
MADISON MID 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 Russell Mid Cap 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.

MARKET REVIEW

The Economist recently coined the term the "90% economy." Given likely persistent social distancing behavior by people, whether voluntary or government-mandated, many countries including the U.S. will produce economic activity below potential for some time. A sustained recovery and a return to a 100% economy may take a while.

Yet clearly, some companies are actually thriving, even while most are not. Certain areas of the economy are impacted differently than others, and the contrasting performance of sectors within the market indices reflects this. In the first nine months of 2020, the Russell Midcap Index is down -2.35%. The Health Care and Information Technology Sectors are up over 16% each, even as the majority of sectors are down. No other sector is up more than 3%. The market performance of broad sectors are a crude way of assessing the state of affairs, but they seem roughly indicative.

There is a huge transfer of wealth in progress. From those that provide physical services to those that provide digitally-delivered services; from in-person entertainment to online entertainment; from travel and dining out to nesting at home; from low-income service workers to high-income professional workers; from small companies that don't have the resources to navigate the environment to large companies that can; and so on. Zoom Video Communications, a company that is not even a decade old and whom few people had heard of a year ago, is now a household name and has a market capitalization greater than the combined market capitalization of the four largest airlines and five largest hotel companies in the U.S. The transfer in stock market values has been enormous. It remains to be seen whether those transfers are justified longer-term by the shift in actual economic value.

PORTFOLIO UPDATE

We believe our portfolio companies are in good shape. They have solid balance sheets, excellent cash flows, and strong competitive advantages, and can weather a 90% economy for some time. We continue to maintain a long time horizon and are avoiding darting in and out of investments based on what might happen in the next few quarters. We have owned about 40% of our current investments for over a decade. Our portfolio turnover this year has been right around our historical average of about 20%, as we're happy with what we own, and are finding attractive new investments at a similar pace of a normal year.

We sold two investments and purchased one new stock in the third quarter.

We sold our positions in Mohawk Industries and Floor & Decor. Mohawk is the world's largest flooring manufacturer, while Floor & Decor is the leading domestic retailer of hard flooring products. We had separate reasons for each sale, and have nothing against flooring! In the case of Mohawk, we made our initial investment a couple of years ago when the company was suffering from a global demand slowdown and under-investment in a major new flooring category. Fast forward to today, the company has made steady, but only slow, progress in its catch-up attempt in the new category, and the outlook for global demand has only worsened with the virus. We believed our investment remained undervalued, but decided to re-allocate the capital to other building materials-related investments that had a better overall risk-reward profile. We lost money on our investment.

Floor & Decor is the dominant category killer in hard surface flooring products. During the pandemic, it was forced to shut down its stores, but since re-opening, revenue trends steadily improved to the point where by late summer, same-store sales were trending strongly positive. Compare this to another one of our retail holdings, Ross Stores, where same-store sales remained solidly in the negative camp through the summer. Stay-at-home consumers are spending more money to renovate their homes, and spending less on outside-the-home items such as clothing.

Floor & Decor's sales are also benefiting from a shrinking competitive set—a majority of its competition comes from small independent retailers, who don't have the resources to adjust to the pandemic. This is a potentially much longer lasting positive impact for the company,



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and it's possible that we are underestimating this effect. Floor & Decor's management team is absolutely top-notch. However, with the stock up quite a bit this year and reflecting a lot of optimism, we decided to sell. We made about two and a half times our initial investment over our two-year holding period.

ARISTA NETWORKS

Our new investment this quarter is in Arista Networks, a leading innovator and seller of data center Ethernet network switches. Visualize a data center as consisting of rows and rows of computers, connected by wires and cables. It would be impractical, and probably physically impossible, to have a cable from every computer to every other computer. Therefore, cables are set up in a mesh pattern with metal boxes which act as intersections, or nodes, thus reducing the number of cables that need to be connected to a specific computer. Those metal boxes are called switches.

An Ethernet switch's primary function is to direct data traffic along the proper path. As computer networks have grown in complexity, switches have come to incorporate increasingly sophisticated software in order to deal with the mushrooming traffic and network operating requirements. Thus, while Arista sells a physical box, its customers are really paying for the software IP that comes along with that box, which explains Arista's very high 30%-plus operating margins.

The company was founded in 2004 by far-sighted engineers that saw the need for a new type of switch. Simply put, Arista's switches are faster, more reliable, and easier to manage than the competition's. These traits have always been important for data centers, but are even more paramount for cloud data centers, where the total network bandwidth is orders of magnitude higher than for legacy data centers. As the cloud exploded in growth, demand for Arista's products followed. The company burst onto the scene over the past decade to claim the top market share among high-speed cloud network switches, and today, it has over \$2 billion of revenues, with a target on its back from competitors that were caught flat-footed and are now intent on winning business away from the upstart. Over the past couple of years, its competitors have all introduced new products to compete with Arista, and the stock has slowly drifted down as investors remain concerned that it will lose share in the coming years.

We actually would be surprised if it didn't lose a little share in the cloud data center market. Its products were so superior a few years ago during the last switch industry upgrade cycle, that some customers had almost no choice but to purchase almost 100% of their needs for certain portions of their network from Arista. A new upgrade cycle has started, and this time, with some viable alternatives available, some of those customers will no doubt add a second vendor. But Arista's products remain superior, and we believe it will retain a fairly high share of its customers' spend. End demand for the data center market overall should grow enough long-term that Arista should grow also, despite any temporary step-down in market share.

We are not relying on data center growth alone for growth. Another attraction is that over time, it seems inevitable that the demand for Arista's leading edge switches will expand into adjacent markets. Data traffic is growing rapidly everywhere, not just in cloud networks. As that happens, those other networks will want the same things that cloud data centers want – leading edge speed, reliability, and ease of use. Some enterprise customers liked what Arista was doing for their data centers, so began asking it to offer products for their regular employee "campus" needs. Last year, Arista entered the enterprise campus market, and in just the first 12 months from launch, they sold over \$100 million of products and services to that segment. The campus market is about the same size as the data center market, and thus doubles Arista's opportunity set overnight. The company will need to lay more groundwork to penetrate this market; for example, it historically has called on prospects and customers directly with its own salesforce and service personnel, but the campus market is addressed primarily through distributors. So Arista must establish its network of distributors. This sort of infrastructure-building will take effort and will not be without hiccups, especially in a Covid-19 world of work-at-home.

Given all of these issues, the near-term is a little uncertain, but Arista remains the innovation leader and seems to have a long and durable road of profitable growth ahead. The company is cash-rich, with an excellent owner-operator management team that owns over one fifth of the company. We were able to purchase its stock at a very reasonable multiple.

MADISON MID 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 Mid Cap ¹	Russell Midcap [®] Index
Number of holdings	29	821
Weighted avg. market cap (billions)	\$20.3	\$17.2
Dividend yield	0.70%	1.79%
Active Share	95.55%	-
Turnover Range	20-30%	-

Portfolio Statistics (%)

	Madison Mid Cap	Russell Midcap [®] Index
Since Inception		
Up Capture Ratio	85.56	100.00
Down Capture Ratio	73.87	100.00
Standard Deviation	14.86	17.16

Sector Distribution (%)

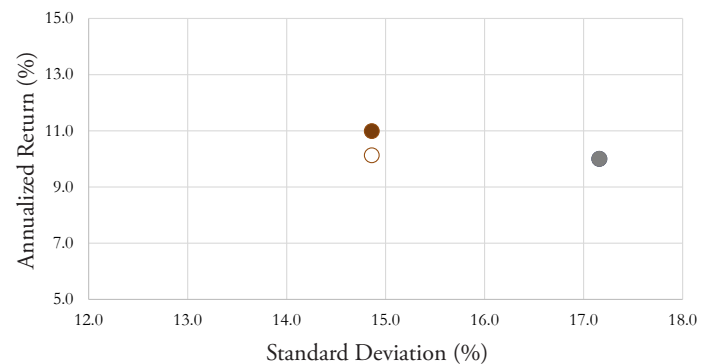
	Madison Mid Cap ¹	Russell Midcap [®] Index
Communication Services	6.95	2.46
Consumer Discretionary	17.11	12.72
Consumer Staples	1.47	4.48
Energy	-	2.18
Financials	26.60	12.26
Health Care	3.87	12.39
Industrials	19.86	14.97
Information Technology	15.03	21.59
Materials	1.74	5.34
Real Estate	-	5.62
Utilities	-	5.99
Cash	7.37	-

Risk/Reward

Since Inception

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**
- Russell Midcap[®]



MADISON MID 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		
	Gross	Net**	Index
QTD	7.01	6.81	7.46
YTD	-4.77	-5.31	-2.35
1-Year*	-0.47	-1.23	4.55
3-Year*	10.40	9.54	7.13
5-Year*	12.18	11.31	10.13
10-Year*	13.16	12.28	11.76
Since Inception*	10.99	10.13	10.00

*Figures are annualized.

Experienced Management

Rich Eisinger
Head of Equities,
Portfolio Manager
Industry start 1994

Haruki Toyama
Portfolio Manager
Industry since 1994

Andy Romanowich, CFA
Portfolio Manager
Industry since 2004

Annual Total Returns (%)

	MADISON		
	Gross	Net**	Index
2010	22.14	21.21	25.48
2011	6.19	5.35	-1.55
2012	17.11	16.21	17.28
2013	30.20	29.23	34.76
2014	10.76	9.87	13.22
2015	2.00	1.19	-2.44
2016	13.51	12.59	13.80
2017	16.72	15.80	18.52
2018	-0.86	-1.65	-9.06
2019	35.06	34.02	30.54

**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 inception date, 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 Mid 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 3/31/96. 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 Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap® Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russel® is a trademark of Russell Investment Group.

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 and not the yield of the portfolio.

Active Share: 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.

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 (%)
Copart, Inc.	5.00	0.75	NewMarket Corporation	1.95	-0.43
Liberty Broadband Corp. Class C	6.71	0.46	Mohawk Industries, Inc.	0.17	-0.42
Progressive Corporation	3.47	0.34	Dollar Tree, Inc.	5.10	-0.42
HD Supply Holdings, Inc.	3.16	0.33	Kemper Corporation	2.21	-0.29
Laboratory Corporation of America Holdings	3.82	0.22	Glacier Bancorp, Inc.	1.59	-0.26

MADISON
MID-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	Russell Midcap®/	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	814	92	35.06%	34.02%	30.54%	0.4%	10.71%	12.89%	Less than 1%
2018	12,895	612	106	-0.86%	-1.65%	-9.06%	0.3%	10.40%	11.98%	Less than 1%
2017	13,761	643	138	16.72%	15.80%	18.52%	0.5%	9.75%	10.36%	Less than 1%
2016	13,312	607	126	13.51%	12.59%	13.80%	0.4%	11.28%	11.55%	Less than 1%
2015	13,030	546	91	2.00%	1.19%	-2.44%	0.3%	10.76%	10.85%	Less than 1%
2014	13,953	640	95	10.76%	9.87%	13.22%	0.3%	9.41%	10.14%	Less than 1%
2013	12,112	787	96	30.20%	29.23%	34.76%	0.5%	12.35%	14.03%	Less than 1%
2012	6,984	197	53	17.11%	16.21%	17.28%	0.3%	15.16%	17.20%	Less than 1%
2011	7,320	11	27	6.19%	5.35%	-1.55%	0.2%	18.40%	21.55%	4.03%
2010	7,349	5	9	22.14%	21.21%	25.48%	0.5%	-	-	Less than 1%
2009	6,766	4	10	25.88%	24.92%	40.48%	1.1%	-	-	Less than 1%
2008	5,282	3	11	-35.28%	-35.86%	-41.46%	0.3%	-	-	Less than 1%
2007	7,273	29	14	10.47%	9.61%	5.60%	0.4%	-	-	Less than 1%
2006	7,782	12	8	17.99%	17.09%	15.26%	0.6%	-	-	Less than 1%
2005	8,793	10	8	1.75%	0.94%	12.65%	N.A.	-	-	Less than 1%
2004	8,813	7	Five or fewer	21.06%	20.14%	20.22%	N.A.	-	-	Less than 1%
2003	7,419	6	Five or fewer	32.47%	31.48%	40.06%	N.A.	-	-	Less than 1%
2002	6,272	1	Five or fewer	-14.16%	-14.88%	-16.19%	N.A.	-	-	Less than 1%
2001	5,526	1	Five or fewer	16.28%	15.38%	-5.62%	N.A.	-	-	Less than 1%
2000	4,584	1	Five or fewer	20.35%	19.43%	8.25%	N.A.	-	-	Less than 1%
1999	3,956	8	9	13.71%	12.83%	18.23%	1.2%	-	-	Less than 1%
1998	3,682	7	10	7.59%	6.73%	10.09%	1.0%	-	-	Less than 1%
1997	3,122	8	12	20.88%	19.96%	29.01%	2.3%	-	-	Less than 1%
1996	2,641	7	13	10.87%*	10.23%*	12.24%*	N.A.	-	-	Less than 1%

Assets above are rounded to the nearest million.

*Partial year performance. Composite inception date of 3/31/1996.

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 \$2,223 million encompassing bundled fee accounts, non-bundled fee accounts and non-discretionary accounts which include model-traded assets. This is presented as supplemental information.

Mid Cap Equity Composite contains fully discretionary direct mid cap equity accounts. The composite seeks to invest in high quality, midcap companies with a growth orientation. Generally, 80% of invested assets will fall within a market capitalization range of between \$500 million and \$50 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. The prices of mid-cap company stocks may be more volatile than those of comparable stocks of companies with larger capitalizations. For comparison purposes the composite is measured against the Russell Midcap® Index which measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap® Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.

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. Beginning 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 Mid-Cap Equity Composite was created January 1, 2003.

PERMIDNW-GIPS09302020

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