

Heartland Value Plus HRVIX

Morningstar's Take | 12-18-09 | by Ryan Leggio

This mutual fund is one to watch.

Heartland Value Plus' reconfiguration is a good thing.

This fund has not changed its strategy or personnel, but management has reconfigured its roster of portfolio holdings quite a bit since March. Five holdings that were at least 1.5% of assets at that time are now gone. That's because many of the fund's holdings have appreciated greatly since then, which is a high-class problem to have. From the end of March through Dec. 16, 2009, the fund is up 41%, slightly behind the 50% return of the Russell 2000 Value Index. That result isn't a big issue as this small-cap fund that focuses on companies that pay dividends did so much better than most protecting on the downside in 2008. While the past few years haven't been pleasant on an absolute basis, this near fully invested fund can hold its head high: The benchmark lost money over the past five years, but this fund gained an average of 4.7% annually.

The team recently purchased about 20 new holdings (out of around 60) but kept many of the fund's top holdings in intact. Comanager Bradford Evans notes most of the changes the past few months were a result of switching out of companies that had appreciated to near the team's estimate of fair value. Almost half of the 20 new holdings are in the financial sector, a space the team mostly avoided in 2008. They increased their exposure to insurance companies and are building a diversified basket of small banks led by First Niagara FNFG.

The portfolio reshuffling has not affected one of the biggest drivers of performance this year—health care. With 17% of its assets in the sector, compared with just 5% for the Russell 2000, the fund is still overweight in the area. Evans says the team is finding the most-discounted companies there. Those looking for a focused small-cap fund that provides some income with a consistent and patient value bent have come to the right place.

Morningstar Rating

★★★★★

Kudos

- Moderate relative risk.
- Reasonable expenses.
- Good long-term performance.

Risks

- Relatively new comanagers.
- Can lag peers considerably at times.
- Willing to avoid numerous sectors for long periods of time.

Strategy

The management team employs a strict value discipline. Stocks must score well on a 10-point grid that includes low price/cash flow and low price/book ratios. Management also prefers dividend-paying stocks, and looks for a catalyst that would spur investor interest.

Management

Lead manager Bradford Evans rejoined Heartland Advisors in 2004 after serving as vice president and research analyst for High Rock Capital, LLC from April 2001 to June 2004. He had previously been employed by Heartland Advisors from January 1996 to April 2001. Adam Peck and Michael Petroff joined Evans in August 2007.

Role in Portfolio

Supporting Player

Heartland Value Plus HRVIX

Year	Total Return (%)	+/-Category
2009	26.37	-4.95
2008	-17.88	14.36
2007	4.73	10.81
2006	13.63	-2.64

Data through 12-31-09

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 Plus Fund was rated against 310, 245, 131 and 310 mid-cap value funds over the 3-, 5-, 10-year and overall periods, respectively. For each of the 3-, 5- and overall periods, the Value Plus Fund has received Morningstar's 5-star rating. For the 10-year period, the Value Plus Fund has received Morningstar's 4-star rating. Morningstar proprietary ratings reflect historical risk-adjusted performance as of December 31, 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 December 31, 2009, the average annual total returns for the 1-, 5-, 10-years and since inception (10/26/93) periods of the Value Plus Fund Investor Class were 26.37%, 4.59%, 10.27% and 10.78%, respectively. As of December 31, 2009, the average annual total returns for the 1-, 5-, 10-years and since inception (10/26/93) periods of the Russell 2000 Value Index were 20.58%, -0.01%, 8.27% and 9.15%, respectively. As of December 31, 2009, the average annual total returns for the 1-, 5-, 10-years and since inception (10/26/93) periods of the Russell 2000 Index were 27.17%, 0.51%, 3.51% and 7.17%, respectively.

As of May 1, 2009, the gross expense ratio for the Value Plus Fund Investor Class is 1.27%.

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 Plus Fund invests in small companies that generally are less liquid than large companies. The Fund also invests in a smaller number of stocks (generally 30 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.

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

As of December 31, 2009, First Niagara Financial Group, Inc. represented 1.59% of the Fund's total net assets. Portfolio holdings are subject to change without notice.

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.

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