

Madison Diversified Income Fund

Investment Strategy Letter

Fourth Quarter 2018

The stock market teetered in the fourth quarter as sentiment overshadowed economic fundamentals and drove mark indices sharply lower. During the fourth-quarter, the S&P 500® Index declined -13.5%, the Russell Midcap® Index lost -15.4%, and the MSCI EAFE® Index returned -12.5%. For all of 2018, the Indices lost -4.4% (S&P 500), -9.1% (Russell Midcap) and -13.8% (MSCI EAFE). Bond returns were generally positive during the quarter as longer-dated interest rates actually declined, despite short-term rates continuing to rise. The Bloomberg Barclays Intermediate Gov./Credit Index returned 1.65% and the Bloomberg Barclays Aggregate Index advanced 1.64% during the quarter resulting in full year results of 0.88% and 0.01% respectively.

As Benjamin Graham (the father of securities analysis) said “in the short run, the stock market is a voting machine, but in the long run it is a weighing machine.” The second half of 2018 was a classic example of the “voting machine” in full effect as markets gyrated based mostly on investor sentiment. A sharp run-up (S&P 500 7.7%) in the third quarter was followed by a sharp decline (S&P 500 -13.5%) in the fourth quarter. There was no shortage of items for investors to fret about: Fed rate hikes, U.S. – China trade tensions, the shutdown of the federal government and the continued shuffle of key White House staff. While economic data generally softened during the quarter, it continued to show growth as third quarter Gross Domestic Product (GDP) advanced 3.2%, unemployment remained at 3.7%, wages advanced 3.1% (year over year) and third quarter earnings showed robust growth. Still, investor sentiment can have real influence over actual economic performance as confidence often drives consumer and business behavior – which can result in a self-fulfilling situation.

Stock market volatility was mirrored in the bond market as both investment grade and high yield bonds suffered from sharply increasing spreads (risk premiums) over comparable Treasuries. Indeed, for much of this year, the credit markets have been sounding a warning bell on investor preferences for risk assets. The fourth quarter saw a continuation of the trend toward larger risk premiums, especially in the quality tiers at the lower end of the credit spectrum. The lowest rated high yield bonds suffered losses for both the quarter and the year, despite falling Government bond yields during the final three months. We expect this trend toward “up in quality” preference to continue as less-creditworthy borrowers struggle with rising financing costs at a time when the U.S. Government faces growing needs for capital to finance surging fiscal deficits.

The Diversified Income Fund outperformed its blended benchmark (50% stocks/50% bonds) for both the quarter and the calendar year thanks mostly to strong equity performance at both the sector and security level.

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.

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 or call 800.877.6089 to obtain performance data current to the most recent month-end.



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Portfolio Manager
Industry since 1983



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The fund's equity allocation outperformed the S&P 500 during the fourth quarter. Both sector allocation and stock selection were positive versus the Index with most of the outperformance due to stock selection. An underweight position in Technology and an overweight position in Consumer Staples were additive to results. There were positive contributions from all sectors with the most significant outperformance coming from Health Care, Consumer Discretionary, Financials, Consumer Staples and Technology. Top individual performing stocks included Merck (MRK), Starbucks (SBUX), McDonalds (MCD), CME Group (CME) and Procter and Gamble (PG). Holdings that lagged included United Technologies (UTX), Emerson Electric (EMR), Exxon Mobil (XOM), Schlumberger (SLB), and TJX Group (TJX).

The fund's equity allocation also outperformed the Index for the full year. Sector allocation was negative and stock selection accounted for all of the outperformance versus the Index. Top performing stocks over the last twelve months included Merck (MRK), Pfizer, CME Group, Microsoft (MSFT) and Cisco Systems (CSCO). Underperformers included Schlumberger, Wells Fargo (WFC), 3M (MMM), UPS (UPS) and J.M. Smucker (SJM).

The Fixed Income portion of the fund underperformed the Bank of America Merrill Lynch US Government, Corporate and Mortgage Index during the fourth quarter. The fund was more heavily weighted in corporate bonds than the Index but they were shorter in maturity. Shorter corporate bonds outperformed but the market value overweight hurt overall performance. The fund benefited from owning longer Treasuries but this impact was negated by having a lower overall duration and market value versus the benchmark.

The fund's Fixed Income allocation modestly underperformed its bond benchmark for the full year. Performance was aided by a more conservative duration posture relative to the Index and a market value overweight in credit securities which boosted portfolio yield. However, these additive factors were offset by significant credit spread widening as the year ended. The fund benefited from owning longer Treasuries as the yield curve flattened but this impact was offset by having a lower overall duration than the benchmark as long rates rallied sharply in the final months of 2018.

Outlook

We believe continued volatility should be anticipated as the markets weigh economic growth, solid earnings and strong employment against tighter monetary policy, shifting interest rates, trade tensions and uncertain government policy. Without doubt, the economic expansion will come to an end at some point but predicting that point is near impossible – making market timing a futile endeavor in our opinion. Indeed, it was in this spirit that Benjamin Graham concluded short-term markets are driven by investor psychology, but long-term markets are driven by economic fundamentals. With this in mind, we continue to believe our investors are best served by choosing risk assets based upon investment time horizon and risk tolerance. This approach, along with investing in stocks of lower-risk, higher-quality companies and shorter-duration, higher-quality bonds, should allow us to participate in the market, while providing some shelter as we experience market volatility.

John Brown

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Chris Nisbet

Drew Justman

See the following page for additional disclosures.

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 Midcap® Index is a mid-cap market index which measures the performance of the mid-cap segment of the U.S. equity universe. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada.

Bloomberg Barclays Intermediate Government/Credit Index is an unmanaged index based on all publicly issued intermediate government and corporate debt securities with maturities of 1-10 years.

Custom Blended Index consists of 50% ICE Bank of America Merrill Lynch U.S. Corporate, Government & Mortgage Index and 50% S&P 500® Index.

The ICE Bank of America Merrill Lynch U.S. Corporate, Government & Mortgage Index is a broad-based measure of the total rate of return performance of the U.S. investment-grade 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.

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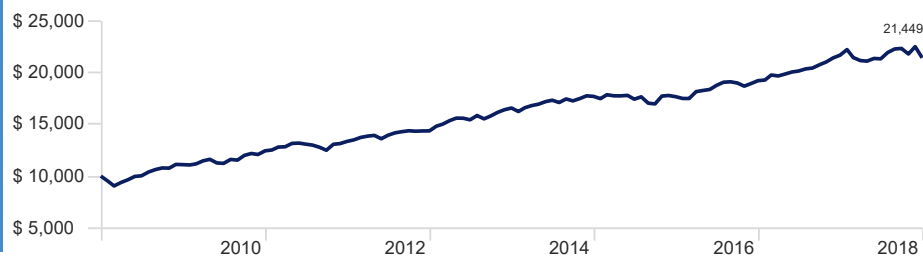
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Madison Diversified Income Fund



Growth of \$10,000¹
Class A Shares, Trailing 10-yr

The Value of Long-Term Investing



Average Annual Total Returns² (%)

	Three Months	YTD	1 Yr	3 Yr	5 Yr	10 yr	Since Inception
Class A without sales charge	-4.06	-1.16	-1.16	6.64	5.27	7.93	5.57
Class A with sales charge	-9.57	-6.82	-6.82	4.57	4.03	7.30	5.27
Class B without sales charge	-4.25	-1.88	-1.88	5.86	4.48	7.29	5.27
Class B with sales charge	-8.21	-5.90	-5.90	4.81	4.14	7.29	5.27
Class C without sales charge	-4.19	-1.81	-1.81	5.87	4.50	-	5.86
Class C with sales charge	-5.07	-2.71	-2.71	5.87	4.50	-	5.86
Custom Blended Index (50 Fixed 50 Equity)	-6.04	-1.90	-1.90	5.79	5.70	8.45	-
ICE BofAML Corp/Govt & Mtg. Index	1.65	0.00	0.00	2.07	2.61	3.44	-
S&P 500® Index	-13.52	-4.38	-4.38	9.26	8.49	13.12	-

Calendar Year Returns² (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Class A	11.08	12.01	7.37	7.61	15.39	6.78	-0.16	8.75	12.83	-1.16
Custom Index	15.98	11.24	5.30	10.24	13.90	10.05	1.23	7.36	12.42	-1.90

Risk Measures (10-year)

Class A vs. Custom Blended Index

Standard Deviation	6.51%
Downside Capture	95.78%
Upside Capture	94.74%

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 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. They do, however, carry a 1% contingent deferred sales charge on shares redeemed within 12 months of purchase. Index returns reflect broad measures of market performance compared to the fund and reflect no deduction for sales charges, account fees, expenses or taxes. You cannot invest directly in an index.

³ Expense ratios are based on the fund's most recent prospectus.

Custom Blended Index consists of 50% Bank of America Merrill Lynch U.S. Corp. Govt. & Mtg. Index and 50% S&P 500® Index.

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Experienced Management



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Fund Features

- 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 ³
A	MBLAX	12/29/97	1.10%
B	MBLNK	12/29/97	1.85%
C	MBLCX	7/31/12	1.85%

Distribution Frequency

Monthly

Distribution History

Class A - Per Share

Year	Total	Yr-End Nav
2018	\$1.53	\$14.39
2017	\$0.51	\$16.13
2016	\$0.79	\$14.76
2015	\$0.59	\$14.31
2014	\$0.24	\$14.92
2013	\$0.13	\$14.20
2012	\$0.16	\$12.52

Sector Allocation (%)

Equity Characteristics

TTM P/E	17.2x
P/B	3.3x
ROE	24.4%
Active Share	76.9%
Wtd. Avg. Market Cap (Billions)	\$156.6

Fixed Characteristics (years)

Effective Duration	5.37
Avg. Maturity	7.37

Yields Class A

30-day SEC Yield	1.90%
30-day Effective Yield	1.71%

Total Net Assets

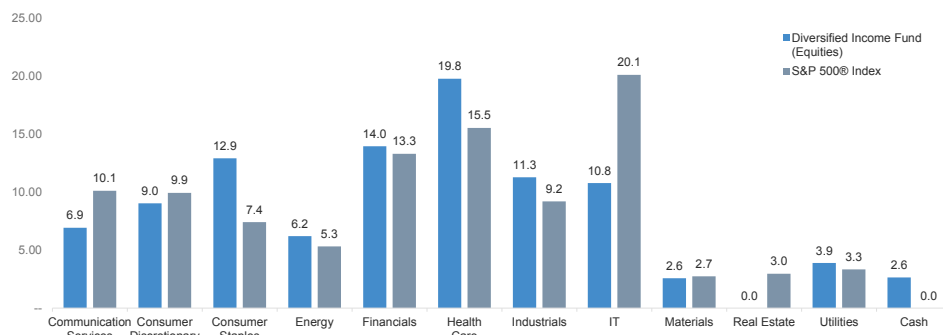
\$152.5 Million

Portfolio Turnover

27%

Total Number of Holdings

232



Sector allocation is rounded to the nearest 0.1%.

Top Ten Holdings (%)

MEDTRONIC PLC	2.7
VERIZON COMMUNICATIONS INC	2.6
JOHNSON + JOHNSON	2.5
MERCK + CO. INC.	2.5
PROCTER + GAMBLE CO	2.3
PFIZER INC	2.3
EXXON MOBIL CORP	2.3
COMCAST CORP CLASS A	2.0
MCDONALDS CORP	1.9
CME GROUP INC	1.9

Portfolio Mix (%)

Stocks	59.3
Corporate Bonds	11.5
Mortgage Backed Securities	10.2
U.S. Treasuries	6.5
Asset Backed Securities	6.4
Municipal Bonds	2.3
Cash & Short Term Securities	3.8



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Standard Deviation measures dispersion from an average, which, for a mutual fund, depicts how widely the returns varied over a certain period of time. Higher deviation represents higher volatility. **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. **30-day Effective Yield** is a hypothetical figure that estimates what the yield would be if an investor continued to reinvest dividends at the current 30-day yield for one year. Calculated by annualizing dividends paid during the last 30 days of the period. It assumes that income earned from the fund's investments is reinvested and compounded. **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 10/31/2018. **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.

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.

For more complete information about Madison Funds®, including charges and expenses, obtain a prospectus from your financial adviser, by calling 800.877.6089 or by visiting madisonfunds.com and clicking on prospectus and reports to view or download a copy. Before investing in the funds, consider the investment objectives, risks, charges and expenses. The prospectus contains this and other information about funds and should be read carefully before investing.

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