

# MADISON DIVIDEND INCOME FUND

## 1Q 2022 Investment Strategy Letter

Tickers: BHBFX | MDMIX | MADAX | MADRX

For the first quarter, the Madison Dividend Income Fund Class Y returned +0.18%, which outperformed the S&P 500, Russell 1000 Value Index, and Lipper Equity Income peer group returns of -4.60%, -0.74% and -0.85% respectively.

The Dividend 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. 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 quarter can be characterized as a falling market environment all three benchmarks mentioned above generated negative returns for the period. We are pleased the fund was able to generate a modestly positive return in this market environment.

In our view, the most notable development during the quarter was rapidly rising inflation and the resulting performance discrepancy across S&P 500 sectors. As shown in the table below, Energy was the best performing sector by a wide margin, and Utilities was the only other sector with positive returns. All other sectors realized negative returns for the quarter with Communication Services, Consumer Discretionary, and Technology performing the worst. This is a significant change in sector leadership compared to the past several years.

Exhibit 1: S&P 500 Performance by Sector in the First Quarter of 2022

Sector	Return (%)
Energy	39.88
Utilities	4.77
Consumer Staples	-1.01
Financials	-1.48
Industrials	-2.36
Materials	-2.38
Health Care	-2.58
Real Estate	-6.32
Technology	-8.36
Consumer Discretionary	-9.03
Communication Services	-11.92
<i>S&amp;P 500</i>	<i>-4.60</i>



John Brown, CFA  
Portfolio Manager/Analyst  
Industry since 1983



Drew Justman, CFA  
Portfolio Manager/Analyst  
Industry since 2001

*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](http://madisonfunds.com) or call 800.877.6089 to obtain performance data current to the most recent month-end.*

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.



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Our goal is for the Dividend Income fund to be an “all-weather portfolio” that does well in various market environments including periods with rising interest rates and inflation. This quarter we want to highlight four portfolio holdings in three different sectors that we believe are direct beneficiaries of higher inflation.

### ENERGY

The fund owns **Baker Hughes (BKR)** and **EOG Resources (EOG)** in the Energy sector. We wrote about these stocks in our third quarter 2021 investment strategy letter.

To review, BKR is a leading oilfield services provider that helps its customers with oil and gas exploration and production. Its customers include companies that discover oil, energy data management firms, drilling companies, well construction, and production and completion firms. The firm is also synonymous with the US rig count. BKR also helps make energy cleaner and more efficient, and is a leader in energy transition businesses, including carbon capture and hydrogen, along with being a market leader in supplying equipment for liquified natural gas (LNG) projects.

EOG is a leading oil and gas exploration and production company with attractive exposure to US shale resources. Its energy mix is ~72% oil and liquid natural gas and 28% natural gas. The company has premium acreage that includes over 10,000 potential drilling locations, which provides a long runway for growth. EOG has a disciplined management team that limits operating expenses and capital spending which results in high free cash flow, a rarity in the Energy sector.

Our theses on BKR and EOG is that both stocks will benefit from higher energy prices and production growth over time. For BKR, higher energy prices are likely to increase demand for its oilfield products and services. This is a cyclical industry, and we believe the cyclical low in demand occurred in mid-2020 as customers significantly pulled back on oil and gas capital expenditure spending during the early stages of the Covid pandemic. For EOG, higher energy prices are likely to result in higher production volumes and increased average selling prices for oil and gas from its wells. Importantly, both BKR and EOG generate positive cash flow, have low financial leverage versus peers, and A-rated balance sheets by S&P.

### CONSUMER STAPLES

The fund owns **Archer-Daniels Midland (ADM)** in the Consumer Staples sector. ADM is a leading processor of agricultural products including soybeans and corn. It buys crops from farmers, transports, and stores the crops until it processes them, and then sells the finished product to end market buyers. The company has a global footprint with a large network of logistical assets to store and transport commodities around the world, which gives it a competitive advantage in mostly commodity businesses. The company also has a flavors and specialty ingredient business that is a small but rapidly growing part of its portfolio. ADM generates solid cash flow and has an A-rated balance sheet by S&P, indicative of solid financial strength. Additionally, it is a Dividend Aristocrat that has increased its dividend each year for 45 years.

Our thesis on ADM is that it will benefit from higher agricultural commodity prices. In the short term, there is strong demand and limited supply for agricultural commodities due to current global events including Covid, supply chain disruptions, and more recently, the conflict in eastern Europe. On a longer-term basis, ADM is exposed to favorable secular trends including rising soybean consumption in China and other emerging markets.

### MATERIALS

The fund owns **Nucor (NUE)** in the Materials sector. NUE is a leading manufacturer of steel and steel products. It is the largest steelmaker in the US based on production volume. The company has a low fixed cost position with a diverse product and mill portfolio that takes market share over time. NUE has a strong balance sheet and flexible capital spending model that can quickly adjust to changing economic conditions. It is a Dividend Aristocrat which has raised its dividend annually for 48 years. The stock yielded 3% at the time of purchase and had a relative dividend yield of 2x the S&P 500.

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Our thesis on NUE is that it will benefit from higher steel prices and market share gains. In the short term, there is strong demand and limited supply for steel due to current global events including Covid, supply chain disruptions, and more recently, the conflict in eastern Europe. On a longer-term basis, we believe NUE will be a beneficiary of onshoring, where manufacturing returns to the US, which will generate rising demand for steel. One recent example of onshoring is Intel (INTC) announcing plans to build a \$20 billion investment in the construction of new leading-edge chip factories in Ohio.

ADM, BKR, EOG and NUE were purchased in the first half of 2021. Together, these four stocks are now more than 10% of the portfolio. While we can't predict the future, if inflation remains elevated going forward, these companies should continue to benefit.

*John Brown, CFA®*

*Drew Justman, CFA®*

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### DISCLOSURES

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Any performance data shown represents past performance. Past performance is no guarantee of future results.

Non-deposit investment products are not federally insured, involve investment risk, may lose value and are not obligations of, or guaranteed by, any financial institution. Investment returns and principal value will fluctuate.

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.

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.

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](http://madisonfunds.com) to obtain a prospectus and read it carefully before investing.

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.

Following our Participate and Protect® investment philosophy, our goal is to build portfolios so that investors will participate in favorable markets and be protected during market declines compared with investors in portfolios holding more speculative and volatile securities. There is no assurance that this goal will be realized.

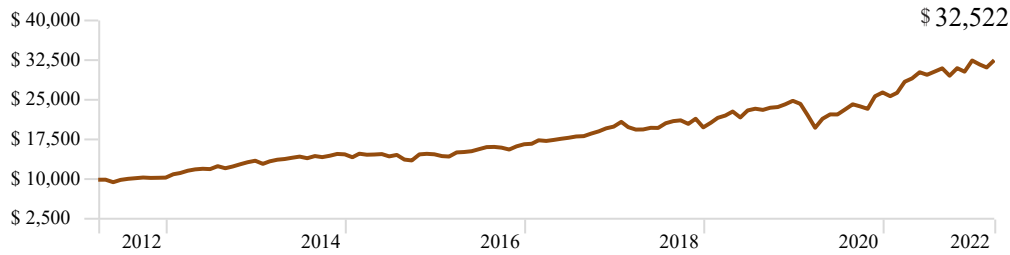
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# MADISON DIVIDEND INCOME FUND

March 31, 2022

## Growth of \$10,000 Class Y Shares, Trailing 10 Years<sup>1</sup>



## Average Annual Total Returns<sup>2</sup> (%)

	Three Months	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception
Class I	0.20	0.20	14.40	-	-	-	20.61
Class R6	-	-	-	-	-	-	4.42
Class Y	0.18	0.18	14.28	13.75	13.44	12.52	8.70
Class A without sales charge	0.14	0.14	14.00	-	-	-	22.51
with sales charge	-5.61	-5.61	7.46	-	-	-	18.61
S&P 500® Index	-4.60	-4.60	15.65	18.92	15.99	14.64	-
Russell 1000® Value Index <sup>3</sup>	-0.74	-0.74	11.67	13.02	10.29	11.70	-
Lipper Equity Income Funds Index	-0.85	-0.85	13.76	13.44	11.21	11.27	-

## Calendar Year Returns<sup>2</sup> (%)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Class Y	10.86	30.59	8.81	0.07	12.79	19.93	-0.70	25.16	6.34	22.76
S&P 500®	16.00	32.39	13.69	1.38	11.96	21.83	-4.38	31.49	18.40	28.71
Russell 1000® Value	17.51	32.53	13.45	-3.83	17.34	13.66	-8.27	26.54	2.80	25.16
Lipper	13.66	28.70	10.69	-2.96	14.30	16.43	-6.62	26.38	4.58	24.20

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## 5-Yr Risk Measures (%)

	Class Y vs. S&P 500	Class Y vs. R1000V	Class Y vs. Lipper
Standard Deviation	13.67 15.78	13.67 16.56	13.67 14.71
Down Capture	86.84 100.00	77.94 100.00	92.29 100.00
Up Capture	85.60 100.00	96.78 100.00	103.56 100.00
Beta	0.80 1.00	0.79 1.00	0.90 1.00

<sup>1</sup> Growth of \$10,000 is calculated at NAV and assumes all dividends and capital gain distributions were reinvested. It does not take into account sales charges (if applicable) or the effect of taxes.

<sup>2</sup> 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.

<sup>3</sup> Russell 1000® Value was added as a secondary comparison benchmark as of 6/1/2020.

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.

Prior to March 1, 2012, BHBFX was known as Madison Mosaic Equity Trust Balanced Fund. At that time, the fund changed investment policies. As a result, the manner in which the fund is currently being managed is not similar to the way in which it was previously managed. Therefore, the fund's historical performance data prior to March 1, 2012 may not be relevant to current (and future) investors.

## Experienced Management



John Brown, CFA  
Portfolio Manager  
Industry since 1983



Drew Justman, CFA  
Portfolio Manager  
Industry since 2001

## Fund Features

- ▶ Fund seeks current income with an opportunity for capital appreciation
- ▶ High conviction of approx. 50 holdings
- ▶ Relative yield strategy; buy stocks trading at high end of historic dividend yield range
- ▶ Focus on risk management

Class	Ticker	Inception Date	Exp. Ratio
A	MADAX	5/29/20	1.16%
Y	BHBFX	12/18/86	0.91%
I	MDMIX	8/31/20	0.81%
R6	MADRX	2/28/22	0.73%

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

## Distribution Frequency - Quarterly

## Distribution History

Year	Total	Yr-End Nav
2021	\$0.12	\$32.37
2020	\$0.45	\$29.48
2019	\$1.11	\$28.22
2018	\$2.99	\$23.46
2017	\$1.04	\$26.70



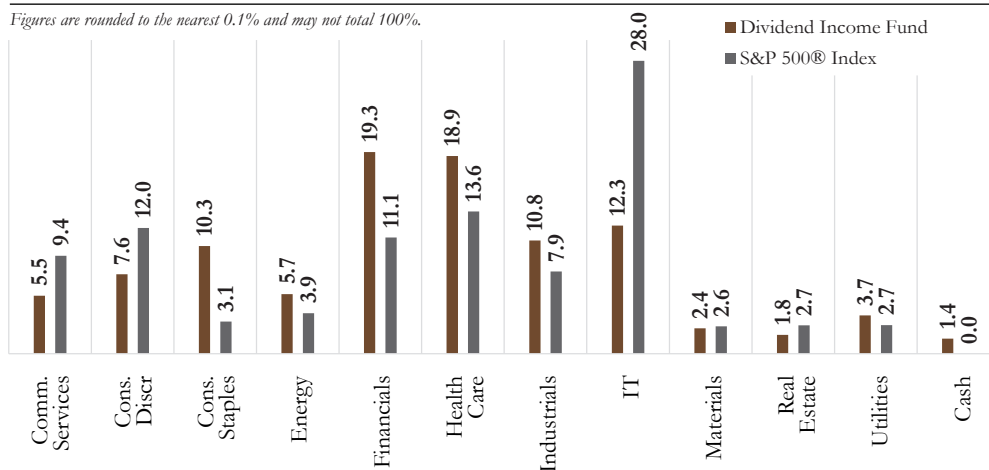


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## Sector Allocation (%)

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



## Top Ten Stock Holdings (%)

TRAVELERS COS INC/THE	4.2
BRISTOL MYERS SQUIBB CO	4.0
CVS HEALTH CORP	3.9
DOMINION ENERGY INC	3.7
JOHNSON + JOHNSON	3.5
BAKER HUGHES CO	3.3
CISCO SYSTEMS INC	3.3
CME GROUP INC	3.3
MCDONALD S CORP	3.2
HOME DEPOT INC	3.0

## Characteristics

TTM P/E	18.1x
P/B	3.2x
ROE	24.3%
Active Share (vs S&P)	85.6%
Dividend Yield	2.3%
30-Day SEC Yield (Class Y)	1.3%
Wtd. Avg. Market Cap (billions)	\$146.6
Portfolio Turnover	31%
Number of Holdings	39
Total Net Assets (millions)	\$319.6

If fees had not been waived and/or expenses reimbursed, the SEC yields would have been lower.

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: a fund's performance in down markets relative to its benchmark. The security's downside capture return is divided it by the benchmark's downside capture return over the time period. Upside Capture Ratio: a fund's performance in up markets relative to its benchmark. The security's upside capture return is divided by the benchmark's upside capture return over the time period. Beta: a measure of the fund's sensitivity to market movements. A portfolio with a beta greater than 1 is more volatile than the market, and a portfolio with a beta less than 1 is less volatile than the market. 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. It can range from 0% for an index fund that perfectly mirrors its benchmark to 100% for a portfolio with no overlap with an index. Dividend Yield: the portfolio's weighted average of the underlying fund holdings and not the yield of the fund. 30-day SEC Yield (Class Y) is a standardized formula designed to approximate the Fund's annualized hypothetical current income from securities less expenses for the 30 day-period ended 12/31/20 and that date's maximum offering price. 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: the size of the companies in which the fund invests. Market capitalization is calculated by number of a company's shares outstanding times its price per share. 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 1000® Value (R1000V) index measures the performance of the Russell 1000's value segment, which is defined to include firms whose share prices have lower price/ to/book ratios and lower expected long/term mean earnings growth rates. 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 Lipper Equity Income Fund Index (Lipper) tracks funds that seek relatively high current income and growth of income by investing at least 65% of their portfolio in dividend-paying equity securities.

An investment in the fund is subject to risk and there can be no assurance 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, growth and value investing risk, special risks associated with dividend paying stocks, option risk, interest rate risk, capital gain realization risks to taxpaying shareholders, and foreign security and emerging market risk. More detailed information regarding these risks can be found in the fund's prospectus.

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