Madison FUNDS®

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FALL 2018

ECONOMIC REVIEW

Over the past twenty years August and September has been the worst month for stock investors, a major part of the "sell in May and go away" strategy which suggests stock investors avoid the June through October period. If anything, this past August is a good demonstration of why past sayings and arbitrary data-mining are no substitute for disciplined investing. The S&P 500®'s 3.3% gain in August, brought the index's year-to-date return for 2018 within a smidgeon of double digits at 9.9%.

Once again, technology stocks were a major driver of overall returns. The S&P 500 Technology Sector finished August up 6.9% for the month, 21.0% year-to-date. Which raises a question that has been receiving some serious attention lately: What is a technology stock? When a mother orders diapers through Amazon's polished Internet interface should we be describing the company via that interface (technology) or via the product (consumer staples)? What if we shift the purchased item to a new video card (technology) or a TV (consumer discretionary)? Or take a look at Netflix, a company that just a few years ago was a master of the shipping of DVD discs using the decidedly old-school vehicle of snail mail, then helped launch the revolutionary technology of on-demand streaming, and now is a prolific producer of content, like a movie studio. In fact, technology is now such an integral part of so many enterprises that defining technology companies is a bit like being a critic of modern art – results may differ depending on the eye of the beholder.

This discussion is less academic than it might seem, since a major shakeup of long-standing S&P 500 sectors is imminent, which includes a redefinition of many of the most prominent technology-dependent companies. Part of Standard & Poor's incentive for this move has been the way the Technology Sector of the S&P 500 has continued to grow, passing the 26% of index level by the end of August. This dominance must bring back personal and institutional memory of the tech boom when the sector was close to 35% of the index in early 2000. The most dramatic change, which will take place at the end of September, is the launching of a new Communication Services Sector, which will absorb some of the most prominent new era companies, including current Technology Sector components Twitter, Facebook and Alphabet (formerly Google). The Technology Sector will drop to close to 20% of the index.

What does this mean to you as an investor or us as money managers? To be honest, it doesn't have much of a direct affect. Our primary focus is on company fundamentals, not how your holdings are classified by S&P or others (MSCI, who manages the primary international benchmarks, has a reshuffle coming up at the end of the year). Investors holding a broad index fund will also be basically unaffected since the individual stock weightings will remain constant through the sector reshuffling. On the other hand, the minority of investors who utilize a sector rotation strategy or who invest in a sector ETF will see some significant changes.

The more important aspect of the sector reorganization to us is not where the lines are being drawn, but the way it illuminates the way in which technological innovations and revolutions have shaken our world. While twenty-somethings may have trouble imagining a world without their ubiquitous cell phones, it's worth recalling that the first iPhone was introduced in the U.S. in June of 2007, less than a year after Facebook became available to the general public. That same year Netflix launched its first limited streaming service. Uber experimented with its first ride-sharing platform in San Francisco in 2011.

New and disruptive technologies highlight for us the importance and value of vigilant active management. As investors discovered during the tech boom and bust of the late 1990s, owning the market is not synonymous with risk reduction, nor can investors simply buy a "blue chip" company and hold it forever. Things change too fast. We believe that while technology continues to shake up industries and change our lives, it has only made professional active portfolio management more essential.

NEWS YOU CAN USE

Individual Retirement Account (IRA) and Education Savings Account (ESA) Annual Fee

If you are an IRA or ESA account holder, a payment coupon is included with your quarterly investor statement to remit your annual administration/custodial account fee. This fee supports the additional services required by the custodian to maintain such accounts (e.g. tracking of contributions and mandatory reporting to the Internal Revenue Service). If you have not already paid your fee for 2018, please return the enclosed payment coupon with your check no later than December 1, 2018. If we do not receive your payment by the due date, we will automatically redeem sufficient shares from your account to pay the fee in mid-December.

Individual Retirement Account (IRA) Required Minimum Distributions (RMD)

The Internal Revenue Service requires you take an annual distribution from your IRA account(s) once you reach the age of 70½. The deadline for the first distribution is delayed until April 1st following the calendar year in which you reach age 70½. Consequently, if you will be 70½ on or before December 31, 2018, you must take your 2018 required distribution no later than April 1, 2019. If you are already taking required distributions, the deadline to take your RMD for 2018 is December 31. If you have any questions regarding your distribution status, or need assistance calculating your RMD amount, please contact your financial adviser or call Shareholder Services at 1-800-877-6089.

Capital Gains

Just a reminder that mutual funds are required to distribute fund capital gains annually to shareholders. Distribution rate projections will be available on madisonfunds.com in early December. If there are distributions to be paid, they will be declared to shareholders of record in December.

Notice Regarding Escheatment

What does "escheatment" mean? The term relates to unclaimed property that transfers over to the state in which the property owner lives. Besides the term escheatment, the phrases "abandoned" or "unclaimed" property may be used.

Prevent your account(s) from being deemed "abandoned" by periodically maintaining contact with us. State unclaimed property laws require Madison Funds to turn over an account's assets to the state it's registered under if one or more of the following occurs over a period of time (typically three to five years):

- You have an invalid address on your account
- You have not initiated contact with us
- You have an uncashed check

Establishing contact with Madison Funds is easy. Call us at 1-800-877-6089 or visit madisonfunds.com and access your account online. We will capture this activity and consider it "contact". You can learn more about abandoned property and "escheatment" in the Funds' prospectus.

Contact Us

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