MADISON MID CAP EQUITY

December 31, 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.

It's hard to summarize 2020. Over our multi-decade investment careers, we've seen many eventful years that have included terrorist attacks, disputed political contests, asset class bubbles, negative interest rates, deep economic recessions, immense social unrest, rapid surges in the stock market, and steep declines in the stock market. We've always assumed such events, while unpredictable in timing, would happen again. We just didn't think that many of those would all happen in the same year. Oh, and there was something new this past year: a global pandemic.

A few months ago, we wrote about the "90% economy," a phrase that the Economist magazine recently coined to describe the drawn out period of decreased economic activity engendered by the pandemic. Perhaps it would be more accurate to describe it as a 98% economy today, even as it wavers month to month. Our economy is amazingly resilient. Organizations have adapted to social distancing measures. The unemployment rate has recovered about three-quarters of the spike it saw at the beginning of the pandemic. There is a light at the end of the tunnel, with a global rollout of vaccines in process as we enter 2021. Unusually, the forced nature of decreased economic activity during this downturn seems to indicate that there will be more demand than we would typically see in the early parts of a recovery. A Vice Chair of the Federal Reserve said at a recent event, "there is an enormous quantity of pent up saving…this is the only downturn in my professional career in which disposable income actually went up in a deep recession."

These numbers are aggregates, however, and aggregates can mask a lot of what is going on underneath. Increased savings for one segment of the population is lost income for another. Despite a massive improvement in the employment situation, the latest releases show that the number of unemployed was 10.7 million, almost double what it was in February before the pandemic hit. That doesn't include the net increase of 2.2 million individuals that have given up looking for a job and are thus not counted as unemployed. The unemployment rate in the Financial industry is 3.1%, while the rate in Leisure and Hospitality is 16.7%. One in 19 mortgages are in forbearance. Live Nation, a producer of live music concerts, reported that revenues in the third quarter were down 95% from the previous year's third quarter, while Spotify, an online music streaming service reported an increase in users of 29% and revenue of 14%. For the same third quarter, McDonald's reported that same-store sales increased nearly 5% in the U.S., while popular local hamburger restaurants in the hometown of the undersigned remain shuttered.

Similar divergences are evident in stock market returns. For the full year, the Russell Midcap Index was up 17.10% and the S&P 500 was up 18.40%. Yet, just three stocks (Apple, Amazon, and Microsoft) accounted for well over half of the S&P 500's total return. Excluding the top 30 contributors, the index would have been negative.

Within the Russell Midcap Index, the Information Technology sector was up 46%, even as four sectors that comprised one-third of the index weighting, posted negative returns. Disparities were extreme using other measures as well, whether it was growth outperforming value, high volatility outperforming low volatility, and so on. For good or ill, we pay little attention to these market measures that slice and dice the indices. Instead, we try to focus all of our efforts on what we believe to be a more lasting path to investment success: look for stocks of companies with durable competitive advantages, where the market prices don't reflect their true value. Exactly where we find those values can change month-to-month, year-to-year, decade-to-decade. But the underlying principles remain the same. Given that we are looking to uncover what other investors are missing, almost by definition, we will often look out of step for periods of time. Someone once said that successful investing is people agreeing with you…later. Most people are not willing to wait until later.

WARREN BUFFETT, INTERNET GURU

The strength in tech stocks recently is but a long extension of trends that began in the 1990s. The bubble may have popped in 2000, but the underlying force that had initially elicited it, the advent of the internet, continued its work. The internet indeed brought profound and permanent changes to society and commerce. It just took a little longer for many of the actual business models to develop and mature. What's interesting is that while many of these models appear new, in most cases, they are simply old paradigms in new packaging.

For some wisdom on this topic, we turn to a perhaps not-so-obvious source, Warren Buffett. In his 1998 annual letter to Berkshire Hathaway shareholders, he wrote the following about GEICO, which Berkshire had acquired in whole a few years previous:

> *There is no limit* to what Berkshire is willing to invest in GEICO's new-business activity…Because of first-year costs, companies that are concerned about quarterly or annual earnings would shy from similar investments, no matter how intelligent these might be in terms of building long-term values. Our calculus is different: We simply measure whether we are creating more than a dollar of value per dollar spent – and if that calculation is favorable, the more dollars we spend the happier I am. [Italics emphasis added]

As background, auto insurers typically lose money in the first year of acquiring a policyholder. But insurance is like a subscription revenue business, where the insurer will retain a material portion of policyholders for multiple years. So they eventually make money on policyholders, as the costs to renew them are substantially lower than the costs to initially acquire them. Buffett, making the judgment that the lifetime economic value of a new policyholder far exceeded GEICO's initial cost to acquire that customer, decided to step on the growth pedal, despite the negative impact that would have on immediately reported profits. In the first three years under Berkshire's ownership, GEICO more than quintupled its marketing budget, and would have increased it more had it felt its servicing infrastructure could handle the increased volume. The insurer's revenue growth jumped to levels more than double the highest level it had reported in any of its previous 20 years. Its market share at the time of Berkshire's acquisition was 3%, and today it is 13% and climbing fast.

If this dynamic sounds familiar, that's because this concept of customer acquisition cost versus customer lifetime value is precisely what you hear today from subscription software companies, who ignore traditional accounting measures and instead focus on long-term customer economics. Many of these software companies are growing rapidly, with a large addressable market and low current penetration. Thus, reported profits, or lack thereof, may not be indicative of the underlying economics.

In the same 1998 Berkshire Hathaway letter where he discussed GEICO, Buffett wrote about his investment in Executive Jet Aviation, parent company of the fractional jet ownership company NetJets. For those of you not familiar with fractional jet ownership, it's a way for customers to purchase flying "hours" – the right to fly on private jets without the hassle of actually owning one. At any point in time and from any location, the customer can request for a plane from NetJet's global fleet. The customer gains from the greater flexibility and efficiency of a shared fleet model, while NetJets gains an advantage from its scaled network – the more customers it has, the larger and more efficient its fleet operations can be, and thus the greater service and reliability it can offer its customers. Two elements of the business model – scaled network and shared rides – are early manifestations of concepts that undergird many internet companies today, such as Uber and social media firms.

So the next time someone tells you that the investment insights of Buffett are somehow outdated, think about this: several prominent models of the internet economy today – customer lifetime value and subscription services, shared assets, and scale networks – are concepts that Buffett recognized decades ago, albeit in reference to different kinds of business.

POP OPEN A BOTTLE OF BUBBLY

The Nasdaq Composite is up approximately 2.5 times in the past five years, which equates to about 20% a year. This is a heady figure, and we've been asked often if we are seeing another tech stock bubble. So far, we've politely answered no. In the bubble of the late 1990s, the Nasdaq was up almost 5.5 times in the five years ending 1999, for an annual return of approximately 40% a year. And that was topped off by a further 24% increase in the first two and a half months of 2000, before the bubble popped. So comparisons of today to 1999 are not yet apt. But we do admit that lately, we've been using the word "bubbly" around the office. Pockets of the market are evincing speculative fervor.

One hyped company recently came public and proceeded to garner a $40 billion market capitalization despite a wholly unproven technology and unproven business model. In the first fiscal quarter that it reported after going public, it reported $36,000 in revenues. No, we didn't leave out any zeros. In the footnotes to its financial statements, the company helpfully explained that the miniscule revenue it did manage to record was for the "provision of solar installation services to the Executive Chairman." Unfortunately, the company's touted business had nothing to do with solar energy or services.

INSURANCE

GEICO, mentioned previously, is one of the crown jewels of the Berkshire Hathaway empire. We own shares in GEICO's most formidable competitor, Progressive Corporation. Progressive is the third largest auto insurer in the country behind State Farm and GEICO. State Farm, with 16% market share, has held the top spot since 1942, but that streak will likely end several years from now, as GEICO and Progressive with 13% and 12% share respectively, are growing much faster.

Progressive has long been known as the savviest underwriter in the industry – marrying excellent risk selection with marketing analytics. In comparison, GEICO's advantage is in its low-cost direct model. By selling its policies directly to consumers, it has the advantage of not having the expenses associated with maintaining an agency network. These advantages are reflected in the income statement of the two companies. While GEICO enjoys a five-point advantage in its "expense ratio," insurance speak for the percentage of premium revenue spent on expenses other than loss claims, Progressive has a ten-point advantage in the "loss ratio," the percentage of premiums that go to pay policyholder claims. Thus, Progressive has enjoyed an approximate five-point advantage in profit margin over GEICO in recent years. This advantage didn't always exist. Up until about five years ago, the two companies had virtually identical profit margins. And back then, GEICO had posted much faster revenue growth than Progressive for the previous decade. Today, Progressive is faster growing, in addition to having higher margins. What changed?

It's relatively simple. Progressive unlocked a formula that allowed it to effectively penetrate a customer segment that it couldn't before – the older customer that tended to be married, owned a home, and was a much lower driving risk than the traditional younger and single customer base that was historically its core target. Overnight, essentially, it more than doubled its addressable market, giving it renewed runway for growth. We say it unlocked a "formula" but of course, it's much broader and complicated than simply a mathematical equation. The formula is a combination of many things – finding the right variables that allow it to assess risks for that segment, packaging the policies with the right attributes, finding the right marketing message, and constructing the right claims and administrative infrastructure. Since that unlocking several years ago, Progressive's revenue growth and margins have outpaced GEICO's materially. And since GEICO itself has continued to outperform the industry, Progressive has outperformed the industry handily.

GEICO is doing everything it can to narrow the performance gap with Progressive, both in margin and sales growth, and we fully expect that it will at least partially succeed. The relative positioning of the two competitors has ebbed and flowed over time, and this cycle should be no different. Any analytical or tactical leg up that one manages to gain over the other is quickly deciphered and copied by the other. But the prospects for Progressive to continue to significantly outperform the industry are excellent, and that's what really matters to us. Despite its stock being one of our top performers in 2020, we believe it remains quite undervalued, and it continues to be one of our largest holdings.

In addition to Progressive, we own a few other insurers. We have highlighted our three commercial property and casualty insurers in the past, calling them the cream of the crop in the industry. Results during this pandemic have borne this out. Arch Capital, Markel, and W.R. Berkley have posted lower pandemic-related losses than what would be indicated by their share of industry premiums, and furthermore, they have all been taking advantage of their superior balance sheets to accelerate growth in the current environment where many competitors are pulling back. Our insurance company stakes have been immensely additive to our performance over the long haul, but were a drag to portfolio performance in 2020. Insurance is boring. It certainly isn't going to capture the imagination of an investor trying to optimize, and we use that word with some irony, their portfolio based on projections of where our economy is heading post-pandemic or post-election.

As boring as it is, however, insurance is not immune to larger societal forces. The proliferation of data, and the tools to manipulate them, are allowing for ever-more sophisticated methods of risk selection. This is starting to raise bigger questions about the nature of insurance and its place in society. Let's dig deeper.

Insurance is a mechanism for risk distribution. Hammurabi's Code from the 18th Century B.C. is often cited as having the earliest references to insurance as we know it, but the concept of risk distribution goes back well further. Chinese merchants a millennia before Hammurabi would spread their cargo among various boats along the same route, so that if one boat went down, they wouldn't lose their entire stock of goods. So instead of having 50 boats traversing a route, each dedicated exclusively to one merchant, the merchants would agree to split their cargo up so that each boat would carry 1/50 of any single merchant's cargo. Since it was common for say, one in 50 boats to encounter disaster, this meant a merchant was effectively swapping out of the small probability that he would lose 100% of his shipment of goods, for the almost certain probability that he would lose 1/50 of his goods. That 2% is effectively the cost of insurance.

You can see that in this example, the merchant is still exposed to the risk that some massive disaster along the route destroys all or a large number of the boats. So he may want to distribute the risk further by working with merchants along different routes. However, they can't do this by mutually splitting up cargo, since the routes are different. But the risk-sharing element can be replicated simply by drawing up contracts where money would change hands or goods and services would be exchanged depending upon the occurrence of certain loss events. Once that insight was gleaned, it was only a matter of time before just about anything could be insured, to just about any degree. In 17th and 18th century Europe, entities that today we'd recognize as insurance companies began to flourish – third-party risk-bearing enterprises whose core purpose was to take in premiums in return for payouts for certain hazards.

Benjamin Franklin is well-known as the person who instituted the first communal fire department in the United States – the volunteer Union Fire Company in Philadelphia. What is less known is that 16 years after he founded Union Fire, he helped co-found one of the first property insurance companies in the U.S. – the Philadelphia Contributionship. The Philadelphia Contributionship provided fire insurance for homes. And important to our conversation, it would inspect homes and turn away applicants if it thought that the house was not properly maintained for fire safety. This was a mechanism to root out moral hazard, the risk that a policyholder would engage in risky behavior knowing that there would an insurance payout should something go wrong. This is not a controversial topic for most insurance applications. A business or property owner should expect to behave with some responsibility to receive coverage. In fact, insurance can be seen as a tool to promote less risky behavior, and might thus provide overall societal benefits.

However, in recent years, with our advancements in data collection, analytics, and general knowledge, we are starting to garner enough predictive power in some areas that the risks can be refined into smaller and smaller subsets of individuals. Health insurance is a prime example. If we get to the point where genetics can identify the 0.001% of the population that is congenitally at high risk of developing a terrible disease that would take millions of dollars to treat, how should insurers price premiums for that population subset? In the past, that financial risk was socialized by default across all health insurance policyholders, i.e. almost everyone, simply because we didn't have the capability to identify the risk. If an insurer were to price for that newly acquired predictive knowledge, the 0.001% would be quoted premiums so high that it would effectively price them out of the market.

This is an extreme example. But variations of this exist in all insurance markets. One simple solution would be to say that for risks one can control (not cleaning your chimney regularly for your fireplace), the costs should be borne by the individual, and for things that individuals can't control (genes), the costs should be socialized. But it's not always easy to say what can be controlled and what can't.

Returning to auto insurance, these debates have been part of the consumer and regulatory landscape for decades. How much control does one really have over where one lives? How much control does one have on what percent of your surrounding population is uninsured? How much control does one have over how far your job is from home? How much control does one have over one's credit score? These are all highly predictive variables for insurers in assessing the riskiness of a policyholder. For affluent individuals, these might be fully under their control. For low income individuals, some of these might be so difficult to influence that they might as well be fully out of their control.

Progressive pioneered "usage-based" pricing in auto insurance over 13 years ago, where technology embedded in the car or smartphone can report to the insurer how safely a driver actually drives. The company has the most seasoned data and the most analytical proficiency among its peers; this is no doubt one reason why it's been able to accelerate its growth relative to the industry while expanding its margins. Progressive is most likely causing some adverse selection at competitors. It's raising rates on drivers where usage indicates high risk, and those drivers are moving to insurance companies who have neither the data nor the analytical faculty to assess the risk and thus are quoting prices too low for those drivers.

Generally speaking, consumer advocates are OK with this sort of precision and individualization of pricing, as the variable is deemed to be almost 100% under a driver's control. There is an extraordinary gap in the propensity and severity of losses between the best and worst driving cohorts as classified by usage-based data. And this is from a fairly basic utilization of a decade-plus old technology. As technology and analytical capabilities improve, we foresee further industry progression to individualization of rates. What this ultimately does to the industry and regulation is unknown.

Speaking of adverse selection, here's a humorous way of illuminating the issue. A couple of our insurers offer event cancellation insurance for weddings. It covers risks that a wedding has to be cancelled due to unforeseen circumstances such as bad weather, major illness of the groom or bride, or a problem with the venue. One thing it does not cover, however, is what the industry calls change of heart. That's if the wedding doesn't occur because the groom or bride calls it off. One insurer, which we don't own, dared to offer change-of-heart coverage for weddings, and it became besieged by claims. It turns out that mothers of the brides have a pretty good sense of whether an engagement is likely to be called off, and they were buying coverage in disproportionate numbers.

LIBERTY FOR ALL

Our largest investment by weighting, Liberty Broadband, was also one of our best contributors in 2020. We have owned the company for five years, and remain big fans. It's a holding company whose primary asset is a large stake in Charter Communications. Charter is the second largest cable company in the U.S., and while it won't catch up to number one Comcast anytime soon, we like that Charter is a pure play cable distributor, and hasn't diversified into other media and media content like Comcast has. It's a contrast in strategy – we don't necessarily know for sure that Charter's strategy is better, but the focus does make it easier for us to know what we own.

Two things of significance happened in 2020 for Liberty Broadband. In the second quarter, residential high-speed internet revenues, a.k.a. "broadband," at Charter exceeded residential video revenues for the first time ever. This is notable, because a pillar of our investment thesis has been that the majority of Charter's value comes from its valuable broadband service. While video revenues have been flat, broadband grew at about a 10% pace in 2020. That latter pace is likely not sustainable, but with higher profit margins to begin with, we believe the broadband segment's importance to Charter should only increase with time.

In December, Liberty Broadband completed its acquisition of GCI Liberty, a sister company that owns 2% of Charter stock, an Alaskan cable company, and a few miscellaneous assets. Liberty Broadband now owns about 25% of Charter shares. The significance of this acquisition is that it brings the owned Charter shares under one roof and simplifies Liberty Broadband's corporate structure. This was probably a necessary step before an inevitable consolidation of Liberty Broadband with Charter itself. The timing of such a consolidation is unclear, and is probably one or two years out at a minimum, but such a deal should erase the discount to net asset value that Liberty Broadband stock trades for (currently about 20%). We think that Charter's stock itself is undervalued by the market, so in effect, by owning Liberty Broadband, we own Charter at a double discount.

NEW INVESTMENTS

During 2020, we purchased seven new investments, and exited eight. Investments purchased and sold in the first nine months were described in earlier letters. In the fourth quarter, we bought Armstrong World Industries, Vontier, and Clarivate Plc.

Armstrong World Industries is the dominant maker of ceiling tiles with roughly 60% market share, well over twice the share of the second largest industry player. Most of its sales are to the commercial building market. With its vast scale, it has the lowest manufacturing costs, broadest selection of product, and the best distribution network, all of which combine to create a very wide moat that is impenetrable even to well-heeled competitors. As you might imagine with such high market share, it's a highly cash generative business, with operating margins for the tile business in the high 20s when accounting for the metal grid accessories that are sold along with the tiles.

The strong cash flow is being stewarded by a discerning CEO whom we have thought highly of since we first met him several years ago when Armstrong had just become an independent company after years of conglomerate ownership. He's led the company through a series of adept maneuvers since then as well, including a sale of its less-advantaged European arm, intelligent share buybacks, and a series of judicious but shrewd acquisitions. We look forward to see what else he can accomplish despite a likely sluggish near-term outlook. The pandemic has depressed spending on commercial buildings, and it's possible that a permanent increase in work-from-home employees will reduce long-term demand for office building space as well. We don't have any brilliant insight on this, except that with its stock down 40% from its highs and trading at a very cheap price, we felt the market value more than reflected any such scenario.

Vontier is a recent spin-off from Fortive Corporation, which itself is a four-year old spin-off from corporate blue chip Danaher Corporation. The company is an industrial conglomerate with several segments, the two largest of which are a unit that sells pump equipment and software to gas stations, and a business that makes and sells tools to auto mechanics. There was quite a bit of selling pressure on its newly listed shares when it was spun out in October, as the company is one-quarter the size of Fortive, and consisted of slower growing businesses that, in essence, Fortive management didn't want. It turns out, neither did many Fortive shareholders.

That was our opportunity. We pounced immediately, scooping up shares of Vontier for roughly 11x free cash flow. This is an extraordinarily low multiple for a well-run company with moderate debt, low cyclicality, and 20%+ returns on invested capital. The missing ingredient is a clear outlook for growth; if anything the company will see a mild revenue decline in 2021 and perhaps 2022, as it recovers from the hangover of a revenue boost it received in 2019 and 2020 from a regulatory deadline that forced its customers to buy upgraded products. It wouldn't bother us if revenue declined for a two-year stretch; we invested at a price that can withstand that sort of temporary idleness. But due to its strong cash flow, the company will have many levers to pull for value creation. The ace in the hole here is that the executive team is deeply inculcated in the management toolkit known as the Danaher Business System. This so-called system was famously created and applied at Vontier's forebears to great corporate success. Margins grew, working capital efficiency improved, and perhaps most importantly, acquisitions were effectively executed and integrated. We believe that as a newly independent company, those tools will be put to use to an extent that was not available before. The shares are already up a fair amount since our purchase, and the initial recovery from indiscriminate selling has probably been captured. We expect to hold on for more.

Clarivate is a leading provider of various data and analytics for scientific, pharmaceutical, and intellectual property markets, with several different subsidiaries assembled through acquisitions. Among university academics, its Web of Science product is a household name as a deep and broad database covering academic studies published dating back to the 19th century. It's the de facto standard of reference for a scientist or student looking for what's been published in the past. Clarivate's Derwent unit is similar to Web of Science, but for patent filings. Its database contains 98% of all patents filed globally, and is the reference standard used by law firms, corporations, and governments to research patents. Its most recent acquisition, CPA Global, is a leading provider of software that helps companies and law firms manage and process their portfolio of patents and trademarks.

Clarivates's products are very sticky with high margins. Over 80% of its revenues are in subscription form, and the relatively mission critical nature of its products gives it very high customer retention and good pricing power. As you might imagine, the shares in such a company do not come cheap. However, we believe it's cheaper than it looks. It has good organic growth potential, but also can continue to be a platform for further acquisitions. The ace in the hole here is Chairman and CEO Jerre Stead. If that name sounds familiar, that's because it should. Stead was the entrepreneur and executive who built IHS into the information services powerhouse company that we invested in some years ago. He retired soon after selling IHS to Markit in 2016, but it turns out he didn't really retire. He decided to take what he learned at IHS and apply it to a new set of information service businesses. Clarivate is the result. As investors in IHS, we benefitted from the success of Jerre 2.0, when he returned from his first retirement with renewed energy when his successor didn't pan out. With Clarivate, we have Jerre version 3.0, and we hope that it's another upgrade once again.

Incidentally, we held onto our IHS Markit stock after the merger and still own it today. In November, it announced that it would change hands once again, this time selling to S&P Global in an all-stock deal, expected to close in the middle of 2021. The IHS investment has provided us with wonderful returns, and we're currently evaluating what to do with our shares.

At the very end of the year, we received cash for our shares of HD Supply, which had agreed to be acquired by Home Depot. We initially invested in the summer of 2019, so it was a short but successful investment. It's full circle for Home Depot, as this was a business that it used to own (no prize for guessing what the "HD" in HD Supply stood for) but had divested in 2007 when a new CEO took over and was intent on simplifying the company to clean up the mess created by his predecessor. Today, Home Depot is much stronger company, and HD Supply too is a much stronger and more focused company, having itself shed many businesses to concentrate on its crown jewel, the facilities distribution business. While we certainly contemplated that it might get acquired at some point given that there were a handful of logical buyers, our investment didn't rely on that happening. We would have been happy to hold on for a longer ride. But we're not going to complain about a bird in hand.

We hope you are staying safe. May 2021 turn out to be a better year for us all. Thank you for your investment with us.

MADISON MID CAP EQUITY

December 31, 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	28	824
Weighted avg. market cap (billions)	$22.8	$20.3
Dividend yield	0.60%	1.46%
Active Share	96.10%	-
Turnover Range	20-30%	-

Portfolio Statistics (%)

Since Inception	Madison Mid Cap	Russell Midcap® Index
Up Capture Ratio	85.43	100.00
Down Capture Ratio	73.87	100.00
Standard Deviation	14.98	17.28

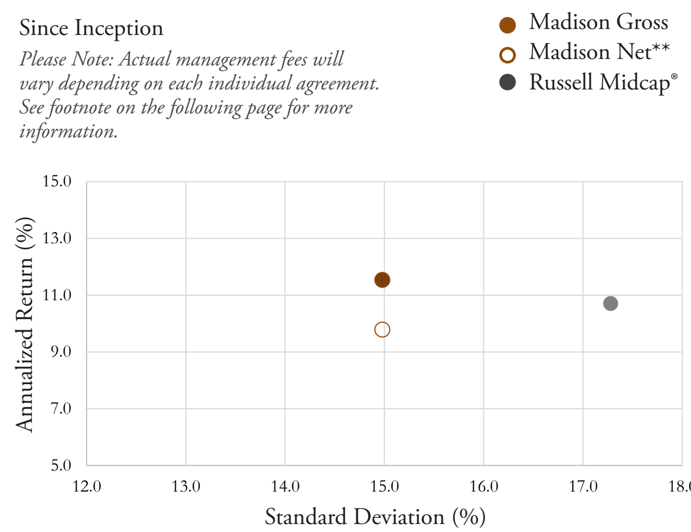
Sector Distribution (%)

	Madison Mid Cap[1]	Russell Midcap® Index
Communication Services	6.65	2.48
Consumer Discretionary	11.76	12.78
Consumer Staples	1.34	3.94
Energy	--	2.44
Financials	27.91	12.54
Health Care	3.62	12.06
Industrials	19.89	14.63
Information Technology	17.40	22.81
Materials	1.74	5.48
Real Estate	--	5.52
Utilities	--	5.30
Cash	9.69	--

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 INVESTMENTS

MADISON MID CAP EQUITY

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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	15.85	15.61	19.91
YTD	10.32	9.47	17.10
1-Year*	10.32	9.47	17.10
3-Year*	13.89	13.00	11.61
5-Year*	14.37	13.47	13.40
10-Year*	13.60	12.71	12.41
Since Inception*	11.54	10.67	10.70

**Figures are annualized.*

Annual Total Returns (%)

	MADISON		
	Gross	Net**	Index
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
2020	10.32	9.47	17.10

***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 differences.*

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

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.

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 portfolio'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 portfolio'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.

"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. MAM and MIA 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.

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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.

DISCLOSURES

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.

9/30/2020 to 12/31/2020

Top Contributors to Return	Average Weight (%)	Contribution to Relative Return (%)
Arista Networks, Inc.	3.24	0.53
HD Supply Holdings, Inc.	3.65	0.49
Moelis & Co. Class A	2.26	0.38
Glacier Bancorp, Inc.	1.68	0.36
Gartner, Inc.	4.35	0.33

Bottom Contributors	Average Weight (%)	Contribution to Relative Return (%)
Liberty Broadband Corp. Class C	6.83	-0.58
Brown & Brown, Inc.	4.01	-0.58
Progressive Corporation	3.88	-0.57
CarMax, Inc.	3.53	-0.55
Markel Corporation	3.79	-0.48

MADISON

MID-CAP EQUITY COMPOSITE
GIPS COMPOSITE REPORT

Year End	Total Firm Assets (millions)	Composite Assets		Annual Performance Results					
		USD (millions)	Number of Accounts	Composite Gross	Composite Net	Russell Midcap®[i]	Composite Dispersion	Composite 3-Yr. Annualized Ex-Post Standard Deviation	Index 3-Yr. Annualized Ex-Post Standard Deviation
2020+	14,498	881	138	10.32%	9.47%	17.10%	0.9%	18.96%	21.82%
2019	13,993	814	92	35.06%	34.02%	30.54%	0.4%	10.71%	12.89%
2018	12,895	612	106	-0.86%	-1.65%	-9.06%	0.3%	10.40%	11.98%
2017	13,761	643	138	16.72%	15.80%	18.52%	0.5%	9.75%	10.36%
2016	13,312	607	126	13.51%	12.59%	13.80%	0.4%	11.28%	11.55%
2015	13,030	546	91	2.00%	1.19%	-2.44%	0.3%	10.76%	10.85%
2014	13,953	640	95	10.76%	9.87%	13.22%	0.3%	9.41%	10.14%
2013	12,112	787	96	30.20%	29.23%	34.76%	0.5%	12.35%	14.03%
2012	6,984	197	53	17.11%	16.21%	17.28%	0.3%	15.16%	17.20%
2011	7,320	11	27	6.19%	5.35%	-1.55%	0.2%	18.40%	21.55%
2010	7,349	5	9	22.14%	21.21%	25.48%	0.5%	-	-
2009	6,766	4	10	25.88%	24.92%	40.48%	1.1%	-	-
2008	5,282	3	11	-35.28%	-35.86%	-41.46%	0.3%	-	-
2007	7,273	29	14	10.47%	9.61%	5.60%	0.4%	-	-
2006	7,782	12	8	17.99%	17.09%	15.26%	0.6%	-	-
2005	8,793	10	8	1.75%	0.94%	12.65%	N.A.	-	-
2004	8,813	7	Five or fewer	21.06%	20.14%	20.22%	N.A.	-	-
2003	7,419	6	Five or fewer	32.47%	31.48%	40.06%	N.A.	-	-
2002	6,272	1	Five or fewer	-14.16%	-14.88%	-16.19%	N.A.	-	-
2001	5,526	1	Five or fewer	16.28%	15.38%	-5.62%	N.A.	-	-
2000	4,584	1	Five or fewer	20.35%	19.43%	8.25%	N.A.	-	-
1999	3,956	8	9	13.71%	12.83%	18.23%	1.2%	-	-
1998	3,682	7	10	7.59%	6.73%	10.09%	1.0%	-	-
1997	3,122	8	12	20.88%	19.96%	29.01%	2.3%	-	-
1996	2,641	7	13	10.87%*	10.23%*	12.24%*	N.A.	-	-

+Preliminary 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, 2020, total assets under advisement in this strategy are $2,405 million encompassing bundled fee accounts, non-bundled fee accounts and non-discretionary accounts which include $1,142 million in 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. Investing in small, mid-size or emerging companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity. 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. 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). As of October 30, 2020, Hansberger Growth Investors, LP ("HGI LP"), an affiliated registered investment adviser under common control with MIA, consolidated its assets into 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 the legal corporate structure. Prior to October 30, 2020, HGI LP claimed GIPS® compliance and all composite accounts managed by HGI LP were transferred to MIA and performance information for periods prior to October 30, 2020 refer to those composites as managed by HGI LP. A list of composite descriptions and a list of broad distribution pooled funds are 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 December 31, 2019. A copy of the verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. 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.

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.