

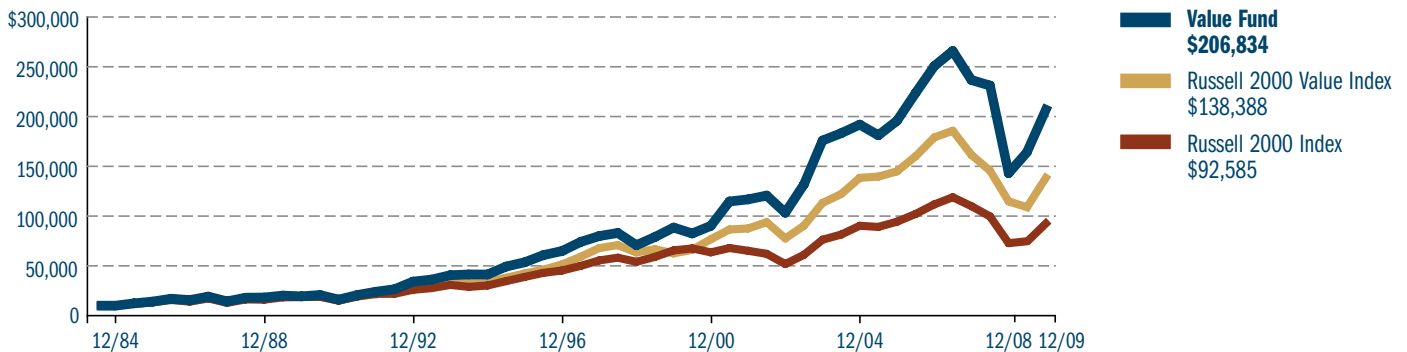
RISK AND RETURN

How active management and non-correlated returns can reduce risk

Passive index-based strategies – seeking market returns at minimal cost – are endorsed by some as effective and inexpensive. This “Cheap Beta” method assumes an individual investor is unlikely to beat the market.

As active managers, we disagree. We believe investors can appropriately seek to beat the market. To prove our point, the following chart illustrates how an investment in the Heartland Value Fund (HRTVX) historically generated results better than the market:

**Growth of a Hypothetical \$10,000 Investment
(Investor Class, Since Inception: 12/28/84 – 12/31/09)**



Source: FactSet Research Systems, Inc. and Heartland Advisors, Inc.
Performance does not include any applicable sales charges and fees.
Past performance does not guarantee future results. It is not possible to invest directly in an index.

Common sense also supports consideration of active management. An index-based strategy **generally invests in companies based on historical data, while an actively managed fund generally makes changes based on outlook.** An active strategy may give an investor the opportunity to beat a passive index fund by choosing companies based on criteria that anticipate what performance may be, not what it has been. Of course, this set of criteria is the crux of an investor’s concern: Will it work for me during my holding period?

We argue that including active management is a responsible approach to building a more efficient, or better, portfolio. **Passive management limits an investor to index performance minus expenses.**

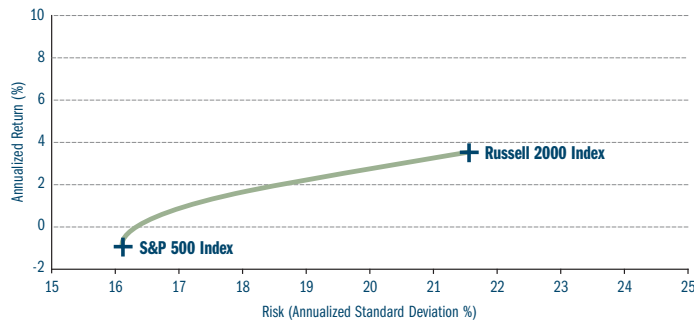
Nonetheless, we recognize that our active management may not outperform in every market. Could an index-based portfolio benefit from the addition of Heartland Funds?



Investors are today certainly aware of the risk necessary to generate desired returns. It is commonly accepted that the addition of dissimilar asset types will affect the efficiency of a portfolio. The efficient frontier below illustrates the risk and return characteristics of a combination of two index portfolios:

Efficient Frontier • 12/31/1999 – 12/31/2009

The efficient frontier illustrates the risk and return characteristics of a combination of two index portfolios



Source: Zephyr AllocationADVISOR
Past performance does not guarantee future results.

The line between the two index alternatives, or “frontier,” should be construed as a series of dots that meld together as one line. In that context, each dot is a combined portfolio of the two indexes. The crosshair marks represent a 100% allocation to that passive index.

The extent to which a portfolio is likely to be more or less efficient through a combination of different strategies is predicted by the degree to which those strategies’ risk profiles are different. There are different ways to compare risk profiles, including standard deviation, covariance and correlation. Due to its availability and practical application, this paper uses correlation of returns as a proxy for our discussion. Adding exposure (within a portfolio) to a strategy with a return greater than that found on the efficient frontier, and a low correlation of return to the strategies already utilized, is statistically likely to either reduce risk, increase returns, or perhaps both.

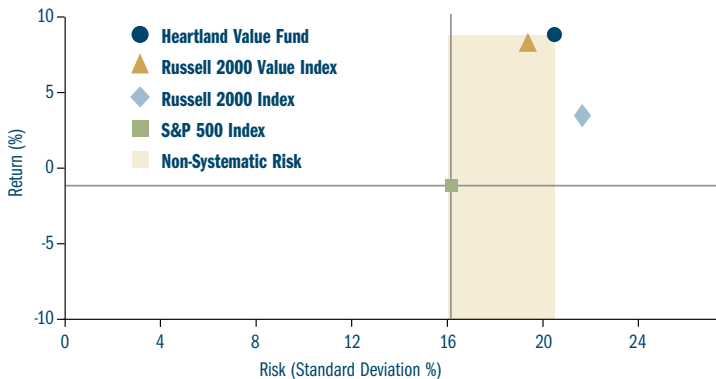
A correlation of 1 means the return patterns of two strategies are precisely the same, while -1 means they are mirror images of each other. A correlation of 0 means there is no pattern between their return patterns. As correlation approaches 0, the probability that non-systematic risk will be a meaningful portion of the total risk increases.

Correlation 12/31/1999 – 12/31/2009	Value Fund Investor	Russell 2000 Value	Russell 2000	Citigroup 3-month T-bill	S&P 500
Value Fund, Investor Class	1.00				
Russell 2000 Value Index	0.88	1.00			
Russell 2000 Index	0.88	0.93	1.00		
Citigroup 3-month T-bill	-0.05	-0.01	-0.07	1.00	
S&P 500 Index	0.79	0.79	0.80	-0.06	1.00

Source: Zephyr StyleADVISOR calculated on a monthly basis.

Total risk can be broken into two components: systematic and non-systematic risk. Systematic risk is market risk, while non-systematic risk is individual security and selection risks. This is a critical point: Non-systematic risk may be canceled through a combination with other non-correlated assets (diversification techniques), leaving returns without all the risk associated with the individual assets.

**10-Year Annualized Systematic vs. Non-Systematic Risk/Return
12/31/1999 – 12/31/2009**



Source: Zephyr StyleADVISOR and Heartland Advisors, Inc.

Past performance does not guarantee future results.

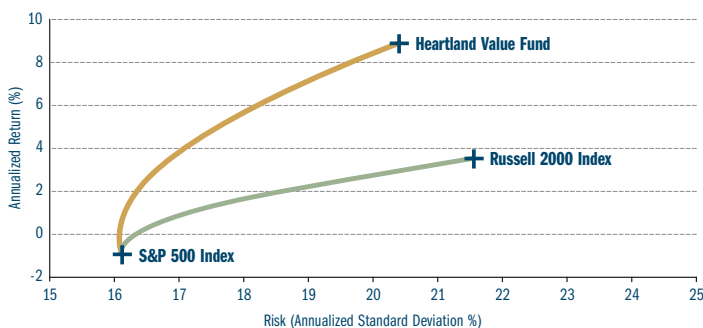
The S&P 500 and Russell 2000 Indices represent equity stock indices and are not benchmarks for the Heartland Value Fund.

Non-systematic risk may have been reduced or eliminated with an historical combination of the S&P 500 Index and the Heartland Value Fund.

Mutual funds can certainly provide non-correlated returns with high levels of non-systematic risk. This is another important reason to consider active management: By definition, a passive strategy will have a clear correlation to the market. An active style, particularly one driven by conviction and a contrarian bent, is more likely to be non-correlated to market indices.

This may allow for greater returns with less risk *when combined with other investments*. For example, the combination of assets shown in the chart below, would historically have been particularly advantageous. The efficient frontier moves up and to the left, graphically demonstrating the efficiency of the portfolio.

Efficient Frontier including Value Fund • 12/31/1999 – 12/31/2009



Source: Zephyr AllocationADVISOR.

Past performance does not guarantee future results.

The S&P 500 and Russell 2000 Indices represent equity stock indices and are not benchmarks for the Heartland Value Fund.

For every level of risk over this 10-year period, the Value Fund produced a higher return, and for every unit of return the Value Fund had lower risk than the Russell 2000.

The Heartland Value Fund: A 25-Year Performer

Investors will seek some level of confidence that historically attractive return patterns are likely to occur in the future. We believe an investor ought to consider the consistency of a manager’s investment discipline and, using common sense as the guideline, reach a conclusion regarding the soundness of the approach. Heartland’s 10 Principles of Value Investing™ seems to represent such a common sense, active approach for investors, demonstrated by the Fund’s 25 years of results.

Conclusion

Actively managed mutual funds, such as the Heartland Value Fund, can play an instrumental role in portfolio construction, both for its alpha generation but also precisely because of its risk profile. Its low correlation to a number of popular indices, combined with its above average long-term returns clearly support the possibility that its inclusion in a portfolio may generate higher returns with lower risk.

Average Annual Total Net Returns Investor Class Shares

As of 12/31/09	Inception Date	Since Inception	Twenty Years	Ten Years	Five Years	Three Years	One Year
Heartland Value Fund	12-28-84	12.88%	12.57%	8.87%	1.51%	-6.19%	44.49%
Russell 2000 Value Index	—	11.04	10.34	8.27	-0.01	-8.22	20.58
Russell 2000 Index	—	9.28	8.34	3.51	0.51	-6.07	27.17
Citigroup 3-month T-bill	—	4.57	3.94	2.84	2.88	2.22	0.16
S&P 500 Index	—	10.61	8.21	-0.95	0.42	-5.63	26.46

As of 12/31/08

Heartland Value Fund	12-28-84	11.72%	10.87%	7.30%	-4.04%	-9.90%	-39.53%
Russell 2000 Value Index	—	10.66	9.96	6.11	0.27	-7.49	-28.92
Russell 2000 Index	—	8.59	7.86	3.02	-0.93	-8.29	-33.79
Citigroup 3-month T-bill	—	4.76	4.36	3.30	3.10	3.76	1.80
S&P 500 Index	—	10.00	8.43	-1.38	-2.19	-8.36	-37.00

Index Source: FactSet Research Systems, Inc.

As of 5/1/09, the gross expense ratio for the Investor Class is 1.20%.

Past performance does not guarantee future results. Performance information for the Institutional Class prior to May 1, 2008 is based on the performance of the Investor Class. 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 Heartland Funds are offered in Investor Class and Institutional Class shares. See our prospectus for more information.

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

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.

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.

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.

Correlation is a statistical measure of the degree to which the movements of two variables are related.

Covariance is a statistical term for the correction between two variables multiplied by the standard deviation for each of the variables.

Non-Systematic Risk, also known as selection risk, is the risk that a style investment will not perform; as opposed to **Systematic Risk**, which is the risk of a general market decline.

Standard deviation is a measure of volatility of returns and is computed as the square root of the average squared deviation of the returns from the mean value of the return.

The Citigroup 3-Month T-Bill Index is an index of three-month Treasury bills.

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.

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.