

## REINHART INTERMEDIATE DURATION CORPORATE

June 30, 2021 | Separately Managed Account Investment Strategy Letter

*Reinhart's fixed income philosophy is centered on the idea of risk management being equally as important as return generation. This means that we will build portfolios that limit absolute and relative risks to acceptable maximum amounts and that we will increase risk exposures in our clients' portfolios only when offered attractive levels of incremental expected returns in exchange for this increased risk. Our general objective for this portfolio is to offer higher yields and returns than a Government/Credit portfolio while limiting the increase in credit risk from an all-corporate portfolio through a concentration in A-rated or better issues. We pursue this within the constraints of investing only in U.S. dollar denominated corporate bonds maturing in 10 years or less.*

### MARKET OVERVIEW

The U.S. economy continued to reopen during the second quarter as COVID-19 vaccination rates increased and new cases, hospitalizations and deaths continued their decline. Consumer sentiment and spending continued to recover even as employment growth underwhelmed relative to expectations. Inflationary pressures continued to build largely due to supply chain bottlenecks (including in labor) and recovery of pricing power in the sectors most negatively impacted by the pandemic. The Biden administration continued to push for very large spending increases. The Fed maintained an accommodative monetary policy stance while maintaining that any inflationary pressures would be transitory, although the dot plot following the June meeting signaled a faster timetable for tightening than that at previous meetings.

The bond market judged that the Fed is likely to appropriately accelerate tightening in response to inflation concerns as shorter and medium term rates rose or were flat while longer rates fell. Intermediate corporate credit spreads tightened from their already historically tight levels with higher beta and pandemic affected sectors and lower rated issuers seeing the most tightening. The combination of falling rates from 5-10 years and tightening spreads led to strong total performance in the corporate bond market during the second quarter.

### PERFORMANCE & ATTRIBUTION

As would be expected for the strategy's approach during market conditions like those seen in the second quarter, the strategy's performance was modestly behind that of the Bloomberg Barclays Intermediate Credit Index. The strategy's duration was slightly short of the benchmark during the second quarter, and so the falling rates seen during the quarter were a slight negative for relative performance. The strategy's conservative credit positioning was also a negative for relative performance due primarily to this positioning driving a lower yield for the strategy than that of the benchmark index. The negative impact of greater spread tightening in lower rated issues and higher beta sectors was mostly offset by avoiding credits that underperformed their rating and sector.

### TRANSACTIONS & POSITIONING

During the second quarter we executed some extension trades in utilities in clients' portfolios to maintain duration and yield curve positioning close to neutral to the benchmark as well as to maintain desired corporate sector exposure. We also executed trades to swap exposure in Financials more towards U.S. money center banks and away from credit card issuers in response to a more favorable risk/reward profile in the money centers.

The U.S. economy is likely to see a continued strong rebound from further progress towards a full reopening and pent-up and stimulus and spending driven demand. Signs of inflation are showing up, but for now the Fed is sanguine about inflation surging beyond acceptable levels and the bond market seems to agree that the Fed is on an appropriate trajectory to keep inflation contained. Should inflationary pressures persist or spread beyond the sectors most impacted by the pandemic there is the potential for a sudden Fed shift and a sharp rise in rates.



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Corporate credit spreads are exceptionally tight across the board, and lower rated issuers and higher beta sectors do not currently offer an outsized pickup in yield. Any slackening in the pace of recovery, whether brought on by Fed actions to fight inflation or concerns about COVID-19 variants globally will likely put upward pressure on credit spreads. Given this current market pricing around interest rate and credit risk we will keep interest rate exposures neutral to slightly short of the benchmark and maintain a conservative credit risk positioning.

Adherence to our conservative style of fixed income investing has been, and will always be, the hallmark of the Reinhart Fixed Income Team. We thank you for choosing us to manage your fixed income investments and will continue to deliver both the service and risk management driven approach you have come to expect.

# REINHART INTERMEDIATE DURATION CORPORATE FIXED INCOME

June 30, 2021 | Separately Managed Account Factsheet

## OUR FIRM

Madison Investments, founded in 1974, is an independent, employee-owned investment firm offering investment management and investment advisory solutions headquartered in Madison, Wisconsin. The firm specializes in managing high quality equity and investment-grade fixed income strategies.

## WHY IDC?

Traditionally, investors have accessed the fixed income markets through a broad market strategy with exposure to Treasury, Agency, corporate, mortgage backed, and asset backed securities. There are two main reasons why one may choose to invest in a corporate only bond strategy:

1. Income orientated investor - investment objective driven
2. Tactical asset allocation - relative value driven

## THE RESULTS

This approach results in a portfolio that skews to the higher end of the investment grade credit rating scale while maintaining corporate sector weightings more in line with the overall investment grade universe. Over time such a portfolio is expected to result in similar returns to a corporate bond benchmark with less volatility and lower default risk.

## PERFORMANCE

Trailing Returns (%)	2Q	YTD	1-Year*	3-Year*	5-Year*	10-Year*	Since Inception*
Reinhart Int. Duration Corporate (Gross)	1.40	-0.69	0.56	4.91	2.80	3.13	4.26
Reinhart Int. Duration Corporate (Net**)	1.33	-0.81	0.31	4.65	2.54	2.87	3.99
Bloomberg Barclays Intermediate Credit Index	1.56	-0.54	2.25	5.78	3.64	3.80	4.91

\*Figures are annualized.

Calendar Year Returns (%)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Reinhart Int. Duration Corporate (Gross)	6.29	7.36	0.72	2.45	2.12	1.76	3.81	-1.06	5.46	6.31
Reinhart Int. Duration Corporate (Net**)	6.02	7.09	0.47	2.19	1.86	1.51	3.56	-1.30	5.20	6.04
Bloomberg Barclays Intermediate Credit Index	7.08	9.52	0.01	3.67	3.68	0.90	4.16	-0.17	8.10	5.37

\*\*Net returns are calculated using the highest Madison annual fee of 0.25%, calculated monthly. 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. For periods prior to 1/1/2004, the net returns were calculated using the highest annual fee of 0.35%, calculated monthly.

Madison Investment Holdings, Inc. acquired the fixed income management assets of Reinhart Partners, Inc. on June 11, 2021 and now employs the Investment Team that previously managed the assets at Reinhart. The Investment Team manages the assets using substantially the same strategies and objectives as at Reinhart. Performance information dated prior to the purchase reflects that of Reinhart Partners, Inc.

# REINHART INTERMEDIATE DURATION CORPORATE FIXED INCOME

## June 30, 2021 | 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 DISCIPLINES

- ▶ Manage portfolio risks
- ▶ Invest in high quality, investment-grade securities
- ▶ Diversify across sectors, industries, and issuers

Asset Allocation (%)	Reinhart IDC	Index
Banking	25.02	28.08
Basic Industry	--	2.31
Brokerage/Asset Managers	--	1.55
Capital Goods	5.32	5.90
Communications	2.91	6.77
Consumer Cyclical	2.60	7.79
Consumer Non-Cyclical	11.89	13.71
Electric	25.03	5.25
Energy	3.78	7.29
Finance Companies	--	1.39
Insurance	11.30	3.77
Natural Gas	--	0.50
REITS	--	3.69
Technology	5.61	9.94
Transportation	2.85	1.69
Other	0.72	0.37
Cash	2.98	--

Figures may not equal 100% due to rounding.

The "Other" category is partly comprised of legacy composite holdings which may not be indicative of current investment strategy. New account holdings may vary.

### REINHART FIXED INCOME TEAM

#### Michael Wachter, CFA, Portfolio Manager

Head of Reinhart Fixed Income

Industry since 1988

Marquette University - MBA

University of Wisconsin - Madison - BA

- ▶ William Ford, CFA, Portfolio Manager & Credit Analyst
- ▶ Peter Altobelli, CFA, Portfolio Manager & Credit Analyst
- ▶ Douglas Fry, CFA, Portfolio Manager
- ▶ Katherine Doyle, Portfolio Manager & Credit Analyst
- ▶ Sarah Molitor, CFA, Portfolio Manager & Credit Analyst
- ▶ Adam Lynch, Portfolio Manager & Credit Analyst
- ▶ Ajla Besic, Associate Portfolio Manager & Credit Analyst
- ▶ Reece Piotter, Associate Portfolio Manager & Credit Analyst

Portfolio Characteristics	Reinhart IDC	Index
Yield to Worst	1.04	1.38
Wtd. Avg. Quality <sup>2</sup>	A	BBB+
Wtd. Avg. Maturity (years)	4.49	4.91
Wtd. Avg. Current Yield	2.74	3.00
Effective Duration (years)	4.11	4.51
Convexity	0.26	0.30

Quality <sup>1</sup> Distribution (%)	Reinhart IDC	Index
AAA	7.06	0.88
AA	14.35	7.02
A	74.33	40.73
BBB	1.27	51.36
Under BBB	--	--
Cash	2.98	--

Figures may not equal 100% due to rounding.

## DISCLOSURES

1. Credit quality ratings on underlying securities of the composite are received from one or more NRSRO (e.g., S&P, Moody's, Fitch, etc.) and converted to the equivalent major rating category commonly utilized by more than one NRSRO. In the event of split rating between NRSROs, (i.e., when a majority rating cannot be derived), the lower rating is used. Bonds backed by U.S. Government or agency securities are given an implied rating equal to the rating of such securities. Ratings and portfolio credit quality may change over time. Portfolio distributions are rounded to the nearest 0.1%.

2. This measure is not the result of an assessment of the credit quality of the composite's portfolio by a Nationally Recognized Statistical Rating Agency ("NRSRO") or any other independent entity.

The benchmark for this composite is the Bloomberg Barclays U.S. Intermediate Credit Index. The index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year and less than ten years. Index information is included merely to show the general trend in the market for the periods indicated and is not intended to imply that the portfolio was similar to the index either in composition or element of risk. The index is unmanaged, and an investment cannot be made directly into an index. Index returns do not reflect the deduction of advisory fees or any other fees or expenses. Index returns reflect the reinvestment of dividends, interest, and other earnings.

*\*\*Net returns are calculated using the highest Madison annual fee of 0.25%, calculated monthly. 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.*

All or some of the information is presented as "supplemental information" included as part of the GIPS® compliant performance presentation for the Reinhart Intermediate Duration Corporate Fixed Income Composite on the reverse side, which must be included with this material. References to "Reinhart IDC" are to that composite and references to inception date refer to performance since 6/30/01. 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.

Trailing returns are considered "preliminary" as of the date of this piece. Portfolio data is as of the date of this piece unless otherwise noted.

All investing involves risks including the possible loss of principal. There can be no assurance the portfolios will achieve their investment objectives. The risks associated with an investment in the portfolio can increase during times of significant market volatility. The principal risks of investing in the portfolio include: interest rate risk, call risk, risk of default and liquidity risk. As interest rates rise, the

prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond portfolios have ongoing fees and expenses. 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.

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.

Yield to Worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. The yield to worst is calculated by making worstcase scenario assumptions on the issue by calculating the returns that would be received if provisions, including prepayment, call or sinking fund, are used by the issuer.

Effective Duration: a measure of a portfolio's interest-rate sensitivity. The longer a portfolio's duration, the more sensitive the portfolio is to shifts in interest rates. Average Maturity: computed by weighting the maturity of each security in the portfolio by the market value of the security, then averaging these weighted figures. Yield to Maturity measures the annual return an investor would receive if they held a particular bond until maturity as of the end of a report period.

In order to make comparisons between instruments with different payment frequencies, a standard yield calculation basis is assumed. This yield is calculated assuming semiannual compounding. Portfolio Turnover: 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. Convexity: the measure of the curvature, or the degree of the curve, in the relationship between bond prices and bond yields.

"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.

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.

## Reinhart Intermediate Duration Corporate Fixed Income GIPS® Composite Report

Year End Dec. 31	Composite Return		Bloomberg Barclays Intermediate Credit	Annual Composite Dispersion	3-year Annualized Standard Deviation		Number of Portfolios in Composite	Composite Assets		Total Firm Assets (\$Mil)
	Gross of Fees	Net of Fees			Composite	Bloomberg Barclays Intermediate Credit		Dollars (\$Mil)	% of Firm Assets	
2020	6.29%	6.02%	7.08%	0.43	3.10	4.23	716	\$386.8	6.3%	\$6,168.3
2019	7.36%	7.09%	9.52%	0.43	1.95	2.15	726	\$337.9	6.0%	\$5,673.1
2018	0.72%	0.47%	0.01%	0.20	2.02	2.19	766	\$332.9	6.6%	\$5,036.9
2017	2.45%	2.19%	3.67%	0.25	2.15	2.29	887	\$364.2	6.6%	\$5,493.9
2016	2.12%	1.86%	3.68%	0.31	2.29	2.47	868	\$361.2	6.3%	\$5,738.4
2015	1.76%	1.51%	0.90%	0.18	2.31	2.58	664	\$281.9	5.4%	\$5,261.8
2014	3.81%	3.56%	4.16%	0.37	2.15	2.66	631	\$269.1	5.5%	\$4,923.1
2013	-1.06%	-1.30%	-0.17%	0.25	2.32	3.00	505	\$240.3	5.2%	\$4,585.6
2012	5.46%	5.20%	8.10%	0.30	2.39	2.85	451	\$272.2	6.6%	\$4,097.3
2011	6.31%	6.04%	5.37%	0.42	2.91	3.85	262	\$229.1	6.3%	\$3,633.4

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- Reinhart Partners, Inc. claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Reinhart Partners has been independently verified for the periods 12/31/03-12/31/20. The verification reports are 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.
- Reinhart Partners, Inc. provides investment management services for equity and fixed income accounts.
- The Intermediate Duration Corporate Fixed Income Composite includes all fully discretionary, fee-paying, fixed income only accounts that are managed using the Intermediate Duration Corporate Fixed Income strategy. The Intermediate Duration Corporate Fixed Income strategy invests in investment grade, taxable, corporate only, fixed income securities with an average maturity of 0-10 years. The creation date of the Intermediate Duration Corporate Fixed Income Composite is 6/1/01, and the inception date of the composite is 6/30/01.
- The benchmark for this composite is the Bloomberg Barclays U.S. Intermediate Credit Index. The index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year and less than ten years. Index information is included merely to show the general trend in the market for the periods indicated and is not intended to imply that the portfolio was similar to the index either in composition or element of risk. The index is unmanaged, and an investment cannot be made directly into an index. Index returns do not reflect the deduction of advisory fees or any other fees or expenses. Index returns reflect the reinvestment of dividends, interest, and other earnings.
- The composite is asset weighted. Account returns are time weighted, calculated monthly in U.S. dollars, and include income, reinvestment of dividends, accrued interest, and realized and unrealized gains and losses. Trade date accounting is used in the calculation of portfolio returns. No leverage is used in the portfolios represented in this composite.
- Gross performance results do not reflect the deduction of investment management fees and are net of trading costs. Net performance results are calculated by deducting the highest fee of 0.25% from the monthly composite return. Reinhart Partners' standard fixed income fee schedule is as follows: 0.25% on the first \$50 million; 0.20% on the next \$75 million and 0.15% on amounts over \$125 million.
- The composite may include wrap fee separately managed account (SMA) portfolios. For fixed income, SMA fees include management fees, custody fees, and administrative fees. Trading expenses and management fees are identified and broken out from the bundled fee for performance calculation. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The percentage of total composite assets that are from bundled fee portfolios are as follows: 90% for 2020, 91% for 2019, 95% for 2018, 98% for 2017, 99% for 2016, 100% for 2015, 94% for 2014, 94% for 2013, 97% for 2012, and 100% for 2011.
- Dispersion of annual returns (gross of fees) is measured by the asset-weighted standard deviation of portfolios in the composite. Three-year annualized ex-post standard deviation measures the variability of gross returns over the preceding 36-month period.
- Reinhart Partners, Inc. has additional composites. The firm's list of composite descriptions and broad distribution pooled funds is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS® Reports are available upon request.
- Past performance is not a guarantee of future results.

**On June 11, 2021, Madison acquired the fixed income management assets of Reinhart Partners, Inc. ("Reinhart"), an unaffiliated registered investment adviser, and subsequently those assets became part of the firm (Madison)\*. The Investment Team of Reinhart, who were responsible for composite performance prior to June 11, 2021, joined Madison on that date and continue to manage the Reinhart Fixed Income Strategies. For periods prior to June 11, 2021, the track records included here were maintained by Reinhart.**

**\*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.)**