Madison High Income Fund Investment Strategy Letter

High Yield Experiences a Very Weak Fourth Quarter Total Return; Cautious on 2019 Outlook

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During the fourth quarter of 2018, the ICE BofAML U.S. High Yield Constrained Index® returned -4.67%. This was the worst quarterly high yield sector performance since the third quarter 2015 when the price of crude oil experienced a substantial decline. We believe the weakness in the fourth quarter was driven by several factors, including 1) a large decline in crude oil price during the quarter (-38% in the three month period); 2) fear over the strength of the U.S. economy and its 2019 growth prospects; 3) expectations for lower corporate profit growth; 4) higher interest rates along with the potential for further increases in 2019; and 5) concerns over an escalating trade war. As a result of these issues, the average spread-over-Treasuries (or the additional yield investor's receive from assets that carry greater risk than government bonds) ended the fourth quarter at 537 basis points (bps; 1 basis point equals 0.01%), or 199 bps wider than at the end of the third quarter. This spread widening left us cautious when adding new bonds to the portfolio given overall valuations. Fourth quarter total returns for the Index, by month, were -1.64% in October, -0.91% in November and -2.19% in December.

For much of the year, the rising interest rate environment had a greater negative impact on valuations of the higher-rated BB-category. However, that relationship changed during the fourth quarter when BB-rated bonds (48.0% of High Yield in terms of market value) significantly outperformed the market with a -2.99% total return. We also note that shorter-dated BB-rated bonds with 1-5 year maturities outperformed the most with a -1.93% total return during the quarter, while those with 7-10 year maturities declined 3.43%. B-rated bonds (40.3% of High Yield) slightly underperformed with a -4.85% total return. CCC-rated corporate bonds (11.7% of High Yield), the lowest of the high yield rating categories, had the worst quarterly total return performance at -10.35%.

Among the more significant sectors representing at least 1% of the High Yield Index, Diversified Media (-0.85%), Utilities (-1.35%) and Hotels (-1.97%) were the top performing industries over the past three months. These three sectors are relatively small and combined account for only 4.5% of high yield's total market size. The quarter also saw notable outperformance by sectors such as Broadcasting (-2.21%) and Containers (-2.23%).Sectors that underperformed the most during the quarter included Energy (-9.77%), Insurance (-5.09%) and Chemicals (-4.91%).

Madison's high yield strategy is to invest with a conservative bias, which includes limiting exposure to the CCC category, thus tilting the overall portfolio toward better-quality BB-rated and B-rated corporate issuers. During the fourth quarter, we continued to limit our exposure to CCC-credit and the more volatile sectors. We also continued to have a fairly high average cash balance in the mid-single-digit percentage range. We intend to maintain our conservative portfolio positioning given that we expect little potential price appreciation over the near-term.

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.

New Issue Market / Fund Flows

According to Bloomberg News, high yield new issuance slowed substantially with only $12.7 billion priced in the fourth quarter, including no meaningful new issuance in all of December. We estimate this quarterly total was down approximately 83% versus last year's fourth quarter. Our participation in new issues was very limited during the quarter as we remained concerned over tight pricing levels on strong investor demand that often leaves limited upside price potential. Similar to the fourth quarter, we anticipate new issuance will likely remain slow as we enter 2019 and down substantially year-over-year. We intend to selectively look at new issues.

Year-to-date, through December 26, 2018, high yield net fund flows were significantly negative by about $33.1 billion, according to Lipper Analytical. The vast majority of the outflows occurred in the first and fourth quarters. Net outflows for the fourth quarter were about $15.9 billion. By way of comparison, for all of 2017, high yield funds experienced a net outflow of $13.5 billion.

Fund Performance & Outlook

For the fourth quarter, the Madison High Income Fund (Class Y) returned -3.79%. This outperformed the total return of our benchmark, the ICE BofAML U.S. High Yield Constrained Index®, by 88 bps. The fund's outperformance was largely driven by our bond selection within the Energy, Financial Services and Healthcare sectors, as well as a high cash balance, partially offset by underperforming bond selection in the Capital Goods and Basic Industry sectors.

For the first quarter 2019, the fund will continue to emphasize BB-rated and B-rated issues. Even with the recent spread widening, and away from a resolution of the trade war with China and much better-than-expected corporate earnings, we see little on the near-term horizon to drive material price appreciation. The political agenda, on the whole, is not likely to be nearly as supportive as it was in 2018. The Federal Reserve has also indicated it could continue to implement interest rate hikes in upcoming quarters.

We anticipate high yield's total return to be relatively flat in 2019. Our expected return factors in a conservative fundamental view, as well as the likelihood of another interest rate hike (although we view the Federal Reserve's decisions as a wildcard to the annual performance). Thus, we anticipate a potential decline in bond prices could offset the positive return generated by coupon income. From a sector perspective, we enter the first quarter 2019 with an overweight in Consumer Goods and Services. We also have a modest overweight in Retail and Financial Services. Our largest underweighted sectors include Healthcare, Basic Industry and Telecommunications. Our portfolio also has roughly two-thirds the exposure to CCC-rated bonds as does the Index.

Allen Olson *Mike Sanders*

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.

The ICE Bank of America Merrill Lynch U.S. High Yield Constrained Index tracks the performance of below investment grade, but not in default, U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of below BBB, based on an average rating by Moody's, S&P and Fitch.

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.

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. 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.

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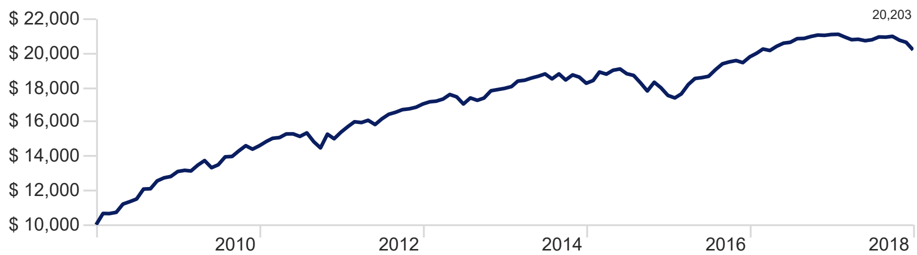
Madison High Income Fund

Madison FUNDS®

The Value of Long-Term Investing

Growth of $10,000[1] Class A Shares, Trailing 10-yrs



Experienced Management

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Average Annual Total Returns[2] (%)

		Three Months	YTD	1 Yr	3 Yr	5 Yr	10 yr	Since Inception
Class Y	without sales charge	-3.79	-3.95	-3.95	5.12	2.68	7.59	5.48
Class A	without sales charge	-3.78	-4.27	-4.27	4.81	2.38	7.29	4.86
	with sales charge	-8.15	-8.58	-8.58	3.19	1.44	6.80	4.63
Class B	without sales charge	-4.16	-5.01	-5.01	3.97	1.59	6.64	4.58
	with sales charge	-8.42	-9.10	-9.10	2.89	1.28	6.64	4.58
ICE BofAML US High Yield Constrained Index		-4.67	-2.27	-2.27	7.27	3.83	11.02	–

Calendar Year Returns[2] (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Class A	31.07	11.48	5.44	10.66	5.33	1.67	-3.89	12.84	6.59	-4.27
ICE BofAML US High Yield Constrained Index	58.10	15.07	4.37	15.55	7.41	2.51	-4.61	17.49	7.48	-2.27

Yields Class A

30-day SEC Yield	5.84%
30-day Effective Yield	5.30%

Characteristics (years)

Effective Duration	3.44
Avg. Maturity	4.47

The performance data presented for all periods prior to January 1, 2016 for the Madison High Income Fund represents the performance of the previous subadviser, Shenkman Capital Management, Inc.

1 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.

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 4.5%. **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.**Index returns** reflect broad measures of market performance compared the fund and reflect no deduction for sales charges, account fees, expenses or taxes. You cannot invest directly in an index. The performance data presented above for all periods prior to January 1, 2016, represents the performance of the previous subadviser.

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

BofAML US High Yield Constrained Index is the Financial Institution of America Merrill Lynch High Yield Master II Constrained Index - a broad based measure of the total rate of return of the performance of the US high yield corporate bond markets.

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.

Fund Features

- Fund seeks high current income and capital appreciation
- Focus on better quality, BB-B rated bonds
- Cautious, conservative style that avoids deeply discounted issues
- Goal of outperforming the high yield market with less volatility

Class	Ticker	Inception Date	Exp. Ratio[3]
A	MHNAX	12/29/97	1.02%
B	MHNBX	12/29/97	1.77%
Y	MHNYX	6/30/06	0.77%

Dividends Per Share - Last 12 months

A	$0.31
B	$0.26
Y	$0.32

Distribution Frequency

Monthly

Risk Measures (10-year) Class A

Standard Deviation	5.80%
Downside Capture	88.65%
Upside Capture	74.05%

Total Net Assets

$18.9 Million

Portfolio Turnover

25%

Total Number of Holdings

70

Top Ten Holdings

DESCRIPTION	COUPON	MATURITY	%
UNIT CORP	6.625%	15 May 2021	2.9
OUTFRONT MEDIA CAP LLC	5.625%	15 Feb 2024	2.6
RAYONIER AM PROD INC	5.5%	01 Jun 2024	2.6
MURPHY OIL USA INC	5.625%	01 May 2027	2.1
IRON MOUNTAIN INC	5.75%	15 Aug 2024	2.0
AMERICAN MIDSTREAM PTR	9.5%	15 Dec 2021	1.9
CARRIZO OIL + GAS INC	6.25%	15 Apr 2023	1.9
PILGRIM S PRIDE CORP	5.75%	15 Mar 2025	1.8
NIELSEN FINANCE LLC	5%	15 Apr 2022	1.7
GAMESTOP CORP	6.75%	15 Mar 2021	1.7

Sector Exposure (%)

	Portfolio Weight	Benchmark Weight
Energy	16.4	15.4
Services	9.9	5.3
Media	12.4	11.3
Consumer Goods	9.4	3.0
Basic Industry	6.4	11.3
Healthcare	5.4	10.8
Retail	6.3	4.3
Leisure	4.1	4.7
Financial Services	6.2	4.6
Telecommunications	4.5	9.4
Capital Goods	5.4	5.5
Technology & Electronics	1.7	5.0
Utility	2.6	2.3
Real Estate	1.2	1.1
Insurance	1.1	1.1
Automotive	--	1.7
Banking	--	2.4
Transportation	--	0.8
Cash	7.0	--

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Standard Deviation measures dispersion from the 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. **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. **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** 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 10/31/2018.

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/credit risk, liquidity risk, non-investment grade security risk, prepayment/extension 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.

High yield bonds are considered lower-quality instruments known as "junk bonds". Such bond entail greater risks than those found in higher-rated securities and, as a result, investments in the fund entail more risk than investments in average bond funds. 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. he prospectus contains this and other information about funds and should be read carefully before investing.

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