

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF WISCONSIN

JOSEPH WHITE,

Plaintiff,

v.

HEARTLAND HIGH-YIELD
MUNICIPAL BOND FUND, et al.,

Defendants.

Case No. 00-C-1388

Hon. Joseph P. Stadtmueller
(Chief Judge)

**NOTICE OF PENDENCY AND PROPOSED PARTIAL SETTLEMENT
OF CLASS ACTION AND SETTLEMENT FAIRNESS HEARING THEREON**

TO: ALL PERSONS AND ENTITIES WHO PURCHASED OR OTHERWISE ACQUIRED SHARES OF THE HEARTLAND HIGH-YIELD MUNICIPAL BOND FUND AND/OR SHARES OF THE HEARTLAND SHORT DURATION HIGH-YIELD MUNICIPAL FUND (COLLECTIVELY, THE "HIGH-YIELD FUNDS") EITHER DIRECTLY OR BY DIVIDEND RE-INVESTMENT DURING THE PERIOD FROM AND INCLUDING JANUARY 2, 1997 THROUGH AND INCLUDING OCTOBER 16, 2000, (THE "CLASS PERIOD") AND SUSTAINED A LOSS THEREON.

THIS NOTICE RELATES TO THE PENDENCY AND PROPOSED PARTIAL SETTLEMENT OF ALL CLASS ACTIONS AS TO HEARTLAND GROUP, INC., HEARTLAND ADVISORS, INC., HEARTLAND HOLDINGS, INC., HEARTLAND HIGH-YIELD MUNICIPAL BOND FUND, HEARTLAND SHORT DURATION HIGH-YIELD MUNICIPAL FUND, WILLIAM J. NASGOVITZ, PATRICK J. RETZER, THOMAS J. CONLIN, GREG D. WINSTON, WILLARD H. DAVIDSON, HUGH F. DENISON, JON D. HAMMES, A. GARY SHILLING, ALLAN H. STEFL AND LINDA F. STEPHENSON.

CLAIMS DEADLINE: TO PARTICIPATE IN THE PARTIAL SETTLEMENT, YOU MUST SUBMIT A PROOF OF CLAIM AND RELEASE, ON THE FORM ACCOMPANYING THIS NOTICE, POSTMARKED NO LATER THAN OCTOBER 19, 2002 AND RECEIVED NO LATER THAN NOVEMBER 18, 2002.

EXCLUSION DEADLINE: REQUESTS FOR EXCLUSION MUST BE SUBMITTED POSTMARKED NO LATER THAN JUNE 6, 2002.

SECURITIES BROKERS AND OTHER NOMINEES: PLEASE SEE INSTRUCTIONS IN SECTION XI HEREIN.

The purpose of this Notice is to inform you of the proposed Partial Settlement of the Class Actions¹ and the hearing to be held by the United States District Court for the Eastern District of Wisconsin (the “Court” or the “Federal Court”) to consider the fairness, reasonableness and adequacy of the proposed Settlement with the Settling Defendants.² A Settlement Fund of \$14,000,000 (14 million dollars) in cash has been established on behalf of the Settling Defendants to settle this lawsuit. The proposed Partial Settlement, the terms of which are only summarized in this Notice, is embodied in a Stipulation of Partial Settlement dated March 15, 2002 (the “Stipulation”) which has been filed with the Court. A hearing (the “Settlement Fairness Hearing”) to consider whether the proposed Partial Settlement is fair, reasonable and adequate and should be approved, will be held by the Court on June 21, 2002 at 9:00 a.m.

Please note that the claims against Defendants PricewaterhouseCoopers LLP, Interactive Data Corporation (Muller Financial Corporation), any future defendants named in the Class Actions other than the Settling Defendants and any Person (other than the Settling Defendants) who agrees to settle a claim asserted by the Lead Plaintiffs and/or the Settlement Class (or any member thereof), which is based upon, arises out of or relates to the claims and/or the conduct, facts, or circumstances alleged in the Class Actions (the “Non-Settling Defendants”) are not part of this Partial Settlement and the action against the Non-Settling Defendants will continue.

A. Statement of Plaintiffs’ Recovery

Pursuant to the Settlement with the Settling Defendants described herein, a Settlement Fund totaling \$14,000,000 (14 million dollars) in cash plus interest has been established.

Lead Plaintiffs’ expert estimates that there were approximately 21,093,528 shares of the Heartland High-Yield Municipal Bond Fund (the “High-Yield Fund”) and approximately 41,552,770 shares of the Heartland Short Duration High-Yield Municipal Fund (the “Short Duration High-Yield Fund”) purchased or otherwise acquired, either directly or by dividend re-investment, during the Class Period which were damaged as a result of the alleged wrongdoing. Lead Plaintiffs’ expert estimates that the average recovery per damaged share of the High-Yield Fund under the Partial Settlement will be \$0.32 per share and the average recovery per damaged share of the Short Duration High-Yield Fund will be \$0.17 per share, before the deduction for attorneys’ fees and expenses, as approved by the Court. Depending upon (1) the number of claims filed and the amounts of those claims and (2) when and at what price a Settlement Class Member purchased and/or sold shares of the High-Yield Funds, an individual Settlement Class Member may receive more or less than these average recoveries per damaged share.

A Settlement Class Member’s distribution from the Settlement Fund will be governed by the Plan of Allocation, set forth in Section VI below as approved by the Court. There will be no deduction made from the share of any Settlement Class Member in the settlement proceeds based upon any distributions which a Settlement Class Member receives or has received from the Receiver for the High-Yield Funds through the SEC Receiver’s Action.³ A detailed explanation of how each Settlement Class Member’s claim will be calculated is set forth in Section VI below.

¹ The terms that are capitalized herein have the meaning ascribed to those terms in the Stipulation, unless otherwise defined herein.

² “Settling Defendants” shall mean Heartland Group, Inc., Heartland Advisors, Inc., Heartland Holdings, Inc., Heartland High-Yield Municipal Bond Fund, Heartland Short Duration High-Yield Municipal Fund, as well as all of their or its present and former directors, officers, employees, partners, principals, managers, staff, agents, independent contractors, underwriters, issuers, insurers, co-insurers, reinsurers, controlling shareholders, attorneys, parent companies, subsidiaries, affiliates, joint venturers, divisions, predecessors and successors; and Thomas J. Conlin, Hugh F. Denison, Willard H. Davidson, Jon D. Hammes, William J. Nasgovitz, Patrick J. Retzer, A. Gary Shilling, Allan H. Stefl, Linda F. Stephenson and Greg D. Winston, and, respectively, their spouses and other members of their immediate families, their heirs, estates, executors and attorneys. Excluded from the definition of Settling Defendants are all Non-Settling Defendants.

³ “SEC Receiver’s Action” shall mean the Civil Action filed in the Federal District Court in Northern District of Illinois (Case No. 01-C-1984) by the Securities and Exchange Commission in which a Receiver was appointed for the assets of the High-Yield Funds and the Heartland Taxable High-Yield Fund.

B. Statement of Potential Outcome

The Settling Defendants deny any wrongful conduct. Furthermore, Lead Plaintiffs and the Settling Defendants substantially disagree as to the amount of damages, if any, attributable to the Settling Defendants’ alleged wrongful conduct. Lead Plaintiffs estimate the damages caused to investors in the High-Yield Funds total Eighty Seven Million Dollars (\$87,000,000) whereas the Settling Defendants believe that they are liable for no damages. Moreover, the Settling Defendants believe that, even if the allegations against them contained in the complaint were found to be true, which they deny, the total amount of damages suffered by the Class Plaintiffs for which the Settling Defendants could be held liable would not be more than Twenty-Nine Million Dollars (\$29,000,000).

C. Statement of Attorneys’ Fees and Costs Sought

Lead Counsel intends to apply for an award of attorneys’ fees in an amount not to exceed twenty-five (25) percent of the Settlement Fund, or \$0.085 per share of the High-Yield Fund and \$0.04 per share of the Short Duration High-Yield Fund, as well as reimbursement for their expenses incurred in the prosecution of this litigation in an amount not to exceed \$350,000 or approximately \$0.0083 per share of the High-Yield Fund and \$0.0042 per share of the Short Duration High-Yield Fund. See Section IX.

D. Reasons for Settlement

The parties to this Partial Settlement believe that it is fair, reasonable, and adequate to the Class Members. The parties have reached this conclusion after investigating and considering, among other things, the strengths and weaknesses of Plaintiffs’ claims against the Settling Defendants, the uncertainties inherent in this complex litigation, and the substantial benefit provided by the Partial Settlement to the Class Members. See Section II.

E. Identification of Lead Counsel

Any questions regarding the Partial Settlement should be directed to the following Counsel:

BERMAN DEVALERIO PEASE TABACCO
BURT & PUCILLO
Northbridge Center, Suite 1701
515 North Flagler Drive
West Palm Beach, FL 33401
(561) 835-9400

Attention: C. Oliver Burt, III, Esq.
Lauren S. Dadario, Esq.

Lead Counsel for the Class Plaintiffs

LASKY & RIFKIND, LTD.
11 S. LaSalle Street, Suite 1600
Chicago, IL 60603
(312) 634-0057

Attention: Leigh R. Lasky, Esq.

KEVIN M. FORDE, LTD.
111 W. Washington Street
Chicago, IL 60602
(312) 641-1441

Attention: Kevin M. Forde, Esq.
Kevin R. Malloy, Esq.

Co-Counsel

PLEASE READ THIS NOTICE CAREFULLY AND IN ITS ENTIRETY. YOUR RIGHTS WILL BE AFFECTED BY PROCEEDINGS IN THIS LITIGATION. PLEASE NOTE THAT IF YOU ARE A SETTLEMENT CLASS MEMBER, YOU MAY BE ENTITLED TO SHARE IN THE PROCEEDS OF THE PARTIAL SETTLEMENT DESCRIBED IN THIS NOTICE. IF YOU WISH TO PARTICIPATE IN THE PARTIAL SETTLEMENT, YOU MUST SUBMIT A VALID PROOF OF CLAIM AND RELEASE POSTMARKED NO LATER THAN OCTOBER 19, 2002 AND RECEIVED NO LATER THAN NOVEMBER 18, 2002, IN THE MANNER SET FORTH BELOW IN SECTION VI.

I. DESCRIPTION OF THE LITIGATION

A. History of the Litigation

Beginning on October 27, 2000, twenty-one separate actions were filed in the United States District Court for the Eastern District of Wisconsin on behalf of investors who purchased shares of the Heartland High-Yield Municipal Bond Fund and/or the Heartland Short Duration High-Yield Municipal Fund. Each of the Complaints sought to recover damages suffered by purchasers of shares in the High-Yield Funds. The twenty-one actions were consolidated by the Federal Court on January 23, 2001, March 27, 2001 and July 26, 2001 and by operation of the Federal Court's Scheduling Order entered on October 2, 2001 (the "Scheduling Order"). On March 27, 2001, the Federal Court appointed Walter T. Kirkbride, Michael J. Evans and Richard J. Gainey and Fionnuala Ann Gainey as Lead Plaintiffs and approved Lead Plaintiffs' choice of Burt & Pucillo, now Berman DeValerio Pease Tabacco Burt & Pucillo, as Lead Counsel in the Class Actions. Pursuant to the Scheduling Order, on or about October 30, 2001, Lead Plaintiffs served and filed the Consolidated Amended Class Action Complaint (the "Complaint") applicable to all the consolidated actions. The Complaint alleges, among other things, that a class of purchasers of shares in the High-Yield Funds who purchased such shares, either directly or by dividend re-investment, were injured by the Defendants' violations of Section 11, 12(a)(2) and 15 of the Securities Act of 1933 and Sections 22(e), 34(b) and 47(b) of the Investment Company Act of 1940 in that the Defendants made false and misleading statements in Registration Statements and other materials concerning the High-Yield Funds and violated the Investment Company Act of 1940, among other things, by failing to price the High-Yield Funds' assets on each day that the High-Yield Funds' shares were sold or redeemed. The Lead Plaintiffs represent a Class of investors who purchased or otherwise acquired shares in the High-Yield Funds, either directly or by dividend re-investment, during the Class Period.

This Notice relates to and describes a proposed Partial Settlement of those actions with respect to the Class' claims against some but not all of the named Defendants in the actions. If approved by the Federal Court, the proposed Partial Settlement would resolve the Class' claims against all Settling Defendants named in the class actions. The claims against the Non-Settling Defendants are not part of this proposed Partial Settlement and the actions against the Non-Settling Defendants will continue.

Lead Plaintiffs, through their Lead Counsel, including co-counsel Lasky & Rifkind, Ltd. and Kevin M. Forde, Ltd. have made a substantial investigation into the facts and circumstances relevant to the claims alleged in the Complaint. In connection with the investigation, in addition to studying the public record, they have conducted discovery, including inspecting thousands of pages of documents and interviewing or deposing party witnesses. In addition, Lead Plaintiffs have extensively consulted with damages experts with regard to the claims asserted in the Complaint. Lead Plaintiffs have also reviewed financial statements provided by Heartland Advisors, Inc., Heartland Holdings, Inc. and William J. Nasgovitz. In addition, the Partial Settlement is the result of an intensive, two-day mediation held on November 12 and 13, 2001 under the aegis of a professional mediator, Hon. Edward A. Infante. Judge Infante is a recently-retired United States Magistrate Judge of the United States District Court, Northern District of California, who conducted more than two thousand settlement conferences during his twenty-five years as a Magistrate Judge. The parties to the Stipulation, by their counsel, have conducted extensive discussions and arm's-length negotiations concerning the terms and conditions of the Partial Settlement. The Lead Plaintiffs, by their counsel, believe that the proposed Partial Settlement is in all respects fair, reasonable and adequate.

B. The Settling Defendants' Denial of All Allegations

The Settling Defendants deny each and every allegation of the Complaint and do not admit any fault, wrongdoing or liability.

THE FEDERAL COURT, BY SENDING THIS NOTICE OR OTHERWISE, HAS NOT EXPRESSED ANY OPINION AS TO THE MERITS OF ANY OF PLAINTIFFS' CLAIMS OR ALLEGATIONS, NOR AS TO ANY OF THE SETTLING DEFENDANTS' DENIALS OR DEFENSES. THIS NOTICE SHALL NOT BE CONSTRUED AS EXPRESSING ANY SUCH OPINION, BUT IS PROVIDED ONLY SO THAT YOU MAY DECIDE WHAT STEPS, IF ANY, TO TAKE IN RELATION TO THE PROPOSED PARTIAL SETTLEMENT.

C. Class Action Determination

For purposes of the proposed Partial Settlement only, the following Settlement Class has been conditionally certified by the Federal Court:

All persons and entities who purchased or otherwise acquired shares of the Heartland High-Yield Municipal Bond Fund and/or the Heartland Short Duration High-Yield Municipal Fund either directly or by dividend re-investment during the period from and including January 2, 1997 through and including October 16, 2000 and sustained a loss thereon. Excluded from the Settlement Class are the Defendants, and any affiliate of these persons or entities, any of their or its present or former officers, directors, partners, principals or employees, the members of the immediate family of any such person, and the legal representatives, heirs, successors-in-interest or assigns of any such excluded persons or entities. Also excluded from the Settlement Class are any persons who exclude themselves by filing valid and timely requests for exclusion from the Settlement Class in accordance with the requirements set forth in the Notice.

Also for purposes of the proposed Partial Settlement only, the Lead Plaintiffs have been conditionally certified as Class Representatives.

II. REASONS FOR THE SETTLEMENT

Lead Counsel entered into the Partial Settlement after conducting a substantial investigation into the facts and circumstances relevant to the claims alleged in the Complaint. The investigation included, in addition to studying the public record, inspecting thousands of pages of documents and interviewing various witnesses, including Defendant Thomas Conlin, former Portfolio Manager of the High-Yield Funds, and taking the depositions of Defendant William J. Nasgovitz and Paul Beste, Chief Operating Officer of Heartland Advisors. In addition, Lead Counsel engaged in extensive and intensive arm's-length negotiations with Settling Defendants' Counsel with respect to the proposed Partial Settlement including participating in an intensive, two-day mediation conducted by an experienced settlement mediator, a former Federal Magistrate Judge. A full description of the investigation and negotiation is set forth above in Section I. Lead Counsel have made a thorough study of the legal principles applicable to the claims asserted, and have carefully reviewed the facts and circumstances underlying the allegations made in these actions. In evaluating the Settlement, Lead Plaintiffs and their counsel also considered (a) the substantial financial benefits provided herein for the Class; (b) the attendant risks of litigation; (c) the expense and length of time necessary to prosecute the Class Actions through trial; (d) the defenses asserted by and available to the Settling Defendants; (e) the uncertainties of predicting the outcome of this complex litigation; (f) the fact that resolution, whenever and however determined, would likely be subject to appellate review, as a consequence of which it might be many years until final adjudication of the Class Actions; and (g) the desirability of permitting the Settlement to be consummated as provided by the terms of the Stipulation. In addition, Lead Counsel examined the relevant insurance coverage and determined that only one \$10,000,000 insurance policy covered the claims in the Complaint. Included in the Partial Settlement is substantially the full face amount of that policy. Furthermore,

although under the terms of the policy the defense costs (legal fees) may be paid and deducted from the face amount of the policy, and demand for payment of over \$5 million in defense costs has been made, no payments for defense costs have been paid out and \$9,984,736.43 is contributed from the policy toward the Partial Settlement. Based upon consideration of all these factors, and balancing them against the certain and substantial benefits that will be received as a result of the Partial Settlement, Lead Plaintiffs and their counsel, without conceding any lack of merit in their claims, have concluded that the Partial Settlement is fair, reasonable and adequate and that it is in the best interests of the Class to settle with respect to the Settling Defendants only on the terms and conditions set forth hereinafter, only preserving their rights against the remaining Non-Settling Defendants.

The Settling Defendants, while affirmatively denying wrongdoing of any kind whatsoever, or any liability to Class Members, and without conceding any infirmity in the defenses asserted or which could be asserted, and relying on the provisions of the Stipulation that the Settlement shall in no event be construed or deemed to be evidence of or an admission or concession on the part of any Settling Defendant with respect to any claim or of any fault or liability or wrongdoing or damage whatsoever, or any infirmity in the defenses that the Settling Defendants have asserted, consider it desirable that the Class Actions be dismissed on the terms set forth herein in order to avoid further expense and to dispose of burdensome and protracted litigation. The Settling Defendants agree that the Settlement is fair, reasonable and adequate to the Class and the Settlement Class.

III. SUMMARY OF THE PROPOSED SETTLEMENT

The Settlement Fund consists of \$14,000,000 (14 million dollars) in cash, plus accrued interest.

The Settlement Fund (net of any amounts paid out pursuant to the terms of the Partial Settlement and orders of the Court, plus any interest earned) will be held for the benefit of the Settlement Class to be distributed as set out in Section VI below.

Lead Plaintiffs' expert has estimated an average recovery from the Partial Settlement of approximately \$0.32 per share of the High-Yield Fund and \$0.17 per share of the Short Duration High-Yield Fund during the Class Period. However, the actual recovery obtained by any Settlement Class Member will vary from the average recovery per share depending upon (a) the number of claims filed and the amounts of these claims, and (b) when and at what price a Settlement Class Member purchased and/or sold shares of the High-Yield Funds. In addition, the portion of the Settlement Fund available for distribution to the Settlement Class Members will be reduced for payment of various costs and expenses, including attorneys' fees and costs associated with the prosecution of the Class Actions.

The Partial Settlement will become effective, if approved by the Federal Court, after the judgment entered by the Federal Court becomes final.

This Notice is not intended to be a complete description of the Stipulation. The Stipulation contains the full and complete terms of the Partial Settlement, and is available as set forth in Section XII below.

IV. EFFECT OF APPROVAL OF THE PROPOSED SETTLEMENT

If the Court approves the proposed Partial Settlement:

(a) Judgment will be entered (i) approving the Settlement set forth in the Stipulation as fair, reasonable, adequate and in the best interests of the Class; (ii) determining whether the Plan of Allocation is fair, reasonable, and in the best interest of the Settlement Class; (iii) determining the reasonable amount of attorneys' fees and reimbursement of expenses to be awarded Lead Counsel; and (iv) retaining jurisdiction of the Partial Settlement for the purposes of effectuating its terms and provisions;

(b) Lead Plaintiffs and every other Settlement Class Member shall, with respect to each and every Settled Class Claim⁴, fully, finally and forever release, discharge and relinquish, and shall forever be enjoined from prosecuting against any of the Settling Defendants any claims, actions, causes of action, rights or liabilities arising out of, based upon, or otherwise related to the Settled Class Claims;

(c) The Settling Defendants shall, with respect to each and every Settled Defendants' Claims,⁵ fully, finally and forever release, discharge and relinquish, and shall forever be enjoined from prosecuting, any Settled Defendants' Claims against any Settlement Class Member;

(d) Each of the Non-Settling Defendants will be barred from filing, commencing, initiating, prosecuting, asserting or maintaining claims (including but not limited to claims for or in the nature of contribution, indemnification, set-off, judgment reduction or reimbursement) against any of the Settling Defendants, based upon, related to or arising from the claims, facts and/or circumstances alleged in the Class Actions;

(e) Each of the Settling Defendants will be barred from filing, commencing, initiating, prosecuting, asserting or maintaining claims (including but not limited to claims for or in the nature of contribution, indemnification, set-off, judgment reduction or reimbursement) against any of the Non-Settling Defendants, based upon, related to or arising from the claims, facts and/or circumstances alleged in the Class Actions;

(f) If any final judgment or verdict is entered or obtained in favor of any of the Lead Plaintiffs and/or the Settlement Class (or any member thereof) in any proceedings against any one or more Non-Settling Defendant, the damages recoverable from each such Non-Settling Defendant in each such proceeding, if any, shall be reduced and set off by either (i) the amount paid by or on behalf of the Settling Defendants under the Stipulation or (ii) the amount that corresponds to the proportionate share of the final judgment or verdict for which any or all of the Settling Defendants are found to be responsible in that proceeding, as the Court shall then determine, and the Non-Settling Defendant against whom the final judgment or verdict is entered shall be released from that portion of the final judgment or verdict that is reduced or set-off pursuant to the Final Judgment; and

Approval of the proposed Partial Settlement will not release any claims which the Class has against the Non-Settling Defendants. The Class Actions will continue to be litigated against the Non-Settling Defendants.

V. YOUR SHARE OF THE SETTLEMENT FUND

If the proposed Partial Settlement becomes effective, Settlement Class Members will be entitled to share in the distribution of the proceeds of the Settlement Fund allocated to the Settlement Class, after payment of attorneys' fees, expenses, and expenses of the settlement administration to the extent allowed by the Court.

⁴ "Settled Class Claims" shall mean any and all claims, suits, demands, controversies, rights or causes of action, damages, losses, fees, costs, obligations, or liabilities of any kind or nature whatsoever, for compensatory damages, punitive damages or any other relief, monetary, injunctive or otherwise, whether at law or in equity, whether based on or arising under federal, state, local or foreign statutory or common law or any other law, rule or regulation, whether direct, indirect or derivative, individual or representative, however denominated, including both known and Unknown Claims, whether pleaded or unpleaded, suspected or unsuspected, that now exist or heretofore existed, that relate to, or which are in any way based upon or arise from, or are in any way connected with the claims asserted in the Class Actions, or which relate to, or which are in any way based upon or arise from, or are in any way connected with any of the acts, facts, events, circumstances, matters, claims, allegations, transactions, occurrences, omissions or representations, misrepresentations of any kind or nature whatsoever, related to the subject matters referred to in, set forth in, involved in, or the facts or claims for relief which were or could have been alleged or litigated in the Class Actions.

⁵ "Settled Defendants' Claims" shall mean (a) all claims asserted in the Class Actions, and (b) any and all direct, representative, individual, or class claims, and causes of action, of any nature whatsoever, whether known or unknown, pleaded or unpleaded, suspected or unsuspected, for compensatory damages, punitive damages, or any other relief, monetary, injunctive, or otherwise, whether at law or in equity, which were or might have been brought by or on behalf of the Settling Defendants or the successors and assigns of the Settling Defendants, whether directly, indirectly, representatively or in any other capacity, against any of the Lead Plaintiffs, Settlement Class Members or their attorneys, which are based upon, arise out of or relate in any way to the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth or asserted in the Complaint or relating in any way to the purchase of shares in the High-Yield Funds either directly or by dividend re-investment during the Settlement Class Period, including but not limited to the institution and prosecution of the Class Actions, excepting any claim to enforce the terms of the Stipulation and/or any claim by the Receiver arising out of the administration of the High-Yield Funds after March 21, 2001.

Payments and distributions from the Settlement Fund on claims submitted by Class Members shall be made in accordance with a plan of allocation (the "Plan of Allocation") approved by the Court.

VI. PLAN OF ALLOCATION

The Settlement Fund, net of the costs of notice and administration of the settlement, attorneys' fees and costs as may be awarded by the Court (the "Net Class Settlement Fund"), shall be distributed to Authorized Claimants who timely submit valid proof of claim forms in accordance with the following procedures and criteria:

The Net Class Settlement Fund shall be divided into two portions: 49% of the Net Class Settlement Fund will be allocated to Authorized Claimants who purchased shares in the High-Yield Fund during the Class Period who suffered a loss on their shares. The remaining 51% of the Net Class Settlement Fund will be allocated to Authorized Claimants who purchased shares in the Short Duration High-Yield Fund during the Class Period who suffered a loss on their shares. Except as provided below with respect to shares of the High-Yield Funds purchased before October 26, 1997, each Authorized Claimant's share of the recovery from the Net Class Settlement Fund will be determined by the proportion which his or her loss bears to the losses of all other such Authorized Claimants. The amount of an Authorized Claimant's loss (the "Recognized Claim") will be determined by subtracting from his or her purchase price for High-Yield Fund shares purchased during the Class Period (but in no event greater than the initial offering price of \$10.00 per share), including shares acquired by dividend reinvestment during the Class Period, the price at which he or she redeemed (the "redemption price") his or her shares during the Class Period. For such purpose, shares held by any Authorized Claimant on October 16, 2000 will be valued at the closing price on that date.

The purchase and redemption prices for each Authorized Claimant's transactions (subject to the maximum limitation of \$10.00 per share for purchase price) will be determined by the prices shown on each Fund shareholders' monthly statements.

There will be no deduction from the share paid to any Authorized Claimant for any amounts paid or payable to such Authorized Claimant by the Receiver. However, for all shares in either of the High-Yield Fund purchased prior to October 26, 1997 and later sold or redeemed at a loss, the amount paid to an Authorized Claimant with respect to such shares shall be reduced by 50%.

The Plan of Allocation, and any modification thereof, shall be subject to the approval of the Court as fair, reasonable and adequate to the members of the Class only upon notice and opportunity to be heard by all parties. The Settling Defendants and the Receiver take no position with respect to the Plan of Allocation and shall have no responsibility for its provisions or terms. The Plan of Allocation may be altered or amended by order of the Court only for good cause shown.

Following the calculation of each Authorized Claimant's recognized loss, Lead Counsel expects to recommend to the Court that all available cash comprising the Net Class Settlement Fund (after deduction of Plaintiffs' counsel fees and costs as awarded by the Court) shall be allocated so that each Authorized Claimant will receive a proportionate share of the Settlement Fund based upon the ratio of that Authorized Claimant's recognized loss to the aggregate of all Authorized Claimants' recognized losses.

IF YOU WISH TO PARTICIPATE IN THE PARTIAL SETTLEMENT, YOU MUST FILL OUT AND SUBMIT THE ENCLOSED PROOF OF CLAIM AND RELEASE IN THE ATTACHED FORM, POSTMARKED NO LATER THAN OCTOBER 19, 2002. EACH CLAIMANT SHALL BE DEEMED TO HAVE SUBMITTED TO THE JURISDICTION OF THIS COURT WITH RESPECT TO THE CLAIMANT'S CLAIM, AND THE CLAIM WILL BE SUBJECT TO INVESTIGATION AND DISCOVERY UNDER THE FEDERAL RULES OF CIVIL PROCEDURE.

COMPLETED PROOF OF CLAIM AND RELEASE FORMS MUST BE SUBMITTED TO THE SETTLEMENT ADMINISTRATOR, HEARTLAND SECURITIES LITIGATION C/O BERDON LLP, P.O. BOX 9014, JERICHO, NY 11753-8914.

ALL SETTLEMENT CLASS MEMBERS, WHETHER OR NOT THEY FILE A PROOF OF CLAIM AND RELEASE WITHIN THE TIME PERIOD FOR HEREIN, SHALL BE BARRED FROM ASSERTING ANY CLAIMS AGAINST THE SETTLING DEFENDANTS ARISING FROM THE SETTLED CLASS CLAIMS, AND ALL SETTLEMENT CLASS MEMBERS SHALL CONCLUSIVELY BE DEEMED TO HAVE RELEASED ANY AND ALL SUCH CLAIMS.

IF YOU ARE A CLASS MEMBER AND DO NOT SUBMIT A PROPER AND TIMELY PROOF OF CLAIM AND RELEASE FORM, YOU WILL NOT SHARE IN THE BENEFITS OF THE PARTIAL SETTLEMENT BUT WILL BE BOUND BY THE FINAL JUDGMENT OF THE COURT.

In the event that an appeal is taken or a motion is filed as to the Federal Court's approval of the proposed Partial Settlement, no distribution will be made until such time as any motion or appeals are finally resolved in such manner as to permit consummation of the Partial Settlement in accordance with the Stipulation.

VII. EXCLUSION FROM THE SETTLEMENT

Each and every Class Member shall be bound by all determinations and judgments in these Class Actions concerning the Settlement, whether favorable or unfavorable, unless such person shall submit, by first-class mail, a written request for exclusion from the Settlement Class, postmarked no later than June 6, 2002, addressed to Settlement Administrator, Heartland Securities Litigation Exclusions, c/o Berdon LLP, P.O. Box 9014, Jericho, NY 11753-8914. No Class Member may exclude himself, herself or itself from the Settlement Class after that date. In order to be valid, each such request for exclusion must set forth the name, address, telephone number and capacity (including evidence of incumbency) of any person(s) purporting to represent the Class Member requesting exclusion and must state that such Class Member "requests exclusion from the Settlement Class in *White v. Heartland High-Yield Municipal Bond Fund et al.*, Case No. 00-C-1388." Class Members requesting exclusion must also provide the following information: the number of shares of the Heartland High-Yield Municipal Bond Fund and/or the Heartland Short Duration High-Yield Municipal Fund purchased or otherwise acquired, either directly or by dividend re-investment, during the period from and including January 2, 1997 through and including October 16, 2000, and the date(s) and price(s) of such purchases, the number(s) of shares of the High-Yield Funds sold during the Class Period, the date(s) and price(s) of such sales and the number of shares of the High-Yield Funds still owned as of the close of trading on October 16, 2000. All requests for exclusion must be signed by or on behalf of the Class Member so requesting the exclusion. If a request for exclusion does not include all of the foregoing information, it shall not be a valid request for exclusion.

VIII. TERMINATION OF PROPOSED PARTIAL SETTLEMENT

If there is no final Court approval of the proposed Partial Settlement in this case, or if the Settling Defendants withdraw from the Partial Settlement in accordance with the Stipulation, or if the Partial Settlement is not consummated for any other reason, the Stipulation will become null and void, and the parties will resume their former positions in this action.

IX. APPLICATION FOR ATTORNEYS' FEES AND EXPENSES

At the Settlement Fairness Hearing, described below, Lead Counsel on behalf of all counsel to Settlement Class Members will make an application for an award by the Federal Court of attorneys' fees in an amount not exceeding twenty-five (25%) percent of the Settlement Fund, and reimbursement of expenses in an amount not to exceed \$350,000, excluding costs of notice and administration, subject to any opposition thereto and determination by the Federal Court. All such amounts as awarded by the Court (the "Fee and Expense Award") shall be paid out of the Settlement Fund.

The fees sought by Lead Counsel are customary in actions brought on a contingency fee basis, and Lead Counsel believe they are justified by the substantial time and effort already invested in the prosecution of these actions, as well as the time and effort that will be required for Lead Counsel prior to final approval of this Partial Settlement. The expense reimbursement sought by Lead Counsel consists of expenses actually incurred in the prosecution of these actions to date.

X. THE SETTLEMENT FAIRNESS HEARING

IF YOU DO NOT WISH TO OBJECT TO THE PROPOSED PARTIAL SETTLEMENT, PLAN OF ALLOCATION OR THE APPLICATION FOR THE FEE AND EXPENSE AWARD YOU NEED NOT APPEAR AT THE SETTLEMENT FAIRNESS HEARING.

Pursuant to an Order of the Federal Court, dated April 5, 2002, a Settlement Fairness Hearing will be held in Room 425 of the United States Courthouse and Federal Building, 517 East Wisconsin Avenue, Milwaukee, Wisconsin 53202 at 9:00 a.m. on June 21, 2002 before the Hon. Joseph P. Stadtmueller for the following purposes: (a) to determine whether the proposed Partial Settlement of the Class Actions on the terms and conditions provided for in the Stipulation is fair, reasonable, adequate and in the best interests of the Settlement Class and should be approved by the Court; (b) to determine whether the Final Judgment as provided under the Stipulation should be entered, dismissing the Complaint filed herein on the merits and with prejudice as to the Settling Defendants only; (c) to determine whether the proposed Plan of Allocation described in Section VI of this Notice for the proceeds of the Partial Settlement is fair and reasonable, and in the best interests of the Settlement Class and should be approved by the Court; (d) to consider the application by Lead Counsel for the Fee and Expense Award; and (e) to rule upon such other matters as the Court may deem appropriate.

Any Class Member who has not requested exclusion in the time and manner specified in Section VII of this Notice may appear at the Settlement Fairness Hearing in person, or through duly authorized counsel of his, her or its choice, and show cause, if any, why the proposed Partial Settlement is not fair, reasonable and adequate, why the Final Judgment contemplated by the Partial Settlement should not be entered, or why the proposed Partial Settlement, the Plan of Allocation and the application, by Lead Counsel for the Fee and Expense Award, should not be approved. However, no such Settlement Class Member will be heard and no papers or briefs will be considered in opposition to the proposed Partial Settlement, entry of Final Judgment, the Plan of Allocation or Lead Counsel's application for the Fee and Expense Award, unless that Settlement Class Member has filed with the Clerk of the United States District Court for the Eastern District of Wisconsin, 517 East Wisconsin Avenue, Milwaukee, Wisconsin 53202, no later than May 31, 2002, showing due proof of service, by hand or by first-class mail, postage prepaid on the following persons:

C. Oliver Burt, III, Esq.
BERMAN DEVALERIO PEASE
TABACCO BURT & PUCILLO
Northbridge Center, Suite 1701
515 North Flagler Drive
West Palm Beach, FL 33401

Plaintiffs' Lead Counsel

Kevin T. Rover, Esq.
MORGAN, LEWIS & BOCKIUS LLP
101 Park Avenue
New York, NY 10178

*Attorneys for Defendants Heartland Advisors,
Inc., Heartland Holdings, Inc., William J.
Nasgovitz and Hugh F. Denison*

Phillip L. Stern, its Receiver
FREEMAN, FREEMAN & SALZMAN, P.C.
401 North Michigan Avenue, Suite 3200
Chicago, IL 60611-4207

Receiver for Heartland High-Yield Funds

the following documents: a written objection, any supporting memoranda or other papers and information, documentary proof of membership in the Class, and a written statement signed by the Settlement Class Member and setting forth (a) the name, address, and telephone number of the Settlement Class Member; and (b) the number or amount, and price, of shares of the Heartland High-Yield Municipal Bond Fund and/or the Heartland Short Duration High-Yield Municipal Fund purchased during the Class Period, either directly or through dividend re-investment, and the date of each such purchase with proof thereof.

You may file an objection without having to appear at the Settlement Fairness Hearing. Settlement Class Members who approve of the proposed Partial Settlement do not need to appear at the Settlement Fairness Hearing to indicate their approval. Any Settlement Class Member who does not enter an appearance shall be represented at the Settlement Fairness Hearing by Lead Counsel.

ANY SETTLEMENT CLASS MEMBER WHO DOES NOT OBJECT IN THE MANNER DESCRIBED HEREIN WILL BE DEEMED TO HAVE WAIVED ANY OBJECTION, AND SHALL FOREVER BE FORECLOSED FROM MAKING ANY OBJECTION TO THE FAIRNESS, REASONABLENESS OR ADEQUACY OF THE PROPOSED PARTIAL SETTLEMENT, TO THE ENTRY OF THE FINAL JUDGMENT CONTEMPLATED BY THE PARTIAL SETTLEMENT, TO THE PLAN OF ALLOCATION, OR TO THE FEE AND EXPENSE AWARD TO LEAD COUNSEL.

XI. SPECIAL NOTICE TO BROKERS, BANKS AND OTHER NOMINEES

If you purchased shares of the Heartland High-Yield Municipal Bond Fund or Heartland Short Duration High-Yield Municipal Fund (“High-Yield Funds”) during the Class Period as a nominee for the benefit of another, or were or are holding certificates of High-Yield Fund shares in your name as nominee for someone who purchased them during the Class Period, you are directed to send a copy of this Notice to the beneficial owner of the shares postmarked no later than 10 business days from receipt of this Notice, or to provide the names and addresses of such persons, **preferably on computer-generated mailing labels or, if there are more than 2,000, on a 3½" diskette, CD-ROM or ZIP-JAZ**, no later than 10 business days from receipt of this Notice, to the Settlement Administrator, Heartland Securities Litigation, c/o Berdon LLP, P.O. Box 9014, Jericho, NY 11753-8914, in which case the beneficial owner will be sent a copy of the Notice. You may receive reimbursement for your reasonable and actual out-of-pocket disbursements that would not have been made but for this request upon submission of an itemized statement to the referenced address.

XII. FURTHER INFORMATION

For a more detailed statement of the matters involved in this litigation, you are referred to the papers on file in this action, including the Stipulation of Partial Settlement, which may be inspected during regular business hours at the Office of the Clerk of the United States District Court for the Eastern District of Wisconsin, United States Courthouse and Federal Building, 517 East Wisconsin Avenue, Milwaukee, Wisconsin 53202.

For additional copies of the Notice and Proof of Claim, contact:

Settlement Administrator
Heartland Securities Litigation
c/o Berdon LLP
P.O. Box 9014
Jericho, NY 11753-8914
Telephone: (800) 766-3330
Fax: (516) 931-0810
Website: www.berdonllp.com/claims

PLEASE DO NOT CALL OR WRITE THE COURT DIRECTLY. IF YOU HAVE ANY QUESTIONS,
PLEASE WRITE TO THE FOLLOWING COUNSEL REPRESENTING PLAINTIFFS AND THE CLASS:

C. Oliver Burt, III
BERMAN DEVALERIO PEASE
TABACCO BURT & PUCILLO
Northbridge Center, Suite 1701
515 North Flagler Drive
West Palm Beach, FL 33401
(561) 835-9400

Dated: April 19, 2002

BY ORDER OF THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF WISCONSIN