The Better IR

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December 2009

2010 Institutional Investment Trends and Impact on Investor Targeting

The buy-side community has seen significant upheaval throughout 2009, nearly to the same extent as the financial community or the issuer community has experienced over the same timeframe. In addition to trends we've discussed previously (increased reliance on in-house instead of sell-side research, downward pressure on hiring, and a general "reboot" of the equity hedge fund community), it's worth noting a couple other trends we're seeing that represent a benefit to issuers conducting institutional targeting outreach to the buy-side community – a trend toward increased institutional portfolio turnover, and increased mobility of mandates between advisers.

Higher Institutional Portfolio Turnover

In a way, periods of higher turnover for a portfolio may actually represent greater opportunities for institutional targeting than periods of lower turnover – institutions that are actively rotating their portfolios tend to be more receptive to new ideas and may give you a greater opportunity to tell your investment story. Contrast this period with the last two months of 2008 and the first two months of 2009, in which analysts & portfolio managers anecdotally appeared to turn their focus much more sharply on current holdings (and gauging risk) instead of focusing on potential investments (and gauging opportunity).

On the whole, turnover among US institutional investors has rebounded since the doldrums of 4Q08 and 1Q09, increasing about 13% over the low levels seen in late 2008. Turnover is, of course, driven by both selling and buying activity, and the increase in turnover seen comprises both transaction types, including structural sell decisions forced by redemptions or mandate changes. Fig. 1 shows the breakout by institution type of portfolio turnover. In particular, institutions primarily managing hedge funds have increased their portfolio churn to unprecedented levels, with a weighted average turnover nearing 150%. (Note that Ipreo calculates turnover as a rolling four-quarter figure).

Fig. 1 – US Weighted Avg Institutional Turnover by Quarter, 2008 to Current

Firm Type	3/31/08	6/30/08	9/30/08	12/31/08	3/31/09	6/30/09	9/30/09	% Chg vs. 4Q08
All Institutions	44.9	45.2	42.1	41.9	44.7	47.2	47.2	12.8%
Investment Advisors - non-MF	41.8	42.5	40.1	42.0	43.9	45.1	42.5	1.3%
Investment Advisors - MF	40.8	40.5	39.2	39.4	40.5	42.2	42.2	7.1%
Hedge Funds	125.0	125.5	116.5	114.5	129.0	142.3	147.7	29.0%

The trend towards higher turnover has been witnessed across a wide range of institutions, crossing value and growth investment styles and all sizes. In particular, institutions experiencing structural changes tend to show the highest increases in portfolio turnover, as the new managers of portfolios are looking to develop a record based on their portfolio construction, and not the portfolio construction of their predecessors. Industry watchers have noted the wave of changes in the mutual fund industry in particular, as fund trustees and boards have faced greater pressure to change advisors on funds that underperformed and/or consolidate funds with smaller asset sizes.

Note in Fig. 2 below a number of investors undergoing structural change (Artio Global Management, in its separation from the Julius Baer parent, and PNC Capital Advisors with the integration of the assets acquired in the merger with National City Bank) increasing their portfolio churn while showing increases in asset sizes over time. These investors tend to be among the most receptive to outreach from issuers, as they seek to reconstruct a portfolio that fits their investment decisions and produce short-term performance that will help impress institutional clients worried about the management change.

Fig. 2 – Large US Institutions (>$10b EAUM) with Largest Increases in Turnover, 3/08 - Current

Firm	1Q08 EAUM $M	3Q09 EAUM $M	1Q08 Turnover %	3Q09 Turnover %	Secular Chg in Turnover
Citadel Investment Group, LLC (U.S.)	11,648.4	16,658.5	152.4	220.3	68.0
Artio Global Management, LLC	23,697.2	31,558.8	52.8	116.3	63.5
Acadian Asset Management, Inc. (U.S.)	15,744.7	21,772.0	97.4	127.7	30.3
Northern Cross, LLC	21,762.8	21,446.6	29.1	56.4	27.3
Cramer Rosenthal McGlynn, LLC	10,299.3	9,856.0	68.0	93.2	25.2
Cohen & Steers Capital Management, Inc.	16,100.3	21,934.4	39.1	64.0	24.9
Pzena Investment Management, LLC	10,895.7	18,206.2	39.5	63.2	23.7
PNC Capital Advisors, LLC	10,638.7	22,006.1	22.7	45.7	23.0
Credit Suisse Asset Management, LLC (U.S.)	15,362.4	32,224.5	59.6	82.5	22.9
Renaissance Technologies Corporation	26,287.2	49,256.0	110.4	132.9	22.5

Conversely, it's worth taking note of institutions that have pulled back on churning their portfolios; as current holders, they may now be more likely to retain existing positions, and have already proven their limited need to lock in profits in a sharp up market. Fig. 3 identifies a few of these institutions.

Fig. 3 – Large US Institutions (>$10b EAUM) with Largest Decreases in Turnover, 3/08 - Current

Firm	1Q08 EAUM $M	3Q09 EAUM $M	1Q08 Turnover %	3Q09 Turnover %	Secular Chg in Turnover
William Blair & Company Investment Management	32,406.2	40,368.2	120.4	79.6	(40.8)
Arnhold and S. Bleichroeder Advisers, LLC	27,608.2	28,203.2	57.9	26.9	(31.0)
Van Eck Associates Corporation	13,743.0	9,025.9	89.6	59.6	(30.0)
Argyll Research, LLC	13,680.6	14,321.6	40.8	13.7	(27.1)
Montag & Caldwell, Inc.	11,409.8	13,540.1	57.8	34.4	(23.4)
NWQ Investment Management Company, LLC	17,800.0	27,595.0	51.5	31.1	(20.4)
Fifth Third Asset Management, Inc.	10,286.5	14,801.1	44.5	28.8	(15.8)
RCM Capital Management, LLC (U.S.)	13,733.0	15,654.7	68.1	52.9	(15.3)
Columbia Management Advisors, LLC	109,439.9	167,219.1	54.5	40.6	(13.9)
Templeton Investment Counsel, LLC	22,854.5	31,520.3	33.3	20.8	(12.5)

Increased Mobility of Institutional Mandates Between Advisers

Keeping an eye on institutions that have significant new assets invested in equity is another good "broad trend" to follow in allocating your time; institutions that have made the largest overall equity purchases recently tend to be the ones that have added new mandates or are making strategic allocations towards equity and away from other asset classes. As these processes tend to be gradual (occurring over a number of months instead of instantaneously), looking backward at public portfolio disclosures from these institutions tends to allow you some ability to "get in front of" these allocations as they're happening and attract new investment.

After 2008's carnage, institutional investors such as pension funds and trusts have shown increased tendencies to review their choices of investment advisers and sub-advisers, and as part of their fiduciary duty to beneficiaries have often looked to change allocations between managers during the year. Major US state pension plans conducting reallocations include Massachusetts and California, while a number of large university endowments and private pension plans have reviewed or changed managers throughout the year, and in particular, showed an increased penchant for reviewing their allocations towards hedge fund managers.

While investors that have added mandates may have more overall dollars to invest, it's not always a certainty that they'll represent a good use of your time; new mandates may be allocated to different asset classes, sectors, or cap ranges. Looking at the portfolios with the largest increases in assets sorted out by actual buying activity (i.e. open-market equity purchases) is the best method for separating wheat from chaff in this case.

Fig. 4 shows the set of 10 US institutions with the largest net equity purchases in the most recently-filed quarter. With a significant number of capital raises taking place from financial institutions, displaying the "ex-financials" net activity for an investor has often been a closer gauge of actual secondary market purchases so far in 2009, as it's impossible using public information to determine whether an institution took part in a primary market transaction or a secondary market transaction with any particular financial issuer.

Fig. 4 – Large Active US Institutions (>$10b EAUM) with Largest Net Equity Purchases, 3Q09 – By Sector

Firm Name	3Q09 EAUM $M	Net Activity $M	Net Activity Ex-Financials $M	Basic Materials $M	Consumer Goods $M	Consumer Services $M	Energy $M	Financials $M	Healthcare $M	Industrials $M	Technology $M	Utilities $M
Capital Research Global Investors (U.S.)	371,256.4	8,793.4	4,551.6	1,708.1	1,895.1	-1,353.6	1,992.1	4,241.9	356.2	912.8	-492.1	-466.9
J.P. Morgan Investment Management	86,018.5	5,870.7	4,064.0	-287.8	504.1	765.4	399.2	1,806.6	653.7	447.6	1,427.5	154.3
MFS Investment Management	87,441.1	3,897.1	2,456.2	-29.9	670.7	654.2	151.8	1,440.8	567.1	199.6	231.7	11.1
Lazard Asset Management, LLC (U.S.)	45,550.4	3,520.5	2,389.7	478.5	145.9	412.6	-270.4	1,130.8	464.5	47.5	956.9	154.2
Waddell & Reed Investment Mgmt.	42,456.3	3,161.0	2,037.5	757.6	96.1	-323.0	-177.0	1,123.5	-252.5	679.8	1,248.8	7.5
PNC Advisors	28,433.5	2,631.1	2,015.9	125.9	187.7	331.7	276.3	615.2	284.2	135.5	582.0	92.6
Delaware Investments	26,281.9	2,260.0	1,958.5	168.7	125.5	303.8	314.8	301.5	195.5	344.0	427.5	78.7
Citadel Investment Group, LLC (U.S.)	11,648.4	1,580.8	1,404.7	157.9	462.7	150.2	-127.5	176.1	118.9	176.1	434.7	31.7
Janus Capital Management, LLC	77,105.9	2,544.4	1,313.4	204.5	277.2	83.4	423.8	1,231.0	5.0	373.1	116.0	-169.6
T. Rowe Price Associates, Inc.	229,541.5	2,758.2	1,228.0	508.4	-226.7	558.3	-205.4	1,530.2	1,014.3	886.8	-1,326.6	18.9

Fig. 5 shows the market cap breakout of the net equity purchases made by this set of firms. Note that firms like Lazard Asset Management have focused their purchases more into the mid- and large-cap spaces while on a relative basis shunning mega-caps.

Fig. 5 – Large US Institutions (>$10b EAUM) with Largest Net Equity Purchases, 3Q09 – By Market Cap

Firm Name	3Q09 EAUM $M	Net Activity $M	Mega Cap Chg $M	Large Cap Chg $M	Mid Cap Chg $M	Small Cap Chg $M	Micro Cap Chg $M
Capital Research Global Investors (U.S.)	371,256.4	8,793.4	3,657.7	5,290.6	584.4	52.0	-12.1
J.P. Morgan Investment Management	86,018.5	5,870.7	3,722.8	1,246.6	306.1	633.2	52.8
MFS Investment Management	87,441.1	3,897.1	58.0	3,355.7	195.2	234.4	23.7
Lazard Asset Management, LLC (U.S.)	45,550.4	3,520.5	388.6	1,162.8	1,654.0	316.9	45.1
Waddell & Reed Investment Mgmt.	42,456.3	3,161.0	509.1	1,322.1	1,096.9	521.7	12.3
T. Rowe Price Associates, Inc.	229,541.5	2,758.2	1,124.6	964.0	387.9	491.4	-4.6
PNC Advisors	28,433.5	2,631.1	765.5	873.5	567.8	348.8	20.5
Janus Capital Management, LLC	77,105.9	2,544.4	1,564.7	708.0	33.8	259.6	-12.2
Delaware Investments	26,281.9	2,260.0	624.3	442.1	820.3	290.2	34.6
Citadel Investment Group, LLC (U.S.)	11,648.4	1,580.8	211.6	1,029.7	273.8	515.4	3.1

No matter what, your institutional targeting activities should always have a primary focus on matching your investment story to the investors most likely to add shareholder value; targeting is not a process that is performed "top-down" instead of "bottom-up". However, awareness of overall trends in the institutional market can help you perform more "bottom-up" analysis by identifying investors that, based on structural changes caused by market trends, may represent an increased value to your IR effort and help you to strike while the iron is hot.

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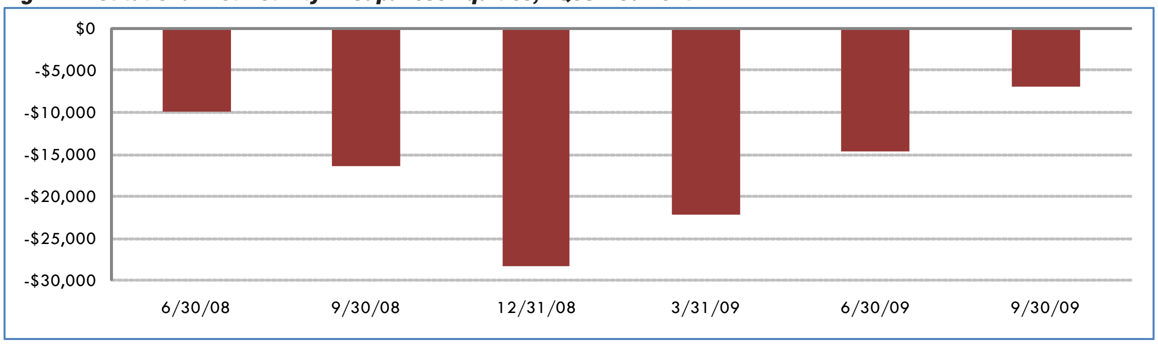
Institutional Investment in Japanese Equities - Finding the Bottom?

2008 was a turbulent year for Japanese equities, as the global financial crisis, a deepening recession, and a surging yen sent the Nikkei tumbling over 42%, marking the worst-performing year ever for the stock average. Through 2009, Japanese equity markets have reversed course, as the Nikkei 225 has risen nearly 15% as of publication date.

Over this period, institutions have as a rule taken a negative view towards the Japanese equity market. As shown in Figure 1, institutions have been net sellers in every quarter based on publicly-disclosed portfolio information. However, the trend throughout 2009 has been decidedly positive, as it appears institutions may have begun to slow their sell trend and potentially view Japanese equities as attractively valued.

Fig. 1 - Institutional Net Activity in Japanese Equities, 2Q08 - Current



Source – Ipreo Research

In particular, international investors have in many cases begun to make some significant inflows into the Japanese equity markets. Over the third quarter, institutional selling by non-Japanese investors totaled $15.2b, offset by $11.1b in institutional buying, but a far closer balance than had been seen at any point in the last two years. Figure 2 shows the largest net institutional buyers based on public ownership information.

Fig. 2 - Top 10 International Buyers of Japanese Equities, Q309

Institution	Value Change in Japan $m*	Value Japan $m	Style	Country
William Blair & Company Investment Management	1,109.4	2,313.3	Growth	United States
MFS Investment Management	813.0	2,750.2	Value	United States
Wellington Management Company, LLP	699.7	4,308.4	Value	United States
Capital World Investors (U.S.)	495.4	6,162.2	Value	United States
Capital Research Global Investors (U.S.)	460.0	9,636.6	GARP	United States
Artio Global Management, LLC	453.9	1,861.7	Growth	United States
BlackRock Advisors, LLC	398.0	8,240.8	Value	United States
PGGM Vermogensbeheer B.V.	379.7	3,873.0	Growth	Netherlands
Scout Investment Advisors, Inc.	316.5	318.0	Growth	United States
Waddell & Reed Investment Management Company	306.8	611.3	Growth	United States

Source – Ipreo Research

William Blair & Company spearheaded institutional buying of Japanese equities in nearly doubling its exposure over the period. According to September 30, 2009 commentary on the William Blair International Growth Fund, portfolio manager W. George Greig noted the fund "increased exposure to Japan to approximately 13.5% from approximately 6.5% through additions across a number of sectors as fundamentals appear to have bottomed and valuations remained attractive."

Fig. 3: Change in Equity Allocation to Japanese Equities, YTD 2009

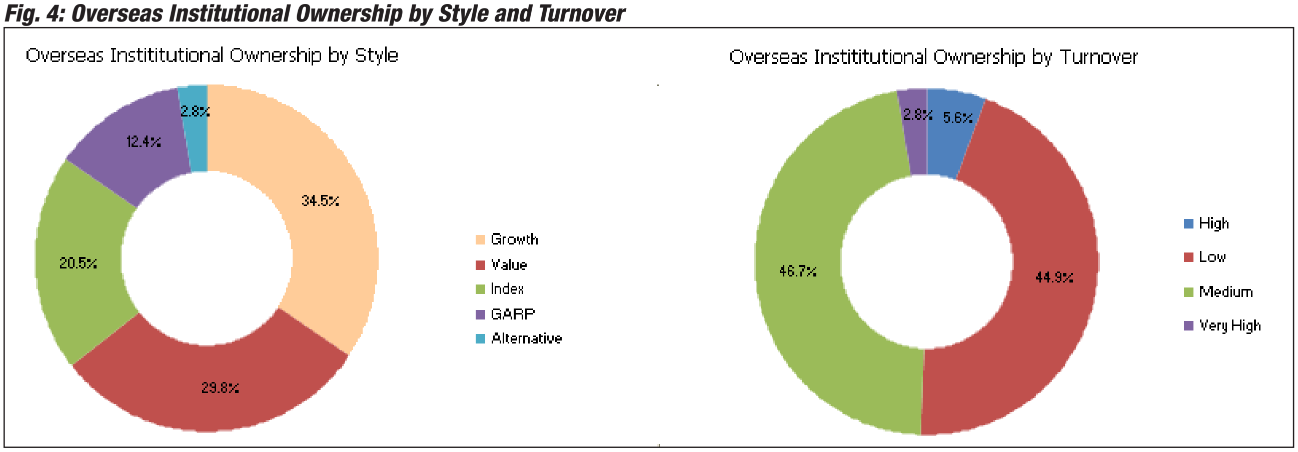
Institution	Chg in % Port Japanese Equities	12/31/08 JPN Equity Allocation	9/30/09 JPN Equity Allocation	Style	Country
Scout Investment Advisors, Inc.	5.8%	0.1%	5.9%	Growth	United States
Neptune Investment Management, LTD	3.3%	2.0%	5.3%	Value	United States
Sprucegrove Investment Management, LTD	3.1%	6.4%	9.5%	Value	United States
ING Clarion Real Estate Securities (U.S.)	3.0%	0.3%	3.2%	Value	United States
Morgan Stanley Investment Mgmt., LTD (U.K.)	2.6%	7.2%	9.8%	GARP	United States
Artio Global Management, LLC	2.4%	5.4%	7.8%	Growth	United States
William Blair & Company Investment Mgmt.	2.3%	5.2%	7.4%	Value	United States
MFC Global Investment Management (Canada)	1.1%	0.1%	1.2%	Growth	Netherlands
T. Rowe Price Global Asset Management, LTD	1.0%	0.8%	1.8%	Growth	United States
Institutional Capital, LLC	0.9%	1.0%	1.9%	Growth	United States

Source – Ipreo Research

Even in smaller increments, a number of investors have made new entries into the Japanese equity markets; in Figure 3, note U.S. REIT investor ING Clarion Real Estate Securities and Scout Investment Advisors as two institutional investors that increased their allocations from nominal levels previously. Anecdotally, Ipreo's research on behalf of issuers has shown ING Clarion involved directly not only in real estate management companies, but also in issuers that own large real estate assets while operating other businesses.

International investors in Japanese securities have interestingly shown lower turnover in their holdings over time than holdings in many other regions. In particular, the US hedge fund community, traditionally a source of higher turnover, has somewhat shunned the Japanese equity market – even U.S. hedge funds that currently disclose holdings in Japanese securities show just a 2.9% weighting toward the country's equities. Currently over 90% of overseas ownership of Japanese equities is dominated by firms with turnover rates of low or medium, encompassing generally more traditional styles (see Fig. 4).

Fig. 4: Overseas Institutional Ownership by Style and Turnover



Source – Ipreo Research

Activist Investors "Deactivate"

Shareholder activism in Japan has continued to decline since its peak seen in 2007, when there were a slew of unsolicited takeover attempts, shareholder proposals, and opposition to management proposals. 2007 brought a significant increase in the number of shareholder proposals where managers were called on to use large cash reserves to increase dividends or buy back shares. Many of the companies that were targeted by activists tended to be small- to mid-cap companies that hoarded cash and were trading at relatively low multiples. While some companies did raise dividends on their own accord, many implemented "poison pill" defenses which essentially attempted to fend off activists. Close to 400 companies instituted poison pill defenses in 2007, according to a report by Nomura Securities.

The most notable case was Bull-Dog Sauce, in which the company passed provisions to block Steel Partners from buying controlling stakes. In effect, the defensive measure substantially reduced Steel Partners 10% stake to 3%. Steel Partners took its case to the court, and lost. To boot, Steel Partners was labeled as an "abusive acquirer" by the courts with its attempt to acquire Bull-Dog Sauce.

In a similar case, The Children's Investment Fund (TCI) pursued an activist agenda against J-Power, demanding the company to increase its dividend, limit cross-shareholdings, and hire at least 3 outside directors. TCI ultimately lost its proxy battle against the utility company and sold its 9.9% stake at a $130 million loss.

2008 saw activism begin to quiet down as investors started to realize that buying a large stake and rattling management's cage was not enough. Investors started to rethink how effective shareholder activism would be going forward. Some activist funds have started to soften their tone when submitting shareholder proposals.

The financial crisis has led activist investors to reduce their exposure to Japan so they can meet redemption demands. Since J-Power and several other instances of activism involving European issuers, TCI has pulled back on many of its equity investments and appears to be "in a holding pattern" with respect to new instances of activism. Nevertheless, activism has not disappeared in Japan. A value-oriented investor has submitted two proposals this year. One called for a share buyback program at a technology company while the other sought a dividend hike from an insurance company.

Fig. 5: Selected Activists Recently Involved in Japanese Securities

Institution	Value Japan $m*	Target	Country
Brandes Investment Partners, LLC	4,925.7	Rohm	United States
Silchester International Investors, LTD	3,239.9	Autobacs Seven	United Kingdom
Steel Partners, LLC (U.S.)	1,284.7	Bull-Dog Sauce	United States
Dalton Investments	3.80	Nippon Fine Chemical	United States

Source – Ipreo Research

What does this all mean for the IRO at a Japanese company? IRO's should put solace in that majority of overseas ownership is dominated by stable traditional investors with lower turnover rates. When reaching out to the investment community, sticking to a long-term strategy is key. Although shareholder activism is on the decline, IRO's should always be mindful of Steel Partners, TCI and the like, whether or not the climate for activism is strong.

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Using Your AGM to Deliver Your Business Objectives

The case has never been stronger for boards of directors and their management to focus attention where it belongs: on corporate strategy. When the storms of governance scandals began whipping across the corporate landscape, boards—good, bad, and ugly—turned inward to deal with their companies' problems. Now, by and large, boards have come to terms with the new governance environment, and it's time to move on – but many Boards have trouble getting this strategy through the Annual Meeting.

Boards may set strategy, but, sadly, they have only minimal involvement in shaping and developing it, and they still need to get their shareholders to approve it, and at the end of this expensive and time-consuming process, shareholders and sometimes bondholders can stop the strategy being implemented at the General Meeting.

Governance reforms have been extraordinarily effective in bringing more independence to boards and restoring investor confidence. Yet in Ipreo's work we find that sometimes boards and their management do not engage with their shareholders to participate effectively in shaping strategy in the post crisis chill, even as the business landscape has become more complex, many boards have taken to playing defence, while investors go on the offensive.

Swing the pendulum back, and engage with your shareholders before, during and after the general meeting. Make sure they buy into the one, three, five year strategy before the general meeting. The operative question is how to make the planning process more effective—and how not to "lose" the annual meeting.

During the engagement process with your shareholders you need to understand the equity and governance reasons for your shareholders' investment in your company, and how the processing of governance is undertaken, which of it is "insourced" or "outsourced" and whose, or which policies the vote is being generated from.

It is widely accepted that if a CEO does not get the vast majority (roughly 90%) of the top 60% of his shareholders voting in favour of each resolution at the Annual Meeting, there is enough unease on the resolution that the CEO does not have the full backing of the shareholders for his coming strategy. Academically, this has been proven to affect the share price and level of possible future activism, and can end up in an EGM, or a need to change strategy – this is a cost most companies can avoid through planning their Annual Meeting in detail from about 6 months before the date of the meeting.

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BetterIR - Firm Snapshot

Targeted Firm: TCW Investment Management Company (Pre-Merger: $23,406.4 M)

Targeting Profile:
TCW Investment Management, wholly owned by TCW Group, an indirect subsidiary of Société Générale, has recently made headlines over its acquisition of renowned fixed income shop and fellow Los Angeles–based institution, Metropolitan West Asset Management. Once this acquisition is complete in early 2010, TCW's total fixed income assets will rise to more than $20 billion and account for well over one-third of reported total holdings. TCW survived the most recent financial crisis with a strong 2009, due to timely investments in mortgage-backed securities after such issues had been significantly beaten down, and as such, 86% of total fixed income assets currently fall within this category. Of particular note, TCW's fixed income unit has experienced a large departure of fixed income analysts and fixed income assets along with the exit of the firm's CEO, Jeffrey Gundlach, who is opening a new fixed income research business with the support of Oaktree Capital Management.

On the equity side, TCW has exhibited an inclination toward growth-oriented securities and is willing to pay a higher premium for companies that can consistently produce outsized returns. In making individual investment decisions, the firm combines top-down analysis of macroeconomic trends with bottom-up fundamental analysis within sectors expected to benefit from such global themes.

TCW's equity assets are primarily divided among mid, large, and mega cap companies, although the firm does manage a few small cap value portfolios that looks for underfollowed and/or undervalued securities. Such issues, however, account for only 7.8% of total equity assets. As is consistent with a traditional growth bias, TCW currently maintains 20.4% of its holdings invested in the Technology sector, though this percentage fell slightly in Q3 due to investment in the Financials and Industrials spaces. Nevertheless, with a $123M addition to its position in Q3, Apple vaulted into place as TCW's single largest portfolio holding, accounting for 2.7% of total equity assets. Tech giants Google and QUALCOMM also help fill out the firm's top five holdings. Other recent activity included purchases of Bank of America (+$182.5M) and Charles Schwab (+$96.6M) in Financials as well as Rockwell Automation (+$97.3M) and C.H. Robinson Worldwide (+$90.7M) in Industrials. Most recent quarterly selling was focused in Technology and Healthcare with large liquidations to KLA-Tencor Corp. (-$117.2M), Microchip Technology (-$90.6M), and Celgene (-$86.8M).

How to Approach:
If your company has exhibited several growth characteristics including multiple periods of consecutive EPS increases as well as positive top-line trends, your company is likely well-positioned to approach TCW's team of portfolio managers. The firm places relatively less emphasis on P/E valuations over growth potential and, thus, companies trading at expensive multiples need not fear so greatly. Those companies within long-regarded growth sectors like Technology also find themselves already at an advantage when seeking contact with TCW. Even further, Financials issues, continuing to gain steam from the bull market recovery and leveraging TCW's recent buying within the space, would be able to make a strong case for outreach to the firm.

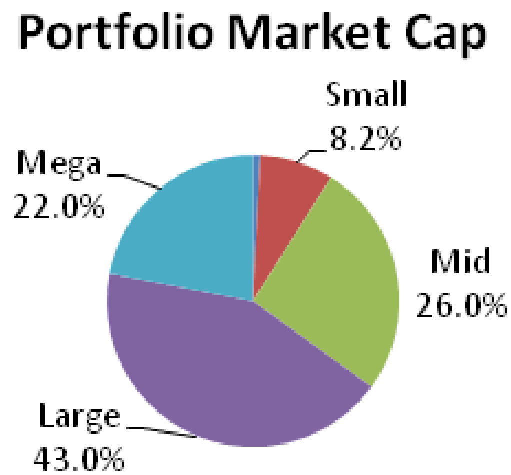
How not to Approach:
As TCW holds a small portion of its total portfolio in international securities, if your company is domiciled outside of the United States, you will find conversation much more difficult. Similarly, the firm's 7% small cap allocation can also preclude tiny start-ups with extremely high growth potential from consideration. Though certainly not a prerequisite for investment, small cap companies must make sure to stress specific plans for growing earnings year over year. Additionally, TCW sold down positions by $40M in the Basic Materials sector during Q3, leaving this allocation underweight at only 4.5% of total holdings. Thus, companies in this space should approach the firm with caution.

Largest Funds Managed:
- GuideStone Value Equity Fund ($1,095.7 M); Diane Jaffe, et al.
- Liberty All Star Equity Fund ($908.8M); Craig Blum, David Katz, Richard Pzena
- SGAM Fund – Equities US Relative Value ($810.5M); Diane Jaffe

Portfolio Fundamentals:

- TTM Price/Earnings: 30.4
- Avg. Revenue Growth: 16.2%
- Dividend Yield: 1.3%
- Price/Book: 3.7

Average Equity Holding Period: 2.04 years



BetterIR - Fund Snapshot

Targeted Fund: Heartland Value Fund ($6,635.23 M)

Portfolio Managers:

- Bradford Evans - (414) 977-8755
  bevans@heartlandfunds.com
- William Nasgovitz - (414) 977-8732
  willnasgo@heartlandfunds.com
- Bill Nasgovitz - (414) 977-8744
  bnasgovi@heartlandfunds.com

Targeting Profile:

In 2009, the Milwaukee-based Heartland Value Fund celebrated its 25th anniversary of investing primarily in small and micro cap securities. The fund focuses largely on companies less than $1.5 billion in market cap and invests a significant portion of equity assets in securities that are below the $300 million market cap mark. As the largest of Heartland Advisors mutual funds, the Value Fund helps define the strategy of its overarching investment manager. The fund seeks to achieve the highest amount of capital appreciation possible and, accordingly, Heartland relies on small caps as the best means to attaining such large returns, albeit at a higher risk premium. Citing historical performance in which small caps have outgained much larger securities on average, the fund is well convinced of its strategy. Current cap allocation stands at 42.6% micro cap, 52.5% small cap, and 4.8% mid cap, although the fund maintains only three mid cap positions. In order to mitigate risk commonly associated with a small cap investment strategy, the fund is fully diversified across 156 different positions, while still maintaining the ability to place sector bets as appropriate.

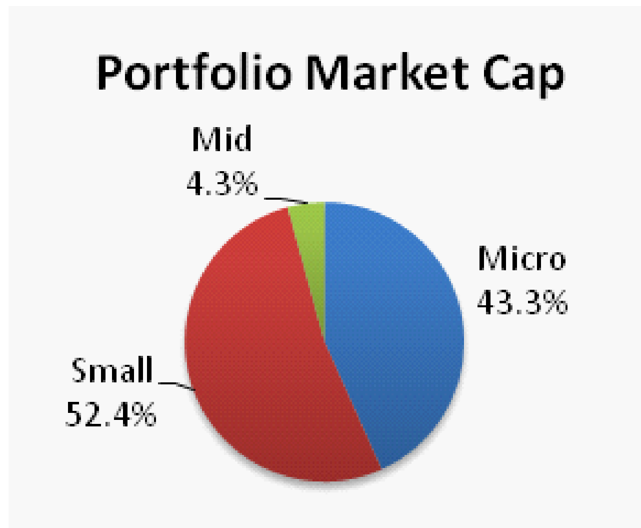
With an average weighted and median market cap of $586 million and $132 million, respectively, the fund's bias becomes clear. While the fund was a net seller of equities during Q3 2009 by just over $10 million, fund PMs increased allotments within the Healthcare and Consumer Goods spaces along with a mild uptick in Utilities. Conversely, the fund rotated out of Technology, Basic Materials, and Financials throughout the same quarter. Notably, the fund initiated a large position in Gammon Gold (+$21.3M) in Q3 as gold prices continued their rapid ascent during the period. Such a move was necessary to maintain exposure to the precious metal after the firm's other gold holding, IAMGOLD, rose above $6 billion in market cap and had to be liquidated (-$20.2M) due to its size.

How to Approach:
Small/micro cap companies less than $1.5 billion in market cap are obviously the most natural fit for the Heartland Value Fund. Any company much larger than this size must make a strong case for its growth prospects and earnings potential over the next several periods in order to be even considered for inclusion. Similarly, if your company falls within this market cap range, you must be able to clearly demonstrate that your stock is undervalued relative to the company's intrinsic value. Often, this takes the form of low price/earnings or price/book valuations. Additionally, the Heartland Value Fund has recently taken a particular liking to the Healthcare sector, increasing its allocation to the space by $4.6M in Q3, bringing the sector to 26.8% of total equity assets. Clearly, opportunity lies within this space for the appropriate companies, specifically the Medical Equipment sub-industry, which accounts for 11.4% ($130.6M) of the total portfolio.

How not to Approach:
Small cap companies within the Utilities space would benefit most from spending their time and resources at firms other than Heartland. The Value Fund has only two Utility holdings, and, despite increasing one of these positions slightly, the current allocation stands at just 2.3% of the total portfolio. Such an increase is not to be considered a broad industry play. Furthermore, because fund PMs employ a disciplined bottom-up approach to stock picking, companies in trendy, of-the-moment industries are unlikely to benefit from investor outreach. On the other hand, it is far more helpful to demonstrate strong underlying company fundamentals and superior management.

Portfolio Fundamentals:
- TTM Price/Earnings: 26.7
- Avg. Revenue Growth: 13.6%
- Dividend Yield: 0.5%
- Price/Book: 7.3

Average Equity Holding Period: 2.5 years



Metro Area Targeting Focus - Toronto, Ontario (Canada)

Money Center Statistics

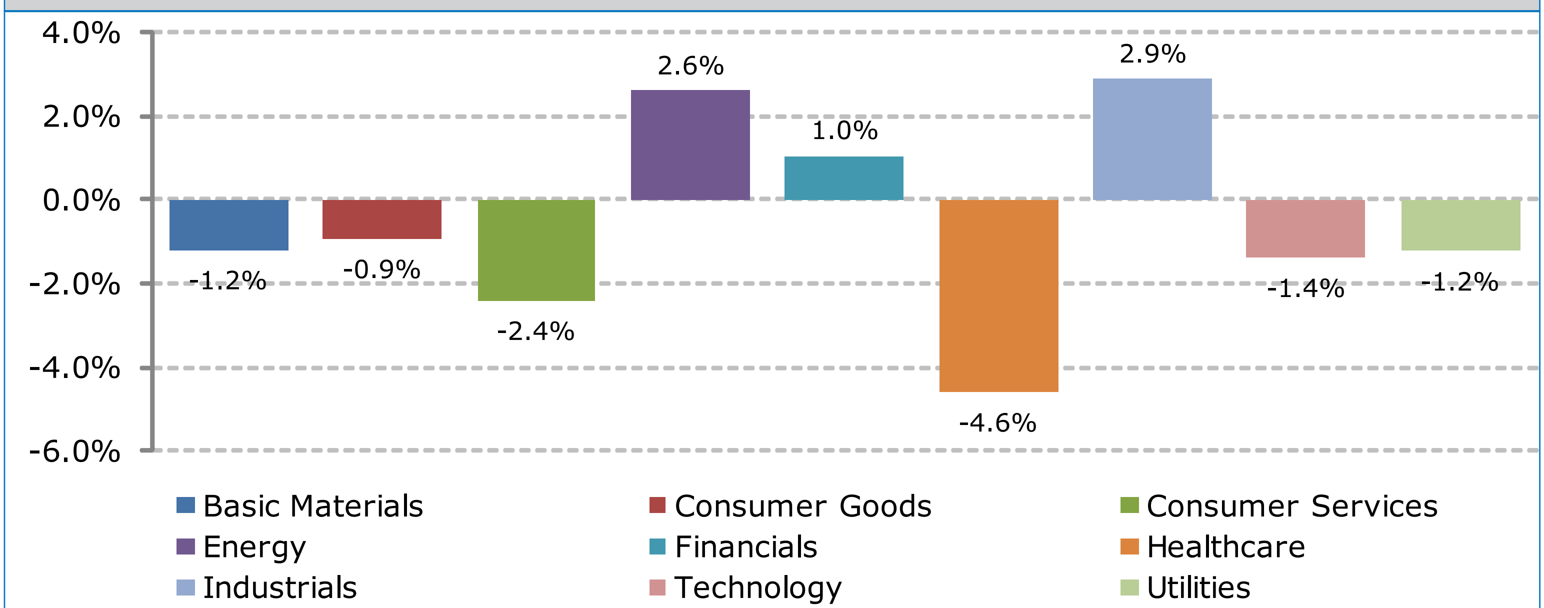
Reported Equity Assets ($B):	$433.1
QoQ Value Change:	22.0%
Number of Institutions:	85
World Rank:	8/155
Top Sector Weighting:	Financials
Q2 Financials Weighting:	33.2%
Top Region Weighting:	North America
Q2 North America Weighting:	80.5%
Total Net Buying ($B):	$27.2
Total Net Selling ($B):	-$27.2
Total Net Activity ($B):	$0.1

Summary Notes

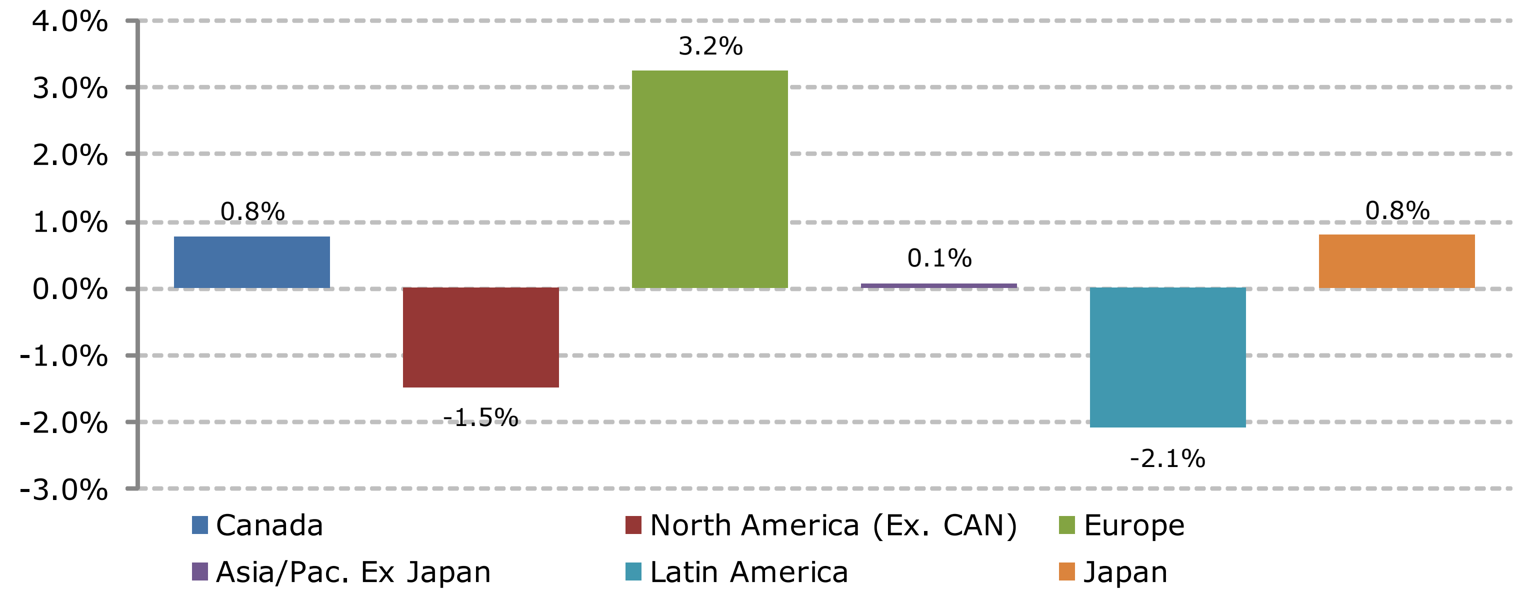
Eighth-ranked globally by total equity assets, Toronto has long been viewed as a relatively conservative, value-oriented money center. The defensive bias may have led to net selling over a majority of sectors during the ongoing third quarter rally, with particular distaste registered in Healthcare, Consumer Goods, and Consumer Services. Historically running underweight the Healthcare sector, Torontonians shed close to $800M from the space during the period, possibly on concern over US legislation changes and their uncertain impact on Healthcare issuers. Given weak labor conditions throughout the world and the ongoing concern over consumer spending, Canadian selling across the Consumer space was not surprising as a common risk-averse play.

Over the third quarter, Toronto investors appeared to stick with what they know best: Energy, Financials, and value investing. With a vast majority of the Canadian economy tied to Energy and Financial Services, it's no surprise that Toronto investors historically run overweight these sectors (16.8% and 33.2%, respectively). In the third quarter, Energy and Financials also booked the strongest net buying, each up approximately $1.2B. Investors were also bullish on early cycle value plays in the Industrial space, where net buying activity totaled $900M. Geographically, Toronto's value bias steered interest away from fast-rising North American valuations over the third quarter. Instead, bargains were sought in Europe and even Japan, where net buying added $1.2B and $56M, respectively. During the second quarter, Canadian instituions were active in emerging Asia/Pacific Ex. Japan and Latin American equities, but interest in these areas appeared to subside over the recent period, as valuations became less compelling.

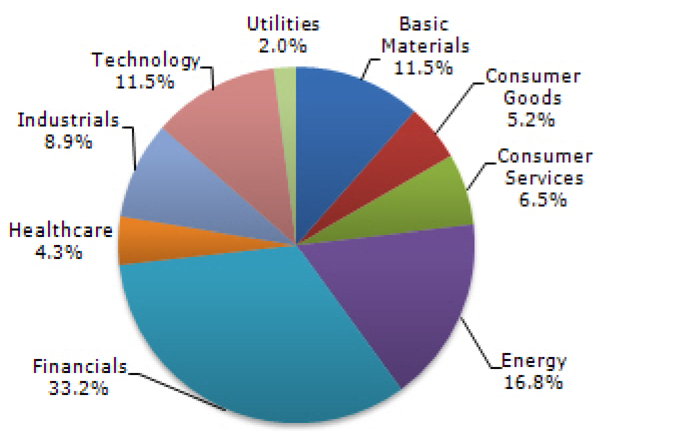
Q3 Sector New Activity (% Change)



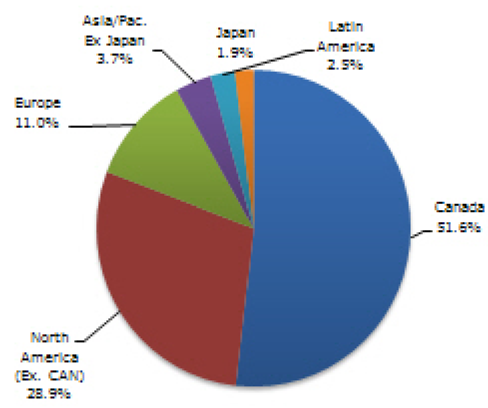
Q3 Regional New Activity (% Change)



Q3 Sector Allocation



Q3 Region Allocation



	Investor	Style	Turnover	City	Q2 EQA ($M)	Net Activity ($M)	Q1 EQA ($M)	QoQ % Δ EOA
BUYERS	1 RBC Asset Management, Inc.	Growth	Medium	Toronto	46,938.3	1,394.5	38,022.1	23.5%
	2 Mackenzie Financial Corporation	Growth	Medium	Toronto	27,177.6	816.8	22,026.2	23.4%
	3 McLean Budden, LTD	Growth	Low	Toronto	15,163.8	753.9	12,128.0	25.0%
	4 Ontario Teachers Pension Plan Board	Value	Medium	North York	16,512.9	581.1	12,674.6	30.3%
	5 Scotia Cassels Investment Counsel, LTD	Growth	Medium	Toronto	8,319.4	530.8	6,473.9	28.5%
	6 Goodman & Company Investment Counsel	Value	Medium	Toronto	14,544.3	321.0	11,502.3	26.4%
	7 AGF Funds, Inc.	Value	Low	Toronto	8,139.7	284.7	6,455.9	26.1%
	8 CI Investments, Inc.	Value	Medium	Toronto	14,057.5	222.4	11,549.0	21.7%
	9 Scheer Rowlett & Associates Investment Management,	Deep Value	Medium	Toronto	3,730.1	169.7	2,692.7	38.5%
	10 OMERS Public Investment Management	Growth	Medium	Toronto	4,619.4	133.8	3,573.9	29.3%
	Sub Total:				**159,203.0**	**5,208.8**	**127,098.6**	

	Investor	Style	Turnover	City	Q2 EQA ($M)	Net Activity ($M)	Q1 EQA ($M)	QoQ % Δ EOA
SELLERS	1 RBC Dominion Securities, Inc.	Value	High	Toronto	13,285.4	-1,689.2	12,875.9	3.2%
	2 Invesco Trimark Investments	Deep Value	Medium	Toronto	18,415.9	-903.3	15,849.3	16.2%
	3 Jones Heward Investment Counsel, Inc.	Growth	Low	Toronto	11,594.5	-858.9	10,164.3	14.1%
	4 TD Asset Management, Inc.	Growth	Low	Toronto	44,929.4	-545.4	37,496.1	19.8%
	5 Franklin Templeton Investments Corp. (Canada)	Value	Medium	Toronto	10,140.4	-208.6	8,242.5	23.0%
	6 Sprucegrove Investment Management, LTD	Value	Low	Toronto	5,549.9	-186.5	4,801.2	15.6%
	7 Hamblin Watsa Investment Counsel, LTD	GARP	Medium	Toronto	3,931.4	-178.2	3,558.8	10.5%
	8 Fidelity Investments Canada, LTD	Growth	Medium	Toronto	7,253.6	-149.3	5,898.5	23.0%
	9 Foyston, Gordon & Payne, Inc.	Value	Medium	Toronto	1,107.9	-137.4	1,040.7	6.5%
	10 CPP Investment Board	Index	Medium	Toronto	33,007.9	-90.3	27,687.2	19.2%
	Sub Total:				**149,216.3**	**-4,947.1**	**127,614.5**	