

HEARTLAND SEPARATELY MANAGED ACCOUNTS

SMALL CAP VALUE STRATEGY

All information, unless otherwise indicated, is as of 12/31/11

Seeks long-term capital appreciation by investing in small and micro-cap companies



PORTFOLIO MANAGEMENT TEAM AND INDUSTRY EXPERIENCE

Will Nasgovitz - 11 yrs
Brad Evans, CFA - 15
Bill Nasgovitz - 43

INVESTMENT STRATEGY

The Small Cap Value Strategy seeks long-term capital appreciation by investing in small and micro-cap companies, generally with market capitalizations of less than \$2.5 billion at the time of purchase. The small and micro-cap segment of the stock market is robust with thousands of publicly traded issues, many of which lack traditional Wall Street research coverage. Thus, we believe this market is often inefficient, mispricing businesses and offering opportunities for fundamental research-minded investors such as Heartland.

INVESTMENT PROCESS

The Strategy utilizes Heartland's 10 Principles of Value Investing™ to identify companies with strong financial profiles and low prices relative to earnings, cash flows and book values. This process is driven by our disciplined and rigorous research efforts, based on more than 1,000 annual meetings with management teams. The approach provides both a potential margin of safety to limit downside risk and the opportunity for capital appreciation.

PORTFOLIO CONSTRUCTION

- Approximately 30-50 stocks
- Individual stocks usually represent less than 10% of portfolio
- Industry weightings typically represent less than 25% of the portfolio
- Generally fully invested but may hold cash equivalents during atypical markets
- Target two to three year investment horizon

RISK MANAGEMENT

- Consistent discipline of Heartland's 10 Principles of Value Investing™
 - Potential safety margin: Focus on low price-to-book value and strong balance sheets
 - Liquidity analysis: Disciplined review of quantitative and qualitative factors, both at portfolio and individual position levels
 - Analytical tools: Drawdown, upside/downside, risk/return, correlation, attribution, contribution
 - Team approach and extensive collaboration
- Our sell decisions may be driven by factors such as:
- Valuation targets achieved
 - Change in investment thesis
 - Deteriorating financial position
 - Meeting fewer criteria of our 10 Principles of Value Investing™

NEW ACCOUNT MINIMUM: \$1,000,000

HISTORICAL RETURNS (Annualized for Multi-Year Periods) — NET OF FEES VS BENCHMARK INDICES

	SINCE INCEPTION (10-1-88)	TEN YEARS	FIVE YEARS	THREE YEARS	ONE YEAR	FOURTH QUARTER 2011
Heartland Small Cap Value Composite (Net of Advisory Fees)†	13.73%	9.01%	0.42%	26.93%	-4.33%	12.87%
Heartland Small Cap Value Composite (Net of Bundled Fees)*	11.72	7.37	-0.64	25.68	-5.24	12.60
Russell 2000 Value Index**	10.13	6.40	-1.87	12.36	-5.50	15.97
Russell 2000 Index**	8.71	5.62	0.15	15.63	-4.18	15.47

Heartland Advisors, Inc. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

*See Note 6 in Accompanying Notes on reverse side. **See Note 7 in the Accompanying Notes on reverse side.

PORTFOLIO CHARACTERISTICS (Equity Securities Only)†

	SMALL CAP VALUE COMPOSITE	RUSSELL 2000 VALUE INDEX	RUSSELL 2000 INDEX
Price/Earnings ¹	15.2x	15.9x	18.2x
Price/Book ²	1.3	1.3	2.0
Price/Cash Flow ²	8.0	8.8	11.4
Long-Term Debt/Capital	22.12%	32.30%	28.40%
Average Weighted Market Cap	\$683 mil	\$1,074 mil	\$1,233 mil
Median Market Cap	\$524 mil	\$406 mil	\$454 mil

FIVE YEAR PERFORMANCE STATISTICS†

	COMPOSITE NET VS RUSSELL 2000 VALUE INDEX	COMPOSITE BUNDLED VS RUSSELL 2000 VALUE INDEX
Annualized Alpha (%)	3.10	2.00
Beta	0.96	0.96

SECTOR WEIGHTINGS (Equity Securities Only)†

	SMALL CAP VALUE COMPOSITE	RUSSELL 2000 VALUE INDEX	RUSSELL 2000 INDEX
Consumer Discretionary	6.3%	11.7%	13.1%
Consumer Staples	0.0	3.1	3.6
Energy	10.4	4.6	6.7
Financials	10.6	36.8	22.3
Health Care	27.4	5.3	12.7
Industrials	22.4	14.8	15.6
Information Technology	11.7	10.9	17.1
Materials	11.2	4.9	4.4
Telecommunication Services	0.0	0.6	0.8
Utilities	0.0	7.3	3.7
Total	100.0%	100.0%	100.0%

Industry and sector classifications for each security held in the Composite are generally determined by referencing the Global Industry Classification Standard Codes (GICS) developed by Standard & Poor's and Morgan Stanley Capital International.

CFA is a registered trademark owned by the CFA Institute.

Past performance does not guarantee future results. Current performance may differ due to market volatility.

Portfolio holdings are subject to change.

Data Source: FactSet Research Systems, Inc. and Heartland Advisors, Inc. ¹Trailing 12-month actual earnings. ²Weighted median.

[†]Shown as supplemental information. See important notes on reverse side.

TOP TEN HOLDINGS (Equity Securities Only)†

COMPANY	% COMPOSITE	INDUSTRY
Newpark Resources, Inc.	5.0	Energy Equipment & Services
Accuray, Inc.	4.9	Health Care Equipment & Supplies
BioScrip, Inc.	4.9	Health Care Providers & Services
Golden Star Resources, Ltd.	4.3	Metals & Mining
Fred's Inc. (Class A)	3.9	Multiline Retail
Computer Task Group, Inc.	3.9	IT Services
The Ensign Group, Inc.	3.8	Health Care Providers & Services
AuRico Gold, Inc.	3.8	Metals & Mining
Perma-Fix Environmental Services, Inc.	3.7	Commercial Services & Supplies
Flanders Corp.	3.5	Machinery

SMALL CAP VALUE COMPOSITE

AS OF DECEMBER 31	NUMBER OF ACCOUNTS	MARKET VALUE \$ MILLIONS	% OF ASSETS IN WRAP ACCOUNTS	% OF FIRM ASSETS	TOTAL FIRM ASSETS \$ MILLIONS	ASSET-WEIGHTED DISPERSION	ANNUAL PORTFOLIO TURNOVER % ¹	3-YEAR STANDARD DEVIATION
2011	27	188.4	5.05%	3.87%	\$4,864.3	1.52%	43.1%	26.22%
2010	26	229.9	4.72	4.96	4,636.1	3.97	73.6	N/A
2009	26	212.0	4.57	6.72	3,156.1	8.10	71.0	N/A
2008	25	132.5	4.59	5.77	2,296.9	3.19	56.7	N/A
2007	29	251.8	4.88	8.74	2,880.9	2.64	70.6	N/A
2006	58	351.3	7.66	11.00	3,193.7	4.18	61.2	N/A
2005	70	355.1	5.41	14.08	2,521.5	3.61	61.2	N/A
2004	62	433.3	2.59	14.32	3,026.2	4.51	50.7	N/A
2003	35	432.1	0.31	14.06	3,072.4	6.47	53.4	N/A
2002	27	236.9	N/A	17.10	1,385.0	3.22	54.2	N/A

TOTAL RETURNS AS OF DECEMBER 31, 2011 – NET OF FEES

ANNUALIZED RETURNS YEAR	SMALL CAP VALUE COMPOSITE (net of advisory fees)	SMALL CAP VALUE COMPOSITE (net of bundled fees)**	RUSSELL 2000 VALUE INDEX***	RUSSELL 2000 INDEX***
Inception*	13.73%	11.72%	10.13%	8.71%
Ten	9.01	7.37	6.40	5.62
Five	0.42	-0.64	-1.87	0.15
Three	26.93	25.68	12.36	15.63
One	-4.33	-5.24	-5.50	-4.18

CUMULATIVE RETURNS YEAR	SMALL CAP VALUE COMPOSITE (net of advisory fees)	SMALL CAP VALUE COMPOSITE (net of bundled fees)**	RUSSELL 2000 VALUE INDEX***	RUSSELL 2000 INDEX***
Inception*	1889.80%	1215.59%	842.40%	597.56%
Ten	137.04	103.65	85.98	72.76
Five	2.11	-3.18	-9.03	0.75
Three	104.50	98.52	41.87	54.59
One	-4.33	-5.24	-5.50	-4.18

ANNUAL RETURNS YEAR	SMALL CAP VALUE COMPOSITE (net of advisory fees)	SMALL CAP VALUE COMPOSITE (net of bundled fees)**	RUSSELL 2000 VALUE INDEX***	RUSSELL 2000 INDEX***
2011	-4.33%	-5.24%	-5.50%	-4.18%
2010	23.54	22.32	24.50	26.85
2009	73.03	71.27	20.58	27.17
2008	-44.18	-44.72	-28.92	-33.79
2007	-10.54	-11.78	-9.78	-1.57
2006	20.09	17.74	23.48	18.37
2005	1.99	-0.01	4.71	4.55
2004	8.30	6.20	22.25	18.33
2003	76.72	73.25	46.03	47.25
2002	-0.97	-2.89	-11.43	-20.48

*10-1-88

**See Note 6 in Accompanying Notes

***See Note 7 in Accompanying Notes

¹Excludes Treasury bills, cash, and cash equivalents

Data Source: FactSet Research Systems, Inc. and Heartland Advisors, Inc.

Investing in small companies and value stocks presents certain additional risks. While during some periods, the stocks of small companies have performed better than the stocks of large companies, during other periods large cap stocks have outperformed small cap stocks. Stocks of small companies generally are more volatile and may have a smaller public market than stocks of large companies. Small companies may have a shorter history of operations than large companies, may not have the ability to raise capital as easily as large companies, and may have a less diversified product line, making them more susceptible to market pressure. Value investments are subject to the risk that their intrinsic values may not be recognized by the broad market.

Price/Earnings Ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. **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. **Price/Book Value Ratio** is calculated by dividing the market price of its stock by the company's per-share book value. **Debt/Capital Ratio** represents the portfolio's long-term debt as a proportion of the capital available in the form of long-term debt, preferred stock and common stockholder's equity. **Alpha** is an annual measure of a portfolio's return in excess of the market return, both adjusted for risk. It is a measure of the manager's contribution to performance due to security selection. A positive annual Alpha indicates that the portfolio outperformed the market on a risk-adjusted basis, and a negative annual Alpha indicates the portfolio did worse than the market. **Beta** is a measure of the sensitivity of a portfolio's rates of return against those of the market. A Beta less than 1.00 indicates volatility less than that of the market.

ACCOMPANYING NOTES

- The Firm is a wholly owned subsidiary of Heartland Holdings, Inc. The Firm is registered with the Securities and Exchange Commission.
- The effective date of firm compliance is January 1, 1993.
- The Firm claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS Standards. The Firm has been independently verified from October 1, 1988 through December 31, 2009. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Small Cap Value composite has been examined for the periods October 1, 1988 through December 31, 2009. The verification and performance examination reports are available upon request. Periods after December 31, 2009 have not yet been examined.
- This composite was created in 1993 and consists of fully discretionary equity portfolios primarily invested in companies with market capitalizations less than \$2.5 billion. Beginning January 1, 2007, the minimum account size for this composite is \$1,000,000. For the period January 1, 2004 through December 31, 2006, the minimum account size for this composite is \$500,000. For the period from January 1, 1999 through December 31, 2003, the minimum account size for the composite was \$1,000,000 and prior to January 1, 1999, the minimum account size for the account was \$500,000. Portfolios in the composite that later drop below the composite minimum due to market volatility are only removed from the composite when their market value falls below \$750,000.
- The investment management fee schedule for the composite is as follows: 1.00% per annum on the first \$5,000,000; and 0.85% per annum on the next \$10,000,000. Fees on accounts over \$15,000,000 are negotiable. Actual investment advisory fees incurred by clients may vary. Further information on the Firm's fees can be found in Part II of its Form ADV. Wrap accounts are included in the composite. In addition to the management fee, wrap accounts also pay an all-inclusive fee based on a percentage of assets under management. In lieu of brokerage commissions, this fee includes portfolio monitoring, consulting services and in some cases, custodial services.
- The US dollar is the currency used to express performance. Results are based on fully discretionary accounts under management, including those accounts no longer with the Firm. Returns are presented net of advisory fees and net of bundled fees and include the reinvestment of all income. Returns net of bundled fees are presented net of all fees and transaction costs incurred, include the investment of all income, and are based on the maximum all-inclusive wrap fee paid by any of the accounts included in the composite. The returns net of bundled fees were calculated by subtracting the highest applicable sponsor portion of the separately managed wrap account fee from the net of advisory fees return. As of December 31, 2011 the highest applicable sponsor portion of the separately managed wrap account fee was 1.00%, which may differ significantly from fees in other wrap accounts included in this composite.
- For comparison purposes, the composite is measured against the Russell 2000 and Russell 2000 Value Indices. The Russell 2000 Index includes the 2000 firms from the Russell 3000 Index with the smallest market capitalizations. The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. All indices are unmanaged. It is not possible to invest directly in an index. The index performance was taken from published sources and is not covered by the report of independent accountants.
- Client portfolios included in the composite are managed by multiple portfolio managers whose investment management styles may differ. In addition, some client portfolios may be managed more or less conservatively, subject to individual client restrictions. As a result, performance differences between client portfolios in the same composite may occur. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.
- A complete list and description of the Firm's composites and additional information regarding the policies for calculating and reporting returns are available upon request. Contact Institutional Sales at Heartland Advisors, Inc., 789 N. Water Street, Suite 500, Milwaukee, WI 53202 or call 888-505-5180.



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