Madison INVESTMENTS

MADISON SHORT TERM STRATEGIC INCOME

Strategy Overview

This overview is an introduction to Madison's Short Term Strategic Income philosophy, process, and investment team.

We have acted as the steward of fixed income portfolios since our founding in 1974, and throughout that time have managed portfolios through many different market environments. Our investment approach begins with straight-forward, transparent portfolios that focus on risk management. It is this disciplined approach which has earned us a national reputation and differentiates us from other managers.

The Madison Intermediate Income strategy is a duration neutral, tactical asset allocation portfolio that focuses on providing an optimal level of income while aiming to provide downside protection of principal.

Investment Objective

Produce an income stream and long-term total return while providing downside protection of principal

INVESTMENT PROCESS

We employ a detailed, bottom-up analysis of a company's recent financial performance, near-term prospects, debt-capital structure and liquidity and free-cash-flow profile. When our indicators for deteriorating credit performance increase, we reduce high-yield and lower-rated, investment-grade bonds, and purchase more U.S. Treasury/Agency bonds and higher-quality credits. These credit performance indicators, as well as extentensive internal analysis allow us to add BB-rated and B-rated high-yield bonds that provide an attractive income stream.

Managing Risk

PORTFOLIO CONSTRUCTION

Invests in U.S. Treasuries/Agencies, U.S. Corporate investment-grade bonds and U.S. Corporate higher-quality, high-yield bonds

- Average maturity less than 5 years, maximum individual security maturity of 8 years
- Duration less than 3 years, maximum individual security duration of 8 years
- Maximum high-yield weight of 35%
- U.S. Treasury/Agency exposure between 10% - 35%
- Portfolio rating of A3/A- or better[1]

MACRO OUTLOOK

Macro and sector-related factors can affect bonds prices due to general exposure to a specific asset class, geography, market or type of business. Our grasp of these factors helps us position our investments into the most attractive ratings categories, sectors and timeframe. Factors include:

- Health of the global and U.S. economies
- Government policies
- Foreign currency exchange rates (relative to the U.S. dollar)
- Commodity price environments

1 This measure is not the result of an assessment of the credit quality of the composite's portfolio by a Nationally Recognized Statistical Rating Agency ("NRSRO") or any other independent entity. Credit quality ratings on underlying securities of the composite are received from one or more NRSRO (e.g., S&P, Moody's, Fitch, etc.) and converted to the equivalent major rating category commonly utilized by more than one NRSRO. The quality ratings are calculated by Madison and in the event of split ratings among the NSRSOs, the highest rating is used. Bonds backed by U.S. Government or agency securities are given an implied rating equal to the rating of such securities. Ratings and portfolio credit quality may change over time.

INDUSTRY ALLOCATION

Performance among sectors varies widely from year-to-year; correctly managing industry exposures through an economic cycle improves returns and reduces risk. We track trends in each industry and input these findings into our company analysis.

QUALITY ASSESSMENT

We focus our time on B-or-better corporate bonds. In our view, eliminating the CCC-rated segment provides our clients the best risk/reward tradeoff. CCC-rated bonds have had a greater default rate versus B-rated bonds and versus BB-rated bonds. [2] These defaults have historically not translated into significantly higher returns by the CCC-rated segment.

IN-DEPTH COMPANY ANALYSIS

By understanding the overall credit profile of a company, we can ascertain the risk/reward relationship between different companies and industries. Our analyses focus on:

Recent Performance and Outlook – We analyze financial information and company filings to understand recent trends and gauge near-term earnings prospects.

Interest Coverage – Coverage analysis shows the cash flow a company generates relative to its interest expense (an important aspect to ensure bond interest is paid on time). We expect the majority of investments to have greater than 2x interest coverage.

Liquidity – We sort through quarterly and annual filings to understand each company's cash position, as well as its ability to borrow additional funds from a credit facility or similar source.

Free Cash Flow Power – The ability for a company to generate positive free cash flow allows for greater financial flexibility. We analyze the expected free cash flow of each company, as well as the potential uses of that cash, as it could lead to debt reductions, reinvestment, acquisitions and/or stock buybacks.

Debt Levels – Our analysis includes balance sheet data with an emphasis placed on the debt components. We intend to invest in companies that we believe are not overly limited by debt, have assets that are worth more than the debt amount, and can successfully address debt maturities.

SECURITY SELECTION

At the security level, the bond market can be very inefficient. Each security we purchase is analyzed intensely using both quantitative and qualitative factors. Security structure, covenants and yield/spread analysis are all key parts to investing in bonds. The final buy or sell decision is always evaluated in terms of a client's overall portfolio.

Disclosures

2. Source: S&P Credit Portal. "2015 Annual U.S. Corporate Default Study and Rating Transitions." May 19, 2016

"Madison" and/or "Madison Investments" is the unifying tradename of Madison Investment Holdings, Inc., Madison Asset Management, LLC ("MAM"), and Madison Investment Advisors, LLC ("MIA"), which also includes the Madison Scottsdale office. Hansberger Growth Investors, L.P. or "HGI" is an affiliate of "Madison Investments." MAM, MIA and HGI are registered as investment advisers with the U.S. Securities and Exchange Commission. Madison Funds are distributed by MFD Distributor, LLC. MFD Distributor, LLC is registered with the U.S. Securities and Exchange Commission as a broker-dealer, and is a member firm of the Financial Industry Regulatory Authority. The home office for each firm listed above is 550 Science Drive, Madison, WI 53711. Madison's toll-free number is 800-767-0300.

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.

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.

High yield bonds are considered lower-quality instruments known as "junk bonds." Such bonds entail greater risks than those found in higher-rated securities and, as a result, investments in them more risk than investments in other bonds.

It is Madison's opinion that the bond market is inefficient. There is no guarantee that Madison can consistently exploit these perceived inefficiencies. ©Madison Investment Advisors, LLC. July 21, 2020