

Feature Article – Hennessy Equity and Income Fund

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Excerpts taken from the www.forbes.com Wallace Forbes Interview (7/8/16) *Swiss Army Knife for Investors*

Hennessy Equity and Income Fund Portfolio Managers Gary Cloud and Mark DeVaul are interviewed by Wallace Forbes - “A Swiss Army Knife for Investors”



Gary Cloud tells Mr. Forbes “a balanced fund is possibly the closest any investment comes to a one-stop shop. You can think of it as a Swiss army-knife for investors. And in this particular case it’s a blend of equities and bonds, rebalanced monthly, of 60% large-cap and mid-cap U.S. stocks, along with 40% high quality U.S. bonds.” He continues by saying “The goal of both the fixed-income and the equity side is downside protection.”

Mr. Cloud hands the conversation over to Mark DeVaul who manages the equity side of the Fund. Mr. DeVaul says “On the equity side, our investment philosophy stems from our belief that the market is much less efficient at assessing risk than reward. What that means for us is rather than attempting to forecast the future and the next big winners, we really focus our time on risk control and downside protection.”

Mr. DeVaul continues, “The key to our investment process includes thinking like a business owner. So we take large positions and hold them for a long time. The average holding period is about five years. We limit our investment universe to companies that generate a high return on capital, so they have showed some sustainable competitive advantage.” He also shares “A very important part of what we do is our balance sheet optimization approach. This is a way of determining intrinsic value by building the investment thesis for each company around the strength of the balance sheet that exists today. “

Mr. DeVaul further describes two stocks in the portfolio and finishes with “we buy what we believe are high-return-on-capital businesses at attractive valuations where we can build the investment thesis around the balance sheet. Then make sure incentives are aligned with shareholders, and management’s actions, in terms of their own buying, and how they allocate capital at the corporate level through dividends and share repurchases.”

Mr. Cloud picks up the conversation with “We are fixed-income specialists here. Our process is focused on duration management, sector allocation, and then individual issue selection. So, duration is the interest-rate sensitivity of the portfolio. The sector might be treasuries versus agencies versus corporate bonds.” He continues, “But the key, is attempting to limit our downside pressure by avoiding credits whose fundamentals have changed. So we’re looking at the fundamentals of the economy, we’re looking at the technical side of the market and we’re considering behavioral finance attributes, which includes market positioning and sentiment.”

Mr. Cloud finishes the interview with, “So, the Hennessy Equity and Income Fund is a nice one-stop shop for someone looking to invest in a balanced fund. It includes what we believe are high quality, U.S. large-cap stocks and corporate bonds, with some treasuries and agencies mixed in. There’s no leverage or derivatives in the Fund, so it’s a transparent portfolio that attempts to deliver exposure to what we believe are some of the best stocks and bonds in United States.”