Madison Covered Call & Equity Income Fund Investment Strategy Letter

4th Quarter 2018

Covered Call strategies, by their nature, are defensive. They are structured to knowingly sacrifice a portion of upside growth potential in order to provide additional downside protection. The Madison Covered Call & Equity Income Fund does exactly that by seeking a very high quality portfolio of individual equities and selling equity call options on the portfolio holdings. The fund offers a solid total return platform which includes capital appreciation and a high distribution rate which is primarily sourced from call option premiums and realized capital gains on the underlying portfolio. It is a relatively concentrated, actively managed portfolio providing a risk-reduced way to participate in U.S. equity markets.

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Portfolio Manager
Industry since 1987

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Portfolio Manager
Industry since 2001

Did Somebody Cancel the Late Cycle?

The U.S. economy has been strong for quite a long time now. We are entering the 10th consecutive year of economic advance, with 2018 likely coming in at around 3% Gross Domestic Product (GDP) growth. Although many are expecting slowing growth in 2019, economic data is not foretelling a recession -- at least not in the immediate future. Interest rates have also finally been on the upswing with the Federal Reserve (Fed) moving to "normalize" its balance sheet. This is all typical of a late cycle economic environment when growth is likely to slow and interest rates, which have risen on inflationary fears, slow their ascent and potentially roll over as recession fears inch closer. Also typically, equity markets become increasingly volatile and leadership moves to the commodity sectors of the market. All of that seems to be playing out except for the last bit. While equity market volatility certainly increased during the 4th quarter, equities in general and commodities specifically are acting as if a recession is staring us dead in the face. In other words, the markets have skipped the late cycle and moved directly to recession.

While it's not at all surprising that equity markets have become bumpier, the 13.5% decline in the S&P 500® Index during the quarter was rather extreme. Other than the 4th quarter of 2008, this was the worst performance for the Index during a 4th quarter in decades — and in 2008 we all remember that there was a severe risk to our financial system. Our expectations were more focused on volatility increasing in early 2019 but that has clearly been brought forward by at least one quarter. November and December have seasonally been among the stronger months for S&P 500 returns. In fact, the Index in the month of December has declined in only 6 of the past 30 years. December 2018's performance was the worst since depression era 1931. Also, corporate earnings are expected to be strong in 2018 but investors are worried about slowing earnings growth next year. Typically, following the full year 2018 earnings reports which occur in early 2019, management teams give their expectations for the coming year. Although some have already pre-warned of a slowdown next year, the bulk of the news is yet to come. It appears that, fearing the worst, investors decided to jump ship early.

The writer of a covered call option forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but has retained the risk of loss should the price of the underlying security decline.

Past performance does not predict future results. Please refer to the final two pages of this piece which contain current performance information for the fund, the risks of investing in the fund and a complete list of the fund's individual portfolio holdings as of quarter end. Individual portfolio holdings are identified to illustrate our approach to investing the fund's portfolio and are not intended to represent a recommendation to buy or sell any such security.

On the commodities front, crude oil collapsed from its September highs despite Organization of the Petroleum Exporting Countries (OPEC) managing supply conditions and only a slight reduction in global demand expectations. West Texas Intermediate (WTI), which is a benchmark for U.S. crude, fell 38% during the 4th quarter. Other industrial commodities such as aluminum, copper and zinc also fell sharply but to a lesser extent. This group was clearly not acting as it normally would during a late cycle stage of the economy. In fact, they were acting as if we were in the midst of a severe global recession. The main culprit for such unexpected activity was perceived impact on the global economy from the ongoing trade tensions, and specifically the impact on the Chinese economy. This also had the effect of supporting the U.S. dollar, which is negatively correlated to commodity prices, and with the Fed raising rates, the dollar was even more supported. It all added up to a very difficult time for commodities without a significant change in underlying fundamentals.

In our view, the late cycle hasn't been skipped or diminished, although its timing has certainly been adjusted. We do not believe that we will see a global recession in 2019. However, growth will slow and a recession will occur at some point. China is also aggressively stimulating its economy, utilizing both fiscal and monetary policy. Such behavior has significantly less lag effect than in other developed markets meaning the impacts will be felt sooner. The Fed has also recently become somewhat more dovish, meaning further rate hikes are less likely given growth concerns. Since moving the Fed Funds rate up from 0.25% in late 2015 to the current 2.5% level, the Fed may pause or even ease if a slowdown becomes overly concerning. The late cycle still has a chance.

Every correction has its own footprint. This one, so far, has been relatively sharp and indiscriminating. While Energy stocks took the brunt of the decline, Technology, Industrial and Consumer Discretionary stocks were hit very hard as well. An equally weighted basket of "FAANG" stocks (Facebook, Apple, Amazon, Netflix, Google) declined by more than 23% during the quarter. Absent a global recession, we do not expect a continued elongated bear market, but rather for stocks to remain volatile, with quality companies that are improving their balance sheets and increasing their returns on invested capital weathering the storm well. If this market has caught the flu, then it's likely to be one of those of flus that just hangs on and keeps coming back when you think you have it licked.

Q4 Review

For the fourth quarter, the Madison Covered Call and Equity Income Fund (Class Y) declined -11.8%, which outperformed the S&P 500 Index decline of -13.5% and compared to the BXM Buy-Write Index decline of -10.8%.

The market's decline coincided with a significant increase in volatility. Over the 63 trading days in the quarter, 28 days registered a market move greater than +/- 1% -- that's 44% of trading days with significant market swings in both directions. It may be surprising to note that, even with the sizeable overall market decline, almost half of the 1% daily moves were to the upside, including a 5% increase on December 26. The fund outperformed the S&P 500 in every 1% down move during the quarter and, as would be expected, underperformed in each daily 1% upswing. The CBOE S&P Volatility Index® (VIX) more than doubled in the quarter and closed above 25, which is elevated from prior quarters. The surge in volatility has improved the pricing of call options and, if the market remains in a higher state of volatility, option writing will be significantly more attractive than in recent years. Also, in prior periods of sustained higher volatility, forward equity returns have been meaningfully below recent experiences suggesting a hedged approach to investing could become more advantageous.

Performance data shown represents past performance. Investment returns and principal value will fluctuate, so that fund shares, when redeemed, may be worth more or less than the original cost. Past performance does not guarantee future results and current performance may be lower or higher than the performance data shown. Visit madisonfunds.com or call 800.877.6089 to obtain performance data current to the most recent month-end.

Cash levels during the quarter were slightly elevated, averaging almost 17% as we were reluctant to invest in such a turbulent environment. The higher cash level helped buffer some of the market decline. Call option coverage was down slightly compared to prior quarters, ending the quarter at 78.5%. This remains a relatively defensive approach that helps limit the downside versus the broad market. However, given the sharp market movements, the hedging characteristics of call options shifted significantly and resulted in an inconsistent hedge profile and higher option trading activity.

On a net basis, sector allocation was slightly additive to relative performance in the quarter. The portfolio benefitted from an underweight position in the hard hit Technology and Consumer Discretionary sectors. This was offset by the fund's over-weighted positioning in the Energy sector. As mentioned above, oil prices fell significantly, which negatively impacted many Energy stocks. During the quarter, Utilities was the best performing sector and the only sector with a positive return. Other traditionally defensive sectors such as Consumer Staples and Health Care also declined less than the overall market.

Individual stock performance was a negative contributor during the quarter, led by underperformance in Energy names such as Transocean, Apache, Range Resources and Baker Hughes, along with Material names Alcoa (aluminum) and Steel Dynamics (steel). Despite their recent poor performance, these holdings will be beneficiaries if we see a more traditional late cycle environment emerge in 2019. Partially offsetting these weaker holdings was strong performance from gold investments including Newmont Mining, VanEck Vectors Gold ETF and Invesco DB Gold fund. Other notable outperforming names include Xilinx within Technology and General Motors in Consumer Discretionary.

Regarding fund income distributions, the December distribution was rather sizeable given the strong option premiums and gains realized over the full year. For 2018, the fund distributed $0.76 in 4 quarterly payments, representing a distribution yield of 8.4% based on the beginning of the year net asset value. This yield is slightly above the high end of our expected 6-8% target range.

Outlook

Now that we finally have the answer to the question "Will the market ever go down?" the new question on investor's minds is "How far will the market fall?". With daily volatility still very high as we enter the New Year, the immediate market direction is tough to call. Our best estimate is that we will continue to experience wild market swings as economic data and news/tweets on other market influencing events elicit an alternating current of fear and greed. Generally, as mentioned above, the U.S. economy is still expected to grow in 2019 but at a slower pace than recent years. The benefits of tax cuts and reduced regulatory pressures will be less of a tailwind for corporations going forward and earnings growth should also slow as margins stabilize and possibly tighten. A resolution, or at least an easing, of trade tensions should provide a boost to the markets and, in particular, to China and the commodity markets. The Fed, which has been steadfast in its desire to raise short term interest rates to a normalized level, has recently signaled that they may back off that stance given the recent market decline. While it's true that the Fed does not react to the market per se, a sharp market decline impacts investor confidence which, in turn, impacts consumer confidence and, potentially, economic activity -- so they do pay attention. Any loosening of monetary policy will play into the late cycle leadership scenario which we still believe is a reasonable possibility.

Given the current volatile market environment, we will continue to steer the fund on a relatively conservative path. The fund remains well diversified across industry sectors and focused on individual companies with attractive long-term return characteristics. Despite periodic bumps in the road, we continue to be confident in the fund's structure and, in particular, its income generation capabilities.

Ray Di Bernardo *Drew Justman*

See additional disclsoures on the following page.

The S&P 500 Index is a large-cap market index which measures the performance of a representative sample of 500 leading companies in leading industries in the U.S.

Chicago Board Options Exchange (CBOE) Volatility Index (VIX) measures market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The CBOE S&P 500 BuyWrite Index (BXM) is a benchmark designed to track the performance of a hypothetical buy-write strategy (*i.e.*, holding a long position in and selling covered call options on that position) on the S&P 500 Index.

Although the information in this report has been obtained from sources that the firm believes to be reliable, we do not guarantee its accuracy, and any such information may be incomplete or condensed. All opinions included in the report constitute the authors' judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

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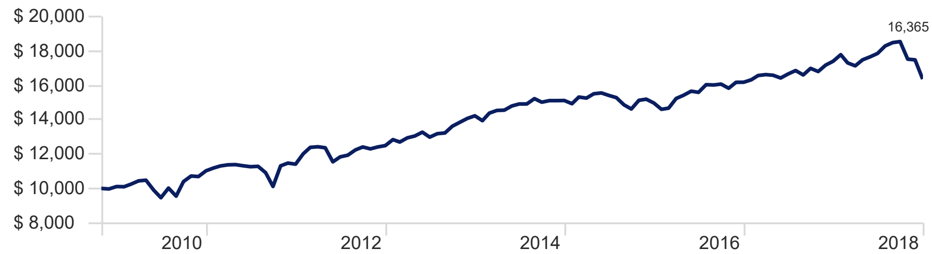
Madison Covered Call and Equity Income Fund

Madison FUNDS®

Growth of $10,000[1]
Class Y Shares, Since Inception

The Value of Long-Term Investing



Average Annual Total Returns[2] (%)

		Three Months	YTD	1 Yr	3 Yr	5 Yr	Since Inception
Class Y		-11.76	-5.96	-5.96	3.02	2.84	5.52
Class R6		-11.66	-5.80	-5.80	3.15	2.98	5.17
Class A	without sales charge	-11.76	-6.14	-6.14	2.77	2.61	5.27
	with sales charge	-16.83	-11.51	-11.51	0.77	1.39	4.60
Class C	without sales charge	-12.04	-6.99	-6.99	1.95	1.82	3.99
	with sales charge	-12.88	-7.84	-7.84	1.95	1.82	3.99
S&P 500® Index		-13.52	-4.38	-4.38	9.26	8.49	–
CBOE S&P 500® BuyWrite Index		-10.81	-4.77	-4.77	4.84	5.08	–

Calendar Year Returns[2] (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Class Y	9.08	3.47	9.47	13.88	6.25	-0.97	8.07	7.56	-5.96
S&P 500® Index	15.06	2.11	16.00	32.39	13.69	1.38	11.96	21.83	-4.38
CBOE S&P 500 BuyWrite Index	5.86	5.72	5.20	13.26	5.64	5.24	7.07	13.00	-4.77

Risk Measure (5-year) vs. S&P

	MENYX	S&P
Std. Deviation	6.69	10.94
Down Capture	59.10	100
Up Capture	47.90	100
R^2	79.45	100

Risk Measure (5-year) vs. BXM

	MENYX	BXM
Std. Deviation	6.69	7.30
Down Capture	82.77	100
Up Capture	71.54	100
R^2	68.41	100

1 **Growth of $10,000** is calculated at NAV and assumes all dividends and capital gain distributions were reinvested. It does not take into account sales charges (see Note 2) or the effect of taxes.

2 **Average annual total returns** and **calendar year returns** assume all distributions are reinvested and reflect applicable fees and expenses. Class A share returns without sales charge would be lower if sales charge were included. **Class A share returns with sales charge** reflect the deduction of the maximum applicable sales charge of 5.75%. **Class C shares** do not have an up-front sales charge. They do, however, carry a 1% contingent deferred sales charge on shares redeemed within 12 months of purchase. **Index returns** reflect broad measures of market performance compared to the fund and reflect no deduction for sales charges, account fees, expenses or taxes. You cannot invest directly in an index.

3 Expense ratios are based on the fund's most recent prospectus.

The CBOE S&P 500 BuyWrite (ticker: BXM) Index is the passive representation of a covered call strategy. The BXM Index is an unmanaged (passive) total return index based on buying the S&P 500® stock index portfolio and "writing" (or selling) the near term S&P 500® Index "covered" call option (SPX) every month with an exercise price just above the prevailing index level (i.e., slightly out of the money). The SPX call is held until expiration and cash settled, at which time a new one-month, near-the-money call is written. Source: CBOE

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Experienced Management

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Portfolio Manager
Industry since 1987

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Fund Features

- Fund seek total return with high level of income
- Focus on large and mid cap stocks
- Generates income from selling covered call options on stocks held and from dividends
- Premiums from call options help offset potential market losses

Class	Ticker	Inception Date	Exp. Ratio[3]
A	MENAX	10/31/09	1.30%
C	MENCX	7/31/12	2.05%
Y	MENYX	10/31/09	1.05%
R6	MENRX	7/31/12	0.92%

Distribution Frequency

Quarterly

Distribution History

Per Class Y Share

Year	Total	Yr-End Nav
2018	$0.77	$7.80
2017	$0.69	$9.08
2016	$0.61	$9.10
2015	$0.67	$9.00
2014	$0.88	$9.76
2013	$0.93	$10.02
2012	$0.91	$9.66

Total Net Assets

$125.5 Million

Wtd. Average Market Cap

$116.5 Billion

Number of Equity Holdings

44

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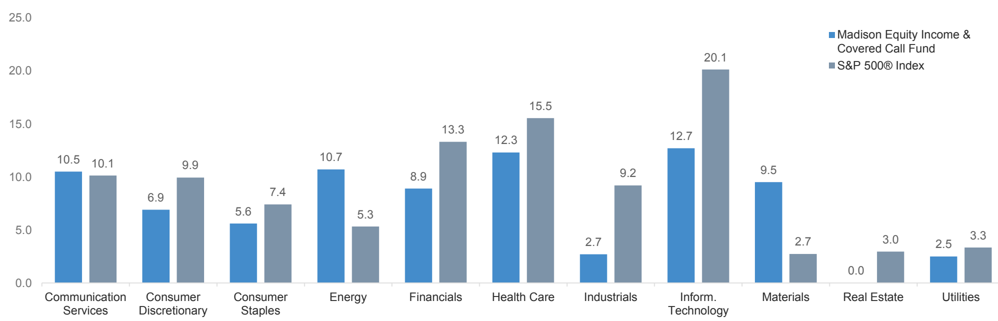
Characteristics

P/B	1.7x
TTM P/E	13.4x
ROE	15.0%
Dividend Yield	2.6%
Active Share (vs. S&P)	87.2%
Equities covered by call options	78.5%
Average days to expiration	34.9

Sector Allocation (%)



ETFs (4.2%), short-term investments, cash (14.8%) and other net assets and liabilites are not represented above. Equity sector allocations are rounded to the nearest 0.1% and may not equal 100% due to option liability.

Top Ten Holdings

Security Description	%
MICROSOFT CORP	3.5
ALPHABET INC CL C	3.3
FIRST DATA CORP CLASS A	3.1
BAXTER INTERNATIONAL INC	3.0
MEDTRONIC PLC	2.7
QUALCOMM INC	2.6
EOG RESOURCES INC	2.6
CENTURYLINK INC	2.6
BANK OF AMERICA CORP	2.5
T MOBILE US INC	2.5

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Standard Deviation measures dispersion from an average, which, for a mutual fund, depicts how widely the returns varied over a certain period of time. Higher deviation represents higher volatility. **Downside Capture Ratio** measures a fund's performance in down markets relative to its benchmark. It is calculated by taking the security's downside capture return and dividing it by the benchmark's downside capture return over the time period. **Upside Capture Ratio** measures a fund's performance in up markets relative to its benchmark. It is calculated by taking the security's upside capture return and dividing it by the benchmark's upside capture return over the time period. **R^2** represents the percentage of the fund's movements relative to the index. An r-squared of 100 means all movements of the fund's holdings are completely explained by the movements in the index. **TTM P/E (Price-to-Earnings Ratio)** measures how expensive a stock is. It is calculated by the weighted average of a stock's current price divided by the company's trailing 12-month (TTM) earnings per share of the stocks in a fund's portfolio. **P/B (Price-to-Book Ratio)** measures a company's stock price in relation to its book value (the total amount a company would be worth if it liquidated its assets and paid back all its liabilities). **ROE (Return on Equity)** is a profitability ratio that measures the amount of net income returned as a percentage of shareholders equity. **Dividend Yield**: the portfolio's weighted average of the underlying fund holdings (as of 12/31/2018) and not the yield of the fund. **Active Share** is defined as the percentage of a portfolio that differs from its benchmark index. Active Share can range from 0% for an index fund that perfectly mirrors its benchmark to 100% for a portfolio with no overlap with an index. **Wtd. Avg. Market Cap** measures the size of the companies in which the fund invests. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its price per share.

An investment in the fund is subject to risk and there can be no assurance that the fund will achieve its investment objective. The risks associated with an investment in the fund can increase during times of significant market volatility. The principal risks of investing in the fund include: equity risk, mid-cap company risk, option risk, tax risk, concentration risk and foreign security and emerging market risk. More detailed information regarding these risks can be found in the fund's prospectus.

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For more complete information about Madison Funds®, including charges and expenses, obtain a prospectus from your financial adviser, by calling 800.877.6089 or by visiting madisonfunds.com and clicking on prospectus and reports to view or download a copy. Before investing in the funds, consider the investment objectives, risks, charges and expenses. he prospectus contains this and other information about funds and should be read carefully before investing. Madison Funds are distributed by MFD Distributor, LLC, member FINRA and may be purchased directly from the fund or through your investment professional. Portfolio data is as of the date of this piece unless otherwise noted and holdings are subject to change.

Not FDIC Insured | No Financial Institution Guarantee | May Lose Value