

# MADISON DIVIDEND INCOME FUND

## 1Q 2024 Investment Strategy Letter

Tickers: BHBFX | MDMIX | MADAX | MADRX

For the first quarter, the Madison Dividend Income Fund (Class Y) returned +3.7%, which compared to the S&P 500, Russell 1000 Value, and Lipper Equity Income peer group returns of +10.6%, +9.0%, and +7.8%, respectively.

While dividend stocks have trailed the indices over the past five quarters since the beginning of 2023, we believe there are reasons for optimism that dividend stock performance may improve going forward. One notable reason is that dividend stocks outperformed the S&P 500 in the month of March. The Dow Jones Select Dividend Index was up +6.6% compared to the S&P 500 gain of +3.2%. More encouraging for us was the change in sector leadership during the first quarter. Three of the top four performing sectors were Energy, Industrials, and Financials, with returns of +12.5%, +10.7%, and +9.5%, respectively, and prior sector leader Technology trailed the index. At quarter end, the Dividend Income Fund had 48.8% of the portfolio invested in these three sectors, including a 9.5% weight in Energy, a 19.3% weight in Industrials and a 20% weight in Financials. If these three sectors continue to lead, the Dividend Income portfolio is likely to benefit.



John Brown, CFA  
Portfolio Manager/Analyst  
Industry since 1983



Drew Justman, CFA  
Portfolio Manager/Analyst  
Industry since 2000

Exhibit 1: DVY vs SPY relative 12-month forward P/E ratio



Source: BofA Global Research, Factset

As of 3/10/24

BofA GLOBAL RESEARCH

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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But the most important reason why we believe dividend stock performance may improve going forward is that dividend stocks are attractively valued compared to the broad market. As shown on the graph on the prior page from Bank of America (BofA) Global Research, some dividend funds are historically cheap vs. the S&P 500. The iShares Select Dividend exchange traded fund (DVY) is almost two standard deviations below its long-term average relative valuation compared to the S&P 500 over the past 20 years. Meaning, this level of relative valuation is well outside the norm. To quote the BofA Global Research report: “Dividend yield is unloved and cheap: active fund managers are massively underweight dividends after 2023’s credit scares. Valuations are attractive with some dividend funds trading 2-standard deviations cheap vs. the S&P 500.”

Another key valuation metric we use is the relative dividend yield of the Dividend Income strategy compared to the S&P 500 and Russell 1000 Value indices. This is our preferred valuation metric, and we elaborate more on that below. As of quarter end, Dividend Income had a dividend yield of 2.84%, and a relative dividend yield of 2.1x the S&P 500 and 1.35x the Russell 1000 Value indices, which were the highest levels over the past 20 years. Our conclusion is that dividend stocks are historically cheap vs. the broad market, which we believe presents an attractive investment opportunity.

### OUR APPROACH TO INVESTING

The Madison Dividend Income Fund’s goal is to achieve long-term outperformance over a full market cycle while taking below average risk. To pursue this objective, we employ a **relative yield strategy** where we buy stocks that have a dividend yield of 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 **Exxon Mobile (XOM)** as a relative yield example in the Energy sector. XOM is a leading integrated oil and natural gas company. It has upstream assets that develop and produce oil and natural gas, along with downstream refining and chemical manufacturing assets. We believe it has attractive low-cost acreage in the Permian basin and has a sizeable growth opportunity in Guyana. Further, we think XOM has a sustainable competitive advantage due to size and scale, and its ability to integrate refining and chemical assets provides a low-cost advantage versus competitors.

Our thesis on XOM is that it will grow production volumes of oil and gas moderately over the next few years, while limiting excessive capital investment that plagued the industry from 2014-2020. Production growth will come from its 2023 acquisition of Pioneer Natural Resources, which is the largest producer in the Permian basin. XOM plans to double its Permian output by 2027, to 2 million barrels per day. Capital spending will be limited to \$20-25 billion per year through 2027, which should allow for significant amounts of cash to be returned to shareholders including a \$35 billion share repurchase program and continued dividend increases. Higher oil prices would provide a tailwind to our thesis but are not necessary. We think XOM can grow earnings and cash flow if oil prices remain above \$60 per barrel.

The fund purchased XOM in March 2024 at \$111. At the time of purchase, XOM had a dividend yield of 3.3% and a relative dividend yield of 2.4x the S&P 500, which was above its 20-year average of 1.75x. The company has an AA-rated balance sheet by Standard & Poor’s and is a Dividend Aristocrat that has raised its annual dividend 41 years in a row. XOM is one of only two Energy companies on the Dividend Aristocrat list, which requires dividend increases for 25 consecutive years.

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### SUMMARY

The Dividend Income Fund is a conservatively managed equity strategy that owns a high-quality portfolio of above-average dividend yield stocks with strong balance sheets and sustainable competitive advantages (wide moats). We believe that owning high-quality stocks with above-average dividend yields is the best way to provide income and generate attractive long-term returns over a full market cycle while limiting drawdowns in bear markets and market corrections.

We also believe it is important to stay disciplined in the investment process throughout the full market cycle despite changing short-term dynamics. As a result, the fund maintains its high-quality, above-average dividend focus in all market environments. After strong relative performance in 2022, many stocks in the Dividend Income strategy have trailed the index over the past five quarters. We view this as a temporary issue and remain committed to our long-term investment philosophy and process.

*John Brown, CFA®*

*Drew Justman, CFA®*

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### DISCLOSURES

“Madison” and/or “Madison Investments” is the unifying tradename of Madison Investment Holdings, Inc., Madison Asset Management, LLC (“MAM”), and Madison Investment Advisors, LLC (“MIA”). MAM and MIA are registered as investment advisers with the U.S. Securities and Exchange Commission. Madison Funds are distributed by MFD Distributor, LLC. MFD Distributor, LLC is registered with the U.S. Securities and Exchange Commission as a broker-dealer and is a member firm of the Financial Industry Regulatory Authority. The home office for each firm listed above is 550 Science Drive, Madison, WI 53711. Madison’s toll-free number is 800-767-0300.

Any performance data shown represents past performance. Past performance is no guarantee of future results.

Non-deposit investment products are not federally insured, involve investment risk, may lose value and are not obligations of, or guaranteed by, any financial institution. Investment returns and principal value will fluctuate.

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.

The Dow Jones U.S. Select Dividend Index aims to measure the performance of high dividend-paying U.S. stocks, excluding REITs, meeting specific criteria for dividends, earnings, size and liquidity. It uses a yield-driven weighting method.

The Nasdaq-100 Index is comprised of 100 of the largest and most innovative non-financial companies listed on the Nasdaq Stock Market based on market capitalization.

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.

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](http://madisonfunds.com) to obtain a prospectus and read it carefully before investing.

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.

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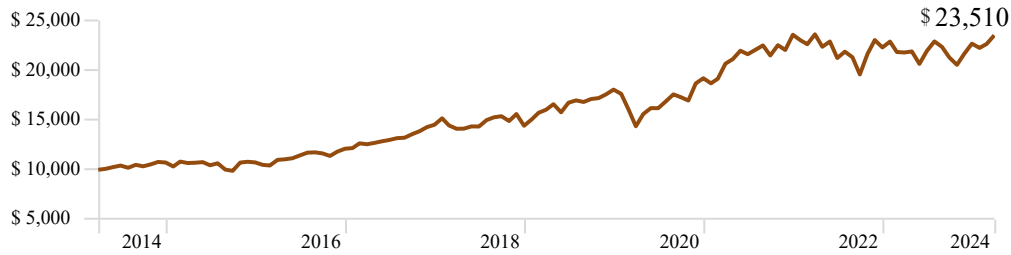
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Madison-524509-2024-04-09

# MADISON DIVIDEND INCOME FUND

March 31, 2024

## 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	3.71	3.71	8.03	4.51	-	-	8.57
Class R6	3.73	3.73	8.12	-	-	-	2.08
Class Y	3.68	3.68	7.92	4.40	7.95	8.92	8.20
Class A without sales charge	3.61	3.61	7.65	4.14	-	-	9.93
with sales charge	-2.33	-2.33	1.46	2.11	-	-	8.24
S&P 500® Index	10.56	10.56	29.88	11.49	15.05	12.96	-
Russell 1000® Value Index <sup>3</sup>	8.99	8.99	20.27	8.11	10.32	9.01	-
Lipper Equity Income Funds Index	7.85	7.85	18.75	8.85	10.60	9.21	-

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Class Y	8.81	0.07	12.79	19.93	-0.70	25.16	6.34	22.76	-5.42	1.72
S&P 500®	13.69	1.38	11.96	21.83	-4.38	31.49	18.40	28.71	-18.11	26.29
Russell 1000® Value	13.45	-3.83	17.34	13.66	-8.27	26.54	2.80	25.16	-7.54	11.46
Lipper	10.69	-2.96	14.30	16.43	-6.62	26.38	4.58	24.20	-5.57	10.37

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## 5-Yr Risk Measures (%)

	Class Y vs. S&P 500	Class Y vs. R1000V	Class Y vs. Lipper
Standard Deviation	16.19 / 18.37	16.19 / 18.79	16.19 / 16.61
Up Capture	74.33 / 100.00	85.88 / 100.00	93.94 / 100.00
Down Capture	89.14 / 100.00	90.12 / 100.00	103.81 / 100.00
Beta	0.80 / 1.00	0.83 / 1.00	0.95 / 1.00

<sup>1</sup> 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 (if applicable) 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.

<sup>3</sup> Russell 1000® Value was added as a secondary comparison benchmark as of 6/1/2020.

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.

Prior to March 1, 2012, BHBFX was known as Madison Mosaic Equity Trust Balanced Fund. At that time, the fund changed investment policies. As a result, the manner in which the fund is currently being managed is not similar to the way in which it was previously managed. Therefore, the fund's historical performance data prior to March 1, 2012 may not be relevant to current (and future) investors.

## Experienced Management



John Brown, CFA  
Portfolio Manager  
Industry since 1983



Drew Justman, CFA  
Portfolio Manager  
Industry since 2000

## Fund Features

- ▶ Fund seeks current income with an opportunity for capital appreciation
- ▶ High conviction of approx. 50 holdings
- ▶ Relative yield strategy; buy stocks trading at high end of historic dividend yield range
- ▶ Focus on risk management

Class	Ticker	Inception Date	Exp. Ratio
A	MADAX	5/29/20	1.16%
Y	BHBFX	12/18/86	0.91%
I	MDMIX	8/31/20	0.81%
R6	MADRX	2/28/22	0.73%

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

## Distribution Frequency - Quarterly

## Distribution History

Class Y, Per Share

Year	Total	Yr-End Nav
2023	\$1.61	\$26.80
2022	\$2.62	\$27.96
2021	\$0.26	\$32.37
2020	\$0.45	\$29.48
2019	\$1.11	\$28.22

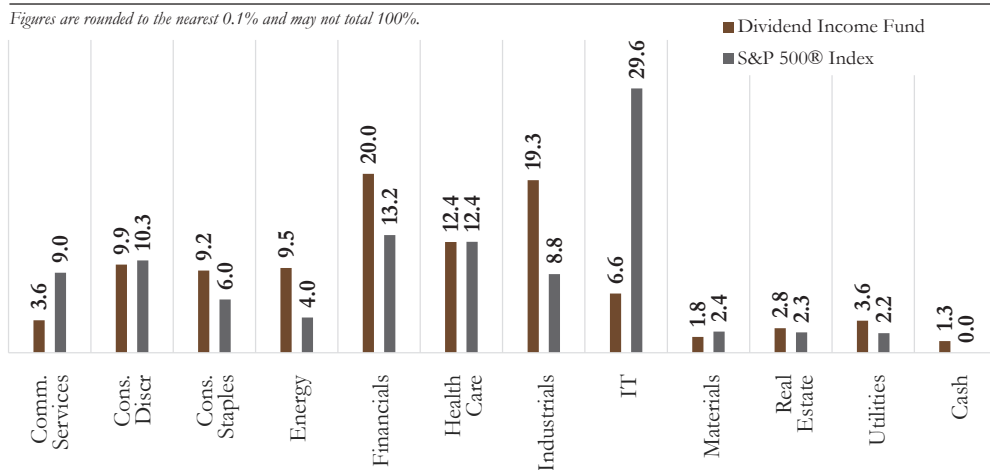


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## Sector Allocation (%)

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



## Top Ten Stock Holdings (%)

FASTENAL CO	4.4
HOME DEPOT INC	3.9
MED'TRONIC PLC	3.8
AUTOMATIC DATA PROCESSING	3.7
MORGAN STANLEY	3.7
COMCAST CORP CLASS A	3.6
NEXTERA ENERGY INC	3.6
CME GROUP INC	3.5
EOG RESOURCES INC	3.5
BLACKROCK INC	3.3

## Characteristics

TTM P/E	20.1x
P/B	3.6x
ROE	24.1%
Active Share (vs S&P)	84.72%
Dividend Yield	2.8%
30-Day SEC Yield (Class Y)	1.8%
Wtd. Avg. Market Cap (billions)	\$170.5
Portfolio Turnover	26%
Number of Holdings	40
Total Net Assets (millions)	\$176.0

*If fees had not been waived and/or expenses reimbursed, the SEC yields would have been lower.*

**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.**

Madison Asset Management, LLC does not provide investment advice directly to shareholders of the Madison Funds.

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: a fund'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. Upside Capture Ratio: a fund'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. 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. 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. It can range from 0% for an index fund that perfectly mirrors its benchmark to 100% for a portfolio with no overlap with an index. Dividend Yield: the portfolio's weighted average of the underlying fund holdings and not the yield of the fund. 30-day SEC Yield (Class Y) is a standardized formula designed to approximate the Fund's annualized hypothetical current income from securities less expenses for the 30 day-period ended 12/31/20 and that date's maximum offering price. 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 10/31/2022. Wtd Avg. Market Cap: the size of the companies in which the fund invests. Market capitalization is calculated by number of a company's shares outstanding times its price per share. 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. The Russell 1000® Value (R1000V) index measures the performance of the Russell 1000's value segment,

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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 investing risk, special risks associated with dividend paying stocks, option risk, interest rate risk, capital gain realization risks to taxpaying shareholders, 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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