Madison FUNDS

MADISON DIVERSIFIED INCOME FUND

2Q 2022 Investment Strategy Letter

Tickers: MBLAX | MBLNX | MBLCX

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The rapidly evolving global economic landscape was especially evident in the second quarter as the Federal Reserve (Fed) found itself playing catch-up with the worst surge of inflation since the early 1980's. The Fed accelerated policy normalization resulting in volatility across financial markets as investors reacted to this new policy path. We anticipate that tighter financial conditions, higher yields, and the risk of slowing economic growth will make for challenging markets for several quarters to come.

THE FED GETS SERIOUS… TOO SERIOUS?

Faced with a steady stream of inflation data suggesting that price pressures were impacting all sectors of the economy the Fed stepped up the pace of policy normalization. Longer-term inflation expectations have not accelerated outside of historic ranges but there is a fear by some investors that without significantly tighter monetary policy, inflation could become entrenched within the labor market and become nearly impossible to reverse without a severe slowdown to the economy. After essentially ruling out larger rate hikes after the May Federal Open Market Committee (FOMC) meeting, continued strong data forced the Fed to reverse course and raise rates 75 basis points the June meeting. This policy shift represented an affirmation that inflation remains the primary focus and the Fed will continue with rate hikes until there is 'clear and convincing' evidence that inflation measures are moderating.

While this shift to a more aggressive tightening path calmed markets somewhat and brought projected Fed policy more in line with market-based expectations, it also brought increased skepticism that the Fed would be able to achieve a 'soft landing' or regain control of inflation without forcing the economy into a recession. As we have written about in previous commentaries the Fed's ability to control the factors producing current supply side price pressure is limited. And, along with higher rates there are increasing signs that the headwinds facing the economy are growing. Measures of future economic activity, such as consumer, small business and CEO confidence have all trended lower, as have survey data regarding future manufacturing and new orders. The path forward is a challenging one for both the Fed and investors.

FED POLICY VS MARKET EXPECTATIONS

The rapid move higher in yields and tightening in financial conditions this year will likely

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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.

assist the Fed's inflation battle. The Fed's hawkish pivot is now more in line with market expectations. The current median estimate for the Fed Funds rate by December 2022 is 3.375%, up from 1.875% in March and 0.875% last December. The median Fed Funds rate at the end of 2023 is 3.75% up from 2.75% in March. This dramatic shift in policy expectations fueled the higher move in the Treasury curve during the quarter but it also returned yields to levels that we have not seen in years. Two-year, five-year, ten-year, and thirty-year Treasuries increased by 62, 58, 68 and 74 basis points (bps), respectfully. Bond market returns were again negative with the Bloomberg U.S. Treasury Index returning -3.78% for the quarter, bringing the year-to-date returns to -9.14%. The negative returns experienced during the first half of 2022 represent the worst start to a year since the 1970s.

SPREADS SOFTER ON FEARS OF SLOWING GROWTH

Credit and mortgage spreads continued to leak wider during the quarter as the market dealt with a multitude of risks. While credit fundamentals remain strong, fear of an economic slowdown, partly due to aggressive monetary policy, and shareholder-friendly activity has caused credit investors to demand more compensation for risk. Within the mortgage-backed security (MBS) sector, the Fed and banks have both reduced purchases with other participants fearing extension risk given higher rates, these concerns have pushed spreads wider. There is growing concern surrounding the future potential for increased debt leverage resulting from share repurchases and mergers should the economy slow and cut corporate profits. The Bloomberg U.S. Corporate Bond Index returned -7.26% for the quarter, with spreads widening by 39 bps, to 155bps. Year-to-date performance is -14.39% with spreads wider by 63 bps. Credit quality differences finally showed up in performance with BBB-rated bonds underperforming A-rated bonds during the quarter and year-to-date. Market fears regarding a slowing economy have caused investors to upgrade portfolios and reduce exposure to lower-rated credits.

LIMITING DRAWDOWNS IN BEAR MARKETS

The equity portion of the Diversified 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.

In our view, the key to compounding attractive long-term returns is to avoid large drawdowns, as the larger the drawdown, the higher the return required to get back to even. We expect the fund to outperform in falling markets, flat markets, and normally rising markets, and we expect the fund to underperform in rapidly rising or speculative markets. We believe the second quarter and first half can be characterized as falling market environments as each of the Fund's three benchmarks generated negative returns for the periods.

RELATIVE YIELD EXAMPLE: AIR PRODUCTS

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 **Air Products (APD)** as a relative yield example in the Materials sector. APD is a leading

global industrial gas supply company and is the largest supplier of hydrogen and helium in the world. It has a sustainable competitive advantage due to long-term customer relationships and contracts, high customer switching costs, and the mission-critical nature of its products. Industrial gases are a relatively small fraction of customers' overall costs but are crucial to ensure uninterrupted production.

Our thesis on APD is that it appears well-positioned for consistent double-digit growth due to a large multi-year capital allocation plan, and the need for accelerating capital expenditures by its customers. It has a $25 billion backlog driven by traditional gas investments along with new growth opportunities like gasification, green hydrogen, and carbon capture. APD's gasification technologies help improve energy efficiency and independence, which is a key focus for its customers. The company also has a strong management team with a record of expanding margins and exemplary capital allocation.

The fund purchased APD in June 2022 at $260. At the time of purchase, APD had a dividend yield of 2.6% and a relative dividend yield of 1.6x the S&P 500, which was near the high end of its historical range. The chart below shows the long-term dividend yield and relative dividend yield of the stock. The company has an A-rated balance sheet by Standard & Poor's and is a Dividend Aristocrat that has raised its annual dividend 40 years in a row. Over the past five years, APD has increased its dividend an average of 11.5% per year. We expect similar dividend increases in the future which would help grow income and protect against the impact of inflation.

Dividend Yield and Relative Dividend Yield History for Apri Products (APD)

Source:FactSet

Primary risks to our thesis include a global economic downturn that reduces APD backlog and project pipeline, lost market share and/or irrational industry pricing of projects, and long-term inflationary effects that erode margin.

2Q 2022 MADISON DIVERSIFIED INCOME FUND - INVESTMENT STRATEGY LETTER

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PERFORMANCE & POSITIONING

During the second quarter, the Madison Diversified Income Fund (Class A) returned -8.51%, beating its blended benchmark (50% equity/50% fixed income) return of -10.45%. The S&P 500 Index returned -16.10% while the ICE BofA US Corp. Govt. & Mtg Index returned -4.62%.

Within the fixed income portion of the Fund, an overweight to corporate bonds, especially BBB-rated, was the largest driver of performance. The Fund has added agency mortgage-backed securities during the quarter. Quantitative tightening and the large move in interest rates has widened spreads versus Treasuries to decade wide levels. The Fund continues to participate in new issue corporate bond deals but more selectively until we have more visibility with regards to economic growth.

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

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.

"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"), which also includes the Madison Scottsdale office. 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.

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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 to obtain a prospectus and read it carefully before investing.

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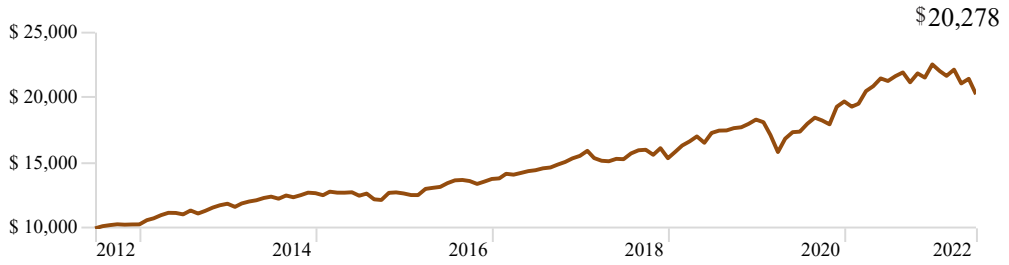
MADISON DIVERSIFIED INCOME FUND

June 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	-8.51	-10.14	-4.77	5.41	7.00	7.33	5.94
	With Sales Charge	-13.76	-15.29	-10.25	3.35	5.74	6.69	5.69
Class B	Without Sales Charge	-8.66	-10.45	-5.46	4.65	6.21	6.68	5.69
	With Sales Charge	-12.76	-14.47	-9.28	3.62	5.89	6.68	5.69
Class C	Without Sales Charge	-8.72	-10.45	-5.46	4.67	6.22	-	6.42
	With Sales Charge	-9.63	-11.34	-6.31	4.67	6.22	-	6.42
50% Fixed / 50% Equity Blend		-10.45	-15.19	-10.24	5.09	6.35	7.38	-
ICE BofA Corp/Govt & Mtg. Index		-4.62	-10.44	-10.38	-0.93	0.91	1.58	-
S&P 500® Index		-16.10	-19.96	-10.62	10.60	11.31	12.96	-

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	8.07
Downside Capture	111.30
Upside Capture	105.14

Yields Class A

30-day SEC Yield	1.75%
Yield to Maturity	3.93%

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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Madison FUNDS

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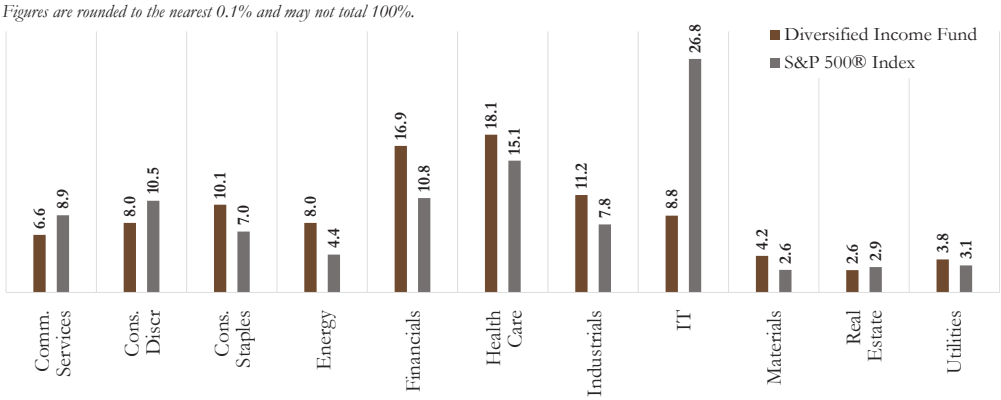
Equity Sector Allocation (%)

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



Portfolio Mix (%)

Stocks	65.6
U.S. Treasuries	11.6
Corporate Bonds	10.0
Mortgage Backed Securities	7.7
Real Estate Investment Trusts	1.8
Cash & Short Term Securities	1.8
Asset Backed Securities	1.1
Municipal Bonds	0.4

Top Ten Holdings (%)

BRISTOL MYERS SQUIBB CO	3.2
JOHNSON + JOHNSON	3.1
TRAVELERS COS INC/THE	2.6
DOMINION ENERGY INC	2.6
MCDONALD S CORP	2.4
CVS HEALTH CORP	2.3
VERIZON COMMUNICATIONS INC	2.3
COMCAST CORP CLASS A	2.2
HOME DEPOT INC	2.2
CME GROUP INC	2.1

Characteristics

TTM P/E	17.1x
P/B	2.8x
ROE	23.8%
Active Share	84.0%
Wtd. Avg. Market Cap (billions)	$140.4
Effective Duration (years)	6.3
Avg. Maturity (years)	8.6
Total Net Assets (millions)	$168.0
Portfolio Turnover	34%
Total Number of Holdings	324

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. 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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