



# Heartland Opportunistic Value Equity Strategy 2Q25 Portfolio Manager Commentary

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## Executive Summary

- In the second quarter, investor sentiment shifted from fears of a tariff-induced slowdown to a more optimistic view that recession worries were overblown.
- Though broad equity gains suggest a renewed appetite for risk, pockets of the market appear to be pricing in greater economic disruptions ahead.
- As long-term value investors, we remain opportunistic, but the margin of safety seems to have moderated, requiring a healthy dose of caution guided by our 10 Principles of Value Investing™.

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## Second Quarter Market Discussion

Market sentiment has been volatile, with significant shifts each quarter, and the past three months were no exception. Investors who entered April consumed with the risks of a global trade war began discounting an entirely new set of assumptions by the end of June as the Trump administration agreed to temporarily reduce China tariffs from an embargo-like 125% to a base reciprocal rate of 10% for 90 days, and China followed in lowering headline trade barriers. The prevailing narrative now appears to be that worries over a tariff-induced downturn may have been overblown.

As recession fears eased, investors re-embraced risk in the second quarter, pushing the Russell 3000® Index up 10.99%. Still, there were pockets of the market pricing in worse outcomes than the headline index would suggest. For example, the Russell 2000® Index gained a more modest 8.50%, trailing the S&P 500's 10.94%. High-quality small companies underperformed both low-quality small caps and large-cap stocks, lagging the former by 233 basis points and the latter by

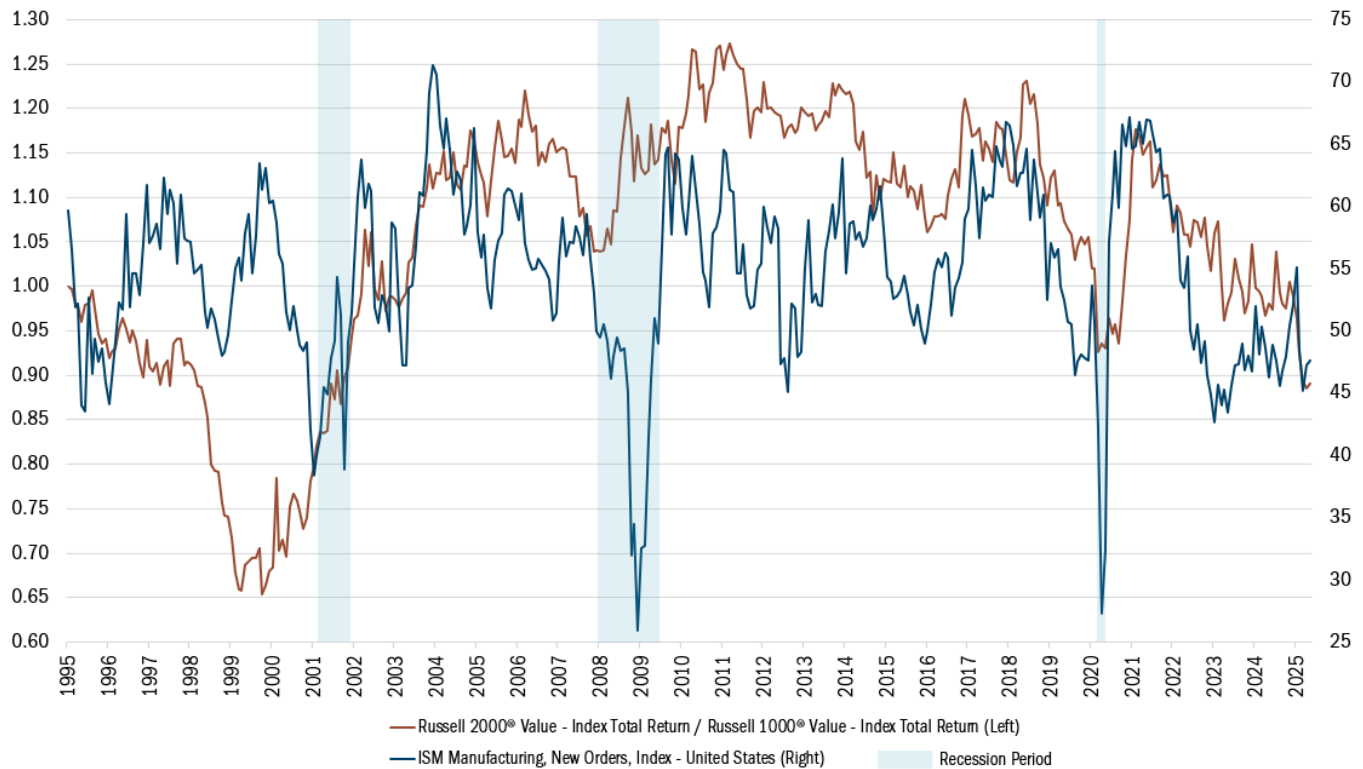
122 bps in the quarter. Small caps typically sharply outperform in a sustained equity market recovery, but year-to-date underperformance was sizeable at the end of both the first and second quarters.

As value investors, our job is to decipher price from value. The adage “you get what you pay for” often holds true in investing just as it does when shopping for clothes or a car. The cheapest item may not be the best value. Our work involves sifting through a multitude of statistically cheap securities to find a few gems. We understand that the market is frequently correct in its assessment that low-multiple securities are less expensive for a reason. In many instances, we find that these securities are significantly overvalued due to declining business value.

Today, we believe investors aren’t getting what they pay for. In fact, higher-quality businesses with higher profit margins and returns on capital are often cheaper than their lower-quality counterparts. Over the past 20 years, high-quality small caps have traded at a 5% premium to the S&P 500. Today, they’re sitting at a 10%-plus discount, based on forward Enterprise Value/EBIT. And while valuations for high-quality small stocks have historically been 15% cheaper than for low-quality small caps, that discount has grown to 30%. The opportunity set seems to be expanding for active, value-minded managers like us, particularly among early-cycle cyclicals and small caps, which are currently pricing in weaker future economic growth.

The performance of small-cap stocks presents an interesting case study on what the market is suggesting. Typically, their outperformance, as measured by the Russell 2000® Value Index versus large caps in the Russell 1000® Value Index, aligns with improving economic data, such as an increase in manufacturing activity as measured by the ISM Manufacturing New Orders Index (see the chart below). While manufacturing activity seems to be stabilizing, small caps have been sharply underperforming.

Russell 2000® Value - Index Total Return/ Russell 1000® Value - Index Total Return vs.  
ISM Manufacturing, New Orders, Index



Source: FactSet Research Systems Inc., 1/31/1995 to 5/30/2025. This chart represents the Russell 2000® Value Index Total Return/ Russell 1000® Value Index Total Return versus the ISM Manufacturing, New Orders, Index. Russell 1000® Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000® represents approximately 92% of the U.S. market. 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. ISM Manufacturing Index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys. All indices are unmanaged. It is not possible to invest directly in an index. **Past performance does not guarantee future results.**

Are investors sending a signal? It's hard to say, but fiscal policy uncertainties remain, and we do not believe the final level or ultimate impact of tariffs has been settled. While recent economic data has been solid, it's possible that figures through June reflect spending that was pulled forward by consumers and businesses anticipating price increases associated with tariffs.

Different segments of the market are sending mixed messages. In areas like transportation and housing, there continues to be a fair amount of consternation over policy uncertainties. Yet in other industries, like capital markets and commercial engineering & construction, the market is pricing in little to no risk of economic disruption from tariffs. There is one thing to be certain of: The margin of safety has diminished in many cases. As we seek to be opportunistic, we are mindful of this fact and are approaching this market with a healthy dose of caution, guided by our

10 Principles of Value Investing™, which directs us to attractively priced, financially sound, and well-managed businesses that can grow intrinsic value over time.

## Attribution Analysis

During the quarter, our Strategy gained 0.65%, trailing the Russell 3000® Value Index, which was up 3.84%. Stock selection was negative in 7 of the 11 sectors, led by Industrials and Financials.

Our underweight to electrical infrastructure, a group recently bid up as an indirect play on the proliferation of artificial intelligence, was a key reason for our underperformance in the Industrial sector. Within Financials, we were hurt by our lower weight to the largest banks, which rallied on economic and regulatory optimism. Overall, our underweight to large caps detracted 118 bps in the quarter and 239 bps year to date. At the same time, our stock selection was weakest among the largest stocks — companies with a market capitalization of \$32 billion or greater.

## Portfolio Activity

Though we are approaching this market opportunistically, we are willing to be patient and keep our powder dry until fundamentally attractive stocks that fit our 10 Principles of Value Investing™ from a bottom-up perspective are uncovered. During the quarter, we trimmed holdings where the risk-reward profile deteriorated or where we saw opportunities to harvest tax losses, letting our cash position rise modestly to help ensure we're positioned to take advantage of future market volatility.

**Technology.** During the quarter, we initiated a new position in **Applied Materials, Inc. (AMAT)**, the largest and most diversified supplier of capital equipment, services, and solutions for semiconductor manufacturing. The company is a major supplier of wafer fabrication equipment (WFE), controlling 21% market share, which was built over decades of organic and inorganic growth. It is the world's dominant player in deposition, a highly precise, mission-critical step in the fabrication process where a thin film imparts electrical characteristics to the wafer's surface at the atomic level.

We capitalized on the cyclical downturn in the semiconductor industry to purchase AMAT near our downside target. Our confidence in the company was further strengthened by insider buying, especially a \$7mm stock purchase by CEO Gary Dickerson in early April.

In our opinion, Applied Materials will enjoy several tailwinds, including increased demand for advanced packaging and complex manufacturing processes fueled by rising chip architecture complexity. That should boost WFE spending, positioning AMAT as a secular beneficiary.

These tailwinds should lead to a re-rating of the stock as a premier analog semiconductor manufacturer along with Texas Instruments and Analog Devices, which command a multiple well

above 25x earnings. At that multiple, AMAT shares could trade in the low \$300 range based on mid-cycle EPS, up from its current price of around \$170 a share.

**Materials.** One of our biggest contributors among our small-cap holdings this quarter was **Sensient Technologies Corporation (SXT)**, a leading manufacturer of colors and flavors for the food and beverage industry. The company reported strong Q1 results, driven by solid revenue growth, especially in its natural color franchise.

On their recent earnings call, management described demand for Sensient's natural colors as the largest opportunity in the company's history. This demand has been fueled by changing consumer preferences and the recent push by Health and Human Services Secretary Robert F. Kennedy to eliminate synthetic food dyes from the nation's food supply.

We first purchased shares of Sensient in Q4-23 when the company was trading for less than 12x EBITDA. The stock currently trades at more than 16x EBITDA, but with growth and margins accelerating due to demand for Sensient's natural colors, we believe that 20x EBITDA is an achievable multiple near-term. That said, the risk-reward profile is far less compelling today.

**Health Care.** Our Strategy's worst performer was **Becton, Dickinson and Company (BDX)**, the world's largest provider of healthcare consumable products such as needles, syringes and medication management systems.

Since the end of April, BDX shares have fallen nearly 20% after the company lowered its 2025 guidance to reflect the impact of the National Institute of Health funding cuts and an expected \$0.25 EPS hit from tariffs. Even if growth fails to accelerate from the low single-digit rate implied for this year, we consider the multiple compression overblown for a business that has little risk of facing an earnings cliff.

We think investors are underestimating the durability of BDX's mission-critical position in healthcare settings and its ability to adapt. The company has a strong track record of navigating fluid circumstances, being among the first in its industry to surpass its pre-COVID-19 margins following the global pandemic. We believe BDX can reaccelerate organic growth and drive further margin expansion, despite being priced for neither to occur.

The company has also reshaped its pipeline to target higher-growth markets that should align it with bellwether med-tech stocks that command premium multiples. At 12x earnings, there's nothing premium about BDX's current valuation. The stock currently trades at a 20% discount to Health Care sector peers and a 30% discount to the S&P 500 based on Enterprise Value/EBITDA, well below a thirty-year median premium of 5% and 10%, respectively.

## Outlook

While we continue to view this market opportunistically, we haven't rushed to redeploy capital, especially as valuations became less compelling following the second quarter rally. Given the

ongoing uncertainties surrounding tariffs, we anticipate continued volatility to create new opportunities. This environment should reward patient, value-minded investors who can look across sectors and market caps to find attractively priced, well-managed companies with the potential for intrinsic value growth.

Thank you for your continued trust and confidence.

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## Portfolio Management Team



Troy McGlone

Vice President and Portfolio Manager



Colin McWey

Vice President and Portfolio Manager

## Composite Returns\*

6/30/2025

[<> Scroll over to view complete data](#)

	Since Inception (%)	10- Year (%)	5-Year (%)	3-Year (%)	1-Year (%)	YTD (%)	QTD (%)
Opportunistic Value Equity Composite (Net of Advisory Fees)**	9.86	8.79	14.64	12.54	8.86	2.26	1.00
Opportunistic Value Equity Composite (Net of Bundled Fees)	7.86	6.94	12.99	11.00	7.37	1.55	0.65
Russell 3000® Value	7.69	9.04	13.87	12.48	13.30	5.55	3.84

Source: FactSet Research Systems Inc., Russell Investment Group, and Heartland Advisors, Inc.

\*Yearly and quarterly returns are not annualized. The Strategy's inception date is 9/30/1999.

\*\*Shown as supplemental information.

The US Dollar is the currency used to express performance. Returns are presented net of advisory fees and net of bundled fees and include the reinvestment of all income. 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 advisor fees return.

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**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.

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As of 6/30/2025 Applied Materials, Inc. (AMAT), Becton, Dickinson & Company (BDX), Sensient Technologies Corporation (SXT), and Texas Instruments Inc. (TXN) represented 0.88%, 3.35%, 1.93%, and 2.49% of the Opportunistic Value Equity Composite's net assets, respectively. Analog Devices Incorporated (ADI) is unowned by Heartland Advisors, Inc.

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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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Heartland's [investing glossary](#) provides definitions for several terms used on this page.

**Artificial intelligence (AI)** is intelligence—perceiving, synthesizing, and inferring information—demonstrated by computers, as opposed to intelligence displayed by humans or by other animals. **Book Value** is the sum of all of a company's assets, minus its liabilities. **Bottom-up** is an investment approach that de-emphasizes the significance of economic and market cycles. This approach focuses on the analysis of individual stocks and the investor focuses his or her attention on a specific company rather than on the industry in which that company operates or on the economy as a whole. **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. **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)** measures a company's financial performance. It is used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. **Earnings Before Interest and Tax (EBIT)** is an indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest to eliminate the effect of different capital structures and tax rates used by different companies. **Enterprise Value/Earnings Before Interest, Taxes, Depreciation, and Amortization (EV/EBITDA) Ratio** is a financial indicator used to determine the value of a company and is calculated by dividing the entire economic value of the company (enterprise value) by its earnings before interest, taxes, depreciation, and amortization (EBITDA). **Insider Buying** is the purchase of a company's stock by individual directors, executives or other employees. **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. **ISM Manufacturing Index** is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys. **Margin of Safety** is a principle of investing in which an investor only purchases securities when the market price is significantly below its intrinsic 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 1000® Index** measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000® represents approximately 92% of the U.S. market. **Russell 1000® Value Index** measures the performance of those Russell 1000® companies with lower price/book ratios and lower forecasted growth characteristics. All indices are unmanaged. It is not possible to invest directly in an index. **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. **Russell 2000® Value Index** measures the performance of those Russell 2000® companies with lower price/book ratios and lower forecasted growth characteristics. All indices are unmanaged. It is not possible to invest directly in an index. **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. All indices are unmanaged. It is not possible to invest directly in an index. **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. **Volatility** is a statistical measure of the dispersion of returns for a given security or market index which can either be measured by using the standard deviation or variance between returns from that same security or market index. Commonly, the higher the volatility, the riskier the security. **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.