

The All-Capitalization Approach of the Heartland Select Value Fund:

AN INVESTOR'S OPPORTUNITY TO COVER THE BASES

Why Value?

As America's Value Investor,[®] Heartland strives to uncover value opportunities in equities. We have been managing assets according to the same discipline for 25 years.

We are biased toward value for good reason. \$1.00 invested in Ibbotson Associates Growth and Value Stock Series at the end of 1968 would have, at the end of 2008 been worth:

Small-cap Value:	\$163.59
Mid-cap Value:	90.88
All Value:	42.85
Large-cap Value:	34.18
Mid-cap Growth:	22.44
Large-cap Growth:	20.53
All Growth:	20.15
Small-cap Growth:	18.24

Source: 2009 Ibbotson[®] SBI Classic Yearbook

Past performance does not guarantee future results. The hypothetical example is for illustrative purposes only and does not represent the returns of any particular investment. It is not possible to invest directly in an index.

As an all-capitalization investment, the Heartland Select Value Fund (Investor Class HRSVX) traverses the market cap spectrum. This may present a dilemma to the classical asset allocation strategist because it doesn't fit a narrow capitalization range. We agree that most investors appropriately differentiate between value and growth. However, we challenge the assumption that allocation decisions should be constrained within narrow capitalization ranges.

One way to implement an active management approach in hopes of generating returns in excess of an index benchmark is to select a single asset class, perhaps from the following options:

Large Cap Value	Large Cap Blend	Large Cap Growth
Mid Cap Value	Mid Cap Blend	Mid Cap Growth
Small Cap Value	Small Cap Blend	Small Cap Growth

Source: Morningstar

A result from selecting only one asset class is the fact that they go in-and-out of favor over different time periods and by dramatic differences. In 2008, for example, Small Cap Value Stocks (represented by the Russell 2000 Value Index) were down -28.92%, whereas Large Cap Value Stocks (represented by the Russell 1000 Value Index) were down -36.85%. In 2006, Small Cap Value Stocks earned 23.48%, but in 2007 were down -9.78%. A single-asset class approach may deliver frequently frustrating results.

Thus, many investors conclude that it makes sense to allocate amongst multiple asset classes. However, this may generate additional complexities:

- How much weight should be assigned to each asset class?
- How will re-balancing occur?
- When should an investor allocate to each particular asset class?
- Which vehicle is best for each box, given that many investment vehicles are "single-box" focused?
- Who will perform these allocation responsibilities?

It may be difficult to efficiently evaluate, select, and weight equity classes for a strategic time horizon, and even more so a tactical strategy.

What other asset class options are available to investors? **Why not utilize an individual value manager whose mandate includes multiple capitalization ranges?**



To test our theory and practice, we analyzed Heartland Select Value Fund’s annual market cap weightings over 10 years. We further examined the performance of each market capitalization range (small, mid, and large) during those annual periods. The results form a compelling argument in favor of the Heartland Select Value Fund as a core equity holding.

The following table illustrates the Heartland Select Value Fund’s average market cap weights¹ from 2000 through 2009:

Focused on Value, Not Size

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Small Caps	45.7%	43.2%	42.1%	37.2%	27.2%	21.9%	20.7%	23.2%	28.9%	24.8%
Mid Caps	24.6	28.4	28.6	34.0	43.1	45.6	36.5	36.2	39.2	40.8
Large Caps	29.7	28.4	29.3	28.9	29.7	32.6	42.9	40.7	31.9	34.5

Past performance does not guarantee future results.

Source: Heartland Advisors, Inc.

Numbers above are calculated by averaging quarter-end market-cap weightings.

We next looked at value equity class performance rankings over the course of each year to determine if the market cap weightings above were appropriate during the corresponding years. The following table ranks the best and the worst performing asset class among Small, Mid and Large Caps from 2000 to 2009:

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Best	Small	Small	Mid	Small	Mid	Mid	Small	Large	Small	Mid
Worst	Large	Large	Large	Large	Large	Small	Mid	Small	Mid	Large

Past performance does not guarantee future results.

Source: Zephyr StyleADVISOR and Heartland Advisors, Inc.

Small caps are represented by the Russell 2000 Value Index; Mid caps are represented by the Russell Midcap Value Index; and Large caps are represented by the Russell 1000 Value Index.

Alpha can be generated by both over-weight to out-performing spaces, but also by avoiding under-performing spaces. The boxes highlighted in green in the chart above illustrate the years when we had the most success: we over-weighted most heavily the best performing cap-ranges, or under-weighted the worst performing. Yellow are those years where we underweighted the best performing cap-range; Red is the year we over-weighted the worst performing market-cap range.

Bottom-Up Security Selection Drives Weighting

We are not proponents of a top-down, crystal-ball-based means for generating alpha. Too much can change, and too quickly, in trying to out-smart the irrational “Mr. Market.” While our cap-range over- and under-weights will vary over time, we are not “betting the farm” on weighting. Rather, it is our bottom-up security selection discipline that drives our market cap weightings.

By purchasing stocks with attractive valuations irrespective of capitalization, we are likely to over-weight the portfolio in those areas where the best valuations exist. By selling those securities whose prices have met our valuation targets, we naturally reduce our exposure to capitalization ranges that may be trading at higher multiples. This bottom-up discipline is balanced by an ongoing consideration of macro-trends, that either support or lend caution to portfolio construction.

The previous table demonstrates that from 2000 to 2009, the Fund has been over-exposed to ranges of opportunity seven times out of 10, and under-exposed to poorer performing ranges again four times out of 10. We have been successful more often than not in leaning toward opportunity, and away from over-valued capitalization ranges.

Any discipline is likely to generate above-market returns as it minimizes mistakes. The Select Value Fund avoided over-weights to the worst performing capitalization ranges in all except one year: 2008 (a market-anomalous year by most definitions). Over the long-term our focus on value, not size, has worked. As shown in the bar chart below, the Select Value Fund outperformed all the Lipper Value Fund Indices over the 1, 3, 5, and 10 year time frames, except for narrowly underperforming the Lipper Mid-Cap Value Index over the one-year timeframe.

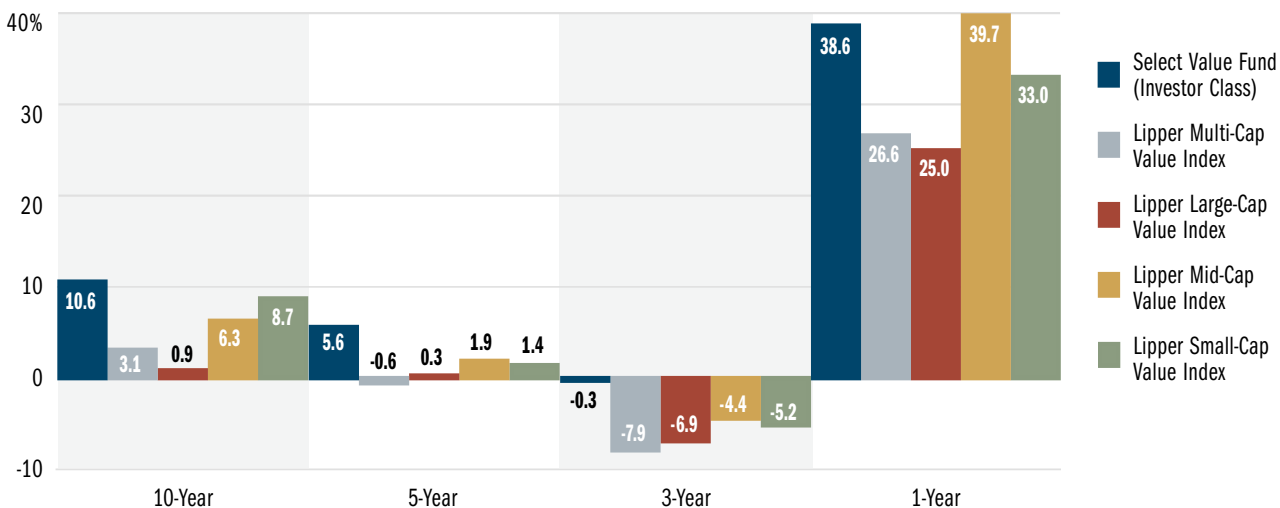
We view this multi-cap approach as an advantageous framework within which to exercise our security selection discipline. **We also believe it represents a unique means by which an advisor's asset allocation practices can, without any additional effort on their part, take on a tactical and continuous allocation methodology that is timely, sensible, and works.**

If you accept that:

- The ability to predict the next best asset class is difficult
- The asset allocation decision is cumbersome and expensive
- A tactical movement might generate alpha

...then one solution is to employ one entity whose mandate captures the range of potential, and delivers it efficiently. The Heartland Select Fund seeks to deliver against precisely that expectation to provide investors with an opportunity to cover the bases.

Heartland Select Value Fund vs. Lipper Value Fund Indices as of December 31, 2009



Source: FactSet Research Systems, Inc.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment returns and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost.

As of 5/1/09, the gross expense ratio for the Heartland Select Value Fund Investor Class shares is 1.33%. Also, through November 30, 2001, the Advisor voluntarily waived a portion of the Fund's expenses. Without such fee waivers total returns would have been lower.

For more information, please read the Select Value Fund fact sheet which can be found at www.heartlandfunds.com.

Average Annual Total Net Returns Investor Class Shares

As of 12/31/08	Inception Date	Since Inception	Ten Years	Five Years	Three Years	One Year
Heartland Select Value Fund	10-11-96	8.26%	7.22%	2.08%	-5.85%	-31.23%
Russell 3000 Value Index	—	5.78	1.69	-0.72	-8.26	-36.25
S&P 500 Index	—	4.00	-1.38	-2.19	-8.36	-37.00
Russell 1000 Value Index	—	5.57	1.36	-0.79	-8.32	-36.85
Russell Midcap Value Index	—	7.24	4.44	0.33	-9.98	-38.44
Russell 2000 Index	—	4.37	3.02	-0.93	-8.29	-33.79
Russell 2000 Value Index	—	7.60	6.11	0.27	-7.49	-28.92

As of 12/31/09

Heartland Select Value Fund	10-11-96	10.30%	10.57%	5.60%	-0.28%	38.63%
Russell 3000 Value Index	—	6.78	2.88	-0.24	-8.91	19.76
S&P 500 Index	—	5.54	-0.95	0.42	-5.63	26.46
Russell 1000 Value Index	—	6.57	2.47	-0.25	-8.96	19.69
Russell Midcap Value Index	—	9.08	7.58	1.98	-6.62	34.21
Russell 2000 Index	—	5.94	3.51	0.51	-6.07	27.17
Russell 2000 Value Index	—	8.53	8.27	-0.01	-8.22	20.58

Index Source: FactSet Research Systems, Inc. and Russell Investments.

As of 5/1/09, the gross expense ratio for the Select Value Fund Investor Class is 1.33%.

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.

¹Heartland Advisors considers large-cap companies to be larger than \$10 billion in market cap, mid-cap companies to be between \$2 billion and \$10 billion, small-cap companies to be between \$300 million and \$2 billion, and micro-cap companies to be less than \$300 million.

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. Please read the prospectus carefully before investing.

Footnotes

In addition to stocks of large companies, the Select Value Fund invests in small and mid-sized companies that are generally less liquid than large companies. The Fund also invests in a smaller number of stocks (generally 40 to 60) than the average mutual fund. The performance of these holdings generally will increase the volatility of the Fund's returns. Value-based investments are subject to the risk that the broad market may not recognize their intrinsic values.

Alpha is an annualized 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.

Ibbotson Associates Stock Series: A portfolio of stocks constructed by first selecting deciles (Large-cap = 1-2; Mid-caps = 3-5; Small-cap = 6-8) of the NYSE universe. Once these breakpoints are established, similar-sized AMEX and NASDAQ companies are assigned to the corresponding portfolios. The companies are then ranked by book-to-price, creating a growth (low B/P)/value (high B/P) portfolio where the total market capitalization of the growth and value indices are equal within each portfolio. The Ibbotson Associates All Growth/All Value Stocks: A portfolio of stocks constructed using the lagged marketing capitalization-weighted returns of the large-, mid- and small-cap growth or value series.

Each Lipper Fund Index is composed of 10 or 30 largest funds, equally weighted and listed on the NASDAQ, that are in the Lipper investment objective grouping. The Lipper fund indices do not represent the Fund's benchmark.

Russell 1000 Value Index measures the performance of those Russell 1000 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 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

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 Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth rates.

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.

The portfolio holdings are subject to change without notice. For a complete list of the Fund's portfolio visit www.heartlandfunds.com.