

# MADISON CORE BOND FUND

## 1Q 2023 Investment Strategy Letter

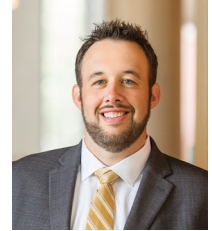
Tickers: MBOYX | MBOIX | MBOAX | MBORX

Volatility remains elevated as market participants shift expectations for monetary policy with every data release and news story. During the first two months of the quarter, interest rates generally trended higher as inflation slowly began to increase and Federal Reserve (Fed) officials hinted that rates may have to move higher than originally expected. These expectations pushed the two-year Treasury to a cycle high of 5.07%. However, with the news of some banks having liquidity issues due to large losses in investment portfolios, pricing rapidly changed with the two-year Treasury falling over 100 basis points (bps) and ending the quarter near 4%.

While the Fed's top priority remains inflation, new concerns about financial stability have made the future path of monetary policy extremely uncertain. The impact that the recent banking turmoil will have on the path of inflation is unknown. Lending standards had already been tightening over the last year as the Fed aggressively raised rates and banks became less sanguine on future economic growth. Nonetheless, there continues to be a labor shortage in certain industries, energy prices remain volatile and there are areas where supply chains remain tight. Taking all factors into consideration creates a wide distribution for the future path of interest rates, economic growth, and risk assets.

### ONE MORE AND DONE?

During the first quarter, the Fed raised the Fed Funds Rate twice, ending the quarter with a stated range of 4.75% to 5.00%. During the last Fed meeting, Chairman Jay Powell indicated that there was significant uncertainty in the Fed's own forecast of future interest rates given recent volatility in the banking system. Markets do not like uncertainty and interest rates ended the quarter lower versus year-end 2022. The two-year, five-year, ten-year, and thirty-year Treasuries were lower by 40 bps, 43 bps, 41 bps and 31 bps, respectively. Lower interest rates pushed total returns higher for Treasuries with the Bloomberg U.S. Treasury Index returning 3.00% for the quarter, the highest number since the first quarter of 2020.



Mike Sanders, CFA®  
Head of Fixed Income  
Portfolio Manager  
Industry since 2004



Allen Olson, CFA®  
Portfolio Manager  
Industry since 1998

*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 month-end.*



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## 1Q 2023 MADISON CORE BOND FUND - INVESTMENT STRATEGY LETTER

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Due to the overall level of uncertainty, investors continue to adjust expectations of where interest rates will end 2023. Fed projections show a Fed Funds Rate of 5.125%, which would indicate one additional increase before pausing for the remainder of the year. However, current market implied pricing indicates an expected Fed Funds Rate of 4.35% in December 2023, over 75 bps lower. This large difference in expectations will continue to drive volatility throughout the remainder of the year.

### BANKING ISSUES

The Bloomberg U.S. Corporate Bond Index returned 3.50% during the first quarter, slightly better performance than similar-maturity Treasuries. While overall performance was positive, the volatility during the quarter was significant. Corporate bond spreads mildly tightened during the first two months of the quarter until issues in the banking sector began to arise. Spreads widened out significantly, especially within the financial sector with spreads on the Bloomberg U.S. Finance Corporate Bond Index reaching 188 bps in mid-March before falling to 164 by month-end, 24 bps higher than year-end 2022. Borrowings at newly created Fed programs have risen but are not accelerating at the same pace as when first introduced. The true impact for banks will not be known for many quarters and this will continue to be a source of uncertainty and volatility in risk assets.

### PERFORMANCE & POSITIONING

During the first quarter, the Core Bond Fund (Class I) returned 2.75%, lagging the Bloomberg U.S. Aggregate Index which returned 2.96%. A slightly lower duration versus the index and an overweight to banks were the main drivers of underperformance. The Fund aggressively added to mortgage-backed securities as spreads widened during the quarter.

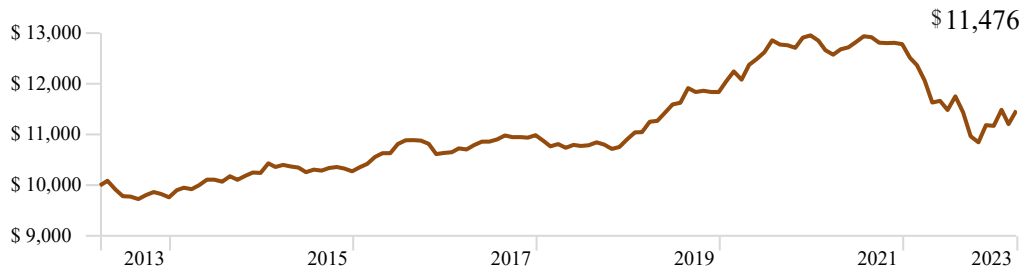
*Mike Sanders*

*Allen Olson*

# MADISON CORE BOND FUND

March 31, 2023

## Growth of \$10,000 Class Y Shares, Trailing 10 Years<sup>1</sup>



## Average Annual Total Returns<sup>2</sup> (%)

	Three Months	YTD	1 Yr	3 Yr	5 Yr	10 yr	Since Inception
Class I	2.75	2.75	-4.79	-	-	-	-4.64
Class R6	2.65	2.65	-4.82	-	-	-	-6.62
Class Y	2.71	2.71	-4.87	-1.70	1.19	1.39	2.75
Class A without sales charge	2.62	2.62	-5.18	-2.03	0.88	1.10	3.16
with sales charge	-2.02	-2.02	-9.45	-3.52	-0.04	0.63	2.98
Bloomberg U.S. Aggregate Bond Index	2.96	2.96	-4.78	-2.77	0.91	1.36	-

## Calendar Year Returns<sup>2</sup> (%)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Class Y	-2.52	4.91	0.31	3.51	3.28	-0.74	8.52	9.43	-1.33	-12.58
Bloomberg U.S. Aggregate Bond Index	-2.02	5.97	0.55	2.65	3.54	0.01	8.72	7.51	-1.54	-13.01

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## Characteristics (years)

Effective Duration	6.02
Avg. Maturity	8.51

## 10-Yr Risk Measure (%) Class Y

Standard Deviation	4.13
Downside Capture	93.88
Upside Capture	95.53

## Yields Class Y

30-day SEC Yield	3.56%
Yield to Maturity	4.70%

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

## Experienced Management



Mike Sanders, CFA  
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Industry since 2004



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## Fund Features

- ▶ Fund seeks to generate a high level of income consistent with the prudent limitation of investment risk.
- ▶ Focus on investment grade bonds
- ▶ General maturity of less than 10 years; average duration is 3-7 years
- ▶ Active management of credit risk, sector allocation and yield curve position

Class	Ticker	Inception Date	Exp. Ratio
A	MBOAX	12/29/97	0.85%
Y	MBOYX	6/30/06	0.60%
I	MBOIX	2/26/21	0.50%
R6	MBORX	2/28/22	0.42%

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

## Distribution Frequency - Monthly

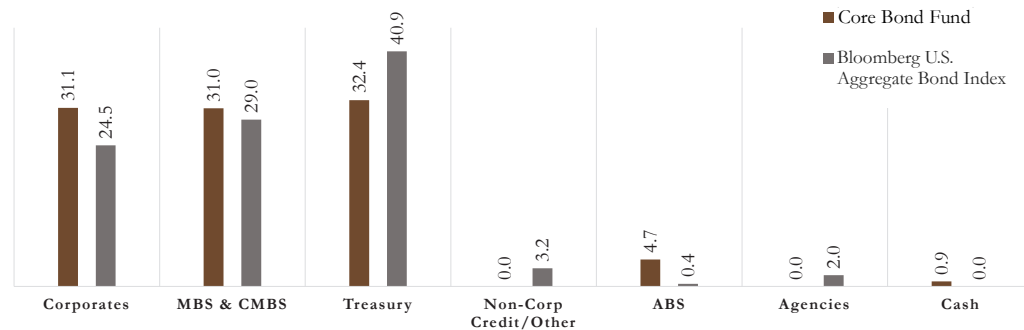
<sup>1</sup> Growth of \$10,000 for the years shown is calculated at NAV and assumes all dividends and capital gain distributions were reinvested. It does not take into account sales charges (see Note 2 below) or the effect of taxes.

<sup>2</sup> 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 Y shares do not impose an up-front sales charge or a CDSC.

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.

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

Quality Distribution (%)

Total Net Assets

\$196.6 Million

Portfolio Turnover

21%

Total Number of Holdings

374

CREDIT RATING	MADISON FUND	BLOOMBERG US AGGERGATE BOND INDEX
AAA	64.8	72.9
AA	2.2	3.1
A	9.9	11.2
BBB	18.3	12.8
BB	2.5	--
B	0.4	--
Not Rated	1.1	--
Cash	0.9	--

Credit ratings based on S&P scale.

**This material is authorized for use only when preceded or accompanied by the current prospectus. Before investing, please fully consider the investment objectives, risks, charges and expenses of the fund. This and other important information is contained in the current prospectus, which you should carefully read before investing or sending money. For more complete information about Madison Funds® obtain a prospectus from your financial adviser, by calling 800.877.6089 or by visiting <https://www.madisonfunds.com/individual/prospectus-and-reports> to view or download a copy.**

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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. 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. 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 is 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 10/31/2022. Bloomberg U.S. Aggregate Bond Index is an unmanaged index of U.S. fixed income securities. The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS sectors.

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: interest rate risk, call risk, risk of default, liquidity risk, mortgage-backed security risk, credit risk and repayment/extension risk, non-investment grade security risk and foreign security and emerging market 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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### DISCLOSURES

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

The Bloomberg U.S. Finance Corporate Bond Index is a subset of the Bloomberg U.S. Corporate Index that measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate bonds of financial institutions.

The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities and corporate securities, with maturities greater than one year.

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index.

In addition to the ongoing market risk applicable to portfolio securities, bonds are subject to interest rate risk, credit risk and inflation risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Credit risk is the possibility that the issuer of a security will be unable to make interest payments and repay the principal on its debt. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer.

A basis point is one hundredth of a percent.

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.

Yield Curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward sloping curve), inverted (downward sloping curve) and flat. Yield curve strategies involve positioning a portfolio to capitalize on expected changes.

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