

Heartland Value Plus Fund 4Q24 Portfolio Manager Commentary

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Executive Summary

- While the market has gravitated toward stocks likely to benefit from deregulation, we've been focusing on a different group: companies helping themselves through operational and strategic improvements.
- If history is a guide, there's a decent chance that small cap stocks could post a third straight year of positive returns, especially as market breadth appears to be broadening.
- The post-election rally initially boosted low-quality small stocks, but we believe the market could eventually broaden to include higher-quality names.

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Fourth Quarter Market Discussion

In the aftermath of the election, investors began gravitating toward parts of the market deemed to be the winners of President-elect Trump's agenda, which included tech stocks and cryptocurrencies that stand to benefit from less regulation. We've chosen to keep our focus on a different group of companies. In the fourth quarter, we continued our year-long search for 'green shoots' — companies across industries showing strong signs of earnings growth improvement that stand to benefit once demand dynamics begin to improve.

This remains a relatively small universe, but the net seems to be widening. Should fiscal stimulus in the form of deregulation and tax cuts materialize, demand dynamics could positively impact these green shoots along with the sectors of the market that have been rallying since the election.

It should be noted that against this backdrop of market exuberance, many companies have been quietly working behind the scenes to improve their operational efficiencies, strategic positioning, and competitive standing and are now beginning to enjoy the fruits of those efforts. Companies that are employing such 'self-help' strategies are precisely the types of companies we covet — so long as they also adhere to our 10 Principles of Value Investing™, which focus on attractively priced, well-managed companies with high-quality balance sheets and positive earnings dynamics.

In the post-election rally, the market has broadened out beyond the mega caps that have dominated in recent years. However, it's been the low-quality segment of the small-cap market that has initially benefited. We think small caps can continue to rebound and the market could broaden further to include higher-quality companies.

Part of that is rooted in history. Despite all the recent focus on the Magnificent 7 Tech Giants, small stocks have actually posted two consecutive strong years. In 2024, the Russell 2000® Index returned 11.54% after posting 16.93% gains the prior year. There have been 10 instances where the Russell 2000® has posted two consecutive years of positive gains, and in six of those cases, small caps rose in the third year, averaging 11.3% returns (see the chart below).



Source: Furey Research Partners and FactSet, annual data as of 12/31/1979 through YTD as of 12/6/2024. This chart shows U.S. small-cap index maintained by FTSE Russell, a subsidiary of the London Stock Exchange Group. 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. **Past performance does not guarantee future results.**

There are no guarantees that 2025 will be positive, but we're at least confident in the potential for the subset of small caps we're focusing on: Well-managed small companies trading at attractive prices with strong balances sheets and self-help strategies to position themselves to thrive once demand begins to pick up within the economy.

Attribution Analysis & Portfolio Activity

The Value Plus Fund was down 1.79% in the fourth quarter, compared with the 1.06% loss for the Russell 2000® Value Index. While stock selection was modestly negative across the entire portfolio, the selection effect was particularly strong in the Financials sector, which produced five of the biggest contributors to the Strategy's performance during the quarter.

Our Strategy's exposure to the Financials sector is generally in-line with that of the benchmark. But we have focused on a few key attributes. For instance, we have been concentrating on banks with relatively cheap valuations operating in geographical areas that are showing strong signs of growth. We have also favored companies where insider buying activity and dividend growth have been strong.

Overall, we initiated positions in a few new names during the quarter while adding to our exposure in some existing holdings. In some cases, we did so while replacing or reducing exposure to an industry peer in an effort to upgrade the portfolio. Here are some examples of our recent moves, which illustrate our overall approach:

Financials. FB Financial (FBK) was one our Strategy's best-performing holdings in the fourth quarter and 2024. Shares of the Nashville company, which provides commercial and consumer banking services in the Southeast through its subsidiary FirstBank, rose more than 29% for the full year on strong deposit and loan growth across its portfolio.

FBK, which operates in Tennessee, Kentucky, North Georgia, and Alabama, is a prime example of what we have been looking for lately in the Financials sector: attractively priced banks operating in attractive regions. In August, the company restructured its securities portfolio, which should boost interest income and net interest income going forward. Insiders continue to buy the stock, suggesting their confidence in the outlook for the company.

What gives us confidence is that despite the strong run, FBK is still trading at just 1.8X tangible book value, which is below its 10-year average. Based on earnings, the stock sports a modest 15X multiple despite its stable net income margin and growing dividend yield.

Technology. Semtech Corporation (SMTC), which manufactures optical components and technology solutions used in data centers and IoT (Internet of Things) systems, is a position we initiated in the third quarter and increased our exposure to in the fourth.

Semtech, one of our Strategy's best performers in the past quarter, is an example of a stock we've owned in the past and recently returned to as circumstances improved. We last held SMTC a few years ago, before it announced its acquisition of Sierra Wireless. The company levered up in late 2022 to make the purchase. Soon after the deal was completed, the stock sold off and the existing management team was replaced. The new management team is now seeking to divest some of Sierra Wireless' assets to de-lever and regain focus on Semtech's core business.

We've kept the company on our radar since the acquisition. Semtech's signal integrity business, the company's crown jewel franchise, is a backbone component of many data centers. With growing demand for data centers in the AI boom, we believe this could be a real opportunity for the company. New management has been clear they intend to divest non-core business lines to reduce leverage, which should unlock additional value. Yet the stock currently trades at a 20-25% discount to its peers based on EBITDA.

Outlook

The broadening of the market that we witnessed in the fourth quarter is certainly a hopeful sign. And we believe higher quality small stocks will eventually participate in the rally as smaller companies benefit from easing monetary policy and fiscal stimulus. However, we can't say for certain if that will come to pass — or when. That's why we've been focusing our attention on companies that are helping themselves through strategies that improve their financial strength and competitive standing. These 'green shoots' would certainly benefit from accelerating demand if policy prescriptions take hold, but they aren't dependent on it. As fundamentally driven investors, that's our job: staying true to our 10 Principles of Value Investing™ by finding attractively priced, well-managed businesses that can grow intrinsic value over time.

Thank you for your continued trust and confidence in us.

Fund Returns

12/31/2024

	Since Inception	20-Year	15-Year	10-Year	5-Year	3-Year	1-Year	YTD*	QTD*
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Value Plus Investor Class	9.26	6.87	7.64	5.50	6.29	-1.18	-0.31	-0.31	-1.79
Value Plus Institutional Class	9.40	7.09	7.91	5.74	6.56	-0.93	-0.02	-0.02	-1.68
Russell 2000® Value	9.30	7.01	9.46	7.14	7.29	1.94	8.05	8.05	-1.06

*Not annualized
Source: FactSet Research Systems Inc., Russell®, and Heartland Advisors, Inc.

The inception date for the Value Plus Fund is 10/26/1993 for the investor class and 5/1/2008 for the institutional class.

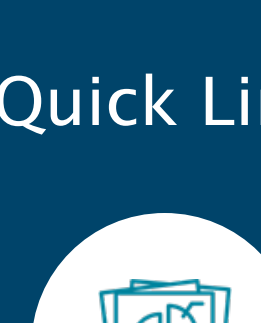
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I am an individual investor

In the prospectus dated 5/1/2024, the Gross Fund Operating Expenses for the investor and institutional class of the Value Plus Fund are 1.18% and 0.92%, respectively. The Advisor has voluntarily agreed to waive fees and/or reimburse expenses with respect to the institutional class, to the extent necessary to maintain the institutional class' Net Annual Operating Expenses' at a ratio not to exceed 0.99% of average daily net assets. This voluntary waiver/reimbursement may be discontinued at any time. Without such waivers and/or reimbursements, total returns may have been lower.

Past performance does not guarantee future results. Performance represents past performance; current returns may be lower or higher. Performance for institutional class shares prior to their initial offering is based on the performance of investor class shares. 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. 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. To obtain performance through the most recent month end, call 800-432-7856 or visit heartlandadvisors.com.

An investor should consider the Funds' investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information may be found in the Funds' prospectus. To obtain a prospectus, please call 800-432-7856 or visit heartlandadvisors.com. Please read the prospectus carefully before investing.

As of 12/31/2024, FB Financial Corporation (FBK) and Semtech Corporation (SMTC), represented 5.29% and 4.27% of the Value Plus Fund's net assets, respectively. Statements regarding securities are not recommendations to buy or sell.

The Value Plus Fund invests in small companies that are generally less liquid and more volatile than large companies. The Fund also invests in a smaller number of stocks (generally 40 to 70) than the average mutual fund. The performance of these holdings generally will increase the volatility of the Fund's returns.

Value investments are subject to the risk that their intrinsic value may not be recognized by the broad market. The Value Plus Fund seeks long-term capital appreciation and modest current income.

The Fund's performance information included in regulatory filings includes a reference index that represents an overall securities market (Regulatory Benchmark). In addition, the Fund's regulatory filings may also include an index that more closely aligns to the Fund's investment strategy (Strategy Benchmark(s)). The Fund's performance included in marketing and advertising materials and information other than regulatory filings is generally compared only to the Strategy Benchmark.

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Economic predictions are based on estimates and are subject to change. There is no guarantee that a particular investment strategy will be successful.

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Heartland Advisors defines market cap ranges by the following indices: micro-cap by the Russell Microcap®, small-cap by the Russell 2000®, mid-cap by the Russell Midcap®, large-cap by the Russell Top 200®.

Because of ongoing market volatility, performance may be subject to substantial short-term changes. Dividends are not guaranteed and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

In certain cases, dividends and earnings are reinvested. There is no assurance that dividend-paying stocks will mitigate volatility.

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