

## MADISON SMALL CAP FUND

### 3Q 2023 Investment Strategy Letter

Tickers: BVAOX | MSCIX | MASMX | MSCRX

After a strong first half, the Russell 2000 Index declined 5.1% in the third quarter. The Madison Small Cap Fund (class Y) slightly underperformed, declining 6.1%. Year to date, the Fund is up 4.3%, compared with 2.5% for the index. The selloff in equities was commensurate with a selloff in Treasuries, with the benchmark 10-year yield pushing higher, closing the quarter at 4.6%. Mortgage rates reached levels unseen for over a decade. Except for Energy, all sub sectors in the Russell 2000 delivered negative returns for the quarter. The strength in Energy equities was driven by a resurgence in oil prices on the back of OPEC supply cuts. We continue to have no investments in Energy equities, as we have yet to discover any businesses that fit our strict quality parameters. Large cap stocks continued their outperformance versus small caps and growth continued to outperform value. The economy continues to show surprising resilience to monetary and fiscal pressure. Defensive stocks were the weakest, broadly speaking. Healthcare and Utilities were two of the worst performing sectors in the Russell 2000.

#### PORTFOLIO REVIEW

We are significantly underweight Healthcare in the portfolio with only two investment positions. Both holdings meaningfully outperformed the broader Healthcare group in the Russell 2000. That combination was the largest source contributing to relative performance for the quarter. Our lack of investment in Energy was the single largest reason for our slight underperformance.

GOGO Inc., Magnite Inc., and Model N Inc. were our weakest performers in the quarter. GOGO is a ground-to-air internet service provider for private jets. Unfortunately, GOGO's subscriber numbers were hurt by the many planes grounded for deferred maintenance in the quarter. During these maintenance periods, GOGO typically pauses the subscription for its clients. GOGO also pushed back its rollout of 5G service due to an error in its chip design. Neither of these issues violates our 5-pillar analysis of GOGO and we believe the company will still generate prodigious free cash flow over the next several years, which we expect to drive the stock higher.

Magnite (MGNI) provides the underlying technology that makes advertising online possible. It is poised to capitalize on the massive shift in advertising dollars that is taking place, away from linear TV (Broadcast, Cable, and



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## 3Q 2023 MADISON SMALL CAP FUND - INVESTMENT STRATEGY LETTER

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Satellite) to Connected TV or CTV (ad supported streaming services like Netflix and Hulu). Although the opportunity is large, it is still early in the game, and the company is experiencing some near-term growing pains as their outlook for the balance of the year disappointed investors due to the writers and actors strike. The UAW strike also impacted auto advertisement. We believe these are short-term issues and MGNI's competitive position is getting stronger.

Model N provides software and services to the global life sciences industry. They have no meaningful competition, and their platform is considered the system of record for their customers, which includes marquee names like Moderna, Johnson and Johnson, Pfizer, and Abbot Labs. Over the last several years, the company successfully transitioned its customer base to a recurring revenue, cloud-based model, driving accelerated growth. With the transition largely in the rearview, the forward growth guidance disappointed investors, although, here again, we believe the issues are short term and the stock is very attractively priced.

Ollies Bargain Outlet Holdings, Inc and New Relic, Inc. were our top performing investments in the quarter. Application monitoring and data observability software provider, New Relic, was acquired by private equity firms Francisco Partners and TPG for \$87, representing a roughly 18% premium to its five-day average price prior to the deal's announcement.

Ollies Bargain Outlet is a discount, closeout retailer. They acquire closeout branded merchandise, mostly hardgoods like air conditioners, home accessories, and other home goods, and sell them to shoppers at deep discounts, while maintaining a very healthy profit margin for themselves. Ollie's value proposition is resonating especially well during these inflationary times. Furthermore, the availability of quality closeout merchandise has rarely been this attractive, according to management. The company is delivering some of the best results in retailing, with material upside to sales and earnings driving the shares higher.

### PORTFOLIO ACTIVITY

In the third quarter, we added two investments to the portfolio (FROG and HAYW) and sold four (CC, BBCP, AWI, and RADI).

Software provider J Frog (FROG) sells software tools to the Dev/Sec/Ops space (Development, Security and Operations). Their software forms a critical component of the software development chain. Essentially, large enterprises use FROG's tools to develop, secure and operate their software infrastructure. We believe J Frog is a very strategic asset that dominates its niche. The company is profitable, with recurring revenues that drive material cash flow, buttressed with a strong balance sheet.

Hayward Holdings (HAYW) manufactures and distributes residential pool equipment largely in North America. The North American market is a duopoly and 80% of HAYW revenues are driven by repair and remodel versus new pool construction, mimicking recurring revenues, which we like. The company generates nearly 30% cash flow margins in an attractive market structure. The recent slowdown in home sales and renovations post-reopening provided a very attractive valuation and HAYW is poised to participate in the eventual recovery of the residential housing market.

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We exited Chemours Co on the strength of its year-to-date performance and the growing export of chloride-based titanium dioxide from China. Weaker economic growth in China, combined with increased capacity, is a headwind for European and North American pricing. We used these funds to increase our position in Olin Corp., which pulled back on the retirement of the company's CEO. We believe Olin's strategy remains intact and the valuation of the company is attractive.

Concrete Pumping Holdings Inc. (BBCP) was sold to fund better opportunities in the portfolio. The company's core cement pumping products are exposed to a possible contraction in the commercial real estate market, which we view as increasingly likely. We also exited Armstrong World Industries (AWI) due to similar end market concerns. While the company's core mineral fiber business is an excellent cash flow generator, we believe the architectural specialties business will struggle in the higher interest rate environment.

Radius Global Infrastructure (RADI) was acquired by private equity in the first quarter and was sold to fund better opportunities.

### OUTLOOK

Thus far, the higher-for-longer interest rate backdrop remains the largest risk to the economy and the stock market. Although the inflation rate has slowed meaningfully, the resurgence in oil and gas prices and a lack of meaningful retrenchment in rents, combined with a strong consumer and a resilient job market has kept the Fed hawkish. Fears of a hard landing in the economy are ever-present. In this uncertain environment, small caps continue to lag large caps. However, with historically low valuations relative to large caps, we believe there is significant opportunity in small caps. As we like to say: "It's hard to hurt yourself when you fall off the floor".

Should we slip into recession in the next twelve months, we believe our focus on quality and durability should dampen downside risk. We are paying particular attention to the quality of our balance sheets as interest rates march higher; we feel comfortable with all our investments.

While each downturn is different, we think our investments are of exceptional quality. To wit, our largest industrial investments are well-positioned due to infrastructure-related tailwinds; have recurring revenue business models such as distribution and leasing models; or are in a favorable industry structure with weaker competitors. Our technology investments are profitable and durable, not to mention attractively valued. We would expect both these areas of the portfolio to outperform in a recession. Our consumer staples investments have been a headwind for the last year, and we think they would show relative strength in an economically challenging 2024. Although we are underweight Financials and Healthcare, our investments here are quite stable and long-tenured. The recent pullback in these sectors certainly provides opportunities that we are eager to exploit. We've had several acquisitions this year, which typically happen in the later innings of an economic cycle. This has further provided us with capital for high quality and reasonably valued investments.

*Faraz Farzam*

*Aaron Garcia*

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The Russell 2500 Index combines a portion of midcap stocks with small cap stocks – forming a “SMID” (small/mid) cap segment of stocks from the Russell 3000®.

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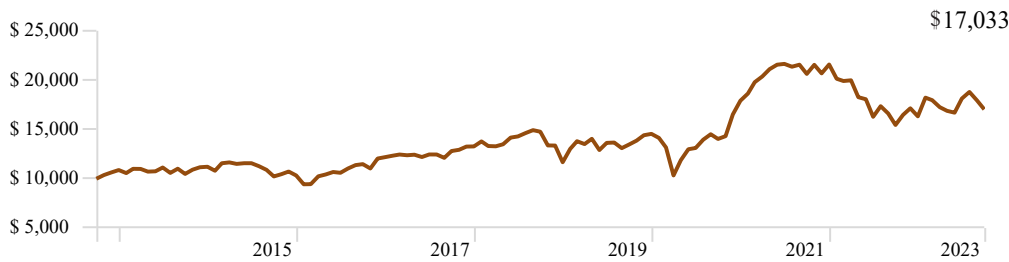
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# MADISON SMALL CAP FUND

September 30, 2023

## Growth of \$10,000 Class Y Shares, Trailing 10 Years<sup>1,3</sup>



## Average Annual Total Returns<sup>2,3</sup> (%)

	Three Months	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception
Class I	-6.05	4.44	10.22	-	-	-	-5.55
Class R6	-6.03	4.55	10.33	-	-	-	-9.19
Class Y	-6.05	4.33	10.23	6.67	2.89	5.47	12.14
Class A without sales charge	-6.15	4.17	9.77	6.40	-	-	6.37
Class A with sales charge	-11.59	-1.85	3.44	4.32	-	-	4.84
Russell 2000® Index	-5.13	2.54	8.93	7.16	2.40	6.65	-
Russell 2500® Index	-4.78	3.59	11.28	8.39	4.55	7.90	-

## Calendar Year Returns<sup>2,3</sup> (%)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Class Y	43.48	3.06	-7.90	18.04	8.90	-12.09	24.67	23.09	20.52	-24.36
Russell 2000®	38.82	4.89	-4.41	21.31	14.65	-11.01	25.52	19.96	14.82	-20.44
Russell 2500®	36.80	7.07	-2.90	17.59	16.81	-10.00	27.77	19.99	18.18	-18.37

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## Characteristics

Median Market Cap (billions)	\$3.5
EPS Growth Rate (3-5 year)	11.4%
P/E (trailing 12 months)	16.5x
P/E (forward 12 months)	16.9x

## 5-Yr Risk Measure (%)

Class Y vs. Russell 2000® Index

Standard Deviation	23.19
Downside Capture	92.79
Upside Capture	94.38

1. Growth of \$10,000 is calculated at NAV and assumes all dividends and capital gain distributions were reinvested. It does not take into account sales charges (see Note 2) or the effect of taxes.

2. 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.

3. 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 represents 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).

## Experienced Management



Faraz Farzam, CFA  
Portfolio Manager  
Industry since 1999



Aaron Garcia, CFA  
Portfolio Manager  
Industry since 2002

## Fund Features

- ▶ Seeks long-term capital appreciation
- ▶ Generally 50-90 holdings
- ▶ Seeks to purchase companies at a perceived discount compared to potential future earnings

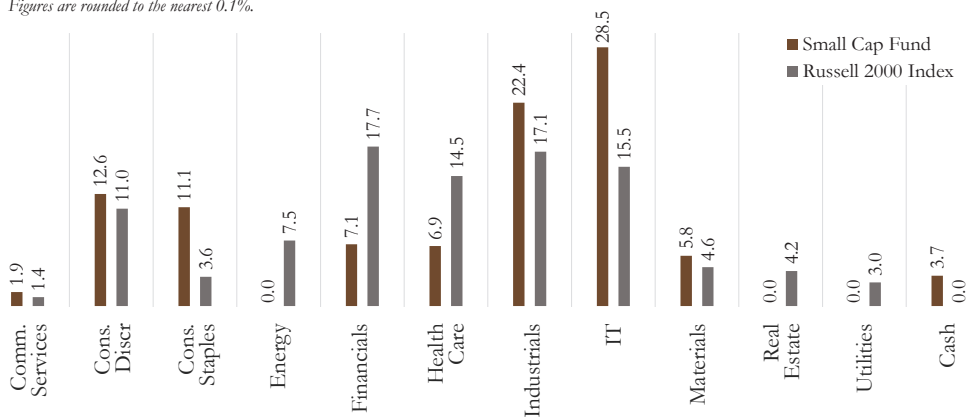
Class	Ticker	Inception Date	Exp. Ratio
A	MASMX	8/31/19	1.35%
Y	BVAOX	12/16/96	1.10%
I	MSCIX	2/26/21	1.00%
R6	MSCRX	2/28/22	0.92%

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

## Distribution Frequency - Annual

## Sector Diversification (%)

Figures are rounded to the nearest 0.1%.



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### Total Net Assets

\$169.0 Million

### Total Number of Holdings

46

### Portfolio Turnover

41%

### Top Ten Holdings (%)

WILLSCOT MOBILE MINI HOLDING	4.4
ENCOMPASS HEALTH CORP	4.4
ONESPAWORLD HOLDINGS LTD	4.1
PRIMO WATER CORP	4.0
PTC INC	3.9
AXIS CAPITAL HOLDINGS LTD	3.3
ENTEGRIS INC	3.1
SUMMIT MATERIALS INC. CL A	2.6
CARLISLE COS INC	2.6
CTS CORP	2.5

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An investment in the fund is subject to risk and there can be no assurance that 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: equity risk, small cap price volatility risk, small cap illiquidity risk, value investing risk, ETF risk, capital gain realization risks to taxpaying shareholders, and foreign security and emerging market risk. Investing in small, mid-size or emerging growth 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.

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