

Heartland Advisors, Inc.
Moderator: Jeff Kohl
October 13, 2011
3:15 p.m. CT

Jeff Kohl: Good afternoon everyone and welcome to Heartland Funds' third quarter conference call. My name is Jeff Kohl and I am responsible for Heartland's efforts with registered investment advisors along with my colleague Andy Ballard.

First of all, I'd like to thank you all for joining us. We value our relationships with all of you and appreciate your trust and confidence in selecting the Heartland Funds.

Past performance does not guarantee future results. Performance for the Institutional Class prior to May 1, 2008 is based on the performance of the Investor Class. Performance represents past performance; current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed may be worth more or less than the original cost. All returns reflect reinvested dividends and capital gains distributions, but do not reflect the deduction of taxes that an investor would pay on distributions or redemptions. To obtain performance through to the most recent month end, call 800-432-7856, or visit www.heartlandfunds.com. Subject to certain exceptions, shares of a Fund redeemed or exchanged within 10 days of purchase are subject to a 2% redemption fee. Performance does not reflect this fee, which if deducted would reduce an individual's return.

The 1, 3, 5 and 10-year average annual total returns for the Select Value Fund Investor Class are -3.74%, 1.87%, 1.13% and 7.89%, respectively. The 1, 3, 5 and 10-year average annual total returns for the Value Plus Fund Investor Class are -4.63%, 0.66%, 4.81%, and 10.40%, respectively. The 1, 3, 5 and 10-year average annual total returns for the Value Fund Investor Class are -2.31%, 2.52%, -0.93% and 7.98%, respectively. The 1, 3, 5 and 10-year average annual total returns for the Russell 3000 Value Index are -2.22%, -1.62%, -3.50% and 3.58%, respectively. The 1, 3, 5 and 10-year average annual total returns for the Russell 2000 Value Index are -5.99%, -2.78%, -3.08%, and 6.47%, respectively. Returns are as of September 30, 2011.

In the prospectus dated 5/1/11, the gross expense ratios for the Heartland Select Value, Value Plus and Value Funds Investor Class shares were 1.23%, 1.17% and 1.14%, respectively. Through November 30, 2001, the Advisor voluntarily waived a portion of the Select Value Fund's expenses. Without such waivers, total returns would have been lower.

An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the Fund's prospectus. To obtain a prospectus, please call 1-800-432-7856 or visit www.heartlandfunds.com to download. Please read the prospectus carefully before investing.

In addition to stocks of large companies, the Funds invest in small and mid-sized companies that are generally less liquid than large companies. The Select Value Fund and the Value Plus Fund invests in a smaller number of stocks (generally 40 to 60 and 40 to 70, respectively) than the average mutual fund. The performance of these holdings generally will increase the volatility of the Fund's returns. **Value investments are subject to the risk that their intrinsic value may not be recognized by the broad market.**

Because of ongoing market volatility, fund performance may be subject to substantial short-term changes.

I think we can all agree that the third quarter was very challenging and the experience of 2008 is on many investors' minds. The collapse of Lehman Brothers and the ensuing fallout led to one of the worst years in the market's history. I guess today you can replace Lehman with Greece and other European countries, and investors' reflex to sell is understandable.

Well, amidst all the headwinds, the headlines and the volatility, we believe there are still fundamental reasons to be optimistic. First, at Heartland, our [10 Principles of Value Investing™](#) lead us to companies that have demonstrated financial soundness. Financially sound companies are not cash strapped because of debt servicing obligations. Instead, they can use that cash flow to hire top talent, perhaps reinvest in their business or maybe even make acquisitions. When credit is hard to obtain, financially sound companies have a clear advantage.

Secondly, as the market has fallen in the third quarter, these same companies have also been taking advantage of cheap valuations in their stock by deploying capital towards share buybacks. Buybacks can increase future earnings and we generally view them as favorable.

Year to date through July, buyback authorizations have totaled \$324 billion, a 46 percent year over year increase! Finally, insider buying activity can also indicate compelling value as we believe it is a most credible signal of management optimism. An officer or director putting their personal capital at risk seems a clear indication of the confidence of their outlook.

In the week ending August 9th, insider buying activity was at the highest levels since the week ending March 9, 2009¹ and we all know what March 9th of 2009 means. So, the question is this. What does all this mean for you and your clients?

Well, regardless of the market swings and headlines, we remain committed to our long history of fundamental research, buying great companies with attractive valuations, low debt and experienced management teams that have high levels of insider ownership. So for us, it's really business as usual and we look forward to a return to normalcy in the market when it trades on the underlying fundamentals as opposed to fear.

Jeff: Our first fund update will come from Adam Peck, Co-Portfolio Manager of the Heartland Value Plus Fund. The Value Plus Fund focuses on small, undervalued companies with strong balance sheets that pay dividends. As of September 30, 2011 the Fund ranked in the top 1 percent of 308 small cap value funds tracked by Morningstar on a five year timeframe based on historical performance. Adam?

Adam: Thank you Jeff. Good afternoon everyone and thank you for joining us. I will briefly review the third quarter's performance and what drove the Fund's underperformance versus the Russell 2000 Value. Then I'll walk you through the Fund statistics and finally I will explain why we don't think we're having a repeat of 2008.

The third quarter's return for small caps was the fourth worst quarterly return in the history of the Russell 2000 Index. Other comparable quarters included events like the '87 crash, the Iraq invasion of Kuwait in 1990 and the Lehman bankruptcy in 2008. It was a very difficult quarter for just about every asset class and there were really no places to hide in small cap land.

The Russell 2000 Value declined 21.47 percent versus a negative 22.84 percent return for the Value Plus Fund. We are not pleased with the decline nor the relative underperformance versus the benchmark. We should have done better.

Dividend paying stocks in the Russell 2000 Value, true to form, beat non-dividend payers in the quarter with the decline of 16.38 percent versus a decline of 27.28 for non-dividend payers. Why did we underperform? It comes down to our sector weightings. We were overweight the worst performing sector, energy, and had no exposure to two of the best performing sectors, REITs and utilities.

Outside of the relative underperformance from these sectors, Energy, Financial and Utilities, we outperformed every other sector on a relative basis. Oil prices were down 17 percent in the third quarter due to global slowdown fears, but energy stocks were down much more. In the Russell 2000 Value, the energy sector was down 32 percent.

Given the carnage, you have to ask why we are still positive on the group. One of our worst performers in the quarter was Patterson-UTI Energy. It's a North

American land based contract driller. We believe their business is actually getting better. Sales and earnings are up and we forecast them to improve this year and next.

The improvement is driven by the discovery of new shale oil fields in the U.S. There is a boom in the lower 48 driven by new oil plays like the Bakken in North Dakota, the Niobrara in Colorado and Wyoming and the Eagle Ford in south Texas. In 2009 and 2010, oil production grew in the U.S. for the first time since 1991 driven in part by these new plays.

Patterson is a direct beneficiary of increased drilling. The oil rig count in the U.S. is now over 1,000 rigs. This compares to just over 400 at the peak in 2008 when oil approached \$150. Why won't the rig count roll over back to 2008 peak levels? Even though the price of oil is down, it is still high on a historical basis and we believe it is currently sufficient for many profitable oil plays. In fact, we don't believe the oil rig count would roll over unless the price of oil dropped down to the \$50 to \$60 level.

Based on our estimates, Patterson is trading for 7.4 times this year's earnings, 3 times cash flow and 1.16 times book value and has a strong balance sheet with a 14 percent debt to capital. The business is getting better as we believe earnings will be up in 2012.

I'll cover the portfolio's overall composition next. At the end of the quarter, the Fund held 66 companies with a median market cap of approximately \$650 million and a weighted average market cap of \$1.1 billion. We currently have approximately 85 percent of our assets in dividend paying stocks. Our trailing P/E is higher than the benchmarks at 15.7 versus 13.7 but our forward PE estimate is lower at 10.4 times versus 12.9 times for the benchmark. On a price to book basis, the portfolio trades in line with the benchmark at 1.1 times.

Financial soundness is one of our 10 Principles of Value Investing™ and our companies continue to have less debt on the balance sheet than those in the benchmark. We strive to keep our debt to capital ratio below 25 percent and currently it is 22.1 percent versus 27.8 for the benchmark.

Another metric we pay close attention to is enterprise value to EBITDA or earnings before interest, taxes, depreciation and amortization. Unlike PE or price to book, it is a valuation metric that incorporates both the income statement and the balance sheet

together. Today both strategic and financial buyers are paying over 10 times EBITDA for companies across almost every industry.²

When you compare deal multiples, a price a buyer would pay for the entire company to our portfolio, the undervaluation is staggering. Our estimates for next year puts the portfolio at 5.4 times. As far as our sector weights are concerned, our largest allocation on an absolute basis is to the Financial Sector at 21.5 percent followed by Healthcare at 18.8 percent, Industrials at 18 percent and Materials at 14 percent.

Only one sector had more than a 1.5 percent change in weighting, and that was Energy which dropped from 17.3 percent in Q2 to 12.3 percent in Q3. The decrease was almost entirely due to stock performance. Our turnover remains low and stood at 9.8 percent on an annualized basis at the end of the quarter. We believe in the fundamentals of the companies we own and we feel the market sell off is discounting too much potential bad news.

The swiftness of the market downturn is very reminiscent of 2008. As Jeff just mentioned to you, replace Lehman Brothers with Greece and other peripheral European countries that are having sovereign debt issues and fears of a banking system collapse come to the forefront. Only this time, the market has dropped before an actual default occurred. I think this is important because when Lehman blew up; there was no playbook with how to deal with the crisis which eventually caused the credit markets to freeze.

Now everyone knows that many European banks have issues and politicians are working on how to deal with it, so are the odds higher or lower that we have a credit freeze? We are bottoms-up stock pickers and spend the vast majority of our time focused on company fundamentals as opposed to what politicians will or won't do. So why do we think the market won't repeat, at least for the businesses we own?

First and most important, the U.S. banking system has the highest capital levels in decades, much higher than their European brethren. The U.S. banking system recapitalized itself following Lehman's failure. It has consistently added to loan loss reserves and at the same time, its seen credit improve.

Second, corporations in the U.S. experienced the worst recession in 2009 since the Great Depression. They have cut expenses and are now running extremely lean. As

an example, the Chief Financial Officer of FedEx, Alan Graf, recently said that the company is much more flexible in its cost structure than it was back in 2008. They are able to react more rapidly because they have built variability into the cost structure that didn't exist 3 years ago.

Third, inventory levels for many companies are low, because they were not restocked to the previous highs. So the likelihood of an inventory correction is much lower.

Fourth, balance sheets are in much better shapes for small caps with debt as a percent of assets at a 27 year low and cash levels near 27 year highs.³

Management teams are human and react to the same headlines you and we see every day. If it looks as though things are getting worse, they will adjust. The market is not giving them credit! Market valuations for business today are at extremely compelling levels.

And these discounts appear to be to true intrinsic value in many portfolio holdings as evidenced by the increase in insider buying. We have seen executives buy their own stock in approximately one-third of our portfolio holdings in the last quarter, most over the last two months. The last time we saw insider buying at these levels was at the lows in 2008 and 2009.

We share the apparently confident outlook of these insiders who are buying their own stock. We are not happy with how the portfolio performed over the last quarter, but believe the baby was thrown out with the bathwater for many of the names we own. To wit, correlations for small caps are at 90 percent. The 90 percent level has only been hit seven times since 1985 and all of those occasions were at or near market lows.³

There are major issues the country has to deal with, housing, unemployment and the deficit, but we are not investing in the country. We are investing in a focused group of stocks at attractive valuations which pay a dividend and that we believe have excellent prospects. So we'll continue to use Heartland's 10 Principles of Value InvestingTM to find unloved, under followed and undervalued securities.

Thank you for your confidence and I'm now happy to pass it back to Jeff.

Jeff: The next fund update will be for the Heartland Value Fund, and will feature Will Nasgovitz, Co-Portfolio Manager of the Value Fund. The Value Fund focuses on small and micro-cap stocks and is our oldest mutual fund. As of 09/30, it was ranked the number one fund since inception based on historical return, out of only nine funds in its Lipper category, small cap core funds.

Thanks for joining us today, Will.

Will Nasgovitz: Thank you Jeff and thanks for tuning in everybody. Like Adam, I'm going to provide some perspective on the performance of the Fund during the third quarter, give you some thoughts on what drove that performance and then finish with the composition of the portfolio and identify some of the themes that we're trying to capitalize on here.

So clearly, small caps had a very challenging third quarter. The Value Fund was down 20.83 percent. This compared favorably to our benchmark, the Russell 2000 Value, which was down 21.47 percent. Year to date, the Fund is down 16.04 percent versus 18.51 percent for the same benchmark. We're pleased with those results. Again, it has been a challenging environment for small cap stocks, as the Russell 2000 experienced the fourth worst quarter on record.

However, this is presenting a lot of opportunities. There clearly was a flight to quality. The Russell Microcap Value Index was down 21.90 percent. This is relevant for the Value Fund given that 44.5 percent of the portfolio at quarter end was in companies with market capitalizations less than 300 million. So we were very pleased with our relative outperformance, not ecstatic about it by any stretch, but pleased with our relative outperformance given our exposure to micros.

The S&P 500, for perspective, was down 13.87 percent in the third quarter. So what drove our performance? Healthcare followed by IT and Consumer Discretionary were our best performing sectors relative to our benchmark. We were overweight Healthcare, overweight IT. We were underweight Consumer Discretionary, but if you look at all three of those, it was a combination of allocation and stock selection.

What hurt our performance was similar to the Value Plus Fund. We have an overweight in Energy. Our underweight to Financials hurt as well as our underweight to Utilities. Utilities were the best performing group, Financials were

the third best performing group in the Russell 2000 Value so that's where it hurt us, but Energy clearly was the driver of our underperformance.

I think the market has too severely discounted the potential slowdown we're seeing in the economy and the energy space. If you look at the holdings in the Value Fund at the end of the quarter, on average they were trading for 0.97 times, call it 1 time stated book value so we think we've seen the worst there. We like the long term fundamentals of that space and we'll touch on that a little bit more.

So now on to the composition and themes, we've had a recurring theme in the Value Fund for a number of quarters here. We've been shrinking the number of names, the number of stocks in the portfolio. So at the end of the quarter, we finished with 140, that's down from 151 a year ago and 143 at the end of the second quarter.

So we're identifying names that we believe have strong catalysts married with good balance sheets and excellent valuations and selling names that we believe the catalysts might be pushed out or could be a value trap. So we purchased six new holdings in the third quarter and sold eight.

Notably, another theme that we are seeing is insider buying. Four of the six holdings that we purchased had insider buying in the last six months so that's a theme that's been recurring. I commented on that the second quarter as well. We like to see that. We think they know their companies better than the analyst community.

The names that we trimmed, the eight names we trimmed were either value traps in our view or potential value traps.

So we think this shrinking of a number of names is one of the reasons why this product, the Value Fund, has outperformed on a year to date and in the third quarter, more focus in our view. The largest overweights from a sector perspective are similar, or exactly the same relative to the end of the second quarter. Healthcare is our largest overweight followed by Materials and then Energy.

Healthcare went up a little bit sequentially just because those stocks held up better than others in our portfolio. We did not add to that space. Energy declined simply because of the pressure that that particular sector faced. We did sell one service

related company during the quarter and Materials did expand sequentially because we added a company in the mining space.

Now why do we like healthcare? We like the valuations in that space, small cap healthcare looks attractive to us. We like the balance sheets of the companies that we own. Year to date, we've had some M&A in the healthcare space and we think the long-term drivers of the space remain intact.

Why are we overweight materials and energy? We are in an era of global quantitative easing. It's happening here in the states. It's happening in Europe. It's happening in Asia to some degree. We think it makes sense to own hard assets so that's why we're overweight those two groups and have been for some time.

Similar to our overweights, our largest underweights are the same as of last quarter. Financials was relatively flat versus Q2. We did sell three stocks there. We did add a company in the capital markets space. Utilities was flat as was Consumer Discretionary although we did sell one stock in the Consumer Discretionary space.

So we do have a significant underweight to Financials. There's nothing new there. It comes down to two items in our view, valuation and uncertainty. REITs, which are very large component of the Russell 2000 Value Index, just don't look attractive to us from a P/E perspective. Small cap banks, we think, still have some uncertainties about their balance sheets.

The housing market remains challenged. Unemployment remains high and we don't see a lot of loan growth. We're continuing to scour that area of the market, but right now, we continue to remain underweight that group.

I think a second theme that I'd like to talk about, or another theme, would be the valuation of the portfolio. On a forward basis, the fund is trading for 10.6 times our estimated earnings versus 12.9 times for our benchmark. So very attractive multiple of estimated earnings and also a very attractive multiple of book at just 1.2 times, slightly higher than our benchmark at 1.1 times but again, we have a sizable exposure to healthcare and a minimal exposure to financials.

So I'm very pleased that our price to book is as low as it is given the allocations of those two respective sectors. Financials in the small cap space trade for 1.2 times book while healthcare stocks in the small cap space trade for 2.1 times book.

We also continue to have great financial soundness for the portfolio. Long-term debt to cap is 17.7 percent versus 27.8 percent for the Russell 2000 Value. We think this approach makes sense. Great valuations with great balance sheets, we think that's one of the reasons why the Fund outperformed on a relative basis here in the third quarter and year to date.

The last theme I want to touch on and we've talked about this in the past and I mentioned it briefly at the start of this call is the barbell approach to the Value Fund. Forty-four and a half percent of the assets are in companies with market caps less than 300 million, so micros, while 22.2 percent at the end of the quarter were in companies with market caps greater than a billion.

We believe the larger stocks are an area that provides liquidity for the portfolio while the small and micros are fuel for potential alpha for the portfolio because of the inefficient nature of that space. There's less sell-side coverage there plus the entrepreneurial spirit of small and micro-cap companies.

So, just to give you a little bit more perspective on that, I'm going to give you our perspective on a few holdings, one that falls within our top ten holdings, AuRico Gold, it's a gold miner. We've owned it in the portfolio since September of 2009, the third quarter of 2009. It has a market cap of \$1.65 billion.

Its production is based in North America. It trades for 10.2 times and 8.5 times 2011 and 2012 our estimated earnings and that's based on \$1,600 estimated price per ounce of gold. It also has an excellent balance sheet with debt to cap of just 5 percent.

Now on the other side of the barbell, we have a micro like Energold. We've owned this stock since the second quarter of 2009. Its market value at the end of the quarter was just \$145 million. Energold Drilling Corp drills for companies like AuRico. It's a precious mining driller similar to Patterson which Adam commented on earlier. This is in the precious mining drilling space.

It trades for 10.2 times and 6.3 times our estimated earnings for 2011 and 2012 and has a great balance sheet with debt to cap of just 10 percent. So, we believe the portfolio is positioned for a small cap rebound here. Historically when you've had bear markets in small caps like we had in the third quarter, performance six to 12

months later is much normally higher so we're excited about how the portfolio is positioned.

Jeff Kohl: Our final fund update comes from Dave Fondrie, the lead portfolio manager of the Heartland Select Value Fund. The Select Value Fund is a multi-cap value fund and has the flexibility to go where the best values seem to be found, regardless of the size. Lipper named the Select Value Fund the best out of 240 multi-cap value funds based on historical return for the five year period ending December 31, 2010. Dave?

Dave Fondrie: Thanks Jeff and thanks to all of you for joining us. Well without question, the Fund had a very difficult third quarter. The investor shares were down 18.84 percent versus the benchmark Russell 3000 Value which was down 16.63.

Adam referenced the underperformance of small capitalization stocks and as I, and we, reflect on the third quarter, we believe the Select Fund was adversely impacted by the flight to stability represented by large capitalization stocks.

The S&P 500, which has a median market cap of 9.8 billion, was down 13.87 percent so significantly less than the Russell 3000 Value. If you broke down the Russell 3000 Value into deciles by market capitalization, the first decile would represent stocks with market capitalizations above 8.6 billion. This is roughly in line with the median market cap of the S&P 500, and was down 16 percent.

Decile two, with market caps from 3.2 billion to 8.6 billion, was down almost 21 percent and if you look at the rest of the deciles, performance cascaded down to where the last decile, with the smallest stocks, were down 38 percent.

So the point of this is that the median market cap of the Fund at \$4 billion falls in the low end of the second decile, so half of our names are in deciles that were down from 21 percent to 26 percent. Certainly that was an uphill battle for us from a market cap standpoint.

Additionally, there was an impact from correlation. A September 30th piece by Oppenheimer indicated that only five times since 1970 have correlation measures been so high on the S&P 500.

Intuitively, I think this makes some sense. People are drawn by a herd mentality and investors really abandon fundamental processes and disciplines in a push to get out of

the market. That kind of action really takes the entire market down without really looking at individual stocks and the quality of individual stocks. That's a very difficult environment for us as active managers to work in.

Well, I'd be less than candid though if I didn't say that some of our shortcomings were outside of the capitalization and correlation issues. In a broadly declining market, cyclical stocks generally underperform and certainly I think that was the case and our portfolio was more cyclically oriented. A good example of that is Energy. Energy was indeed our poorest performing sector, both on an absolute and a relative basis. We were both overweight the sector and our stock selection was less than adequate.

As you know, one of our 10 Principles of Value InvestingTM is price to book. We like to buy companies that are trading at book or below and we believe historically that stocks generally do not trade a lot below book value, which helps give us confidence the stocks are trading at the low end of the range. That certainly did not prove to be the case in this market as several of our Energy holdings which traded near or below book value were in our top ten worst contributors to return.

So book value really didn't seem to be a support level in this most recent downturn. Probably not surprising, our best performing sector was Utilities. It was the only sector in which we saw positive results, with all three of our holdings contributing positively to returns.

I'd like to take just a minute to talk about one of these stocks because I think it'll give you an impression or an idea of how we're thinking about the current market and how we're positioning going forward. Black Hills Corporation, which is a stock that we added towards the end of quarter two, operates in the regulated gas and utility businesses in the Great Plains region. We like the Great Plains region because of the agricultural focus.

It also has some oil and gas production facilities and a wholesale energy marketing business in its non-regulated side. BKH trades slightly above its tangible book value which is below the average for the utilities sector. The company has increased its dividend for 41 consecutive years and over the last several months, eight insiders have made purchases in the BKH stock.

Our fundamental analysis identified three catalysts that we found compelling. First, they're initiating two gas fire generation plants that will be put online in the first quarter of 2012. That should generate additional revenue and earnings for the company. Secondly, they have a coal contract that they have been delivering against which has been underwater. Effectively it's been costing them money.

So that contract ends at the end of 2011. They will either renegotiate that contract or stop delivering against it. That should also add to earnings in 2012. Lastly, BKH controls a large amount of unexplored acreage and is in the process of drilling exploration wells to determine the value of that asset. We'll see what they do with that asset, but I'm confident that in 2012, they'll make a decision on how to monetize those assets, either through drilling it themselves, taking a partner or outright selling it.

Black Hills is an excellent example of the type of investment that we're looking for in this challenging low growth environment. It's a company that's demonstrated strong financial stewardship, is trading near book value, and it has identifiable catalysts furthering its growth.

So in summary, as we look forward, our outlook has certainly been tempered. We have ratcheted down our expectations for growth in the economy so we're looking for companies that can prosper in a slow growth and maybe a no growth situation. We believe that portfolio is well positioned in that respect.

The price to book in the Select Value Fund is 1.1 times as of September 30th compared to the Russell 3000 Value which is at 1.5times and an S&P 500 that's at 2.3. As with the other Funds, the long-term debt to cap is low compared to its benchmarks at 27.8 percent in the Select Fund versus 35.2 percent in the Russell 3000 Value and 32.8 percent in the S&P 500. Likewise, our forward and trailing price to earnings ratio are favorable compared to both benchmarks.

We have approximately 9 percent in cash at the end of the quarter. In part this can be attributed to some tax losses we've taken to offset gains in the portfolio, but also we have taken another critical look in this downturn at stocks, and have sold some stocks that we believe were underperforming and we seek to put that money to work in some excellent values that we're seeing in this market.

So no one really knows if we're at the bottom, the market bottom. In fact perhaps we were because we've seen a nice bounce here in the last few weeks. We do know though that our process, that we have practiced for the last 25 plus years, is a solid one and we believe that those who had the courage to stay the course as proverbial fear grips the investor psyche, will be rewarded.

Thanks for your time.

Economic predications are based on estimates and are subject to change.

The statements and opinions expressed are those of the author and are as of the date of this report. All information is historical and not indicative of future results and subject to change. Reader should not assume that an investment in the securities mentioned above was or would be profitable in the future. This information is not a recommendation to buy or sell.

¹ Bloomberg, "Insider Buying Stock at Highest Rate Since March '09 as S&P 500 Drops," Nikolaj Gammeltoft and Lu Wang, August 11, 2011

² Bloomberg and Heartland Advisors, Inc. as of 10/10/11

³ Furey Research Partners, October 2011

As of September 30, 2011 Patterson-UTI Energy, Inc. represented 2.35% of the Value Plus Fund's holdings. As of September 30, 2011 FedEx Corp was not held in the Value Plus Fund. As of September 30, 2011 AuRico Gold, Inc. and Energold Drilling Corp represented 5.37% and 0.33% of the Value Fund's holdings, respectively. As of September 30, 2011 Black Hills Corp represented 2.66% of the Select Value Fund's holdings.

For the 10, 5, 3 and 1-year periods, the Value Plus Fund's Morningstar numeric rankings were 3 of 147, 3 of 259 and 142 of 308, respectively, as of September 30, 2011. Morningstar proprietary ratings reflect historical risk-adjusted performance as of September 30, 2011. The Overall Morningstar Rating™ for a fund is derived from a weighted average of the performance figures associated with its 3, 5 and 10-year Morningstar Rating™ metrics.

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Lipper ranks the performance of mutual funds within a universe of funds that have similar investment objectives. Rankings are historical and are based on total return with capital gains and dividends reinvested and are not intended to predict future results. Lipper does not guarantee the accuracy of this information. For purposes of Lipper rankings, the inception date of the Value Fund is 1/3/85. For the Since Inception, 10, 5, 3 and 1-year periods, the Value Fund's Lipper numeric rankings were 1 of 9, 60 of 315, 274 of 531, 204 of 659 and 311 of 730, respectively, as of September 30, 2011.

For the 10, 5, 3 and 1-year periods, the Select Value Fund's Lipper numeric rankings were 6 of 108, 8 of 219, 74 of 263 and 147 of 305, respectively, as of September 30, 2011. For the 10, 5, 3 and 1-year periods, the Fund's Lipper numeric rankings were 2 of 102, 5 of 244, 10 of 288 and 112 of 345, respectively, as of December 31, 2010.

Definitions:

Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. **Russell 2000 Index** includes the 2000 firms from the Russell 3000 Index with the smallest market capitalizations. **Russell 3000 Value Index** measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. **Russell Microcap Index** is A capitalization weighted index of 2,000 small cap and micro cap stocks that captures the smallest 1,000 companies in the Russell 2000, plus 1,000 smaller U.S.-based listed stocks. **S&P 500 Index** is an index of 500 U.S. stocks chosen for market size, liquidity and industry group representation and is a widely used U.S. equity benchmark. All indices are unmanaged. It is not possible to invest directly in an index.

Price/Earnings Ratio (12-month trailing) of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. **Price/Earnings Ratio (Forward)** for the account is based on actual earnings to date and future estimates made by Heartland Advisors, Inc. Securities with negative earnings or per share earnings greater than or equal to 100 are excluded from the calculation. Estimates made by Heartland Advisors, Inc. are based on factors such as management guidance, historical performance of the company and its peer group, industry growth rates, street estimates and other factors as deemed appropriate. **Price/Book Ratio** of a stock is calculated by dividing the market price of its stock by the company's per-share book value. For the portfolio and indices the price/book ratio is presented as a weighted median. **Price/Cash Flow Ratio** represents the amount an investor is willing to pay for a dollar generated from a particular company's operations. It shows the ability of a business to generate cash and acts as a gauge of liquidity and solvency. **Long Term Debt/Total Capital** of a stock is calculated by dividing the long-term debt of the company by its total capital. **Real Estate Investment Trust (REIT)** is a security that sells like a stock on the major exchanges and invests in real estate directly, either through properties or mortgages. **Correlation** is a statistical measure of how two securities move in relation to each other. **Inside Buying Activity** is the purchase of shares of stock in a corporation by someone who is employed by the company. **Value Trap** is A stock that has experienced a large price depreciation and is mistaken to be a value stock. **Quantitative Easing** is A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market.

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