Fixed Income Manager Risk Framework

Madison INVESTMENTS

RISK DRIVER	BENCHMARK BASELINE *(Ex: Bloomberg Aggregate Bond Index)*	TACTICAL DEVIATION	EXTREME DEVIATION	IMPACT	QUESTIONS TO ASK THE MANAGER
Duration & Curve Positioning	Index-neutral duration distributed across the yield curve. *Index: 5.8 years*	**Tactical Duration Tilt:** Modest duration shifts using barbell or bullet yield curve structures to capture yield curve steepening or flattening.	**Extreme Rate Bet:** Massively shortening duration to avoid rate sell-offs or dramatically lengthening duration using long-dated bonds to artificially inflate current yield.	**Severe Price Volatility:** Exposure to major capital losses if interest rates move against the unhedged macro bet.	– What is the benchmark? – What is the manager's duration philosophy? – How do they position across the yield curve? – Do they use leverage?
Credit Quality & Rating Migration	Strictly bound to investment grade (IG) issuers. *Index: BBB or higher*	**Overweighting solid BBB using bottom-up credit selection:** Issuers with improving balance sheets (deleveraging stories) expected to be upgraded to A-range.	**Off-Benchmark Drift:** Allocating 10-20% into high-yield (BB/B) debt or unrated private placements while advertising an IG profile.	**Default & Downgrade Risk:** Severe capital impairment during economic contractions or credit spread widening.	– What is the benchmark? – What is the manager's credit philosophy? – How do they manage contribution to duration (CTD)? – Is CTD actively managed? – What's in the "plus"?
Liquidity & Asset Class Allocation	Highly liquid, large issuance benchmarks.	**Liquidity Premium Capture:** Allocating 5-15% to slightly less liquid corporate issues or structured notes while retaining an explicit liquid buffer for redemptions.	**Illiquidity Trap:** Heavy allocation into private credit, structured products, or exotic loans with no secondary market depth to mask paper volatility.	**Liquidity Freeze:** Inability to meet client redemptions during market panics, forcing fire sales of liquid core holdings.	– What is the benchmark? – What is the manager's philosophy on liquidity? – How much of the portfolio is allocated to less liquid parts of the market? – How has the manager managed liquidity risk exposure in the past?
Sector Allocation & Structure	Weighted heavily toward Treasuries, Agency MBS, and core Investment Grade Corporate Bonds. *Index: 46% US Treasury, 30% Agency Mortgage-Backed Securities (MBS), 24% Corporate*	**Relative Value Rotation:** Rotating into high-quality Asset-Backed Securities (ABS) or Commercial MBS (CMBS) when agency spreads widen, while maintaining a diversified portfolio.	**Tail-Risk Concentration:** A portfolio benchmarked to a diversified index is instead stacked in one sector, particularly in higher-yielding structured debt, such as subordinate BBB/BB Collateralized Loal Obligations (CLOs).	**Correlation Spike:** Subordinated tranches suffer total loss of principal when default rates tick up.	– What is the benchmark? – What is the manager's philosophy towards using products with structure risk? – How transparent are the holdings?

Disclosures

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In addition to the ongoing market risk applicable to portfolio securities, bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer.

Asset-Backed Securities (ABS): Bonds made up of a collection of consumer debts.

Agencies: A bond or other debt security issued by a government agency or government-sponsored agency such as Freddie Mac or Fannie Mae, and are the highest quality debt securities after Treasuries.

Barbell Structure: A bond portfolio comprised of short and longer-term bonds, whose average produce a portfolio with an intermediate maturity, which will react to market conditions in a manner that differs from a portfolio of intermediate bonds.

Bond Spread: the difference between yields on differing debt instruments of varying maturities, credit ratings, and risk, calculated by deducting the yield of one instrument from another.

Bullet Structure: A portfolio of bonds whose individual maturities are similar in term.

Collateralized Loan Obligation (CLO): A structured financial security backed by a diversified pool of corporate loans, repackaged into tranches with varying risk and return profiles.

Commercial Mortgage-Backed Securities (CMBS): Bonds backed by mortgages on commercial properties rather than residential real estate.

Contribution to Duration measures the amount by which a specific security or sector contributes to a portfolio's overall duration, based on its weight and interest-rate sensitivity.

Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. Duration measures how long it takes, in years, for an investor to be repaid the bond's price by the bond's total cash flows.

High yield bonds are considered lower-quality instruments known as "junk bonds". Such bond entail greater risks than those found in higher-rated securities and, as a result, investments in the fund entail more risk than investments in average bond funds. More detailed information regarding these risks can be found in the fund's prospectus.

Mortgage-Backed Securities (MBS): Bonds made up of a collection of residential or commercial mortgages.

Volatility: The degree of variation of returns for a given security or market index.

Yield Curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward sloping curve), inverted (downward sloping curve) and flat. Yield curve strategies involve positioning a portfolio to capitalize on expected changes.

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 Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities and corporate securities, with maturities greater than one year.

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