

Madison Small Cap Fund

Investment Strategy Letter | June 30, 2025



The second quarter began where the first quarter ended, rather dismal. Liberation day tariffs rates were far worse than markets anticipated, sending both equities and treasuries steeply lower. By the first week of April, however, the Trump administration seemed to heed the market's warnings and retreated from the extremely punitive rates it initially offered, especially against China, setting a bottom in the markets. Since the early April bottom, equities have rallied sharply, buoyed by better-than-expected macro-economic data, particularly regarding inflation and employment. The Russell 2000 Index has regained nearly all its initial losses, up 8.5% for the quarter and down only 1.79% year-to-date. The Madison Small Cap Fund (class Y) lagged the Russell 2000 and Russell 2500, returning 4.42% for the second quarter. Although we had a handful of poor performing stocks in the quarter, the principal reason for our underperformance was the nature of the rally. The market has clearly favored lower quality and/or laggards, and our portfolio has not been able to keep pace with the 'dash for trash'. In our opinion, this is typical early cycle behavior for small caps. After steep declines, it's usually the most beat up, flotsam and jetsam, that rallies first and fastest as investors conclude things may not be as bad as feared.

Portfolio Review

Our underperformance was largely driven by stock selection in Information Technology and Consumer Staples. Info Tech led the rally post liberation day, however our stocks lagged. Our worst performing IT stock was Cogent Communications (CCOI). CCOI is an internet service provider that carries nearly 25% of the world's internet traffic on its global network. The company recently announced the addition of a new service for existing customers called Wavelength Services, which provide high-capacity, low-latency networking connections using advanced optical technology that allows multiple, private, high-capacity circuits to be delivered over a single pair of optical fibers. Wavelength Services provides dedicated, secure bandwidth with a high degree of reliability. Expectations were high for this new service as a growth driver and the company missed those expectations slightly, sending the stock sharply lower. After several meetings and conversations with management, we've since used this weakness as an opportunity to add to our investment in CCOI as we believe this is an overreaction to a small but fast-growing revenue line that's experiencing some early growing pains.

Consumer Staples has been a very difficult space for several quarters. After a strong pricing cycle during COVID, consumers have pulled back on branded consumer staples in favor of more affordable private label brands while retailers have been aggressively destocking and clearing excess inventory. Volumes have also been impacted by the expanding GLP-1 prescription uptake. Research from Purdue university and other studies have shown that households with at least one GLP-1 user reduce their grocery spending by approximately 5.5% within six months of adoption. This reduction is more pronounced in higher-income households, which cut their grocery spending by about 8.6%. The decrease in food consumption is particularly noticeable in ultra-processed, calorie-dense items like chips, savory snacks, sweet bakery goods, sides, and cookies, with reductions ranging from 6.7% to 11.1%. Our worst performing food stock was HAIN Celestial. Turnarounds are often difficult, however in the broader environment of shrinking volumes and frugal consumer consumption, that difficulty is magnified. Hain's Q1 results were particularly disappointing as volumes in what was in our opinion, one of its best salty snack brands declined sharply. The board intervened, the CEO was replaced, and strategic alternatives are on the table. With limited visibility on leadership, the business, and the broader environment, we decided to exit this small investment position entirely.

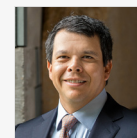
Tickers

Class R6: MSCRX	Class I: MSCIX
Class Y: BVAOX	Class A: MASMX

Portfolio Management



Faraz Farzam, CFA
Portfolio Manager, Analyst
Industry since 1999



Aaron Garcia, CFA
Portfolio Manager, Analyst
Industry since 2002

Performance data shown represents past performance. Investment returns and principal value will fluctuate, so that fund shares, when redeemed, may be worth more or less than the original cost. Past performance does not guarantee future results and current performance may be lower or higher than the performance data shown. Visit madisonfunds.com or call 800.877.6089 to obtain performance data current to the most recent month-end.



Although Consumer Staples were challenged, our Consumer Discretionary investments stood out in terms of positive performance. Although tariff fears initially hurt some of our discretionary stocks, especially those with global supply chains, our best performing stock in aggregate was Shake Shack (SHAK). SHAK's Q1 results outpaced restaurant giants Chipotle (CMG) and McDonalds (MCD). Recent menu innovations, marketing investments, and operating initiatives are driving greater returns on investments, and the company has a long runway to grow units and compound those returns. Even though we've taken some profits, we consider this a core investment position and are excited about the long-term prospects for the shares.



Portfolio Activity

We made several changes to the portfolio in the second quarter, including three new buys and three whole sales.

Buys:

The Hanover Insurance Group (THG)

The Hanover Insurance Group, a regionally focused property & casualty (P&C) insurance company, is relatively underfollowed and we believe misunderstood. We believe this is a high-quality P&C company in the small cap space for several reasons. The company sold its international business in 2018 and refocused its efforts on domestic diversification, moving away from its legacy states, Michigan and Massachusetts. Its current business mix is well diversified between commercial (37%), personal (50%), and specialty (23%). We believe the company isn't receiving full credit for the growth of its specialty business and the strengthening of its personal lines in recent years. We assess its Intrinsic Value at \$210.

GMS, Inc. (GMS)

GMS Inc. is the leading specialty distributor of gypsum wallboard, suspended ceiling systems, steel framing, and complementary interior building products, with trailing 12-month (TTM) revenues exceeding \$5.5 billion. GMS is a scale specialty distributor with over 20% share in two very large end markets. GMS's scale and reach are significant compared to smaller regional distributors, enabling both consistent share gains and effective capital deployment through accretive mergers and acquisitions and buybacks. We assess its Intrinsic Value at \$117.

Advanced Drainage Systems (WMS)

Advanced Drainage Systems (WMS) is the leading manufacturer of high-performance thermoplastic corrugated pipe. The company provides a comprehensive suite of water management products and drainage solutions for use in the underground construction and infrastructure markets. WMS has established a dominant position in the highly fragmented stormwater management subsector and is 10x the size of its nearest competitor. Their products are utilized across various end markets, including non-residential, residential, agricultural, and infrastructure applications. As storms increase in frequency and intensity, WMS's solutions help prevent floods, recharge aquifers, improve food security, and mitigate water scarcity. We believe WMS is a durable, high-quality franchise with substantial moats, including: unparalleled scale, national distribution footprint, and it is North America's largest materials recycling facility, providing them with overwhelming cost advantages over traditional concrete pipe.

WMS has a well-regarded management team with a solid track record in mergers and acquisitions. Depressed end markets have provided an attractive entry point. We believe the intrinsic value of the stock is \$180.

Sales:

LegalZoom.com (LZ)

Although new management has done an admirable job in improving fundamentals, we decided to sell this small position as we could not gain confidence in the size of the addressable market and their ability to execute further share gains.



Hain Celestial Group (HAIN)

It has been a challenging two years for most food and staple companies since the inflationary COVID days, as consumers have traded down and volumes have declined. Although we've sold most of our investment in the face of these headwinds, we kept a small position waiting for the new management team (brought in 1.5 years ago) to right the ship. Instead, the business took another leg down, and we've decided to fully move on.

Hillman Solutions Corp. (HLMN)

Hillman Solutions Corp. is a home and hardware distribution company whose two largest customers are Home Depot and Lowe's. We decided to exit HLMN in favor of GMS, which has more formidable and durable moats, in our opinion, and more visible long term growth opportunities.

Outlook

Despite our underperformance, we're cautiously optimistic heading into the second half. We take some solace in the fact that our underperformance was largely a function of the environment as opposed to a raft of investment mistakes. We see three likely scenarios going forward:

1. The rally in lower quality stocks continues, in which case outperformance could prove difficult although we believe exceptional selection can alleviate the headwinds.
2. The rally continues but low-quality stocks exhaust their run and fundamental performance takes the wheel. The classic stock pickers market.
3. Overextension leads to a mild correction in which case quality typically outperforms on a relative basis.

Certainly, these are not the only three possible scenarios but two out of these three would favor our investment style. In the long run we believe businesses with attractive valuations with durable and formidable moats will reward investors with superior returns.

Respectfully,

Faraz Farzam Aaron Garcia

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Madison Small Cap Fund

Fact Sheet | June 30, 2025



Why Madison Small Cap Fund?

High-quality portfolio of quality, durable, and growing small companies

Concentrated portfolio with a flexible mandate (\$100M to \$15B market cap)

Proprietary Risk Portal and valuation discipline framework help manage downside risk

Average Annual Total Returns^{1,2} (%)

	3-Months	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Class R6	4.35	-5.02	5.12	10.64	--	--	3.14
Class I	4.26	-5.03	5.05	10.52	--	--	2.49
Class Y	4.28	-5.13	4.95	10.42	10.81	6.59	12.34
Class A without sales charge	4.17	-5.24	4.70	10.11	10.56	--	8.96
Class A with sales charge	-1.78	-10.72	-1.31	7.95	9.25	--	7.87
Russell 2000	8.50	-1.79	7.68	10.00	10.04	7.12	--
Russell 2500	8.59	0.44	9.91	11.31	11.44	8.39	--

Calendar Year Returns^{1,2} (%)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Class Y	-7.90	18.04	8.90	-12.09	24.67	23.09	20.52	-24.36	16.05	21.94
Russell 2000	-4.41	21.31	14.65	-11.01	25.52	19.96	14.82	-20.44	16.93	11.54
Russell 2500	-2.90	17.59	16.81	-10.00	27.77	19.99	18.18	-18.37	17.42	12.00

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Sector Allocation (%)

	Madison	Index
Comm Services	--	1.51
Cons Discr	10.29	10.65
Cons Staples	10.27	2.17
Energy	1.21	3.80
Financials	13.53	20.36
Health Care	13.87	15.76
Industrials	20.33	17.77
Info Tech	25.10	16.23
Materials	1.01	3.92
Real Estate	--	4.41
Utilities	--	3.34
Cash	4.40	--

5-Year Risk Metrics (%) - Class Y

	Madison	Russell 2000	Madison	Russell 2500
Std Deviation	18.86	21.77	18.86	20.13
Up Capture	89.92	100.00	92.68	100.00
Down Capture	84.09	100.00	92.13	100.00
Beta	0.83	1.00	0.91	1.00

10-Year Risk Metrics (%) - Class Y

	Madison	Russell 2000	Madison	Russell 2500
Std Deviation	19.20	20.96	19.20	19.66
Up Capture	89.43	100.00	93.55	100.00
Down Capture	89.00	100.00	98.91	100.00
Beta	0.88	1.00	0.95	1.00

Investment Objective

The Madison Small Cap Fund seeks long-term capital appreciation.

Class	Ticker	Inception	Exp. Ratio
R6	MSCRX	2/28/22	0.92%
I	MSCIX	2/26/21	1.00%
Y	BVAOX	12/16/96	1.10%
A	MASMX	8/31/19	1.35%

Expense ratios are based on the fund's most recent prospectus.

Fund Characteristics

Number of Holdings	44
EPS Growth Rate (Trailing 3-Year, %)	15.2
Price/Earnings Ratio (Trailing 1-Year)	28.6
Price/Earnings Ratio (Forward 1-Year)	19.1
Annual Portfolio Turnover (%)	39
Active Share vs. R2000 (%)	97.2
Active Share vs. R2500 (%)	96.5
Wtd. Avg. Market Cap (\$ billions)	6.6
Net Assets (\$ millions)	171.9
Distribution Frequency	Annual

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Top 10 Holdings (%)

Encompass Health Corp	4.47	Shake Shack Inc Class A	3.03
Core + Main Inc Class A	3.79	Hayward Holdings Inc	2.90
Scotts Miracle Gro Co	3.68	Willscot Holdings Corp	2.89
Axis Capital Holdings Ltd	3.24	Power Integrations Inc	2.88
Healthequity Inc	3.18	Box Inc Class A	2.76

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Madison Investments offers a series of funds that emphasize quality and durability—all built with the long run in mind. While a risk management approach is not unique to us, the way in which we deploy our investment strategies is what sets us apart.

This material is authorized for use only when preceded or accompanied by the current prospectus. Before investing, please fully consider the investment objectives, risks, charges and expenses of the fund. This and other important information is contained in the current prospectus, which you should carefully read before investing or sending money. For more complete information about Madison Funds® obtain a prospectus from your financial adviser, by calling 800.877.6089 or by visiting www.madisonfunds.com to view or download a copy.

1. Average annual total returns and calendar year returns assume all distributions are reinvested and reflect applicable fees and expenses. Class A share returns without sales charge would be lower if sales charge were included. Class A share returns with sales charge reflect the deduction of the maximum applicable sales charge of 5.75%. Class Y shares do not impose an up-front sales charge or a contingent deferred sales charge ("CDSC"). 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.

2. The performance shown for the Small Cap Fund (the "Fund") for periods prior to August 31, 2019, for the Class Y shares are based on the performance of the Broadview Opportunity Fund (the "Predecessor Fund") which was the accounting survivor and reorganized into the Class Y shares of the Fund after market close on August 30, 2019 (the "Reorganization"). Periods prior to November 29, 2013, represent the performance of the FMI Focus Fund (the "FMI Fund") which merged with and into the Predecessor Fund on November 29, 2013. Prior to November 29, 2013, the Adviser of the Predecessor Fund served as sub-adviser to the FMI Fund.

Performance results prior to August 30, 2019 for the Class Y shares are based on the performance of the Predecessor Fund, which was reorganized into the Class Y shares of the Fund on August 30, 2019. Performance for Class A shares was deemed to be new effective August 31, 2019 as a result of the reorganization. Madison waived 0.04% of the Fund's annual services fee from August 31, 2019 through February 27, 2021. Investment returns reflect this fee waiver, without which returns would have been lower.

Madison lists the performance of the Predecessor Fund and accounting survivor of the Reorganization for the following reasons: Continuity of Fund portfolio managers through the Reorganization; Substantially the same investment objective and investment strategies between the Fund and the Predecessor Fund; Substantially similar investment policies between the Fund and the Predecessor Fund; A similar expense ratio (excluding acquired fund fees and expenses).

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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.

An investment in the Fund is subject to risk and there can be no assurance the Fund will achieve its investment objective. The risks associated with an investment in the Fund can increase during times of significant market volatility. The principal risks of investing in the Fund include mid cap risk, equity risk, growth and value risks, capital gains realization risks to taxpaying shareholders, foreign security and emerging market risk, depository receipt risk, and market risk. 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. More detailed information regarding these risks can be found in the Fund's prospectus.

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

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Russell 2000 Index is a small cap market index which measures the performance of the smallest 2,000 companies in the Russell 3000® Index.

Russell 2500 Index is a broad index, featuring 2,500 stocks that cover the small and mid-cap market capitalizations of the U.S. equity universe.

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EPS Growth Rate (3-5 year): is the annual rate at which a company's earnings are expected to grow.

Price-to-Earnings Ratio: measures how expensive a stock is. It is calculated by the weighted average of a stock's current price divided by the company's earnings per share of stock in a portfolio.

Active Share: the percentage of a portfolio that differs from its benchmark index. It can range from 0% for an index fund 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.

Wtd Avg. Market Cap: the size of the companies in which the fund invests. Market capitalization is calculated by number of a company's shares outstanding times its price per share.

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.

Upside Capture Ratio: a fund'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.

Downside Capture Ratio: a fund's performance in down markets relative to its benchmark. The security's downside capture return is divided by the benchmark's downside capture return over the time period.

Beta: a measure of the fund's sensitivity to market movements. A portfolio with a beta greater than 1 is more volatile than the market, and a portfolio with a beta less than 1 is less volatile than the market.

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