Madison Tax-Free National Fund Investment Strategy Letter

Tax-Exempt Performance Decouples from Treasuries

Tax-exempt municipal bonds once again posted solid performance during the third quarter as interest rates fell in response to Federal Open Market Committee (FOMC) policy decisions. The FOMC reduced its policy rate by 0.25% in both July and September as a preventive measure to thwart off a potential slowdown in U.S. economic activity. The central bank cited slowing global growth, foreign trade tensions, and geopolitical unrest as primary concerns that could disrupt future U.S. economic activity. Initially, investors fearful of a looming domestic recession reacted by selling equities and buying Treasury bonds. Most muni investors benefited from the downward movement in rates, although tax-exempt performance stalled relative to Treasuries as valuations established historical high levels.

Jeff Matthias, CFA
Portfolio Manager
Industry since 1990

In recent months, many market participants became increasingly concerned about prospects for a U.S. recession. Despite reported second quarter Gross Domestic Product (GDP) of 2.0%, the inverted yield curve along with reduced manufacturing activity and businesses reluctance to invest led many investors to believe the Federal Reserve will find it necessary to keep lowering short-term interest rates to buoy the economy. Treasury valuations have also been augmented by many uncertainties including the ongoing trade war with China, slowing global expansion and political unrest. Arguable, these are legitimate worries since any such shock could ultimately cause a recession. However, the opposing viewpoint suggest U.S. economic health should endure given solid consumer spending, decent job growth and rising home prices. This optimistic perspective suggests longer-term interest rates should be higher.

Michael Peters, CFA
Portfolio Manager
Industry since 1987

Higher muni/Treasury (M/T) yield ratios suggest tax-exempt investors have become more sensitive to lower interest rates. At the beginning of the third quarter, the generic AAA curve sloped slightly upward. After the Fed lowered rates in July, the muni curve began to flatten and muni yields reached historic lows in mid-August. Since supply/demand imbalances were absent, it's plausible to conclude investors hesitated at the absolute level of yields. Shortly thereafter, muni yields began to ascend while Treasury yields remained fairly stable. The upward shift in muni yields caused M/T ratios to rise, the most significant increase occurring for maturities between 1 and 12 years. At the end of the third quarter, the generic AAA muni curve remained flat between 1 and 6 years with incremental yield available on longer maturities.

Portfolio Performance and Positioning

Tax-exempt munis generated constructive performance during the past three months, although underperforming similar maturity Treasury bonds. Muni performance trailed Treasuries as tax-exempts reached historically high valuations. Tax-exempt investors seemed to balk at both the absolute yields as well as pre-tax equivalent yields when compared with other fixed income sectors. During the third quarter, the Tax-Free National Fund (Class Y shares at

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.

Net Asset Value (NAV)) posted a 1.36% return while the ICE Bank of America Merrill Lynch 1-22 Year Municipal index posted a 1.35% annual return.

The Fund's third quarter performance is attributable to yield curve positioning, sector allocation and security selection within the BBB quality bucket. Specific to maturity profile, the Fund benefited from the less than benchmark exposure to maturities less than five years as well as its slightly higher exposure to maturities between eight and 17 years where the yield curve is more positively sloped. Also additive to return was the Fund's allocation to local general obligation bonds and revenue bonds which handily outperformed comparable state general obligations bonds (GOs). Although the Fund was less exposed to BBB-rated issues, positive relative performance was generated by the Fund's lower quality securities which held their value better as risk premiums shifted.

We believe the Fund remains appropriately positioned for current market conditions and our outlook for the muni market. We've positioned the portfolio to seek more income than the benchmark while positioning higher quality credits (on average) than holdings within the benchmark. The Fund should benefit as longer-term bonds roll down the yield curve toward maturity. Moreover, the Fund's high-quality bias should make it less prone to principal loss in comparison to the benchmark should risk premiums increase. We intend to take advantage of market dislocations as market conditions evolve without taking unwarranted risk.

Outlook

The municipal bond market continues to benefit from favorable U.S. economic environment as evidenced by increasing state and local tax receipts as well as benign default trends. In general, investors seem to be geared towards locking in the highest yields possible while dismissing signs of potential trouble spots percolating within the muni market. While it is true muni defaults are rare, the number of impairments is experiencing an upsurge. Alarming to us is a recent report from Municipal Market Advisors (MMA) stating that more than 40% of newly impaired bonds came from issuance within the past three years. In addition, MMA provided evidence the transition time from impairment to default continues to shorten, currently between six and 12 months in comparison to roughly 18 to 24 months five years ago. The good news is a vast majority of impairments and defaults are within the riskiest sectors including retirement communities, local housing, land secured, charter schools and hospitals.

Most state and local governments appear to be on solid financial footing with no immediate need to battle budget woes. Fortunately for these issuers, history suggests tax receipts are likely to keep growing until the U.S. economy contracts. However, over the longer term we believe many municipalities are faced with not necessarily new but difficult challenges such as limited federal funding, unfunded pension liabilities and climate-related events. Typically, these GO issuers have enough time to formulate and implement corrective actions. We disagree with recent headlines asserting Puerto Rico's maneuver to invalidate large portions of the commonwealth's general obligation bonds may set a precedent for how U.S. officials may attempt to restructure distressed state and pension debts.

We envision demand for tax-exempt securities to remain robust during the coming quarters as higher wage earners reposition assets to lessen federal taxes. Lower corporate tax rates amplify the likelihood institutional investors will have a diminished appetite for federally tax-exempt holdings. This is especially true for banks which have reduced muni holdings in recent quarters. The supply of muni bonds is apt to remain in-line with investor demand as issuers take advantage of lower interest rates by refunding higher cost debt and funding approved projects. However, we anticipate tax-exempt investors will become more attentive to the absolute level of yields as well as relative valuations versus other fixed income sectors.

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 low rate environment certainly tests the patience of investors attempting to maximize tax-exempt income. Without taking uncompensated risk, we foresee tax-exempt investors taking advantage of the upward sloping muni curve by positioning a portion of holdings beyond 12 years. In addition, the nearly identical yields for munis with maturities less than seven years poses an opportunity for investors to reposition five-to-seven-year paper into shorter maturities. The result of this two-pronged approach is a barbell portfolio (e.g. a portfolio with limited intermediate maturities). Lastly, we believe uncertainties about the economy and investors' potential reactions to tax-exempt headlines warrant swapping lower-quality holdings into higher-quality credits.

Jeff Matthias *Mike Peters*

The ICE Bank of America Merrill Lynch 1-22 year Municipal Index tracks the performance of U.S. dollar denominated investment grade tax-exempt debt publicly issued by U.S. states and territories, their political subdivisions, in the U.S. domestic market, with a remaining term to final maturity less than 22 years.

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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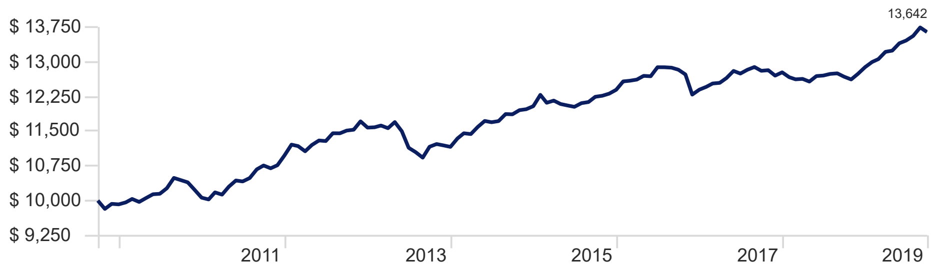
September 30, 2019

Madison Tax-Free National Fund

Madison FUNDS®

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

The Value of Long-Term Investing



Experienced Management

Michael Peters, CFA
Portfolio Manager
Industry since 1987

Jeffrey Matthias, CFA
Portfolio Manager
Industry since 1987

Average Annual Total Returns[2] (%)

	Three Months	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Class Y	1.36	5.90	7.62	2.07	2.83	3.15
ICE BofAML 1-22 yr US Muni Securities Index	1.32	6.17	7.87	2.93	3.26	3.82

Calendar Year Returns[2] (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Class Y	7.25	1.46	9.07	5.48	-3.59	7.88	2.94	0.02	3.03	0.86
ICE BofAML 1-22 yr US Muni Securities Index	10.86	2.59	9.83	5.65	-1.54	7.46	3.07	0.24	4.53	1.36

Characteristics (years)

Modified Duration to Worst	4.80
Effective Maturity	7.13

Yields

30-day SEC Yield	2.25%
Yield to Maturity	1.75%

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 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. 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.

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

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Fund Features

- Fund seeks income from municipal bonds and to distribute this income as tax-free dividends.
- Buys investment-grade bonds of states, municipalities and limited purpose bonds
- Seeks income that is exempt from federal income tax
- Focus on managing risk

Class	Ticker	Inception Date	Exp. Ratio[3]
Y	GTFHX	12/30/82	0.75%

Distribution Frequency

Monthly

Risk Measures (10-year)

Standard Deviation	3.41%
Downside Capture	117.97%
Upside Capture	97.38%

Total Net Assets

$23.9 Million

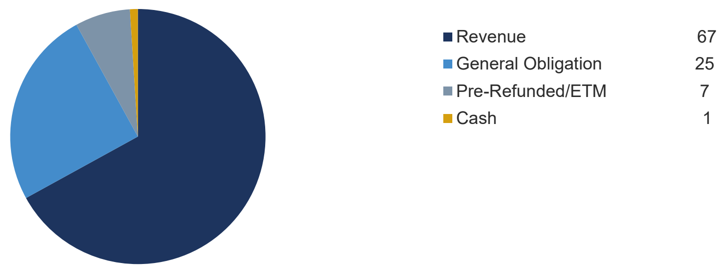
Portfolio Turnover

31%

Total Number of Holdings

60

Portfolio Mix (%)



Sector allocation is rounded to the nearest 1%.

Top Ten Holdings

DESCRIPTION	COUPON	MATURITY	%
AUSTIN TX	5%	01 Sep 2026	2.8
COOK CNTY IL SCH DIST 111 BUR	5%	01 Dec 2035	2.7
HAMPTON ROADS VA SANTN DIST WS	5%	01 Oct 2036	2.7
WSTRN VA REGL JAIL AUTH REGL J	5%	01 Dec 2034	2.6
WICHITA KS	5%	01 Dec 2024	2.6
VANDERBURGH CNTY IN REDEV DIST	5%	01 Feb 2026	2.5
CADDO CNTY OK GOVTL BLDG AUTH	5%	01 Sep 2040	2.5
MED CENTER MS EDUCTNL BLDG COR	5%	01 Jun 2030	2.5
ORLANDO FL UTILITIES COMMISSIO	5%	01 Oct 2022	2.5
FORT WORTH TX	4%	01 Mar 2029	2.4

Madison FUNDS®

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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. **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. **Yield to Maturity** measures the annual return an investor would receive if they held a particular bond until maturity as of the end of a report period. In order to make comparisons between instruments with different payment frequencies, a standard yield calculation basis is assumed. This yield is calculated assuming semiannual compounding. **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 period 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 risk, call risk, risk of default, liquidity risk, legislative risk, capital gains tax-related risk, alternative minimum tax risk, and risks of general obligations versus limited purpose bonds. Income from the Tax-Free National Fund may be subject to the federal Alternative Minimum Tax. Tax-Free National Fund income may be subject to state and municipal taxes.

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.

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