

Heartland Select Value HRSVX

Morningstar's Take | 05-13-10 | by Ryan Leggio

**This all-cap mutual fund is one to consider.
Are catalysts Heartland Select Value's key to success?**

This fund has been on an extended tear. Not once in the past 10 calendar years has it been in the bottom third of its category. This ability to stay away from the bottom of the pack is a main reason its three-, five-, and 10-year returns all land near the top of the category heap. And the fund shows little sign of letting up.

The secret to this success is management's strict adherence to a straightforward process. The team follows Heartland's distinct 10 Principles of Value Investing™. Most stocks in the fund meet most or all of these criteria, which are largely fundamental but include some qualitative aspects. The process has done a good job identifying financially sound, out-of-favor, and undervalued securities. Management has had consistent success identifying catalysts that can drive a stock's appreciation. This aspect of the strategy has been particularly helpful in the small- and mid-cap space in recent years because many of those companies are subject to mergers and takeovers.

Management has been buying financials lately. It thinks the eventual economic recovery could be a catalyst for some large firms in the financial-services sector. The fund now has 21.5% of assets in the sector, compared with just 16.5% for the S&P 500 Index. Management is favoring companies with modest leverage that appear to be undervalued. Top-10 holding Bank of New York Mellon (BK) has a total debt/capital ratio that is lower than competitors, and the stock also trades at lower price/earnings and price/book ratios than its rivals. Because an economic recovery usually brings rising interest rates, management expects the firm's interest revenue—a big chunk of earnings—to increase substantially. Morningstar equity analysts agree, placing the firm's fair value well above its current price.

Overall, consistently strong stock-picking has continued to give this fund an edge.

Morningstar Rating



Kudos

- A disciplined strategy proved over time.
- Great long-term record.

Risks

- Its multicap strategy may hold it back when more narrowly focused funds soar.

Strategy

This fund's managers look across sectors for cheap stocks of all sizes, but they keep about half the fund's assets in mid-cap names. They use a 10-point matrix when evaluating stocks, considering metrics such as price/earnings and price/book as well as more general factors such as management's experience, the company's financial soundness, and the stock's price momentum. Heartland trains brokers and sell-side analysts on its 10-point stock-selection criteria and welcomes stock tips from these outsiders. In the past, the fund made sizable sector bets, but the current managers have toned those down.

Management

David Fondrie, Hugh Denison, and Ted Baszler took over this fund in March 2004 when former manager Gerry Sandel left Heartland to start his own money-management firm and comanager Eric Miller stepped down to focus on Heartland Value (HRTVX). Fondrie started as an analyst at Heartland in 1994 and has been director of equity research since 2001. Denison came out of retirement to help run this offering. Baszler has been an analyst and separate-accounts manager at Heartland since 2001. Will Nasgovitz was named a portfolio manager in 2006.

Role in Portfolio

Supporting Player

Heartland Select Value HRSVX

Year	Total Return (%)	+/-Category
YTD	10.52	-4.03
2009	38.63	3.22
2008	-31.24	5.53
2007	4.02	3.18

Data through 04-30-10

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.

As of June 30, 2010, the Select Value Fund was rated against 345, 259, 87 and 345 mid-cap value funds over the 3-, 5-, 10-year and overall periods, respectively. For each of the 3-, 5-, 10-year and overall periods, the Select Value Fund has received Morningstar's 4-star rating. As of April 30, 2010, the Select Value Fund was rated against 350, 263, 85 and 350 mid-cap value funds over the 3-, 5-, 10-year and overall periods, respectively. For each of the 3-, 5-, 10-year and overall periods, the Select Value Fund has received Morningstar's 4-star rating. Morningstar proprietary ratings reflect historical risk-adjusted performance. 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, 2010, the average annual total returns for the 1-, 5-, 10-years and since inception (10/11/96) periods of the Select Value Fund Investor Class were 22.27%, 3.46%, 9.42% and 9.44%, respectively. As of June 30, 2010, the average annual total returns for the 1-, 5-, 10-years and since inception (10/11/96) periods of the Russell 3000 Value Index were 17.57%, -1.56%, 2.74% and 6.14%, respectively. As of June 30, 2010, the average annual total returns for the 1-, 5-, 10-years and since inception (10/11/96) periods of the S&P 500 Index were 14.43%, -0.79%, -1.59% and 4.81%, respectively. As of April 30, 2010, the average annual total returns for the 1-, 5-, 10-years and since inception (10/11/96) periods of the Select Value Fund Investor Class were 52.96%, 8.51%, 10.89% and 10.85%, respectively. As of April 30, 2010, the average annual total returns for the 1-, 5-, 10-years and since inception (10/11/96) periods of the Russell 3000 Value Index were 43.10%, 2.20%, 3.92% and 7.37%, respectively. As of April 30, 2010, the average annual total returns for the 1-, 5-, 10-years and since inception (10/11/96) periods of the S&P 500 Index were 38.84%, 2.63%, -0.19% and 5.93%, respectively.

In the prospectus dated 5/1/10, the gross expense ratio for the Select Value 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.

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.

Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. The stocks in this index are also members of either the Russell 1000 Value or the Russell 2000 Value indexes. 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.

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/Book Ratio of a company is calculated by dividing the market price of its stock by the company's per-share book value.

Heartland 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. The above breakdown does not include short-term investments. As of May 31, 2010, Bank of New York Mellon Corp. represented 2.25% of the Fund's total net assets. As of June 30, 2010, Bank of New York Mellon Corp. represented 2.17% 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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