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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Benefiting from Exportation and Demand Growth in the Natural Gas Sector

RYAN KELLEY, CFA, Portfolio Manager, brings nearly 20 years of financial analysis, trading and portfolio management experience to Hennessy Funds. Mr. Kelley serves as the Portfolio Manager of the Hennessy Small Cap Financial, Hennessy Large Cap Financial, Hennessy Gas Utility, Hennessy Cornerstone Growth, Hennessy Cornerstone Mid Cap 30, Hennessy Cornerstone Large Growth, Hennessy Cornerstone Value and Hennessy Technology Funds. He began as an associate in corporate finance at FBR & Co., a leading investment bank headquartered in the Washington, D.C., area and later joined their institutional equity research team. In 2005, Mr. Kelley became a member of the FBR Funds portfolio management team and transitioned to Hennessy Funds portfolio management when the firm acquired FBR in 2012. Mr. Kelley received a B.A. from Oberlin College, is a CFA charterholder, and is a member of both The Boston Security Analysts Society and the CFA Society North Carolina.

SECTOR — GENERAL INVESTING

TWST: Why don't we go ahead and start talking about the Gas Utility Fund, and we will go from there?

Mr. Kelley: Sure. The two funds I thought would be interesting for investors to hear about are the Hennessy Large Cap Financial Fund (MUTF:HLFNX) as well as the Hennessy Gas Utility Fund (MUTF:GASFX). I am a Co-Portfolio Manager on both of those funds, and they're similar in certain ways. They are both domestically focused, long-term-focused equity mutual funds. We don't invest in overly complicated alternative investments or derivatives of any sort. And the investor and institutional class shares are readily available on many different platforms.

While the Financial Fund is invested in an out-of-favor sector that we believe could outperform in a rising rate environment, the Hennessy Gas Utility Fund gives investors the opportunity to invest in a sector that is doing very well currently. The sector has been driven by some very strong secular trends, as natural gas continues to replace coal in electricity generation, and overall demand for natural gas has continued to rise. So I think between those two funds, there would be some interest for investors.

TWST: And I was a little surprised to read about how much natural gas is exported. So why don't you tell me what's going on in that market?

Mr. Kelley: We believe that the exportation of natural gas will continue to drive this fund and also the demand for natural gas going forward. Over a decade ago in the U.S., natural gas was considered a constrained energy source. There wasn't much left, and we were going to run out. Then, new and more efficient ways to extract natural gas out of the ground were developed, and now, we are in a completely different scenario where we have an abundant supply of natural gas to meet domestic energy needs for well over 100 years, and that's with forecasted substantial domestic demand growth as well as growth in exportation.

Large reserves and healthy supplies are helping to keep natural gas prices relatively stable and low compared to other energy sources. Add to that the fact that natural gas is considered to be one of the cleanest of the fossil fuels, and natural gas has become the energy source of choice for the nation right now. Natural gas is replacing coal in electric generation plants, and exportation is on the rise. Last year, the first tanker filled with liquid natural gas, or LNG, left the U.S. shores from Louisiana. And we continue to see increased exportation to Mexico.

Overall, natural gas consumption in the U.S. has grown about 25% in the past 10 years, whereas the entire energy consumed has been essentially flat over the same time period. So all good things for natural gas usage. And this fund, the Hennessy Gas Utility Fund, is focused on the distribution side of the business. It's not driven directly by exploration and production of natural gas, nor directly driven by the price of natural gas.

Rather, the companies in the fund essentially collect a toll based on volumes. Every time that natural gas goes through a pipe and is delivered to your house for cooking or heating, that's essentially more revenue for these companies, regardless of the price of the commodity. So as we have seen demand increase, we also have seen the stocks in the portfolio do well in the last 10 years or so relative to the broader market.

TWST: So we're using as much natural gas as we were, or is it price-driven, the export is price-driven? I mean, do we have an excess capacity?

Mr. Kelley: Yes, we do have a significant amount of additional capacity. And it's all just part of the supply/demand equation. The U.S. is producing record levels of natural gas right now as well as consuming and exporting record levels of natural gas. In the case of Mexico, the issue is that they don't produce the natural gas to meet their demand and are, therefore, importing it in from the United States.

TWST: And you said that Mexico doesn't have the ability right now to develop their own natural gas extraction. And I know you are focused on the distribution side. But are there opportunities for U.S.-based companies to go into Mexico and develop their natural gas infrastructure?

Mr. Kelley: I would think so, although the fund itself doesn't focus on exploration and production, but I would think there could be opportunities to develop in Mexico. For the U.S., we have abundant reserves currently, as we've developed more efficient extraction techniques for natural gas. So that means that we have the ability to export as well.

TWST: Let's talk about the political situation for a moment. Did the election of President Trump and his love for coal have any momentary or temporary effect on the natural gas industry?

Mr. Kelley: I think it didn't, not immediately, despite a lot of talk, of course. We've spoken with many different industry experts, and we work closely with the American Gas Association, which is the nonprofit trade association in Washington, D.C., for natural gas distribution companies. They are very in tune with Capitol Hill, and despite differing views about coal from the White House, this switching from coal to natural gas in power plants, which has occurred over the last five or more years, is not a trend that's simply going to reverse. It is a longer-term process.

Simply put, natural gas is a nonpartisan issue. The general consensus on Capitol Hill is that natural gas is an abundant, domestically produced energy resource, while being the cleanest and most efficient of the fossil fuels. Furthermore, while the White House may have certain changes in their overall attitude toward coal versus natural gas, it really comes down to a state-by-state level, to each state regulatory commission, which oversee natural gas distribution and electricity generation. There has certainly been a continued push from the states to continue to enable older power plants to switch to natural gas or replace older plants with ones that do.

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TWST: And certainly, it has created an interesting discussion. I think the consensus is that the coal is behind us.

Mr. Kelley: I believe that's true, yes.

TWST: So why don't you talk to me about some specific issues, stocks that you like?

Mr. Kelley: Sure. To begin with, the fund is focused on three different types of companies: first, natural gas distribution companies; second, multi-utilities that generate electricity as well as distribute electricity and natural gas; and third, major pipeline companies, which move natural gas throughout the United States. I'll highlight three companies that we own in the fund, two large caps and one midcap.

First, ONE Gas (NYSE:OGS) is a pure-play local distribution company that delivers natural gas in Oklahoma, Kansas and Texas. They are benefiting from an expansive pipe replacement program, which allows them to reinvest in their infrastructure and earn an attractive return for shareholders. The stock has performed very well recently, and we think that this trend could continue.

Second, Southern Company (NYSE:SO) is one of the largest diversified utilities in the U.S. and extends throughout the Southern and Mid-Atlantic regions. They recently acquired AGL Resources, which was, at that time, the largest natural gas distribution company in the U.S. The acquisition helped them to diversify and expand into the natural gas distribution business. Southern Company also has a very nice dividend yield of about 4.8%.

Highlights

Ryan Kelley discusses Hennessy Funds as well as the Hennessy Gas Utility Fund and the Hennessy Large Cap Financial Fund. According to Mr. Kelley, both funds are domestically focused and long-term-focused, and neither invest in alternative investments or derivatives. The Hennessy Gas Utility Fund gives investors an opportunity to invest in a sector that is currently doing very well. Mr. Kelley believes this fund will continue to benefit from natural gas exportation as well as demand growth. Mr. Kelley's other fund, The Hennessy Large Cap Financial Fund, gives investors an opportunity to invest in an out-of-favor sector. In his view, Mr. Kelley anticipates increasing earnings and stable credit conditions in the space, as long as there's a decent economy with slowly rising rates.

Third, Enbridge Energy (NYSE:ENB) is a North American natural gas and oil pipeline company. They recently acquired a very large, similar company named Spectra Energy, and they now have a pipeline network that extends from Canada down to Mexico, which gives them access to the Pacific and Atlantic as well as the Gulf Coast. It has an attractive 4.1% dividend yield, and we believe it should benefit from the growth of overall natural gas consumption in the U.S.

1-Year Daily Chart of ONE Gas, Inc.

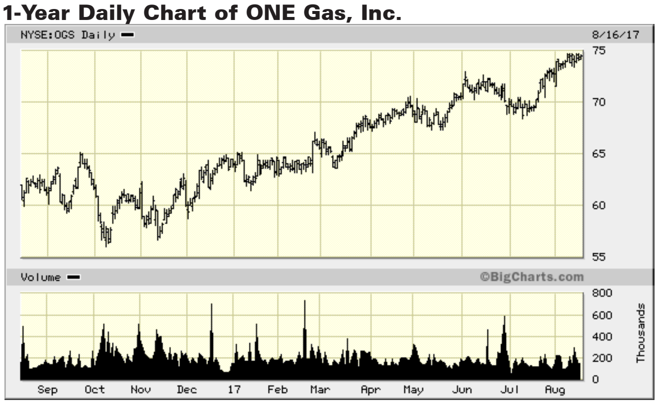

Chart provided by www.BigCharts.com

rate environment as well as excessive regulations placed on large-cap banks, both of which have the ability to reduce profitability.

However, we think that this fund offers investors a good opportunity to take advantage of a sector that's trading at about 70% of the p/e of the S&P 500. In other words, the S&P 500 is trading at about 19 times earnings, whereas large-cap banks are trading at around 13 times. As short-term interest rates rise, and if we see the longer end of the yield curve also move up, we believe there could be significant earnings growth for these banks, which could lead to their outperformance.

TWST: And what specific issuers do you like?

Mr. Kelley: We like some of the largest banks, many of which are well-known to many investors. Bank of America (NYSE:BAC) is one of our larger holdings. Consensus projections show significant earnings growth of about 21% this year and 18% next. It's U.S.-focused, and we like that.

JPMorgan Chase (NYSE:JPM) is trading at 13 times earnings, which is relatively, over its history, a fairly attractive level, and we think that JPMorgan will benefit from a better economy as well as increased trading revenues. In the near term, trading in the equity markets as well as fixed income could continue to be soft, although we think that over time they will continue to benefit from a better economy.

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1-Year Daily Chart of Enbridge Inc

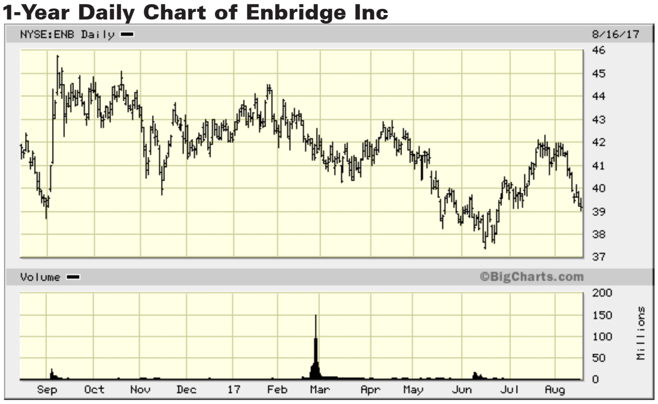

Chart provided by www.BigCharts.com

TWST: Any other particular stocks or funds that you want to talk about?

Mr. Kelley: Yes, we can switch gears and talk about large-cap banks and, in particular, the Hennessy Large Cap Financial Fund. This offers a completely different opportunity than the Hennessy Gas Utility Fund in that it is invested in a sector that's out of favor. Financials have been underperforming the broader market over the past three, five and 10 years. We believe this is in large part attributable to both a tough interest

Finally, Citigroup (NYSE:C) is one that we like and is a large holding. It's the only one of the large banks that's trading below tangible book value. We think that's attractive, especially since it's also trading about 12 times earnings. Additionally, this company has international exposure, which has been holding them back over many years, but which we think could be a benefit as the global economy improves and as a better interest rate environment could lead to higher earnings.

TWST: And I'm assuming that this administration is obviously working to deal with the regulations in the financial industry, so I'm sure that's probably viewed as a plus.

Mr. Kelley: It is, despite taking longer than a lot of people expected. We think it's at least a two-year process for a large, overly regulated industry to turn the proverbial ship around. Immediately after the new administration was elected, bank stocks reacted very quickly and went up nicely in a short amount of time, although perhaps too fast, in retrospect. Now, they have since come back down and are trading at about the same level as they were before the election occurred.

We think that this provides a good opportunity to get back into the space. In our view, as long as we have a decent economy with slowly rising rates, we should see increasing earnings as well as stable credit conditions. I think the icing on the cake would be if some of the other anticipated tailwinds were to happen, including significant regulatory changes and lower taxes.

Regardless, we think that the march forward for these banks has already started, despite some fits and starts. We may see the 10-year Treasury yield continue to trade within a range, but if it eventually increases significantly, this would be a strong reason to invest in the banks. In the past few years, bank performance has shown a very strong correlation to the 10-year Treasury yield, and bank stocks have been moving in lockstep with the long end of the rate curve. If we see the long end go up more quickly or steadily over time, this should be good for banks' earnings, good for the stocks, and we think good for the fund as well.

TWST: Thank you. (JM)

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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.

Opinions expressed are those of the author or Funds and are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

Top ten holdings for the Hennessy Gas Utility Fund can be found here. Top ten holdings for the Hennessy Large Cap Financial Fund can be found here. Fund holdings and sector allocations are subject to change at any time and should not be considered a recommendation to buy or sell any security.

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 in foreign securities may involve political, economic and currency risks, greater volatility and differences in accounting methods. Investments are focused in the natural gas distribution and transmission industry; sector funds may be subject to a higher degree of market risk. Investments are focused in the financial services industry. The Fund invests in medium sized companies, which may have limited liquidity and greater volatility compared to larger companies.

Dividend yield is calculated by annualizing the last quarterly dividend paid and dividing it by the current share prices. The dividend yield is that of the securities held in the portfolio; it is not reflective of the yield distributed to shareholders. Price/earnings or P/E ratio is the market price per share divided by earnings per share. Book value is the value at which an asset is carried on a balance sheet. Correlation is a statistical measure of how two securities move in relation to each other. 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.

Diversification does not assure a profit nor protect against loss in a declining market.

Earnings Growth is not a measure of the Fund's future performance.

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