

Madison Small Cap Fund

Investment Strategy Letter | September 30, 2025



The third quarter was very difficult for the Small Cap Fund. The Russell 2000 reached a bottom on April 8th and shot upward through the third quarter, returning 12% for the quarter. The Russell 2500 returned 9.0% in the third quarter. The performance of the small cap index was broad-based, with every sector except Utilities up double-digits. The Madison Small Cap Fund (Class Y) was down 1.3% in the period, significantly underperforming the benchmarks. This underperformance was primarily the result of stock selection and exacerbated by a very speculative market. Simply put, we don't own the low-quality, unprofitable companies that are driving this market, and too many of our investments had negative absolute performance. Some of the best performing stocks in the Russell 2000 year-to-date are not just unprofitable, but also not yet generating revenue. There's been a resurgence of "meme stocks", stocks that are driven by speculative retail investors. These tend to be stocks with low absolute prices, often less than \$5 per share, usually profitless, with bad balance sheets. Other areas of market returns came from mining stocks, driven by the strength in precious metals like Gold and Silver, and stocks related to crypto. As our investors are aware, these are not areas of the market we invest in.

Cyclicals outperformed defensives across all end markets; and our cyclically-exposed investments had mixed results due to our overweight in construction-related companies. Consumer, IT and Industrials bore the brunt of the third quarter underperformance. We will discuss several of the poor-performing stocks below. We hope to demonstrate that the third quarter was a perfect storm of AI-driven momentum, speculative mania, unfortunate individual stock performance from second quarter reporting, and the persistence of a stubbornly long recovery in the residential and non-residential construction markets. Despite the tough 3Q performance, many of these stocks are multi-year holdings with excellent long-term returns and we are sticking with our discipline despite the very frothy environment.

Portfolio Review

Our underperformance was largely driven by stock selection in Consumer Discretionary, Consumer Staples, Information Technology, Industrials, and Healthcare. However, every sector in our portfolio underperformed the Russell 2000.

Our Consumer Staples and Discretionary stocks underperformed in the quarter. The consumer continues to be resilient but somewhat choosy with where they spend. In our portfolio, Shake Shack (SHAK) pulled back sharply in the quarter, giving back some of its outperformance from Q2. Even though Shake Shack's traffic more or less met analysts' expectations this quarter, those expectations had been fairly aggressive, and growing worries about the job market are heightening fears that future customer traffic could soften. We continue to like the long-term opportunity for SHAK to improve its store level margins and drive traffic even in a tough consumer environment.

Primo Brands & Simply Good Foods (SMPL) were also down in the quarter. Primo faced some temporary integration challenges mostly in Texas. Recall that Primo was effectively acquired by privately-held Blue Triton, but remained public in a reverse merger. This has been a wonderful stock for us since our initial investment in 2020, but 2025 has been difficult as the company was initially hit with a tornado in Texas, damaging a facility and disrupting operations for a month. This only exacerbated an aggressive restructuring and integration plan that led unanticipated disruptions in water delivery services. We don't believe the business is broken and the \$200 million in cost savings will eventually be realized. SMPL, on other hand, has delivered pretty good results. This stock has been rerated downward drastically and we believe that one explanation is the broad-based sell off and downward pressure in almost all Consumer Staples stocks across the market cap spectrum. In short, in this bull market, defensive businesses like Consumer Staples are sold in favor of extremely speculative investments, mostly, but not entirely, tied to the AI theme.

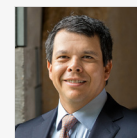
Tickers

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.



Underperformance in Industrials was concentrated in three large investments. Carlisle Companies (CSL), WillScot Holdings (WSC), and Core and Main (CMN) were down in the quarter. Although there is some near-term risk to commercial roofing in 2025 and normalizing inventory levels at its distributors, we expect CSL to generate \$40 per share in earnings by 2030. This is an excellent business with high margins, a diverse portfolio and a strong recurring revenue profile. On the other hand, WSC has been a really challenging investment, driven by challenging end markets. We have held our position here because the unit economics of the mobile storage business are quite attractive and management uses the prodigious free cash flow (FCF) of the business to buy back stock – share count has shrunk from 230 million shares to 182 million in the past five years. In May we revisited our intrinsic value of WSC given the challenging end market. Overlaying conservative assumptions on an end market recovery and continued share buybacks from the incremental FCF, we arrived at a \$46 intrinsic value. Based on our work, we decided to continue our investment. This call has not yet played out, as we misjudged the lack of appetite for WSC's shares in such an unusually tough environment. Going forward, we still believe in the business model, the management team, and the opportunity for this stock to be much higher over the next few years.

Our IT holdings were up modestly in the quarter, but the Russell 2000's tech stocks were up significantly more, at +15%. AI continues to be the dominant theme and investor appetite for these stocks drove much of the Russell 2000's performance. Our best performing tech investment, Ciena (CIEN), is a direct beneficiary of the capital spending boom in AI. However, our software investments underperformed due to concern about potential AI disruption. There is a broad-based fear among investors that Artificial Intelligence could pose an existential threat to software business models. This has led to broad based multiple compression in the software universe across the market cap spectrum. Our view is that these fears are vastly overblown. Businesses depend on application software to run mission critical operations. The notion that AI will replace systems of record like Enterprise Resources Planning (ERP) with AI agents is, in our opinion, a hallucination. We use the term hallucination rather facetiously as that seems to be the term used to describe errors made by AI output. It turns out AI hallucinates quite a lot. By some estimates about 60% of the answers AI gives to prompts turn out incorrect. And, according to a recent study by MIT, 95% of recent AI enterprise projects are failing. This is not the recipe for a technology that is about to replace critical software applications that work. In addition to Ciena, Workiva and Knowles both outperformed as well. Offsetting these bright spots, Cogent, Confluent and Power Integrations didn't have great quarters, and the stock performance hurt us in the second quarter. Although our performance was hurt by poor results from a handful of companies, the larger issue is the strength in unprofitable, speculative technology and AI-related names that has driven the rally. In certain cases, some of the best performing stocks in the sector, and more broadly in the Russell 2000, are not just profitless but also lack actual revenue.

Our Healthcare investments underperformed the Russell 2000. Biotech stocks had a particularly strong quarter. The S&P Biotech ETF was up 23% in the quarter, and the pharmaceutical segment of the Russell 2000 was up 29% in the quarter. As a reminder, we've historically underinvested in biotech stocks as we believe these businesses are too risky and do not fit our quality standards. We did have solid performance from one of our contract research organization (CRO) investments, Medpace Holdings, driven by low expectations and a surprise earnings beat. This was offset by poor performance of one of our largest investments, Health Equity, which was down despite excellent quarterly results. Investors are speculating that AI will drive down employment, which will be a headwind for HSA account growth in the industry. We disagree. We think this is an excellent share taker in an underpenetrated asset class. At current levels, we think this company is quite attractive.

There were a few scant bright spots in the quarter with Ciena, Medpace, Advanced Drainage, Crane NXT, Workiva, Knowles and Olin all outperforming the Russell 2000. Further, many of our tough stocks in the quarter have been wonderful longer-term investments for our investors. We have not and will not change our investment philosophy or process, which has been proven successful over the long term despite



speculative market conditions recently. Given the magnitude of the underperformance, we have revisited our investment theses and re-underwrote each name in the portfolio. While disappointing, we believe these companies are still attractive investments.

Portfolio Activity

We made several changes to the portfolio in the third quarter.

Buys:

Hexcel Corp. (HXL)

The small cap team initiated a new investment position in Hexcel Corporation. Hexcel is a global leader in advanced composite materials, specializing in the production of carbon fiber reinforcements, resin systems, and honeycomb structures. These materials are critical for lightweight, high-performance applications, particularly in the commercial aerospace, space, and defense sectors. Hexcel's products are used in aircraft frames, wings, engines, and other structural components, offering strength and durability while significantly reducing weight. Major clients include aerospace giants like Airbus and Boeing. We like the duopoly market structure and deep moats of Hexcel's business. The cycle has been in a prolonged downtrend due to the COVID supply chain shocks, creating bottlenecks in engines and the struggles of Boeing and Spirit Aerosystems. We believe these headwinds are now largely behind us. The competitive moats in this business are significant. Capital intensity is relatively high, while incumbency and vertical integration provide a huge competitive advantage. Certification in wing and fuselage requires massive regulatory approval, which leads to even higher switching costs. Furthermore, the industry has a benign competitive structure, with Japanese firm Toray being the only other direct, scaled composite material competitor, having a combined share in wing and fuselage that approaches 90% and holding sole-sourced positions with original equipment manufacturers (OEMs). We believe the intrinsic value for this franchise is \$85.

Eagle Materials (EXP)

Small cap initiated on Eagle Materials, a leading U.S. manufacturer of heavy construction materials such as Portland cement, concrete, and aggregates, and light building materials such as wallboard and recycled paperboard. We view Eagle as an excellent company with very attractive financial traits. EXP aligns well with our preference for high-quality holdings, given its strong margins, high return on invested capital (ROIC), and return on equity (ROE). With the residential construction cycle in a prolonged downturn, we see this as a timely opportunity to invest in Eagle. Demand for wallboard has been declining for several years, and operating rates for the industry are in the 70s, which means they have a lot of excess capacity. Investors, while somewhat mollified by the resiliency of the business, have lost patience with many construction-exposed names. During the downturn, Eagle has gained market share due to its geographical footprint and cost-competitive wallboard assets. Further, we believe we are close to a bottom in residential construction demand, and at this price, we are willing to be patient for the cycle to turn. Management is excellent and allocates capital very judiciously with copious share buybacks. Our current intrinsic value estimate does not assume meaningful margin expansion and has relatively conservative buyback assumptions. We calculate intrinsic value at \$269/share.

Charles River Laboratories (CRL)

We initiated a position in Charles River Labs in Q3. CRL is a high-quality company in the drug discovery and development outsourcing space with a broad range of services from basic research to contract manufacturing. The company has operating margins of 20% or more and generates substantial free cash flow. The past few years have been challenging for companies in the drug development space, as capital has become increasingly constrained and research and development spending has remained stagnant. However, CRL has the operating history and mix of businesses to be successful over the long term. The customer base is diverse and CRL benefits from the increased dynamics of outsourcing by its biopharmaceutical clients. The company's top line has grown at



a 12% compound annual rate over the last 10 years, even with the recent downturn. Management is solid, and we've known them for decades. We believe Charles River's earnings power can reach approximately \$15 in 2028, assuming modest growth. We also use a sum of the parts at ~12x EBITDA (earnings before interest, taxes, depreciation, and amortization) to assess the attractiveness of CRL. This implies an intrinsic value of \$228. Importantly, we think we are being conservative, as we don't build in a resumption of double-digit revenue growth in our valuation framework. However, we anticipate revenue growth of 4% from 2024 to 2028 and a modest margin recovery, aided by restructuring and cost-outs.

Sales:

GMS, Inc. (GMS)

GMS was acquired by Home Depot after receiving an initial bid from QXO. We received a roughly 45% premium to the unaffected share price.

Saia, Inc. (SAIA)

Small cap exited Saia this quarter. The company has faced a challenging macroeconomic environment for LTL (less-than-truckload) pricing and experienced some operational hiccups as it expanded into new geographies. We would certainly revisit the investment as operating rates can inflect higher in a better environment, which would drive strong earnings leverage. We believe the moat around this business is excellent; we think the company is well-run, with a maniacal focus on customer service.

Outlook

It was an incredibly challenging quarter for our investment process; and with market valuation very stretched, we don't see a particularly attractive setup for broad-based market returns from here. However, the markets can certainly continue to move up in the face of fundamentals for longer than investors expect. We've seen environments like this before.

Despite this tough backdrop and the disappointing quarter, we'll continue to challenge our theses on underperforming investments—and move on if necessary. We'll keep searching for attractive new investments, revisit our valuation work on our highest conviction investments to ensure that our conviction is deserved, and, as always, stay true to our investment philosophy and process.

Respectfully,

Faraz Farzam Aaron Garcia

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Madison Small Cap Fund

Fact Sheet | September 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	-1.58	-6.51	-2.67	11.94	--	--	2.46
Class I	-1.58	-6.53	-2.76	11.86	--	--	2.00
Class Y	-1.58	-6.63	-2.87	11.77	8.98	7.74	12.16
Class A without sales charge	-1.62	-6.78	-3.08	11.46	8.73	--	8.29
Class A with sales charge	-7.28	-12.17	-8.63	9.28	7.45	--	7.24
Russell 2000	12.39	10.39	10.76	15.21	11.56	9.77	--
Russell 2500	9.00	9.48	10.16	15.65	12.09	10.52	--

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	--	1.75
Cons Discr	9.11	10.36
Cons Staples	8.45	1.91
Energy	1.32	3.65
Financials	13.03	19.00
Health Care	13.47	15.93
Industrials	20.05	18.29
Info Tech	27.96	17.11
Materials	2.38	4.74
Real Estate	--	4.09
Utilities	--	3.12
Cash	4.24	--

5-Year Risk Metrics (%) - Class Y					
	Madison	Russell 2000	Madison	Russell 2500	
Std Deviation	18.63	21.76	18.63	20.06	
Up Capture	81.53	100.00	85.59	100.00	
Down Capture	83.70	100.00	91.34	100.00	
Beta	0.81	1.00	0.89	1.00	

10-Year Risk Metrics (%) - Class Y					
	Madison	Russell 2000	Madison	Russell 2500	
Std Deviation	19.04	20.85	19.04	19.52	
Up Capture	85.68	100.00	90.40	100.00	
Down Capture	88.57	100.00	98.19	100.00	
Beta	0.87	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	45
EPS Growth Rate (Trailing 3-Year, %)	13.6
Price/Earnings Ratio (Trailing 1-Year)	28.3
Price/Earnings Ratio (Forward 1-Year)	18.4
Annual Portfolio Turnover (%)	39
Active Share vs. R2000 (%)	97.7
Active Share vs. R2500 (%)	96.5
Wtd. Avg. Market Cap (\$ billions)	6.7
Net Assets (\$ millions)	161.7
Distribution Frequency	Annual

Portfolio Management

Faraz Farzam, CFA
Portfolio Manager, Analyst
Industry since 1999

Aaron Garcia, CFA
Portfolio Manager, Analyst
Industry since 2002



Top 10 Holdings (%)

Encompass Health Corp	4.95	Healthequity Inc	3.07
Hayward Holdings Inc	3.40	Formfactor Inc	2.91
Scotts Miracle Gro Co	3.40	Box Inc Class A	2.79
Core + Main Inc Class A	3.32	Knowles Corp	2.72
Entegris Inc	3.08	Axis Capital Holdings Ltd	2.64

Shareholder Services

Madison Funds

P.O. Box 219083
Kansas City, MO 64121-9083
800.877.6089

Consultant and

Advisor Services

550 Science Drive
Madison, WI 53711
888.971.7135



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.

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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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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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