

A STYLE FOR ALL SEASONS

DOES VALUE OUTPERFORM
IN ALL MARKETS?

The direction of the economy is rarely crystal clear, and today’s outlook may be particularly uncertain. Given this environment, positioning a portfolio can be an emotionally and intellectually challenging exercise. Is there a perspective that might provide confidence to investors?

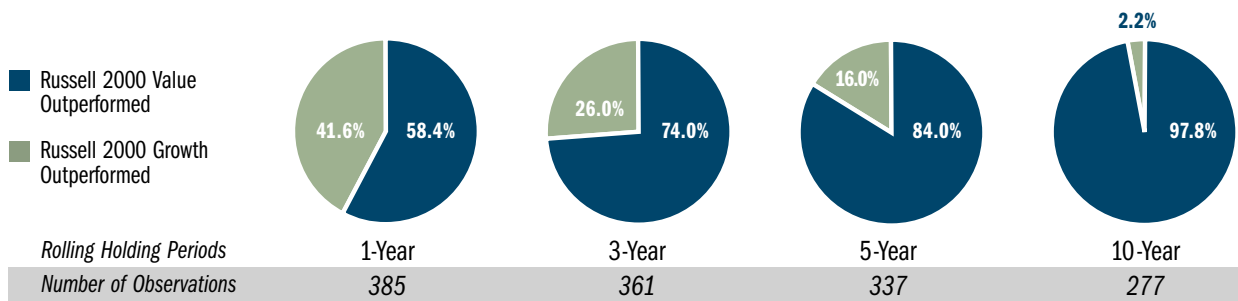
As a firm dedicated to value investing for more than 27 years, Heartland firmly believes that value provides superior appreciation potential while limiting downside risk. This paper examines our conviction by comparing the performance of companies with different valuation metrics across varying environments.

Better than a coin flip?

We first analyzed value stocks’ outperformance over time by comparing the rolling 1, 3, 5 and 10-year returns of the Russell 2000 Value Index against the Russell 2000 Growth Index on a monthly basis going back to their inception on December 31, 1978.

In any single month during this period, value had a 51% chance of outperforming growth, roughly equivalent to flipping a coin. Extend the holding period to a year, and value exceeded growth over 58% of the time; three years, value outpaced 74% of the time. Over the 277 10-year holding periods, value beat growth nearly 98% of the time. Note that this data covers over three decades and represents numerous economic cycles.

Percentage of Periods the Russell 2000 Value Index Outperformed the Russell 2000 Growth Index (12/31/78 – 12/31/11)



Past performance does not guarantee future results. It is not possible to invest directly in an index.
Sources: FactSet Research Systems, Inc.

In fact, since 1979, the only 10-year periods when growth outperformed value were those that ended between December 1999 and June 2000. How do value and growth stocks compare during good and bad years?



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Using the US Stock Database from the Center for Research in Security Prices, we ranked 40 years of annual returns from highest to lowest and divided the results into quintiles. The highest quintile (1) represents the eight best years, while the lowest quintile (5) represents the eight worst years.

Separately, we ranked the companies by their Price-to-Earnings (P/E), Price-to-Cash Flow (P/CF) and Price-to-Book (P/B) ratios. Companies in the highest 30% were labeled “growth” stocks, and the lowest 30%, “value” stocks.

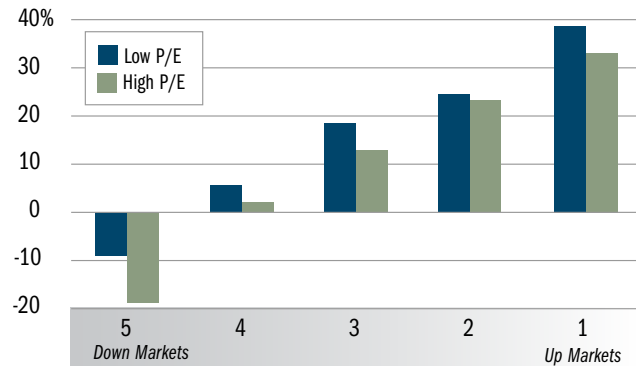
We then compared the performance of value against growth for each quintile. For example, during the eight worst years, those stocks with the lowest P/E, P/CF and P/B outperformed those companies with the highest equivalent metrics.

Many investors may assume high P/E, high P/CF and high P/B (growth stocks) outperform in up markets, but our study does not support these assumptions. The average return of the value stocks was higher in both up and down markets.

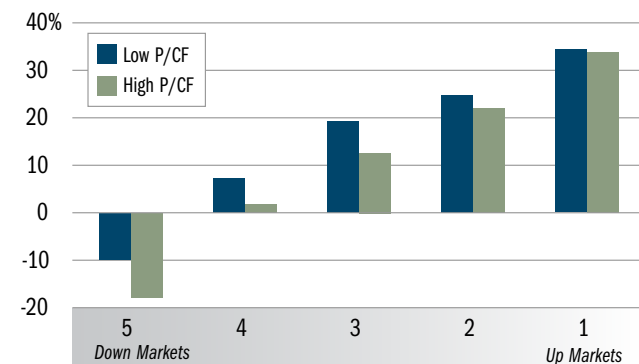
An astute reader will observe that these conclusions are based on eight year averages. Were there outlying years when value metrics underperformed? To answer this question, we examined these metrics in the three worst years and the three best years during the 40 year period.

Value vs. Growth Across Market Cycles

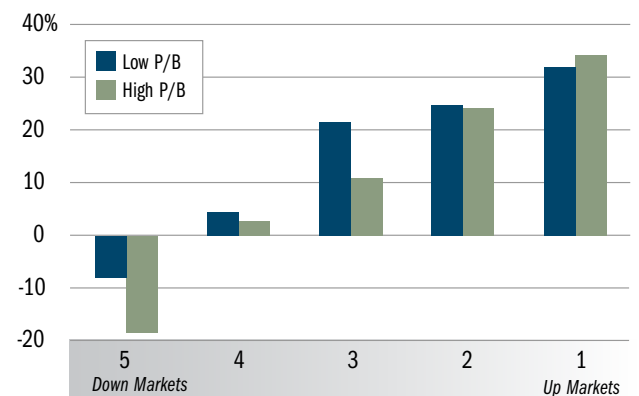
Price/Earnings



Price/Cash Flow



Price/Book

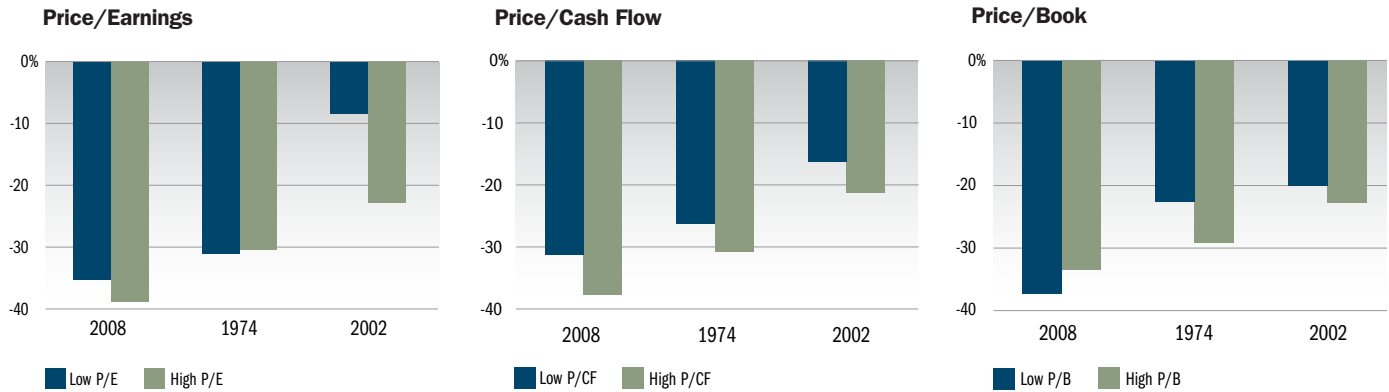


Past performance does not guarantee future results.

Data from 12/31/71 – 12/31/11.

Source: Data Copyright 2010 Kenneth R. French© with original stock data from Center for Research in Security Prices US Stock Database. Universe includes certain equity securities listed NYSE, Amex, NASDAQ and NYSE Arca.

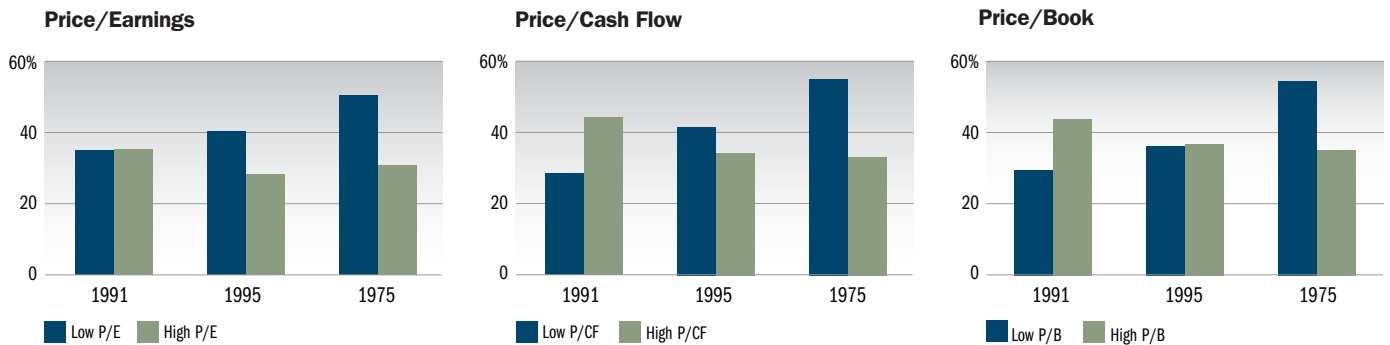
Performance during three worst years



In our view, the charts above support conventional wisdom: value stocks declined less in bear markets. However, the charts below do not support the conventional assumption that value trails growth in up markets. We find that adherence to a value strategy has historically outperformed growth in both up and down markets.

Past performance does not guarantee future results.
Data from 12/31/71 - 12/31/11.

Additional performance during three best years



Conclusion

Predicting the future direction of the stock market is an interesting exercise, our results show that rotating between value and growth strategies could hurt your investment results. At Heartland Funds, we'll continue to follow our disciplined investment process, just as we have through every economic cycle for more than a quarter of a century. Our results are shown on the following page.

Past performance does not guarantee future results.
Data from 12/31/71 - 12/31/11.

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Average Annual Total Returns – Investor Class Shares

As of 3/31/12	Since Inception	Twenty-Five Years	Ten Years	Five Years	Three Years	One Year
Select Value Fund (HRSVX)	10.13%	—	7.39%	2.78%	22.87%	-3.72%
Russell 3000 Value Index	7.52	—	4.73	-0.75	23.03	4.30
S&P 500 Index	6.63	—	4.12	2.01	23.42	8.54
Value Plus Fund (HRVIX)	11.12	—	10.21	6.00	23.92	-3.21
Russell 2000 Value Index	9.59	—	6.59	0.01	25.36	-1.07
Value Fund (HRTVX)	12.65	11.08	7.64	0.34	27.03	-5.70
Russell 2000 Value Index	11.19	9.85	6.59	0.01	25.36	-1.07
As of 12/31/11						
Select Value Fund (HRSVX)	9.57%	—	7.04%	1.73%	15.07%	-6.68%
Russell 3000 Value Index	6.90	—	4.08	-2.58	11.62	-0.10
S&P 500 Index	5.91	—	2.92	-0.25	14.11	2.11
Value Plus Fund (HRVIX)	10.72	—	10.15	5.74	15.40	-5.37
Russell 2000 Value Index	9.07	—	6.40	-1.87	12.36	-5.50
Value Fund (HRTVX)	12.37	11.42	7.17	-1.40	17.71	-6.92
Russell 2000 Value Index	10.85	10.22	6.40	-1.87	12.36	-5.50

Index Source: FactSet Research Systems, Inc. and Standard & Poor's.

The inception dates for the Select Value, Value Plus and Value Funds' Investor Class Shares are 10/11/96, 10/26/93 and 12/28/84, respectively.

In the prospectus dated 5/1/12, the gross expense ratios for the Heartland Select Value, Value Plus and Value Funds' Investor Class Share are 1.22%, 1.16% and 1.10%, respectively. Through 11/30/01, the Advisor voluntarily waived a portion of the Select Value Fund's expenses. Without such waivers total returns would have been lower.

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.

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.

The Funds invest in small companies selected on a value basis. Such securities generally are more volatile and less liquid than those of larger companies. Value investments are subject to the risk that their intrinsic values may not be recognized by the broad market. The Select Value and Value Plus Funds also invest 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 Funds' returns.

HOW MAY WE HELP YOU?

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Footnotes

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 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher 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.

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 mentioned are unmanaged. It is not possible to invest directly in an index.

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.