



Heartland Opportunistic Value Equity Strategy 1Q26 Portfolio Manager Commentary

3/31/2026

Executive Summary

- 2026 began with a healthy broadening market in January and February, a trend abruptly interrupted by geopolitical instability in the Middle East.
- Beneath the surface, the market continued to reward perceived artificial intelligence winners with extreme valuations while it punished perceived losers.
- Rather than speculating on the duration of the conflict or the direction of crude oil, we remain anchored in bottom-up fundamental analysis.

First Quarter Market Discussion

Through February, the market showed encouraging signs of broadening. The ISM New Orders Index moved into expansionary territory—a classic indicator of improving prospects for cyclical parts of the market and a rotation toward smaller companies. The early results were telling: For the first two months of the quarter, the Russell 2000® Index rose 6.2% significantly outperforming the S&P 500 gain of 0.7%.

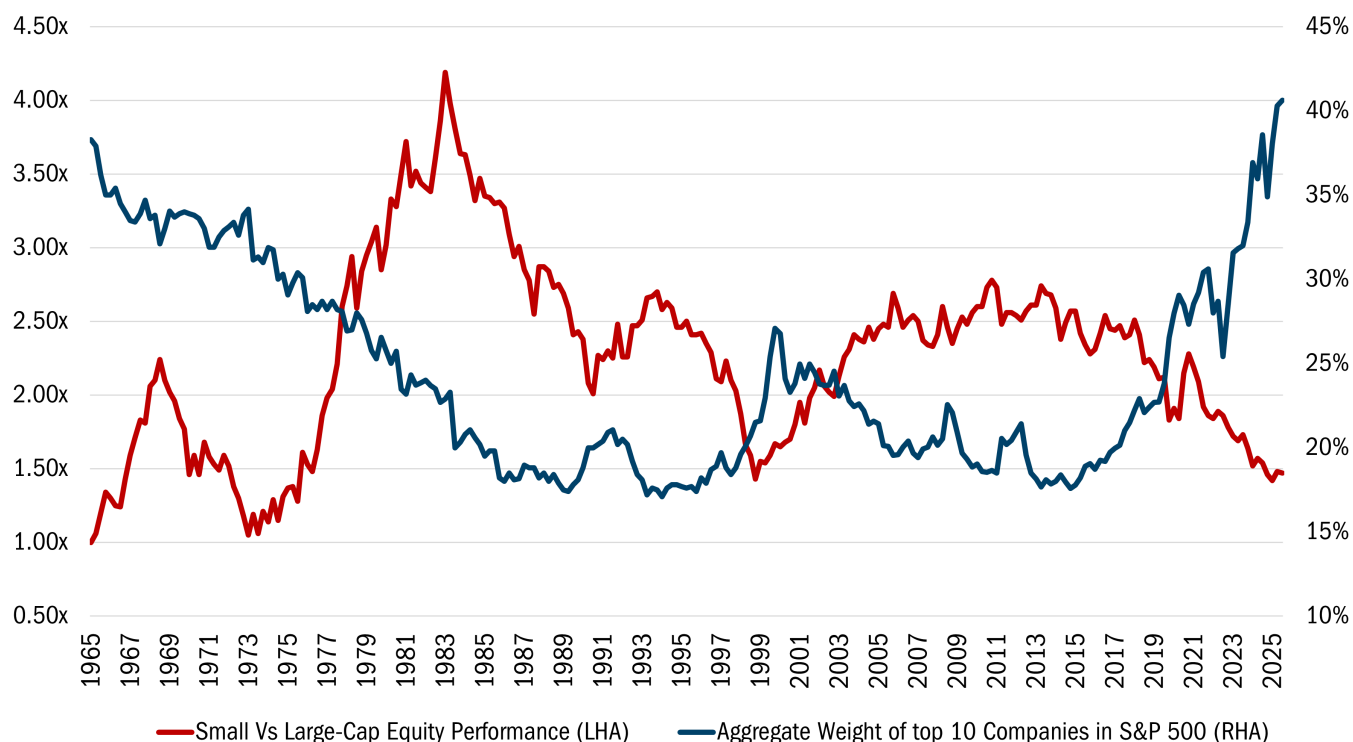
However, the Middle East conflict, which effectively curtailed the transport of up to 20% of the world's oil through the Strait of Hormuz, interrupted this rotation. As the market's focus shifted to risk of an energy price shock, equity indices retreated in March with both the S&P 500 and the Russell 2000® falling 5.0% in March.

Beneath the surface, excitement surrounding artificial intelligence (AI) continues to foster an environment of extreme valuation disparity between the perceived winners and losers of an AI infrastructure buildout and the associated implications of use cases proliferating across the global economy. As an example, **Caterpillar (CAT)**, the manufacturer of construction and mining equipment, traded to unprecedented levels this quarter. On Enterprise Value to Sales, CAT's valuation exceeded 6x versus peak valuation in prior cycles in the 2–4x range.

If you've driven past a data center development, you'll see CAT bulldozers and excavators scattered across the horizon but bull-case excitement is all about the company's ability to manufacture natural gas turbines, which are being used to plug a power gap the utility industry will take years to plug in light of datacenter's insatiable demand for power.

Caterpillar's fundamentals are impressive having come off a record revenue year in 2025. Today the stock trades at nearly 31x 2026 forecasted earnings and 18x 2029 earnings. For reference, the company's valuation has historically troughed (against cycle peak profits) below 12x suggesting that even if fundamentals remain uninterrupted and positive through 2029, the stock still has meaningful downside risk. Conversely, a lengthening list of perceived AI losers are approaching valuations not seen since the Great Financial Crisis in 2008–2009.

We previously noted the relative attractiveness of small and mid-cap companies, and the first quarter could prove to be a harbinger of a longer-lasting opportunity. Historical precedents – such as the Nifty Fifty in the 1960s and the Dot-Com Bubble in the 1990s – demonstrate that extreme market concentration can lead to subsequent large-cap underperformance. By the end of 2025, the ten largest companies accounted for 41% of the S&P 500, a level of concentration not witnessed by many investors alive today. Unlike passive investing, which prioritizes index weighting regardless of price paid to achieve said weight, we remain disciplined and opportunistic. As a result, we own three of the ten largest businesses including Amazon (initiated in 2025), Alphabet (2020), and Berkshire Hathaway (2017).



Source: FactSet Research Systems, Inc. and S&P Global. Quarterly data from 6/30/1965 to 12/31/2025. This chart represents the Market Concentration vs. Small-Cap Performance (1965–2025). The red line represents small-cap performance relative to large-caps. The blue line shows the percentage weight of the top ten biggest stocks in the S&P 500. All indices are unmanaged. It is not possible to invest in an index. **Past performance does not guarantee future results.**

Will the market continue to narrow into the obvious AI winners of today or will a broadening toward undervalued businesses resume? That’s difficult to say, just as it’s impossible to know when or if oil prices will revert to their pre-conflict levels. Rather than trying to predict the unpredictable, we focus on company-specific fundamentals while paying close attention to what’s within our control – most importantly – what we pay for a business and whether our decisions create conditions for a margin of safety.

Attribution Analysis

During the quarter, our Strategy returned 3.66%, outperforming the Russell 3000® Value Index, which rose 2.23%. Stock selection was positive across most sectors, led by Financials, Information Technology, and Health Care. Information Technology and Health Care, in fact, represented five out of the top ten contributors to our performance in the quarter. Within Financials, our selection effect was positive across all industries aided by our credit exposure underweight in a backdrop where credit spreads have hit multi-decade lows. We don’t believe investors are getting paid appropriately for taking credit risk today.

Portfolio Activity

One of our outperforming holdings was a position we exited in the quarter after the stock hit our assessment of intrinsic value.

This company manufactures industrial heating products, including heat tracing circuits, electric heaters, and boilers. We first purchased shares in early 2024 after the company reduced its guidance due to lower capital spending by its Canadian energy customers. As a result, the company's shares were punished falling almost 25% in a matter of days. While oil and gas capital spending is deeply cyclical, heat tracing— their core business—is extraordinarily profitable owing to an attractive industry structure. Management utilized strong free cash flow to acquire niche industrial heating businesses that diversified the company's end-market exposure.

After trading sideways for over a year, the stock more than doubled between last October and February, as investors anticipated a takeout offer resulting in valuations spiking from less than 9x Enterprise Value to EBITDA to around 15x.

This holding is an example of being opportunistic with small-cap ideas. Our small-cap research team had deep knowledge of the business, and we were able to act swiftly when an opportunity presented itself resulting in an attractive return for the Strategy.

During the quarter, we added a new small-cap holding in **Murphy USA (MUSA)**, a large-scale, low-cost operator of gas stations and convenience stores throughout the country.

Until recently, the low absolute level and volatility of fuel prices created a challenging backdrop for "everyday low price" fuel retailers like Murphy. But shortly after we initiated the position, the stock jumped as the return of higher gas prices, driven by the conflict in Iran, allowed MUSA to flex its low-cost advantage, offering everyday low prices to consumers seeking the best value. Ultimately, how low-cost leaders respond in a trough speaks to their resilience and ability to emerge as winners on the other side when the cycle normalizes. We believe Murphy has done just that, and management seems to know it, as they have been buying back shares every step of the way.

We can't predict exactly how this cycle will unfold. What we do know, though, is that MUSA's long-term margin opportunity is attractive, especially when more than 60% of its industry peers are independents who can't compete against an inflationary backdrop. The stock—which traded at a 10–30% discount to the S&P 1500 Food and Staples group during the prior cycle—was recently at an all-time discount to peers of 45%. The company's structural share gains and attractive valuation gave us confidence to purchase shares despite no certainty that fuel margins would improve. Thus far, our timing has proven lucky, but this situation serves as a reminder that buying an attractive business at an attractive valuation is more important than trying to predict the unpredictable, in this case, the price of fuel.

One of the biggest detractors to our performance in the first quarter was **Elevance Health (ELV)**, a large, diversified managed care insurer across commercial, individual and government lines with integrated healthcare services as well. Elevance operates under the Blue Cross Blue Shield brand in several states.

The entire health insurance industry has been through a brutal period marked by a combination of elevated healthcare utilization and medical cost inflation, along with policy-related disruptions to its enrollment mix in Medicaid and ACA exchanges. The result has been significant margin and earnings headwinds for all industry players, but with smaller competitors in particular suffering significant financial pressures. Elevance, one of the largest health insurers in the nation, is likely to emerge from this period with more market share and embedded earnings power.

In the meantime, management is buying back stock and can navigate this period from a position of strength. Yet based on estimated earnings over the next 12 months, the stock is trading at a 30% discount to the Russell 3000® Value Index, even though ELV has traded on par with the benchmark in prior cycles. Last year, we harvested losses in a smaller industry player to upgrade into Elevance given the company's stronger balance sheet and advantaged scale.

Outlook

At Heartland, our 10 Principles of Value Investing™ serve as our guardrails. In a world obsessed with top-down macro headlines, we remain focused on the bottom-up reality of cash flows, balance sheets, and valuations. The fact is, we don't know what's going to happen to oil prices or investors' appetite for risk-taking. What we do know are the drivers of long-term returns, fundamentals and prices paid. Over time, both are extraordinarily important despite the market forgetting about the latter ingredient today. As active managers, our job is to strike a balanced approach that focuses on the fundamentals and considers a wide range of possible outcomes to prepare both for market shock as well as opportunities as they arise.

Thank you for the trust and confidence you place in us.

Portfolio Management Team



Troy McGlone

Vice President and Portfolio Manager



Colin McWey

Vice President and Portfolio Manager

Past performance does not guarantee future results.

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 flexible pursuit of value positions it as a core holding for investors.

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 value may not be recognized by the broad market.

Heartland Advisors, Inc. (the "Firm") claims compliance with the Global Investment Performance Standards (GIPS®). The Firm is a wholly owned subsidiary of Heartland Holdings, Inc., and is registered with the Securities and Exchange Commission. For a complete list and description of Heartland Advisors composites and/or a presentation that adheres to the GIPS® standards, [contact the Institutional Sales Team](#) at Heartland Advisors, Inc. at the address listed below.

As of 3/31/2026, Alphabet Inc (Class A) (GOOGL), Amazon.com Inc, (AMZN), Berkshire Hathaway, Inc. (Class B.) (BRK), Elevance Health (ELV) and Murphy USA (MUSA), represented 6.16%, 2.11%, 3.33%, 1.41% and 1.73% of the Opportunistic Value Equity Composite's net assets, respectively. Caterpillar (CAT) is unowned by the Opportunistic Value Equity Composite.

The future performance of any specific investment or strategy (including the investments discussed above) should not be assumed to be profitable or equal to past results. The performance of the holdings discussed above may have been the result of unique market circumstances that are no longer relevant. The holdings identified above do not represent all of the securities purchased, sold or recommended for the Advisor's clients.

Statements regarding securities are not recommendations to buy or sell.

Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Separately managed accounts and related investment advisory services are provided by Heartland Advisors, Inc., a federally registered investment advisor. ALPS Distributors, Inc., is not affiliated with Heartland Advisors, Inc.

The statements and opinions expressed in this article are those of the presenter(s). Any discussion of investments and investment strategies represents the presenters' views as of the date created and are subject to change without notice. The opinions expressed are for general information only and are not intended to provide specific advice or recommendations for any individual. The specific securities discussed, which are intended to illustrate the advisor's investment style, do not represent all of the securities purchased, sold, or recommended by the advisor for client accounts, and the reader should not assume that an investment in these securities was or would be profitable in the future. 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.

There is no guarantee that a particular investment strategy will be successful.

Sector and Industry classifications are sourced from GICS®. The Global Industry Classification Standard (GICS®) is the exclusive intellectual property of MSCI Inc. (MSCI) and S&P Global Market Intelligence ("S&P"). Neither MSCI, S&P, their affiliates, nor any of their third party providers ("GICS Parties") makes any representations or warranties, express or implied, with respect to GICS or the results to be obtained by the use thereof, and expressly disclaim all warranties, including warranties of accuracy, completeness, merchantability and fitness for a particular purpose. The GICS Parties shall not have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of such damages.

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.

CFA® is a registered trademark owned by the CFA Institute.

Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indices. Russell® is a trademark of the Frank Russell Investment Group.

Data sourced from FactSet: Copyright 2026 FactSet Research Systems Inc., FactSet Fundamentals. All rights reserved.

Artificial intelligence (AI) is intelligence perceiving, synthesizing, and inferring information—demonstrated by computers, as opposed to intelligence displayed by humans or by other animals. **Beta** is a measure of the sensitivity of a portfolio's rates of return against those of the market. A beta less than 1 indicates volatility less than that of the market. **Cyclical Stocks** cover Basic Materials, Capital Goods, Communications, Consumer Cyclical, Energy, Financial, Technology, and Transportation which tend to react to a variety of market conditions that can send them up or down and often relate to business cycles. **Free Cash Flow** is the amount of cash a company has after expenses, debt service, capital expenditures, and dividends. The higher the free cash flow, the stronger the company's balance sheet. **Intrinsic Value** is the actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business, in terms of both

tangible and intangible factors. This value may or may not be the same as the current market value. **Russell Investment Group** is the source and owner of the trademarks, service marks and copyrights related to the Russell Indices. Russell® is a trademark of the Russell Investment Group. **Russell 3000® Index** is a market capitalization weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire U.S. stock market and encompasses the 3,000 largest U.S.-traded stocks, in which the underlying companies are all incorporated in the U.S. All indices are unmanaged. It is not possible to invest directly in an index. **Russell 3000® Value Index** measures the performance of those Russell 3000® Index companies with lower price/book ratios and lower forecasted growth characteristics. Selection Effect of the Attribution Analysis is the portion of the portfolio excess return attributable to choosing different securities within groups from the benchmark. **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. **10 Principles of Value Investing™** consist of the following criteria for selecting securities: (1) catalyst for recognition; (2) low price in relation to earnings; (3) low price in relation to cash flow; (4) low price in relation to book value; (5) financial soundness; (6) positive earnings dynamics; (7) sound business strategy; (8) capable management and insider ownership; (9) value of company; and (10) positive technical analysis.