



# Blending Styles in Large Cap Equities

## Explore Active-Passive Pairings with the Madison Large Cap Fund (MIVIX)

Traditionally, investors pursue active management strategies to meet specific objectives, whether reducing risk, seeking above-market returns, or diversifying into or out of sectors or styles. Conversely, passive index ETFs have gained acclaim for their simplicity and cost efficiency. However, there is an argument to be made that capitalization-weighted indexes and the funds that track them may inadvertently overexpose investors to certain risks while limiting access to certain parts of the market. Given the concentration among sectors and, to some extent, individual names, index investing can be a very active decision.

Recognizing the benefits and risks of both active and passive investing, some of the advisors we work with use pairing strategies to unlock a variety of investment outcomes for their clients. Here are a few examples of how advisors pair the Madison Large Cap Fund with other investment strategies.

### Madison Large Cap Fund + S&P 500 Index

Since the beginning of 2023, 58% of the S&P 500's return came from just seven stocks (the "Magnificent Seven"). As of 12/31/24, the top ten stocks in the index make up 37.3% of the index. The very nature of a market capitalization-weighted index can result in a surprisingly concentrated portfolio and dramatic return patterns. While you may have exposure to other sectors and stocks with lower market caps, their relative weighting will have little impact on performance.

#### KEY POINTS:

- Not only is the S&P 500 top-heavy, but its top ten stocks hold an average price-to-earnings (P/E) multiple of 64.1, more than 25 percentage points higher than the index's long-term average of 19.2 (last 20 years) and the equal-weight S&P 500 of 18.3.
- From a risk management perspective, pairing an S&P 500 Index fund with the Madison Large Cap Fund has generated lower beta, a favorable up/down capture ratio, and an overall portfolio valuation that balances growth potential with a margin of safety.\*
- Madison's high active share (87%) reflects a differentiated portfolio that stands apart from the cap-weighted index.

| 5-Year   | Standard Deviation | Up Capture | Down Capture | Beta | Sharpe Ratio |
|--|--------------------|------------|--------------|------|--------------|
| S&P 500 Index                                  | 18.21              | 100.00     | 100.00       | 1.00 | --           |
| Madison Large Cap Fund I (MIVIX) <sup>1</sup>  | 17.78              | 94.65      | 97.40        | 0.94 | 0.67         |
| Blend (50% S&P 500/50% Madison Large Cap Fund) | 17.81              | 97.39      | 98.65        | 0.97 | 0.70         |

\*Despite lower risk metrics, performance for the blend slightly trailed the benchmark index.

## Madison Large Cap Fund + Large Cap Growth

Growth is what most stock investors want to experience, but at what cost? As of 12/31/24, investors are paying a 42% premium for growth stocks (P/E of 37 for the R1000 Growth Index vs. 26 for the R1000 Index), leaving little margin of safety should the market experience a setback. The growth index also tends to be concentrated in just a few industries, primarily Technology, Consumer Discretionary, and Communication Services, which comprise 78% of the Russell 1000 Growth Index.

### KEY POINTS:

- To further demonstrate the extreme concentration, just four stocks (MSFT, AAPL, NVDA, and AMZN) make up 42% of the index.
- At 37x P/E, the Growth Index is trading in the third percentile (most expensive) of its 20-year valuation range.\*\*
- While the growth style has performed better than other styles over the past five years, pairing a growth fund with the Madison Large Cap Fund has broadened sector diversification, reduced beta and downside capture, and improved the overall margin of safety for a smoother investing experience.<sup>2</sup>

| 5-Year   | Standard Deviation | Up Capture<br>(vs. S&P 500) | Down Capture<br>(vs. S&P 500) | Beta<br>(vs. S&P 500) | Sharpe Ratio |
|--|--------------------|-----------------------------|-------------------------------|-----------------------|--------------|
| Russell 1000 Growth Index                        | 20.67              | 111.22                      | 102.60                        | 1.08                  | --           |
| Madison Large Cap Fund I (MIVIX) <sup>1</sup>    | 17.78              | 94.65                       | 97.40                         | 0.94                  | 0.67         |
| Blend<br>(50% R1000G/50% Madison Large Cap Fund) | 18.56              | 103.57                      | 99.24                         | 1.01                  | 0.79         |

## Madison Large Cap Fund + Large Cap Value

Value investing offers the opportunity for capital appreciation and dividends from stocks trading at a discount to their perceived value. However, the constituents of a value index can also include many low-quality stocks with little prospect for growth.

### KEY POINTS:

- 30% of stocks in the value index are growing slower than 5% or have negative earnings growth. The index's historical 3-year earnings per share (EPS) growth is 11.2%, compared with 19.5% for the S&P 500 Index.
- 28% of rated stocks in the value index have a Standard & Poors credit rating of BB+ or lower, meaning bonds of these companies would be considered "junk".
- The value index is concentrated in defensive sectors like Utilities, Consumer Staples, and Health Care.
- The Madison Large Cap Fund and its "growth at a reasonable price" approach can complement a value allocation by adding exposure to growth areas of the market while emphasizing quality in the form of balance sheet strength.

\*\*An index-tracking ETF, ticker IWF, was used as a proxy for historical index data

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| 5-Year   | Standard Deviation | Up Capture<br>(vs. S&P 500) | Down Capture<br>(vs. S&P 500) | Beta<br>(vs. S&P 500) | Sharpe Ratio |
|--|--------------------|-----------------------------|-------------------------------|-----------------------|--------------|
| Russell 1000 Value Index                         | 18.92              | 88.28                       | 102.69                        | 0.96                  | --           |
| Madison Large Cap Fund I (MIVIX) <sup>1</sup>    | 17.78              | 94.65                       | 97.40                         | 0.94                  | 0.67         |
| Blend<br>(50% R1000V/50% Madison Large Cap Fund) | 18.14              | 91.54                       | 99.97                         | 0.95                  | 0.57         |

## Calendar Year Returns (%)

| 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022   | 2023  | 2024  | Average Annual Returns<br>As of 12/31/2024 |        |        |         |
|-------|-------|-------|-------|-------|-------|-------|--------|-------|-------|--|--------|--------|---------|
|       |       |       |       |       |       |       |        |       |       | 1 year                                     | 3 year | 5 year | 10 year |
| 5.67  | 17.34 | 30.21 | -0.20 | 36.39 | 38.49 | 28.71 | -7.54  | 42.68 | 33.36 | 33.36                                      | 10.47  | 18.96  | 16.78   |
| 1.38  | 12.97 | 22.51 | -1.51 | 31.49 | 18.40 | 27.60 | -13.11 | 26.29 | 25.03 | 25.03                                      | 8.94   | 14.53  | 13.10   |
| 0.23  | 11.96 | 21.83 | -4.38 | 30.48 | 14.42 | 25.16 | -13.17 | 26.24 | 16.54 | 16.54                                      | 8.53   | 12.34  | 12.45   |
| -3.83 | 7.08  | 13.66 | -8.27 | 26.54 | 2.80  | 22.80 | -18.11 | 26.09 | 16.44 | 16.44                                      | 8.43   | 8.68   | 8.49    |
|       |       |       |       |       |       | 22.68 | -29.14 | 11.46 | 14.37 | 14.37                                      | 5.63   |        |         |

| Madison Large Cap Fund  | S&P 500   | Large Cap Growth   | Large Cap Value   |
|---|---|--|---|
| <p>A concentrated, large cap core strategy that targets stocks with durable growth characteristics trading at reasonable valuations.</p> <ul style="list-style-type: none"> <li>Class Y (MINVX)</li> <li>Class I (MIVIX)</li> </ul> | <p>Market-cap-weighted index of U.S. large cap stocks.</p> <p>The benchmark for the Madison Large Cap Fund.</p> | <p>Investment strategies that target stocks with above-average growth characteristics. For illustrative purposes, we will use the Russell 1000 Growth Index.</p> | <p>Investment strategies that target stocks trading at a discounted valuation. For illustrative purposes, we will use the Russell 1000 Value Index.</p> |

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](http://madisonfunds.com) or call 800.877.6089 to obtain performance data current to the most recent quarter-end.

Class Y (MINVX) has a 0.91% expense ratio, and the inception date is 11/1/78. Class I (MIVIX) has a 0.81% expense ratio, and the inception date is 8/31/20. Expense ratios are based on the fund's most recent prospectus.

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 Y and R6 shares do not impose an up-front sales charge or a CDSC.

From February 6, 2009 through February 28, 2016 the investment adviser waived between 0.11% to 0.15% of its management and/or services fees annually for Class Y shares; investment returns reflect these fee waivers, without which returns would have been lower.



To learn more about the Madison Large Cap Fund, visit [madisonfunds.com](https://madisonfunds.com).



**Consider the investment objectives, risks, and charges and expenses of Madison Funds carefully before investing. Each fund's prospectus contains this and other information about the fund. Call 800.877.6089 or visit [madisonfunds.com](https://madisonfunds.com) to obtain a prospectus and read it carefully before investing.**

1. The inception date for MIVIX is 8/31/20; any performance prior to the inception date is Class Y (MINVX).

2. Margin of safety is an active management discipline for risk management that refers to the difference between price and appraised value. Typically, the lower the valuation metric relative to the appraised value, the greater the margin of safety. The concept is central to value investing and helps investors minimize potential losses.

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An investment in the Fund is subject to risk and there can be no assurance 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, growth and value risks, capital gains realization risks to taxpaying shareholders, foreign security and emerging market risk, depository receipt risk, and market risk. More detailed information regarding these risks can be found in the Fund's prospectus.

Effective February 28, 2025, the Fund's name changed from Madison Investors Fund to Madison Large Cap Fund. The investment strategy and objective remain unchanged.

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.

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® Growth Index is designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit growth characteristics.

Russell 1000® Value Index is designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit value characteristics.

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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.

Upside Capture Ratio: a portfolio's performance in up markets relative to its benchmark. The security's upside capture return is divided by the benchmark's upside capture return over the time period.

Downside Capture Ratio: a portfolio's performance in down markets relative to its benchmark. The security's downside capture return is divided by the benchmark's downside capture return over the time period.

Beta: a measure of the fund's sensitivity to market movements. A portfolio with a beta greater than 1 is more volatile than the market, and a portfolio with a beta less than 1 is less volatile than the market.

Sharpe Ratio: a statistic for measuring risk-adjusted return. It is calculated by using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe ratio, the better the historical risk-adjusted performance.

Price-to-Earnings (P/E) 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 earnings per share of stock in a portfolio.

Active share: compares the Fund's portfolio holdings against those of its benchmark. When the two diverge, the difference is credited to active share. 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.

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).

EPS Growth: the annual rate at which a company's earnings have grown over the past three years.

The Magnificent Seven stocks are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

Madison-695057-2025-02-26

