Madison INVESTMENTS®

Madison International Stock Fund Investment Strategy Letter

Market Overview

Non-U.S. developed equity markets fluctuated around trade and political concerns during the third quarter. Growth stocks continued to outperform value stocks, while other non-idiosyncratic factors were mostly neutral as investors made little distinction between high and low quality stocks, or between defensive and cyclical stocks. The gap between U.S. and non-U.S. equity performance widened in the third quarter, which we believe represents a divergence in investors' perspective about risks and potential returns. U.S. valuations are increasingly stretched as strong, yet decelerating, data is driving up inflationary expectations and interest rates. In broad terms, non-U.S. investors appeared to be fearing the worst. U.S. investors, on the other hand, appeared to be hoping the best continues for longer. This divide applied across several investment issues: trade, politics and currencies. In our view, the discounting of many market risks by non-U.S. investors could be an opportunity.

One risk that continued to unsettle non-U.S. investors in the third quarter centered on trade. In mid-September, the Trump administration imposed 10% duties on $200 billion worth of Chinese imports, extending tariffs to more than half of all Chinese imports (representing more than 7,000 products from finished automobiles to basic commodities) into the United States. China reacted by enacting $60 billion in new tariffs on American imports.

Emerging markets continued to be a source of underperformance in global equities as uncertainty over trade and U.S. dollar strength rose, albeit at a slower pace than in the second quarter. A notable development in third-quarter emerging markets equity performance is that value stocks outperformed growth stocks. This reverses several quarters in which growth outperformed, and it reflects the potential for inexpensively priced stocks within the region.

Populism, which we have focused on in past quarterly reviews, continued to be a major theme for investors. Italy has been a headwind on European equities and bond yields this year. Over the summer, investors continued to worry as the government's leaders crafted a budget that they promised would be stimulatory but could clash with European Union (EU) fiscal targets. In late September, these fears appeared to be borne out when the Italian government proposed a budget with a projected deficit of 2.4% of GDP -- higher than expected. Elsewhere in Europe, the ongoing Brexit negotiations continue to be challenging and complex. EU negotiators reiterated to UK Prime Minister Theresa May that the United Kingdom had two options for a future trading relationship with the EU—like Norway (continued membership in the single market and customs union) or like Canada (a free trade deal). May's proposal for a third option (the "Chequers plan," which lies between these two approaches) was rejected. This was seen as a defeat for May, who faces pressure within her own party for a favorable Brexit outcome.

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

Portfolio Review

The Madison International Equity Fund underperformed the MSCI EAFE Index during the quarter. As in the previous quarter, emerging markets exposure detracted from returns. Turkcell, which was sold, continued its pullback in the third quarter. The company is the largest mobile and fixed line data provider in Turkey, with 70 million subscribers in nine countries. Smartphone penetration in Turkey is about 60%, and the secular trend should be supportive. Macroeconomic challenges continued to negatively impact the stock as the lira declined further due to the tense political environment. Additionally, our underweight to Japan and stock selection within the country negatively impacted relative performance. Long-time holding Daiwa House, a residential and commercial builder in Japan, lagged the market as their August report raised some concerns around margin deterioration in their logistics business. We think this is temporary and even with a slightly slower growth rate and a lower multiple we see good upside in the name and therefore continue to own the stock. Lastly, growth's continued outperformance versus value was a source of underperformance.

These negatives were partially offset by positive stock selection in the United Kingdom. This contribution to performance was significant and exceeded the negative attribution from our overweight to the country. Aon, a UK-based global insurance broker rose 12% during the quarter. Our thesis of accelerating organic growth, improving margins and free cash flow conversion given their innovation and scale, continues to play out at this global insurance broker. Lastly, stock selection in the health care sector was also beneficial. Medtronic, the Irish-domiciled global leader in medical devices, continued to positively impact performance, rising nearly 16% due to strong earnings. Our initial investment thesis took time to be realized, but improving revenue growth from new product launches coupled with margin expansion from an increased focus on costs is evidence it has begun to play out.

Recent Activity and Trade Rationale

During the quarter, interesting stock-specific opportunities led to changes in our exposures. The fund's small overweight to the Telecom Services sector remained roughly the same as the purchase of Rogers Communications in Canada offset the sale of Turkcell (Turkey). The small overweight in the Consumer Discretionary sector narrowed on the sale of United Arrows in Japan, despite being offset by the purchase of Techtronic in Hong Kong.

From a regional perspective, the changes discussed above led to an increase to the fund's underweight in Japan. The fund's out of benchmark exposure to Canada increased, and the exposure to emerging markets decreased.

Outlook

We believe the global economy is entering a late phase of the cycle. Economic data is consolidating off its peaks while central banks, led by the Federal Reserve, are in the early stages of normalizing monetary policy and tightening liquidity. In addition, margin risk is likely to increase as wages, energy costs, and interest rates are all on the rise. This is an important change in the market environment and, in our view, will separate companies that can prosper from those that cannot.

Emerging markets are relatively cheap after posting significant declines in 2018, but the asset class faces a number of challenges. One is that the same geopolitical risks that have impacted prices are also driving multiples lower. Another is trade uncertainty, which especially affects emerging markets exports. Overall, however, we believe uncertainty in the emerging markets is largely due to specific, idiosyncratic conditions in individual countries rather than a sign of systematic weakness. Not all emerging markets are deteriorating, and the growth differential

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

between emerging and developed markets remains solid. Ultimately, we believe that much of the negative macro and political issues have been priced in by investors, particularly within more value-oriented companies. As these issues recede, we believe investors will refocus their attention on company fundamentals.

Emerging markets should also get some relief through a stable or lower US dollar. In addition, while trade tensions between the United States and China have escalated with the latest round of tariffs, we believe investors have mostly anticipated this along with the potential negative effects of the tariffs on company income statements. Going forward, cyclically oriented businesses with less pricing power and fixed cost structures could underperform companies with significant barriers to entry and that can drive high and sustainable financial returns regardless of the economic environment.

In developed markets, many of the challenges are political. In Italy, the proposed budget has disappointed those who thought the populist government would be more pragmatic. It is still too early to determine how Italy's government and the EU will proceed from here. In our view, negotiations will ensue, with the Italian government likely arguing that higher spending will drive higher tax revenue and thus lower the budget deficit. In the meantime, we anticipate higher volatility in European markets as investors digest progress during the negotiations. Adding to this uncertainty, Brexit continues to be challenging as talks between the United Kingdom and EU officials appeared to hit an impasse toward the end of September. The disputes are complex and the time to negotiate them is running out. However, this uncertainty is at least somewhat reflected in consensus as UK equity valuations are among the least expensive in developed markets.

Overall, we believe the consolidation of growth relative to the United States, trade tensions and political uncertainty have lowered expectations for non-U.S. equities going forward. However, in our view, the fundamental trends of the previous 12 months remain intact and will reassert themselves in the remainder of 2018. The currently lower expectations for non-U.S. equities compared to U.S. could be an opportunity for investors.

In the meantime, investors will face a number of potential uncertainties. Central bank policies continue to move through uncharted territory as they withdraw quantitative easing. The Fed will likely raise short-term interest rates (it has already raised rates seven times during this cycle) while allowing Treasuries on its balance sheet to mature and roll off. The European Central Bank is confronting rising uncertainty about European growth and Italy, but it has so far remained committed to ending the expansion of its bond-buying program this year.

Another source of uncertainty is U.S. politics. While much of our recent attention has been focused on Europe, the mid-term elections in the United States are approaching. We do not expect the outcome, regardless of which party is favored, to be a market event. However, we acknowledge that investors are paying more attention to politics, and higher uncertainty can affect markets—including U.S. equities, which we have argued reflect the most optimistic economic scenarios.

As long-term investors, we note but do not base our investment theses on elections. We believe the global economic expansion that began in mid-2016 will continue, albeit at low rates of growth. We think a recession is unlikely, though investors appear to be appreciating heightened risks. Because of the slow pace of growth, we believe central banks can be more judicious in the pace of policy normalization. Thus, our base case scenario is slow economic growth, low inflation, and low interest rates. In this environment, we believe stock selection will become a main driver of returns as the performance differential between growth and value

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

stocks narrows. We believe high quality, more defensive companies, whose fortunes are less geared to the economic cycle, with inexpensive valuations, will be the leadership stocks for the foreseeable future.

The investment adviser to the fund is Madison Asset Management, LLC ("Madison"). Madison has delegated the day-to-day responsibility of managing the fund to Lazard Asset Management. Information and opinions presented have been obtained or derived from sources believed by Lazard to be reliable. Lazard makes no representation as to their accuracy or completeness. All opinions expressed herein are as of the published date and are subject to change.

The performance quoted represents past performance. Past performance is not a reliable indicator of future results. Allocations and security selection are subject to change.

Mention of these securities should not be considered a recommendation or solicitation to purchase or sell the securities. It should not be assumed that any investment in these securities was, or will prove to be, profitable, or that the investment decisions we make in the future will be profitable or equal to the investment performance of securities referenced herein. There is no assurance that any securities referenced herein are currently held in the portfolio or that securities sold have not been repurchased. The securities mentioned may not represent the entire portfolio.

Equity securities will fluctuate in price; the value of your investment will thus fluctuate, and this may result in a loss. Securities in certain non-domestic countries may be less liquid, more volatile, and less subject to governmental supervision than in one's home market. The values of these securities may be affected by changes in currency rates, application of a country's specific tax laws, changes in government administration, and economic and monetary policy. Emerging markets securities carry special risks, such as less developed or less efficient trading markets, a lack of company information, and differing auditing and legal standards. The securities markets of emerging markets countries can be extremely volatile; performance can also be influenced by political, social, and economic factors affecting companies in these countries.

MSCI EAFE (USD): 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.

MSCI Emerging Market Index The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,138 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI.

Madison Asset Management, LLC does not provide investment advice directly to shareholders of the Madison Funds. Opions stated are informational only and should not be taken as investment recommendation or advice of any kind whatsoever (whether impartial or otherwise).

Madison Funds are distributed by MFD Distributor, LLC. ©Madison Asset Management, LLC. October 17, 2018.