

Heartland Value HRTVX

Morningstar's Take | 06-25-09 | by Michael Breen

Heartland Value remains solid.

This is one of the oldest and best micro-cap funds. Manager Bill Nasgovitz has been in charge since the fund's 1984 inception and has generated a strong long-term record. The fund has returned an average of 11.9% annually since launching, easily besting the Russell 2000 Index and most of its rivals.

The systematic application of a straightforward process drives the fund's success. Heartland managers buy stocks based on a set of 10 criteria. Most are value-based, such as low debt levels and a low price relative to cash flow, but others look at improving earnings trends and even a little technical analysis. Stocks scoring highest on the most criteria become the largest positions. Such rigor is well suited to the micro-cap space, where nearly every tiny firm has a great upside story. Management's checklist approach may seem a bit rote, but it has done an excellent job over time of keeping the fund out of story-driven fad stocks and anchored in profitable firms with strong finances. Such firms are especially attractive to larger rivals, and takeovers of holdings have been a driver of the fund's returns over time.

Management is finding plenty of opportunity in a volatile market. It has upped its stake in Analogic ALOG, a maker of diagnostic medical equipment, and now owns 8% of the firm. Nasgovitz says the firm has leading technology, is successfully cutting costs, and has a pile of cash. It also has some hidden assets, such as a hotel and real estate, on its books that the market isn't putting a value on. The fund has also added to Fred's FRED, a discount retailer that faces challenges from rivals, but Nasgovitz says it generates a double-digit free cash-flow yield and owns all of its own stores, providing a free call option on real estate that competitors don't have.

This fund still has what it takes. It got pummeled in 2008 but is rebounding, and its long-term record remains strong.

Michael Breen is a senior fund analyst with Morningstar.

Morningstar Rating

★★★

Kudos

- The fund has a strong long-term record.
- Below-median expenses for a no-load small-cap fund.

Risks

- A larger stake in micro-caps can lead to lumpy returns.
- Will cluster assets in some sectors.
- Can be more volatile than average.

Strategy

The managers use a clearly delineated strategy to invest in small- and micro-cap stocks. They look for financially sound companies with low price/earnings relative to historical levels and a catalyst for improved performance. They also closely evaluate companies' management teams. The fund closed to new investors in November 2003 but reopened Dec. 28, 2004.

Management

Bill Nasgovitz is a veteran micro-cap stock-picker who has managed this fund since 1984. Bradford Evans was named to the fund in June 2004. Will Nasgovitz joined this team in early 2009. He has a strong record at another Heartland fund.

Inside Scoop

Heartland and the SEC have settled their dispute over the mispricing of the firm's muni-bond funds in 2000, an incident that caused \$60 million in shareholder losses.

Role in Portfolio

Supporting Player

Heartland Value HRTVX

Year	Total Return (%)	+/-Category
YTD	14.86	8.75
2009	—	—
2008	-39.53	—
2007	-5.53	—
2006	28.02	—

Data through 06-30-09

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

The Value Fund was rated against 570, 465, 231 and 570 small blend funds over the 3-, 5-, 10-year and overall periods, respectively. For the 3-, 5-, 10-year and overall periods, the Value Fund has received Morningstar's 3-star, 3-star, 4-star, and 3-star ratings, respectively. Morningstar proprietary ratings reflect historical risk-adjusted performance as of June 30, 2009. 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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As of June 30, 2009, the average annual total returns for the 1-, 5-, 10-years and since inception (12/28/84) periods of the Value Fund Investor Class were -28.86%, -2.15%, 7.61% and 12.10%, respectively. As of June 30, 2009, the average annual total returns for the 1-, 5-, 10-years and since inception (12/28/84) periods of the Russell 2000 Value Index were -25.24%, -2.27%, 5.00% and 10.20%, respectively.

As of May 1, 2009, the gross expense ratio for the Fund Investor Class is 1.20%.

Past performance does not guarantee future results. 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 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 Value Fund invests primarily in small companies selected on a value basis. Such securities generally are more volatile and less liquid than those of larger companies and there is risk that the broad market may never recognize the intrinsic value of such securities.

Russell 2000 Index includes the 2000 firms from the Russell 3000 Index with the smallest market capitalizations. The Fund's benchmark, 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.

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/Earnings Ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share.

The statements and opinions expressed in the articles are those of the author. Any discussion of investments and investment strategies represents the Funds' investments and portfolio managers' views as of the date of the articles, and are subject to change without notice. As of June 30, 2009, Analogic Corp. and Fred's, Inc. represented 3.53% and 1.27% of the Fund's total net assets, respectively. Holdings are subject to change.

The Heartland individuals mentioned are registered representatives of ALPS Distributors, Inc. The Heartland Funds are distributed by ALPS Distributors, Inc., 789 N. Water Street, Milwaukee, WI 53202. HLF1344/0810



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