Madison FUNDS®

MADISON DIVERSIFIED INCOME FUND

3Q 2022 Investment Strategy Letter

Tickers: MBLAX | MBLNX | MBLCX

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The third quarter saw a continuation of the unsettled and rapidly evolving global economic landscape that has characterized 2022. The Federal Reserve (Fed) continued to aggressively combat the most significant surge in inflation measures since the early 1980s. Across financial markets, volatility remained elevated as investors anticipated the impact of a severe and longer-lasting monetary tightening. While we are beginning to see the effects of tighter monetary conditions it is likely too early to expect changes in Fed in the near term. As such, we expect continued tightening, higher yields, increased volatility, and challenging markets in the quarters ahead.

THE FED REMAINS ENGAGED

After shifting to a more aggressive pace of tightening in the first half of the year, the Fed remained resolute to normalize monetary policy combating stubborn price pressures across the economy. Headline inflation and long-term expectations, while still elevated, are showing initial signs that higher rates are having the desired impact. Meanwhile, employment data suggests the labor market is strong and not negatively impacted by monetary policy, yet. The strong labor market is allowing the Fed to remain restrictive without worrying about a slowing economy. However, as rates continue to head higher the likelihood of a more dramatic downturn in growth and labor markets will increase, especially if price pressures resist increasingly restrictive monetary policy.

After starting out the year essentially ruling out larger rate hikes and then reversing course and raising rates 75 basis points at the June, July, and September meetings, we now have Fed Funds above 3.25% for the first time since the financial crisis. Market expectations suggest several more rate hikes are likely and then a period of more gradual policy moves depending upon how the economy reacts. That's where the road becomes difficult for the Fed. Trying to steer the U.S. economy with essentially one tool is a difficult and highly unstable venture. Fed Funds rate adjustments typically have a delayed impact, upon labor markets and economic growth, of as much as 9-12 months. If this proves accurate this cycle, the economy is just starting to feel the impact of last spring's rate hikes with several more yet to work their way through the system.

MARKETS EVALUATE OUTCOMES

The aggressive Fed Funds moves were reflected in yield curve movements during the quarter as front-end rates priced in aggressive monetary tightening into 2023. The Fed's hawkish pivot continues and nearly all public comments emanating from the Fed are centered around normalizing monetary policy to contain inflationary pressures. During

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the quarter, yields across the curve moved sharply higher with the 10-year Treasury yield beginning the quarter at 3.01%, moving to a high of 3.94% before ending the quarter at 3.83%. Short-term maturities provided no refuge from the move in rates as the 2-year Treasury began the quarter at 2.95% and touched 4.34% briefly before closing the period near 4.28% at its highest level in more than 10 years. With the 2-year note yielding more than the 10-year note, we have a significant yield curve inversion in place suggesting that Fed policy will ultimately prove successful in slowing growth in future quarters. In fact, much of the volatility witnessed in recent sessions surrounds changing market expectations for Fed policy.

Current market expectations have the terminal Fed Funds Rate at around 4.50% by mid-2023, with rate cuts starting in late-2023. This market pricing stands in sharp contrast to the Fed's dot plot which suggests higher rates over a longer time frame. The median rate at the end of 2023 is projected to be 4.625% and declining to 3.875% in 2024. This difference in forward expectations should continue to inject heightened volatility as additional economic data impacts expected Fed policy. The risk that the Fed may have to reverse course, or pivot, to avoid a recession will become a common refrain among market participants in the coming months. We choose to watch the fundamental data for clues as we try to gauge the path of Fed policy going forward.

VOLATILE RISK ASSETS

Corporate spreads versus Treasurys had a volatile quarter yet ended virtually unchanged. The Bloomberg U.S. Corporate Bond Index widened by only one basis point during the quarter. Total returns were significantly negative as interest rates rose across the curve. Year-to-date, investment grade corporate bond spreads are wider by 67 bps, underperforming Treasuries by -3.57%. Surprisingly, high yield bonds had a strong quarter and tightening modestly versus Treasuries. The Bloomberg High Yield Index outperformed Treasuries by 2.27% and was only down -0.65% on a total return basis during the quarter. The lower overall duration of high yield bonds has helped the relative performance versus the long durations in the investment grade index. The Fed has been transparent with its goal to cool demand through interest rate increases. A slowing economy should worsen corporate fundamentals over the coming quarters and is the biggest hinderance to tighter spreads.

Mortgage-backed securities continued to underperform during the quarter. Quantitative tightening, reduced bank purchases, and tight relative spreads are all causes of the underperformance. The marginal buyer of the asset class are money managers and until recently, the valuations had not been attractive enough. Currently, valuations are at levels not seen since before the financial crisis of 2008. With the recent stability in corporate bond spreads, the relative value case for mortgage-backed securities has increased and makes adding to the asset class a possibility

RELATIVE YIELD EXAMPLE: MORGAN STANLEY

Within the equity portion of the Fund, we employ a relative yield strategy where we buy stocks that have a dividend yield at least 1.1x the S&P 500. Relative yield is defined as a stock's dividend yield divided by the market dividend yield. An attractive relative yield candidate is a stock with a relative yield near the high end of its historical range and a long dividend paying history with a consistent record of dividend increases. Once we identify high relative yield stocks, we then analyze a company's business model, balance sheet, and cash flow profile to assess its ability to continue paying dividends. We want to find stocks that have low valuations with potential for valuation multiple expansion, while avoiding stocks that may have high dividend yields but face secular challenges.

This quarter we are highlighting Morgan Stanley (MS) as a relative yield example in the Financial sector. MS is a leading investment bank and wealth management firm with approximately $5 trillion of client assets under management. It merged Citigroup's Smith Barney business into its own wealth management business after the 2008 recession/financial crisis, which resulted in a more stable business model. Recent acquisitions of asset manager Eaton Vance and E-Trade provide additional stability and higher returns on capital. We believe MS has a sustainable competitive advantage due to its size and scale, global reach, strong reputation, and financial distribution capabilities. Importantly for a financial institution, it is in good financial health as key leverage ratios including common equity Tier 1 ratio, Tier 1 capital ratio, Tier 1 leverage ratio, and supplementary leverage ratio were all well above required minimums at the end of 2021.[1]

Our thesis on MS is that its wealth management business will continue to become a larger part of the overall company, which will increase overall margins and return on equity (ROE). Wealth management and asset management are less cyclical than investment banking, and often generate higher margins and provide better stability of financial results. For example, the addition of Smith Barney added significant scale and boosted wealth management operating margins from below 10% into the mid-20%s over the past several years while also increasing returns on equity. Looking ahead, we believe the company will benefit from rising asset prices and higher interest rates, should they happen over time.

The fund bought Morgan Stanley in September 2022. It has an A-rated balance sheet by Standard & Poor's following its transformational acquisitions. As shown in the chart on the following page, at the time of purchase, its absolute dividend yield was 3.7% and its relative dividend yield was 2.1x the S&P 500, which was close to an all-time high. MS doubled its dividend in 2021 and has averaged a 25% per year dividend increase on average over the past five years. We expect the company to continue returning capital to shareholders through buybacks and dividend increases.

Primary risks to our thesis include an economic downturn that results in declining market activity and asset prices, increased regulatory requirements that could limit the amount of capital returned to shareholders, and loss of share in its wealth management and/or investment banking businesses, among others.

PERFORMANCE & POSITIONING

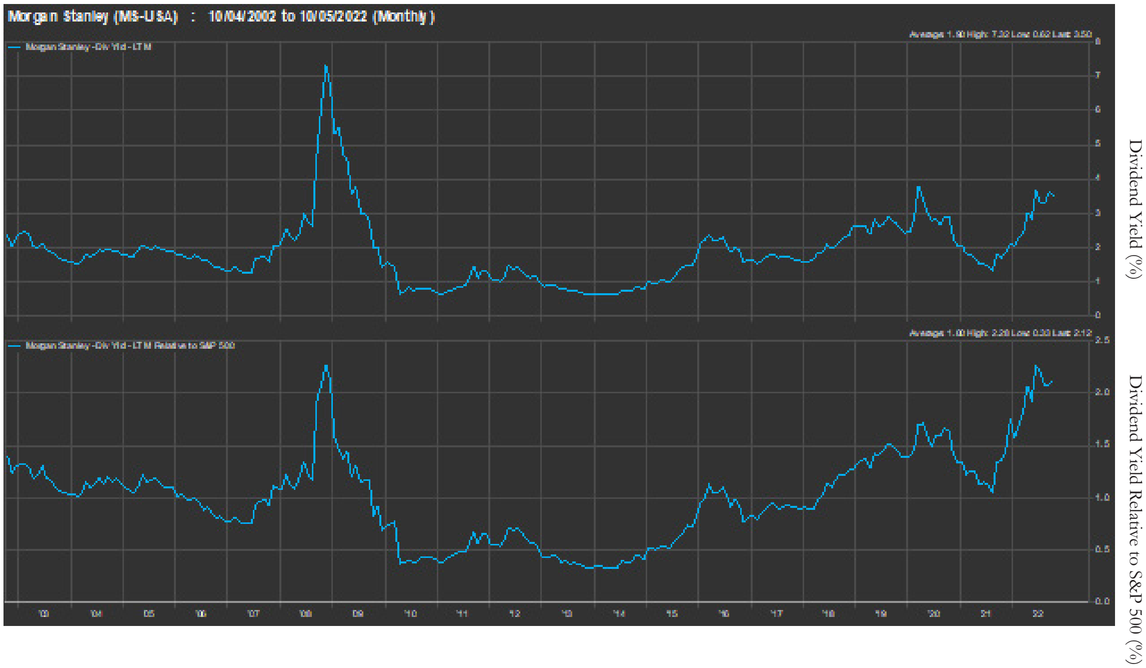
During the third quarter, the Madison Diversified Income Fund (Class A) returned -6.98%, compared to its blended benchmark (50% equity/50% fixed income) return of -4.82%. The S&P 500 Index returned -4.88% while the ICE BofA US Corp. Govt. & Mtg Index returned -4.92%.

Within the fixed income portion of the fund, conservative duration positioning and an underweight to lower coupon agency mortgage-backed securities were the biggest contributors to performance. The Fund has significantly reduced its participation in new issue corporate bonds and has gradually let the credit exposure reduce overtime. The Fund will continue its conservative duration positioning until the market fully prices in a higher for longer environment or the economic environment significantly deteriorates.

John Brown *Mike Sanders* *Chris Nisbet* *Drew Justman* *Allen Olson*

[1] Common equity Tier 1 ratio, Tier 1 capital ratio, Tier 1 leverage ratio, and supplementary leverage ratio are measures of a bank's capital structure in proportion to its assets. Following the financial crisis, international standards were established requiring banks to adhere to minimum levels of each of these ratios to reduce the risk of insolvency.

Dividend Yield and Relative Dividend Yield History for Morgan Stanley (MS)



Source:FactSet

DISCLOSURES

Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only, and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.

Custom Blended Benchmark - 50% Fixed / 50% Equity Blend Benchmark consists of 50% Bank of America U.S. Corp. Govt. & Mtg. Index and 50% S&P 500® Index. ICE Bank of America U.S. Corporate, Government & Mortgage Index, "ICEBofA Corp/Govt & Mtg." is a broad-based measure of the total rate of return performance of the U.S. investment-grade bond markets.

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.

Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 89% of the total market capitalization of the Russell 3000 Index.

The Bloomberg US Corporate Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and governmentrelated bond markets.

Bonds are subject to certain risks including interest-rate risk, credit risk and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. In a low-interest environment, there may be less opportunity for price appreciation. In a lower interest environment, there may be less opportunity for price appreciation.

Bond Spread is the difference between yields on differing debt instruments of varying maturities, credit ratings, and risk, calculated by deducting the yield of one instrument from another.

The Dividend Aristocrats are S&P 500 index constituents. Qualifications for a stock to be a Dividend Aristocrat are 1) a stock must be a member of the S&P 500 and 2) a stock must have increased their dividend payment for at least the past 25 consecutive years.

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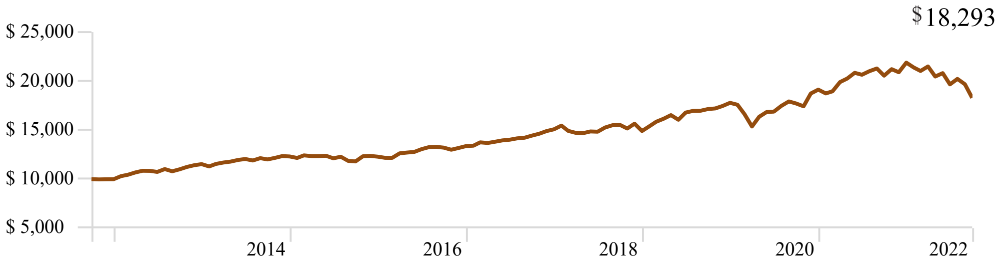
MADISON DIVERSIFIED INCOME FUND

September 30, 2022

Growth of $10,000 Class A Shares, Trailing 10 Years[1]



Average Annual Total Returns[2] (%)

		Three Months	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception
Class A	Without Sales Charge	-6.98	-16.41	-11.00	2.18	4.85	6.23	5.57
	With Sales Charge	-12.33	-21.20	-16.12	0.18	3.61	5.60	5.32
Class B	Without Sales Charge	-7.16	-16.86	-11.65	1.43	4.08	5.58	5.32
	With Sales Charge	-11.32	-20.58	-15.21	0.43	3.77	5.58	5.32
Class C	Without Sales Charge	-7.16	-16.86	-11.65	1.45	4.09	5.44	5.48
	With Sales Charge	-8.08	-17.69	-12.45	1.45	4.09	5.44	5.48
50% Fixed / 50% Equity Blend		-4.82	-19.28	-14.82	2.66	4.76	6.44	-
ICE BofA Corp/Govt & Mtg. Index		-4.92	-14.85	-14.76	-3.35	-0.27	0.91	-
S&P 500® Index		-4.88	-23.87	-15.47	8.16	9.24	11.70	-

Calendar Year Returns[2] (%)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Class A	7.61	15.39	6.78	-0.16	8.75	12.83	-1.16	19.28	7.57	14.39
50% Fixed / 50% Equity	10.24	13.90	10.05	1.23	7.36	12.42	-1.90	20.03	13.73	12.76

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Distribution History

Class A - Per Share

Year	Total	Yr-End Nav
2021	$0.06	$17.11
2020	$0.46	$16.79
2019	$1.08	$16.07
2018	$1.53	$14.39
2017	$0.51	$16.13

10-Yr Risk Measures (%)

Class A vs. 50% Fixed / 50% Equity Blend

Standard Deviation	8.51
Downside Capture	109.05
Upside Capture	103.64

Yields Class A

30-day SEC Yield	2.11%
Yield to Maturity	4.95%

Other available share classes have yields that may be higher or lower than the class presented.

Experienced Management

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Fund Features

- Fund seeks high total return by combining income and capital appreciation
- Focus on dividend paying stocks at attractive prices
- Active management of credit risk, sector allocation and yield curve position
- Target: 60% stocks and 40% bonds

Class	Ticker	Inception Date	Exp. Ratio
A	MBLAX	12/29/97	1.11%
B	MBLNX	12/29/97	1.86%
C	MBLCX	7/31/12	1.86%

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

Distribution Frequency - Monthly

1 Growth of $10,000 for the years indicated 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 below) 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 B shares have no up-front sales charge. If redeemed within six years, however, B shares are subject to a maximum contingent deferred sales charge ("CDSC") of 4.5%. Class B shares may not be purchased or acquired, except for exchange from Class B shares of another Madison fund, please see the most recent prospectus for details. Class C shares do not have an up-front sales charge, however, C shares are subject to a 1% CDSC on shares redeemed within 12 months of purchase.

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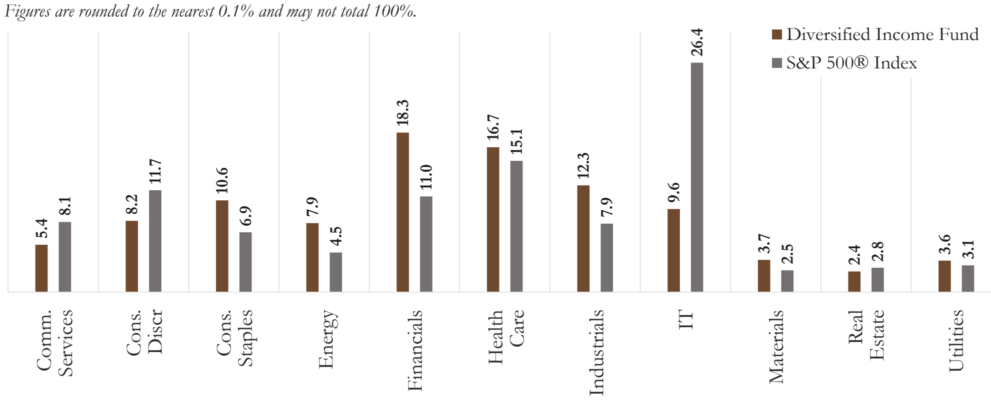
Equity Sector Allocation (%)

Figures are rounded to the nearest 0.1% and may not total 100%.



Portfolio Mix (%)

Stocks	65.9
U.S. Treasuries	11.8
Corporate Bonds	10.0
Mortgage Backed Securities	8.0
Real Estate Investment Trusts	1.6
Cash & Short Term Securities	1.3
Asset Backed Securities	1.1
Municipal Bonds	0.4

Top Ten Holdings (%)

JOHNSON + JOHNSON	2.7
TRAVELERS COS INC/THE	2.6
CVS HEALTH CORP	2.6
DOMINION ENERGY INC	2.5
HOME DEPOT INC	2.4
BRISTOL MYERS SQUIBB CO	2.4
PEPSICO INC	2.2
MCDONALD S CORP	2.2
PACCAR INC	2.1
CME GROUP INC	2.0

Characteristics

TTM P/E	15.6x
P/B	2.6x
ROE	24.0%
Active Share	84.3%
Wtd. Avg. Market Cap (billions)	$127.1
Effective Duration (years)	6.1
Avg. Maturity (years)	8.3
Total Net Assets (millions)	$153.1
Portfolio Turnover	34%
Total Number of Holdings	320

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Standard Deviation: a statistical measurement of dispersion about an average, which, for a portfolio, depicts how widely the returns varied over a certain period of time. Investors may use the standard deviation of historical performance to understand the range of returns for a portfolio. When a portfolio has a higher standard deviation than its benchmark, it implies higher relative volatility. Standard deviation has been calculated using the trailing monthly total returns for the appropriate time period. The standard deviation values are annualized. 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. 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 raised if its assets were liquidated and paid back all its liabilities). ROE (Return on Equity): a profitability ratio that measures the amount of net income returned as a percentage of shareholders equity. Active Share: 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. Effective Duration provides a measure of a fund's interest-rate sensitivity. The longer a fund's duration, the more sensitive the fund is to shifts in interest rates. Average Maturity is computed by weighting the maturity of each security in the portfolio by the market value of the security, then averaging these weighted figures. SEC 30-day Yield represents net investment income earned by a fund over a 30-day period, expressed as an annual percentage rate based on the fund's share price at the end of the 30-day period. It is calculated based on the standardized formula set forth by the SEC. It is designed to standardize the yield calculation so that all mutual fund companies with the same or similar portfolios use a uniform method to obtain yield figures. Yield to maturity measures the annual return an investor would receive if they held a particular bond until maturity as of the end of a report period. In order to make comparisons between instruments with different payment frequencies, a standard yield calculation basis is assumed. This yield is calculated assuming semiannual compounding. Portfolio Turnover: a measure of the trading activity in an investment portfolio—how often securities are bought and sold by a portfolio. It is calculated at the fund level and represents the entire fiscal year ending 10/31/2020. 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.

50% Fixed / 50% Equity Blend Benchmark consists of 50% Bank of America U.S. Corp. Govt. & Mtg. Index and 50% S&P 500® Index. ICE Bank of America U.S. Corporate, Government & Mortgage Index, "ICE BofA Corp/Govt & Mtg." is a broad-based measure of the total rate of return performance of the U.S. investment-grade bond markets. Index 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.

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, interest rate risk, credit risk, non-investment grade security risk, option risk, capital gain realization risks to taxpaying shareholders, and foreign security and emerging market risk.

Mutual funds that invest in bonds are subject to certain risks including interest rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. More detailed information regarding these risks can be found in the fund's prospectus.

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