not appear that there were economies of scale being realized by the Advisor and concluded that it would continue to monitor economies of scale in the future as circumstances changed.

(5) The Trustees considered the profitability of the Advisor, including the impact of mutual fund platform fees on the Advisor's profitability, and also considered the resources and revenues that the Advisor has put into managing and distributing the Fund. The Trustees then concluded that the profits of the Advisor are reasonable and not excessive when compared to profitability guidelines set forth in relevant court cases.

(6) The Trustees considered the high level of professionalism and knowledge of the Advisor's employees, along with a very low level of turnover, and concluded that this was beneficial to the Fund and its shareholders.

(7) The Trustees considered any benefits to the Advisor from serving as an advisor to the Fund other than the advisory fee. The Trustees noted that the Advisor may derive ancillary benefits from, by way of example, its association with the Fund in the form of proprietary and third-party research products and services received from broker-dealers that execute portfolio trades for the Fund. The Trustees determined that any such products and services have been used for legitimate purposes relating to the Fund by providing assistance in the investment decision-making process. The Trustees concluded that any additional benefits realized by the Advisor from its relationship with the Fund were reasonable.

After reviewing the materials provided at the meeting and management's presentation, as well as other information regularly provided at the Board's quarterly meetings throughout the year regarding the quality of services provided by the Advisor, the performance of the Fund, expense information, regulatory compliance issues, trading information and related matters, and other factors that the Trustees deemed relevant, the Trustees, including the Independent Trustees, approved the continuation of the advisory agreement.

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