

# OPPORTUNISTIC VALUE EQUITY STRATEGY

September 30, 2017



## PORTFOLIO MANAGEMENT TEAM AND INDUSTRY EXPERIENCE

Wil Nasgovitz – 17 yrs  
Colin McWey, CFA – 15 yrs

**Dynamically pursues the best opportunities regardless of market capitalization**

### HISTORICAL RETURNS (Annualized for Multi-Year Periods)

	Since Inception	Ten Years	Five Years	Three Years	One Year	Year-To-Date	3Q 2017
Heartland Opportunistic Value Equity Composite (Net of Advisory Fees) <sup>1</sup>	10.27%	6.12%	12.37%	8.49%	17.91%	7.12%	4.42%
Heartland Opportunistic Value Equity Composite (Net of Bundled Fees) <sup>2</sup>	8.17	4.06	10.18	6.36	15.59	5.52	3.89
Russell 3000 <sup>®</sup> Value Index <sup>**</sup>	7.18	6.01	13.20	8.79	15.53	7.72	3.27
S&P 500 Index <sup>†</sup>	5.84	7.44	14.22	10.81	18.61	14.24	4.48

The inception date for the Opportunistic Value Equity Strategy is 9/30/1999. Heartland Advisors, Inc. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS<sup>®</sup>). <sup>†</sup>See Note 6 in Accompanying Notes on reverse side. <sup>\*\*</sup>See Note 7 in Accompanying Notes on reverse side.

### PORTFOLIO CHARACTERISTICS (Equity Securities Only, Weighted Median Unless Otherwise Noted)<sup>†</sup>

	Opportunistic Value Equity Composite	Russell 3000 <sup>®</sup> Value Index
Price/Earnings <sup>1</sup>	20.4x <sup>2</sup>	17.4x
Price/Book	1.9	2.1
Price/Cash Flow	11.8	12.3
Total Debt/Capital <sup>2</sup>	36.8%	47.0%
Weighted Average Market Cap	\$86.6 bil.	\$109.4 bil.
Median Market Cap	\$13.2 bil.	\$1.5 bil.

### PORTFOLIO 5-YEAR CHARACTERISTICS (Equity Securities Only)<sup>†</sup>

	Composite (Net of Advisory Fees) vs. Russell 3000 <sup>®</sup> Value Index
Annualized Alpha (%)	-1.36
Beta	1.06

### TOP TEN HOLDINGS (Equity Securities Only)<sup>†</sup>

Company	% Composite	Industry
Berkshire Hathaway Inc Class B	4.61	Diversified Financial Services
Exxon Mobil Corporation	3.86	Oil Gas & Consumable Fuels
American Express Company	3.47	Consumer Finance
Wells Fargo & Company	3.39	Commercial Banks
Wal-Mart Stores, Inc.	3.21	Food & Staples Retailing
Triple-S Management Corporation	3.09	Health Care Providers & Services
Exelon Corporation	3.09	Electric Utilities
CA, Inc.	2.98	Software
The Bank of New York Mellon Corporation	2.88	Capital Markets
The PNC Financial Services Group, Inc.	2.84	Commercial Banks

Data Source: Heartland Advisors, Inc., Russell<sup>®</sup> and Copyright 2017 FactSet Research Systems Inc, FactSet Fundamentals. All rights reserved. <sup>1</sup>Forward 2017 estimated earnings. <sup>2</sup>Weighted average.

Certain security valuations and forward estimates are based on Heartland Advisors' calculations. Any forecasts may not prove to be true. Economic predictions are based on estimates and are subject to change.

### SECTOR WEIGHTINGS (Equity Securities Only)<sup>†</sup>

	Opportunistic Value Equity Composite	Russell 3000 <sup>®</sup> Value Index
Consumer Discretionary	5.9%	7.0%
Consumer Staples	5.8	8.3
Energy	12.5	10.5
Financials	24.4	26.4
Health Care	16.1	13.3
Industrials	10.5	8.8
Information Technology	9.0	8.3
Materials	5.2	2.9
Real Estate	2.9	5.3
Telecommunication Services	0.0	3.0
Utilities	7.7	6.2
Total	100.0%	100.0%

**Past performance does not guarantee future results. Current performance may differ due to market volatility. Portfolio holdings are subject to change.**

<sup>†</sup>Shown as supplemental information. See important notes on reverse side.

Sector and Industry classifications as determined by Heartland Advisors may reference data from sources such as FactSet Research Systems Inc. or the Global Industry Classification Codes (GICS) developed by Standard & Poor's and Morgan Stanley Capital International.

**CFA<sup>®</sup>** is a registered trademark owned by the CFA Institute.

### INVESTMENT STRATEGY

The Opportunistic Value Equity Strategy seeks to capture long-term capital appreciation by investing in companies with market capitalizations greater than \$500 million. The Strategy's dynamic pursuit of value irrespective of market capitalization positions it as a core holding for investors.

### INVESTMENT PROCESS

The Strategy utilizes Heartland's 10 Principles of Value Investing<sup>™</sup> to identify companies with strong financial profiles and low prices relative to earnings, cash flows and book values. This process is driven by our disciplined and rigorous research efforts, based on generally more than 1,000 annual meetings with management teams. The approach provides both a potential margin of safety to limit downside risk and the opportunity for capital appreciation.

### PORTFOLIO CONSTRUCTION

- Approximately 30-50 stocks
- Individual stocks usually represent less than 5% of the portfolio
- Industry weightings typically represent less than 25% of the portfolio
- Generally fully invested but may hold cash equivalents during atypical markets
- Long-term investment horizon
- Capitalization range weightings vary with stock selections, but generally, 25% or greater in large-cap stocks

### RISK MANAGEMENT

- Consistent discipline of Heartland's 10 Principles of Value Investing<sup>™</sup>
- Potential safety margin: Focus on low price-to-book value and strong balance sheets
- Liquidity analysis: Disciplined review of quantitative and qualitative factors, both at portfolio and individual position levels
- Analytical tools: Drawdown, upside/downside, risk/return, correlation, attribution, contribution
- Team approach and extensive collaboration

Our sell decisions may be driven by factors such as:

- Valuation targets achieved
- Change in investment thesis
- Deteriorating financial position
- Meeting fewer criteria of our 10 Principles of Value Investing<sup>™</sup>

**NEW ACCOUNT MINIMUM: \$500,000**



**HEARTLAND ADVISORS**  
AMERICA'S VALUE INVESTOR<sup>®</sup>

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# OPPORTUNISTIC VALUE EQUITY STRATEGY

September 30, 2017

## OPPORTUNISTIC VALUE EQUITY COMPOSITE

As of December 31	Number of Accounts	Market Value (\$ Millions)	Total Firm Assets (\$ Millions)	Firm Assets in Composite (%)	Composite Assets in Wrap Accounts (%)	Asset-Weighted Dispersion (%)	Annualized Turnover (%) <sup>†</sup>	3-Year Standard Deviation (%)	
								Composite	Russell 3000 <sup>®</sup> Value Index
2016	104	136.6	1966.6	6.94	30.80	0.89	67.0	12.46	10.97
2015	146	151.3	2691.3	5.62	44.12	0.50	45.7	12.28	10.74
2014	206	338.1	5351.2	6.32	27.35	0.62	57.8	11.50	9.36
2013	234	396.8	6056.6	6.55	26.88	0.72	81.6	14.73	12.90
2012	249	317.1	5245.1	6.04	25.85	0.84	52.6	17.44	15.81
2011	287	343.7	4864.3	7.06	26.89	1.06	71.0	21.00	21.04
2010	226	477.2	4636.1	10.30	18.91	1.03	60.4	N/A	N/A
2009	153	248.3	3156.1	7.87	21.50	2.30	61.1	N/A	N/A
2008	145	122.0	2296.8	5.31	26.41	1.99	85.1	N/A	N/A
2007	146	119.2	2880.9	4.14	37.80	2.95	63.2	N/A	N/A

## TOTAL RETURNS AS OF SEPTEMBER 30, 2017

Annualized Returns	Opportunistic Value Equity Composite (Net of advisory fees) <sup>†</sup>	Opportunistic Value Equity Composite (Net of bundled fees) <sup>**</sup>	Russell 3000 <sup>®</sup> Value Index <sup>***</sup>	Blended Index <sup>***</sup>
Inception <sup>†</sup>	10.27%	8.17%	7.18%	8.89%
Ten	6.12	4.06	6.01	6.61
Five	12.37	10.18	13.20	13.31
Three	8.49	6.36	8.79	10.40
One	17.91	15.59	15.53	17.94

Cumulative Returns	Opportunistic Value Equity Composite (Net of advisory fees) <sup>†</sup>	Opportunistic Value Equity Composite (Net of bundled fees) <sup>**</sup>	Russell 3000 <sup>®</sup> Value Index <sup>***</sup>	Blended Index <sup>***</sup>
Inception <sup>†</sup>	480.88%	311.49%	248.50%	362.86%
Ten	81.04	48.94	79.26	89.68
Five	79.16	62.36	85.86	86.80
Three	27.68	20.33	28.77	34.55
One	17.91	15.59	15.53	17.94

Annual Returns	Opportunistic Value Equity Composite (Net of advisory fees) <sup>†</sup>	Opportunistic Value Equity Composite (Net of bundled fees) <sup>**</sup>	Russell 3000 <sup>®</sup> Value Index <sup>***</sup>	Blended Index <sup>***</sup>
2016	18.83%	16.52%	18.40%	24.44%
2015	-4.05	-5.92	-4.13	-5.60
2014	4.01	1.99	12.70	8.86
2013	34.59	32.00	32.69	33.55
2012	13.43	11.23	17.55	17.81
2011	-7.87	-9.66	-0.10	-2.55
2010	17.48	15.20	16.23	20.02
2009	35.82	33.18	19.76	20.29
2008	-32.38	-33.59	-36.25	-32.90
2007	4.62	2.62	-1.01	-5.05

<sup>†</sup>Shown as supplemental information. \*9-30-99 \*\*See Note 6 in Accompanying Notes. \*\*\*See Note 7 in Accompanying Notes. Data Source: FactSet Research Systems Inc., Russell<sup>®</sup>, and Heartland Advisors, Inc.

**In addition to stocks of large companies, the Opportunistic Value Equity Strategy invests in stocks of small- and mid-cap companies that are generally less liquid than large companies. The performance of these holdings generally will increase the volatility of the strategy's returns. Value investments are subject to the risk that their intrinsic values may not be recognized by the broad market.**

**Alpha** is an annual 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. **Price/Book Value Ratio** is calculated by dividing the market price of its stock by the company's per-share book value. **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/Earnings Ratio** of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. **Real Estate Investment Trust (REIT)** is a security that sells like a stock on the major exchanges and invests in real estate directly, either through properties or mortgages. **Total Debt/Total Capitalization Ratio** of a stock is calculated by dividing the short- and long-term debt obligations of the company by its total capital, which is represented by the company's debt and shareholders' equity, which includes common stock, preferred stock, minority interest and net debt.

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## ACCOMPANYING NOTES

- The Firm is a wholly owned subsidiary of Heartland Holdings, Inc. The Firm is registered with the Securities and Exchange Commission.
- The effective date of firm compliance is January 1, 1993.
- The Firm claims compliance with the Global Investment Performance Standards (GIPS<sup>®</sup>) and has prepared and presented this report in compliance with the GIPS Standards. The Firm has been independently verified from January 1, 1993 through December 31, 2016.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Opportunistic Value composite has been examined for the periods September 30, 1999 through December 31, 2016. The verification and performance examination reports are available upon request.

Periods after December 31, 2016 have not yet been examined.

- This composite was created in 1999 and contains fully discretionary equity portfolios primarily invested in companies with market capitalizations that are in excess of \$500 million, but may invest in companies of all sizes. Beginning January 1, 2004, the minimum account size for this composite is \$200,000. Prior to January 1, 2004 the minimum account size for this composite was \$500,000. Portfolios in the composite that later drop below the composite minimum due to market volatility are only removed from the composite when their market value falls below \$150,000. Prior to September 15, 2007, the composite's name was the Heartland Multi Cap Value Strategy. This change is in name only and does not reflect a change to the composite's investment objective. On December 31, 2000, the composite's name was changed from the Heartland Select Value Composite to the Heartland Multi Cap Value Strategy to more fully depict its investment objective.
- The investment management fee schedule for this composite is as follows: 1.00% per annum on the first \$5,000,000 and 0.85% per annum on the next \$10,000,000. Fees on accounts over \$15,000,000 are negotiable. Actual investment advisory fees incurred by clients may vary. Further information on the Firm's fees can be found in Part II of its Form ADV. Wrap accounts are included in the composite. In addition to the management fee, wrap accounts also pay an all-inclusive fee based on a percentage of assets under management. In lieu of brokerage commissions, this fee includes portfolio monitoring, consulting services and in some cases, custodial services.
- The US dollar is the currency used to express performance. Results are based on fully discretionary accounts under management, including those accounts no longer with the Firm, and actual management fees incurred. Returns are presented net of advisory fees and net of bundled fees and include the reinvestment of all income. Returns net of bundled fees reported are presented net of all fees and transaction costs incurred, include the investment of all income, and are based on the maximum all-inclusive wrap fee paid by any of the accounts included in the composite. The returns net of bundled fees were calculated by subtracting the highest applicable sponsor portion of the separately managed wrap account fee from the net of advisory fees return. As of September 30, 2017 the highest applicable sponsor portion of the separately managed wrap fee was 2.00%, which may differ significantly from fees in other wrap accounts included in this composite.
- For comparison purposes, the composite is measured against the Russell 3000 Value Index since June 30, 2009. This change was made retroactively in connection with enhancements made to the respective investment policy statements. Prior to June 30, 2009, a blended index was created by the Firm using a 50% weighting of the Russell 1000 Value Index and a 50% weighting of the Russell 2000 Value Index since March 1, 2002. Prior to March 1, 2002, a 25% weighting of the S&P MidCap 400 Barra Value Index, a 30% weighting of the S&P 500 Barra Value Index, and a 45% weighting of the S&P SmallCap 600 Barra Value Index was used. The benchmark was changed in connection with enhancements made to the respective investment policy statements. The Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth characteristics. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization. The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth characteristics. The Russell 1000 Index includes the 1000 firms from the Russell 3000 Index with the largest market capitalizations. The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth characteristics. The Russell 2000 Index includes the 2000 firms from the Russell 3000 Index with the smallest market capitalizations. The S&P Barra Value Indexes are constructed as subsets of S&P's industry-leading equity indexes and contain equities with lower price-to-book ratios. The blended index performance is calculated monthly and based on index information taken from published sources. All indices are unmanaged. It is not possible to invest directly in an index. Index performance reported is not covered by the report of independent accountants.
- Client portfolios included in the composite are managed by multiple portfolio managers whose investment management styles may differ. In addition, some client portfolios may be managed more or less conservatively, subject to individual client restrictions. As a result, performance differences between client portfolios in the same composite may occur. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.
- As of October 2015, accounts with a flow greater than 20% of the portfolio market value are excluded for the month.
- A complete list and description of the Firm's composites and additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Contact Institutional Sales at Heartland Advisors, Inc., 789 N. Water Street, Suite 500, Milwaukee, WI 53202 or call 888-505-5180.