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## MADISON LARGE CAP EQUITY

September 30, 2020 | Separately Managed Account Investment Strategy Letter

*Madison's philosophy revolves around the principle of "Participate and Protect", which means we strive to build portfolios that participate as fully as possible in favorable markets and, more importantly, protect principal in difficult markets with the goal of outperforming the S&P 500 Index over a full market cycle. To pursue our goals, we emphasize high-quality growth companies that exhibit sustainable competitive advantages and consistent cash flow. We perform multiple screens to develop a high conviction portfolio concentrated in companies with attractive growth characteristics and purchased when valuations are reasonable.*

### THIRD QUARTER 2020 REVIEW

The U.S. stock market, as represented by the S&P 500® Index, recovered into positive territory for the year with an 8.93% gain this quarter. The Madison Large Cap strategy outperformed its benchmark (gross-of-fee and net-of-fee) for the quarter yet still trails the S&P 500's 5.57% return for the year.

Our sense is that there have been strong speculative elements to this year's stock market returns. In many cases, stocks of new companies with new ideas are achieving fancy returns despite lacking demonstrable economic profits. In others, the stocks of some companies that have received a bump in revenues and profits from Covid-19-related work-from-home (WFH) trends are priced with valuation multiples suggestive of the notion that their current tailwinds will last into perpetuity. In contrast to this second dynamic, we've begun contemplating some reversion to lower growth rates for companies that are currently enjoying Covid-19-related tailwinds (e.g., Lowe's and Danaher in our portfolio), and a reversion to better growth rates for companies that have been challenged by current headwinds (e.g., TJX's physical retail portfolio). Most importantly, we have continued to practice investing mindful of Warren Buffett's admonition that, "The less prudence with which others conduct their affairs, the greater the prudence with which we should conduct our own affairs." Thus, we remain in the rhythm of selling that which looks expensive in exchange for investment ideas that, per our analysis, look more reasonably priced. This letter will illustrate that thinking.

### PORTFOLIO ACTIVITY & OUTLOOK

From the standpoint of sector weightings, the most salient change in the portfolio this quarter was the reduction in the weight held in the Health Care Sector from approximately 19% of the portfolio to 13.5%. The notable items in that sector weight change include a trim to our Danaher position and the sale of Varian Medical Systems stock. We trimmed Danaher simply because we deemed it to have become a fully appreciated stock - as of this writing it's up over 51% for the trailing twelve months. To be sure, its diagnostics business has received a boost to demand for Covid-19 related testing, and its life science business portfolio is expected to enjoy strengthening demand from its strong position as a supplier into the biotechnology production industry. The Danaher life science business was also augmented by the March 31<sup>st</sup> closure of the \$21.4 billion GE Biopharma acquisition, fortuitous timing since the ramping Covid-19 vaccine efforts provide a near-term profit boost that raises the return-on-investment on the acquisition. No doubt Danaher has an exciting near-term opportunity to supply the biotech and vaccine industry as a Covid-19 vaccine is commercialized, but in contemplating a forecast period measured in years and normalized for a return to a post-Covid environment, we think that carrying a smaller weight in Danaher is justified by the current stock price.

Turning to Varian, on Sunday, August 2, Siemens Healthineers announced an agreement to acquire Varian in an all-cash transaction for \$177.50 per share. This price is materially above our assessed value for Varian stock, so we elected to sell our shares into market strength the Monday after the agreement was announced. Varian had been held in the portfolio since 2013, and it was an important contributor to portfolio returns over the holding period, including this past quarter. It might be of interest to provide more color on the investment since Varian is a good representation of a business that meets our criteria and is therefore a good example of our process.

We believe that Varian holds in excess of 50% market share in the radiation oncology equipment and services market, a statistic we've tracked each year. Our investment began the year after Dow Wilson was appointed CEO at Varian, and we appreciated Wilson's efforts to increase investments in R&D and the broader commercial infrastructure to solidify and extend Varian's leadership. Over our investment period, we watched competitors struggle to keep up with Varian's advances in software for the radiation oncology ecosystem and its equipment. Combined, Varian's innovations allowed for more precise targeting of cancerous cells (and the sparing of surrounding healthy tissues), the simplification of treatment procedures, faster patient throughput, and more recently, the inclusion of artificial intelligence and



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big data analytics to achieve better results via enhanced automation. On the latter point, Varian's employment of information technology is, in no small part, meant to alleviate global constraints on the number of trained radiation oncology professionals including the physicists and medical doctors needed to plan and execute radiation oncology treatments. As Varian progressed with its new offerings, they were experiencing high demand in countries lacking professional health resources and also in developed markets looking to become more efficient, and the runway looks like a long one in terms of commercial opportunity. With the acquisition, Siemens will gain a well-run, profitable company with lots of room for growth, and Siemens' resources will likely augment that growth. Varian investors get a full price for the business. Your portfolio management team feels gratified to have witnessed a successful investment that, during our holding period, met our criteria for possessing a durable competitive advantage, capable and honest management, above average profitability, good growth prospects, and a reasonable valuation.

The reductions in weight in our health care holdings were executed at robust valuation multiples. As such, we sought out new investments that met our criteria for growth, for business quality, and for the management team. This led us to the purchase of Facebook stock during the quarter.

Facebook is a social media company that operates the core Facebook and Messenger applications, as well as WhatsApp and Instagram. Nearly 2.5 billion people interact with at least one of these apps each day, making Facebook the largest participant in the social media industry.

The company is very profitable in terms of margins, returns on invested capital, and cash flow while at the same time investing tens of billions of dollars into the business through R&D, sales and marketing, and capital expenditures. We believe the operating profile will prove to be durable given the inherent network effects which help attract new users and retain existing ones, and the technology-enabled advertising tools that empower millions of advertisers. These economically healthy dynamics are achieved at low incremental cost to Facebook.

Facebook has proven resilient in recent years in terms of the time users spend on its apps, and also financially, including through the worst of the Covid-19 crisis. Revenue has continued to grow thus far in 2020 despite entire industries slashing their advertising budgets, illustrating the size of the addressable market and the value advertisers place on Facebook to reach potential customers through direct response advertising.

While Facebook is already the second largest digital advertising company, we believe the company's growth prospects remain strong. Recent feature introductions for businesses and users alike have the potential to significantly increase the amount of commerce transacted on the platform. These features, including Marketplace, Shops, Checkout, and messaging applications reduce user friction and allow businesses to better leverage Facebook's various apps to reach potential customers. Similarly, users will find the apps even more useful for "product discovery," making Facebook a digital analog to the role that physical stores have played.

Perhaps surprisingly, Facebook trades at just a slight premium to the S&P 500 using valuation multiples that capture the value of its strong balance sheet and profitability<sup>1</sup>, and it trades for less, on the same-basis, than many well-regarded large-cap companies. We think today's stock price is a very fair one for the solid growth opportunity and durability that Facebook offers, and that owning the stock as it's poised to benefit from its new commercial offerings in a world that is increasingly digital is a good idea.

In closing, we will continue to work hard to prudently invest in opportunities that we think provide good risk-reward propositions to the portfolio. This quarter the proposed acquisition of Varian allowed us to realize the cash value of a long-term holding, and we added to many existing holdings and to Facebook with eyes toward the future. We remain committed to our 20-plus year strategy of striving to invest with less risk than that which exists in the stock market as a whole, and you can expect to continue to see actions like those that were executed this quarter.

We thank you for your trust, and we remain invested alongside you for the long-term.

<sup>1</sup> - Per FactSet, FB's EV/EBIT and EV/EBITDA, both on NTM consensus expectations, are 1.03x and 1.04x the S&P 500's multiple, FactSet, 10/2/2020.

## MADISON LARGE CAP EQUITY

### September 30, 2020 | Separately Managed Account Performance & Characteristics

*Portfolio Characteristics may help you understand how the portfolio, taken as a whole, is situated relative to other portfolios or the benchmark. See the Definitions section on the last page for more details about each metric presented below.*

#### Portfolio Characteristics

	Madison Large Cap <sup>1</sup>	S&P 500 <sup>®</sup> Index
Number of holdings	27	505
Weighted avg. market cap (billions)	\$163.5	\$453.0
Dividend yield	1.05	1.75
Active Share	88.46	-
Turnover Range	20-40%	-

#### Portfolio Statistics (%)

20-Year	Madison Large Cap	S&P 500 <sup>®</sup> Index
Up Capture Ratio	92.82	100.00
Down Capture Ratio	80.53	100.00
Standard Deviation	14.05	15.00

#### Sector Distribution (%)

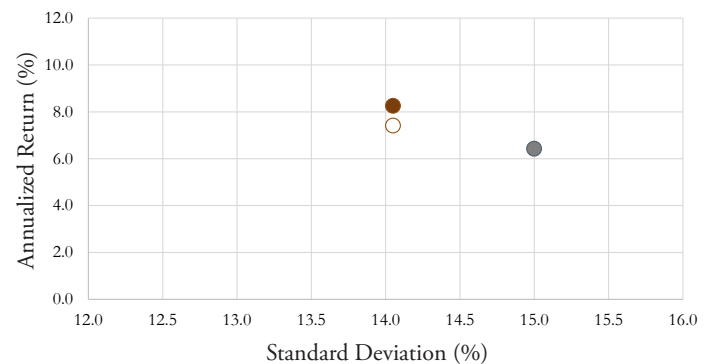
	Madison Large Cap <sup>1</sup>	S&P 500 <sup>®</sup> Index
Communication Services	11.69	10.80
Consumer Discretionary	12.73	11.55
Consumer Staples	-	7.02
Energy	-	2.06
Financials	18.26	9.67
Health Care	13.54	14.23
Industrials	10.17	8.31
Information Technology	20.28	28.13
Materials	6.30	2.62
Real Estate	2.71	2.64
Utilities	-	2.97
Cash	4.32	-

#### Risk/Reward

20-Year

*Please Note: Actual management fees will vary depending on each individual agreement. See footnote on the following page for more information.*

- Madison Gross
- Madison Net\*\*
- S&P 500<sup>®</sup> Index



## MADISON LARGE CAP EQUITY

### September 30, 2020 | Separately Managed Account Performance & Characteristics

*Portfolio Performance may help you understand how the portfolio, taken as a whole, is situated relative to other portfolios or the benchmark. See the Definitions section on the last page for more details about each metric presented below.*

#### Trailing Returns (%)

	MADISON		S&P 500 <sup>o</sup> Index
	Gross	Net	
QTD	10.22	10.02	8.93
YTD	3.05	2.47	5.57
1-Year*	9.57	8.73	15.15
3-Year*	13.58	12.70	12.28
5-Year*	15.23	14.33	14.15
10-Year*	13.85	12.97	13.74
20-Year*	8.26	7.41	6.42
Since Inception*	9.64	8.78	8.58

*\*Figures are annualized.*

#### Experienced Management

**Matt Hayner, CFA**  
Portfolio Manager  
Industry start 2002

**Rich Eisinger**  
Head of Equities,  
Portfolio Manager  
Industry start 1994

#### Annual Total Returns (%)

	MADISON		S&P 500 <sup>o</sup> Index
	Gross	Net	
2010	10.67	9.81	15.06
2011	1.09	0.28	2.11
2012	15.35	14.46	16.00
2013	30.54	29.57	32.39
2014	12.48	11.58	13.69
2015	1.24	0.44	1.38
2016	13.79	12.88	11.96
2017	23.76	22.79	21.83
2018	0.73	-0.06	-4.38
2019	32.17	31.15	31.49

*Net returns are calculated using the highest Madison annual fee of 0.80%, calculated quarterly. They do not reflect any third-party investment advisory fees or other expenses that may be incurred in the management of the account. Such fees and expenses will reduce the actual returns of the account. Actual fees and expenses will vary depending on each individual agreement, so readers should consult their advisors for additional details. See each entity's Part 2A Disclosure Brochure for more information. Actual returns may vary depending on a particular account's trading platform and trading discretion. Any differences in the timing of trades may result in various performance outcomes for Madison's separately managed accounts versus model manager accounts.*

## DISCLOSURES & DEFINITIONS

1. Information is based on a model portfolio which is intended to provide a general illustration of the investment strategy. Individual client portfolios in the program may vary.

All or some of the information is presented as “supplemental information” included as part of the GIPS® compliant performance presentation for the Madison Large Cap Equity Composite on the reverse side, which must be included with this material. Unless otherwise noted, references to “Madison” are to that composite and references to inception date refer to performance since 3/31/1997. Past performance is no guarantee of future results. Year-to-date, quarterly and annualized performance figures are considered “preliminary” as of the date of this piece. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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.

The S&P 500® is an unmanaged index of large companies and is widely regarded as a standard for measuring large-cap and mid-cap U.S. stock-market performance. Results assume the reinvestment of all capital gain and dividend distributions. An investment cannot be made directly into an index.

### Risk

All investing involves risks including the possible loss of principal. There can be no assurance the portfolios will achieve their investment objectives. The portfolios may invest in equities which are subject to market volatility. Equity risk is the risk that securities held by the portfolio will fluctuate in value due to general market or economic conditions, perceptions regarding the industries in which the issuers of securities held by the portfolio participate, and the particular circumstances and performance of particular companies whose securities the portfolio holds. In addition, while broad market measures of common stocks have historically generated higher average returns than fixed income securities, common stocks have also experienced significantly more volatility in those returns.

Please consult with your financial advisor to determine your risk tolerance and investment objectives.

It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this list.

### Definitions

Holdings may vary depending on account inception date, objective, cash flows, market volatility, and other variables. Any securities identified and described herein do not represent all of the securities purchased or sold, and these securities may not be purchased for a new account. There is no guarantee that any securities transactions identified and described herein were, or will be profitable. Any securities identified and described herein are not a recommendation to buy or sell, and is not a solicitation for brokerage services.

Upon request, Madison may furnish to the client or institution a list of all security recommendations made within the past year.

Wtd. Avg. Market Cap measures the size of the companies in which the portfolio invests. Market capitalization is calculated by multiplying the number of a company’s shares outstanding by its price per share.

Dividend Yield: the portfolio’s weighted average of the underlying portfolio holdings (as of 12/31/2019) and not the yield of the portfolio.

Active Share is defined as the percentage of a portfolio that differs from its benchmark index. Active Share can range from 0% for an index portfolio that perfectly mirrors its benchmark to 100% for a portfolio with no overlap with an index.

Portfolio Turnover: a measure of the trading activity in an investment portfolio—how often securities are bought and sold by a portfolio. The range represents the typical turnover of the portfolio.

“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.

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 this report constitute the firm’s judgment as of the date of this report and are subject to change without notice. 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.

This piece is not intended to provide investment advice directly to investors. Opinions stated are informational only and should not be taken as investment recommendation or advice of any kind whatsoever (whether impartial or otherwise).

Gross performance results do not reflect the deduction of investment advisory fees. Your returns will be reduced by advisory fees and other expenses that may be incurred in the management of your investment advisory account. Investment advisory fees are described in our disclosure brochure.

Our expectation is that investors will participate in market appreciation during bull markets and be protected during bear markets compared with investors in portfolios holding more speculative and volatile securities. There is no assurance that these expectations will be realized.

Top Contributors to Return	Average Weight (%)	Contribution to Relative Return (%)	Bottom Contributors	Average Weight (%)	Contribution to Relative Return (%)
Varian Medical Systems, Inc.	1.28	1.08	Analog Devices, Inc.	3.61	-0.46
Lowe's Companies, Inc.	6.13	0.72	Becton, Dickinson and Company	4.85	-0.45
Copart, Inc.	3.21	0.46	American Tower Corporation	2.92	-0.39
Progressive Corporation	4.76	0.39	Novartis AG Sponsored ADR	3.55	-0.33
Cognizant Technology Solutions Corporation Class A	3.47	0.36	Dollar Tree, Inc.	3.16	-0.31

**MADISON  
LARGE CAP EQUITY COMPOSITE  
ANNUAL DISCLOSURE PRESENTATION**

Year End	Total Firm Assets (millions)	Composite Assets		Annual Performance Results						
		USD (millions)	Number of Accounts	Composite Gross	Composite Net	S&P 500	Composite Dispersion	Composite 3-Yr. Annualized Ex-Post Standard Deviation	Index 3-Yr. Annualized Ex-Post Standard Deviation	% of Non-Fee Paying Accounts
2019	13,993	627	31	32.17%	31.15%	31.49%	0.8%	10.39%	11.93%	Less than 1%
2018	12,895	563	53	0.73%	-0.06%	-4.38%	0.4%	9.20%	10.80%	Less than 1%
2017	13,761	425	62	23.76%	22.79%	21.83%	0.4%	8.81%	9.92%	Less than 1%
2016	13,312	393	69	13.79%	12.88%	11.96%	0.4%	9.58%	10.59%	Less than 1%
2015	13,030	201	65	1.24%	0.44%	1.38%	0.3%	9.68%	10.48%	Less than 1%
2014	13,953	269	77	12.48%	11.58%	13.69%	0.4%	8.46%	8.98%	Less than 1%
2013	12,112	425	108	30.54%	29.57%	32.39%	0.5%	10.86%	11.94%	Less than 1%
2012	6,984	157	137	15.35%	14.46%	16.00%	0.3%	13.97%	15.09%	Less than 1%
2011	7,320	131	168	1.09%	0.28%	2.11%	0.5%	18.26%	18.70%	Less than 1%
2010	7,349	135	154	10.67%	9.81%	15.06%	0.5%	-	-	Less than 1%
2009	6,766	111	112	34.61%	33.61%	26.46%	1.3%	-	-	Less than 1%
2008	5,282	82	108	-31.85%	-32.45%	-37.00%	0.7%	-	-	Less than 1%
2007	7,273	219	144	0.69%	-0.11%	5.49%	0.7%	-	-	Less than 1%
2006	7,782	491	324	17.35%	16.45%	15.79%	0.5%	-	-	Less than 1%
2005	8,793	715	818	-2.03%	-2.82%	4.91%	0.4%	-	-	Less than 1%
2004	8,813	679	620	12.86%	11.98%	10.88%	0.5%	-	-	Less than 1%
2003	7,419	459	309	23.35%	22.42%	28.68%	0.9%	-	-	Less than 1%
2002	6,272	120	185	-15.55%	-16.25%	-22.10%	1.0%	-	-	Less than 1%
2001	5,526	56	73	-1.75%	-2.55%	-11.89%	1.3%	-	-	Less than 1%
2000	4,584	45	40	11.88%	11.01%	-9.10%	1.1%	-	-	Less than 1%
1999	3,956	16	21	6.00%	5.16%	21.04%	2.4%	-	-	Less than 1%
1998	3,682	10	9	19.36%	18.45%	28.58%	0.5%	-	-	Less than 1%
1997	3122	2	Five or Fewer	35.14%*	34.41%*	29.88%*	N.A.	-	-	Less than 1%

Assets above are rounded to the nearest million.

\*Partial year performance. Composite inception date of 3/31/1997.

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

**As of December 31, 2019, total assets under advisement in this strategy are \$2,625 million encompassing bundled fee accounts, non-bundled fee accounts and non-discretionary accounts which include model-traded assets. This is presented as supplemental information.**

*Large Cap Equity Composite contains fully discretionary direct large cap equity accounts. The composite seeks to invest in high quality, larger companies with a growth orientation. Generally, such companies will have a market capitalization in excess of \$12 billion. We are bottom-up stock-pickers, focused on high quality consistent growth companies trading at reasonable valuations. Our goals are to beat the market over a market cycle by fully participating in up markets, while protecting principal in difficult markets. There is no assurance that these goals will be realized. For comparison purposes the composite is measured against the S&P 500 Index.*

For the purposes of GIPS compliance and the determination of total assets under management, the Firm is defined as Madison. Madison represents Madison Investment Advisors, LLC ("MIA") and Madison Asset Management, LLC ("MAM"), two investment advisers under common control registered with the U.S. Securities and Exchange Commission pursuant to the Investment Advisers Act of 1940. (Registration does not imply a certain level of skill or training.) Prior to December 1, 2010, this composite was maintained by Madison Investment Advisors, Inc. ("MIA Inc."). On November 30, 2010, pursuant to a corporate reorganization that involved no change of control or personnel relating to account composite management, all composite accounts managed by MIA Inc. were transferred to MIA and performance information for periods prior to December 1, 2010 refer to this composite as managed by MIA Inc. During the first quarter of 2013, MIA and its parent company, MAM (also a registered investment adviser), began the process of eliminating the distinction between accounts and products managed by the two companies by (1) replacing the "MEMBERS" brand name formerly utilized by MAM in connection with its products and services with the "Madison" name and (2) by reorganizing the Madison Mosaic group of mutual funds managed by MIA with the rebranded Madison Funds managed by MAM. Because MIA and MAM share all resources and personnel at their mutual Wisconsin office location and because there is no longer a brand or line of business distinction between products and services offered by the two registered investment advisers, for periods after March 31, 2013, the collective definition of the firm (Madison) includes accounts and assets managed by MAM and MIA. However, the firm does not claim compliance with the GIPS standards for assets and accounts managed by MAM prior to April 1, 2013. As of December 31, 2013, Madison Scottsdale, LC ("Scottsdale"), another registered investment adviser under common control with MIA, merged its assets into, and became part of, MIA and subsequently those assets became part of the firm (Madison). The transaction resulted in no change to the resources or personnel as the sole purpose of this change was to simplify Madison's legal corporate structure. Prior to January 1, 2014, Scottsdale did not claim GIPS compliance and no performance for composites formally maintained by Scottsdale are contained in this performance presentation or included in the definition of the firm (Madison). The firm maintains a list of composite descriptions, which is available upon request.

Madison claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. The firm, as defined above, has been independently verified for the periods January 1, 1991 through September 30, 2019. A copy of the verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Since January 1, 2001, composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of greater than 75% of portfolio assets. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net returns are calculated using the highest annual fee of 0.80%, as described below, applied quarterly. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The collection of fees produces a compounding effect on the total rate of return net of management fees. As an example, the effect of investment management fees on the total value of a client's portfolio assuming (a) quarterly fee assessment, (b) \$1,000,000 investment, (c) portfolio return of 8% a year, and (d) 1.00% annual investment advisory fee would be \$10,416 in the first year, and cumulative effects of \$59,816 over five years and \$143,430 over ten years. The annual composite dispersion presented is an equal-weighted standard deviation calculated for the accounts in the composite the entire year. The three-year annualized ex-post standard deviation (using monthly returns) of both the composite and the benchmark are presented for year-end periods beginning in 2011. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The management fee schedule is as follows: 0.80% annually on the first \$15 million; 0.60% annually on the balance. Actual investment advisory fees incurred by clients may vary. Additional information regarding investment advisory fees are described in our disclosure brochure.

The Large Cap Equity Composite was created January 1, 2003.

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