



Move confidently into the future™

A Quarterly Newsletter for MEMBERS® Mutual Funds Shareholders

Building a Stock Portfolio in Uncertain Times

Need stock exposure, but leery of risk? We believe multiple signs are pointing towards a market rotation away from low-quality stocks to the steadier high-quality stocks that Madison Asset Management, the investment adviser to MEMBERS Funds, prefers.

One of the more difficult investment challenges is maintaining an asset allocation strategy in volatile and uncertain markets. Recent mutual fund flows paint the picture: a massive move away from stocks as the market crashed in 2008 and continued outflows well into the recovery. Positive flows into stock funds became significant only nine months into the rally and quickly reversed with the market drops we've seen in February and May.

So how do you establish and maintain a stock exposure when investors are jittery, and when the market and economy seem so fragile? One answer is to build a core investment around the strongest possible companies. At MEMBERS Funds we follow a strict discipline in our stock investments; one which focuses on investing in high-quality, attractively-priced companies to produce long-term results. We recognize that this style will not always be in favor. It was clearly not in favor during the steep market rally that began in March of 2009. We believe that may very well soon change.

Low-Quality Stocks Typically Lead Recoveries – But Not for Long

Since 1980 there have been eight low-quality rallies, as tracked by Standard & Poor's quality segments. The average rally has lasted ten months, and although we would not conclude that the market collapse and rally of the past two years has been typical, there are reasons to believe that this most current low-quality rally, which has been in place since March, 2009 is aging. The

quality of a company's stock is based on fundamentals, such as price-to-book and earnings predictability. While the market may drive the price of a high-quality company in a volatile pattern, it is much more likely to show steadiness than a company lacking in consistent fundamentals.

The Stage is Set for Rotation

Asset classes and investment styles move in and out of favor, but how do you know what is hot and what is about to be cold? Keeping an eye on recent trends is the first step to making a correct contrarian call. High-quality investments have been decidedly out-of-favor through mid-May.

Summary

We believe the market correction of May could very well set the stage for a shift in leadership from low-quality stocks to steadier, high-quality ones. A growing accumulation of evidence points in this direction. In the meantime, investors who were deeply shaken in 2008 are likely quick to find any market dips disconcerting. Maintaining a stock exposure may be easier with a portfolio containing funds concentrated in high-quality stocks. These kinds of companies can not only engender more confidence in investors, but may actually be poised to perform better than the overall market over the months ahead.

Speak with your financial adviser periodically to review your account or to discuss the current state of the financial markets and how they may impact your

investment goals. In an effort to help you stay informed, we'd also like to remind you to please visit our website: www.membersfunds.com for quarterly reports on the mutual funds and other fund-related news.

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Consider the investment objectives, risks, and charges and expenses of each MEMBERS Mutual Fund carefully before investing. The prospectus contains this and other information about the funds. Call 800-877-6089 or contact your registered representative to obtain a prospectus and read it carefully before investing. Mosaic Funds Distributor, LLC.

Service News You Can Use

Semiannual Report mailed. At the end of June, your household was mailed a copy of the funds' semiannual report. The report contains commentary on fund performance, fund returns, portfolio holdings and financial statements for the six-month period ended April 30, 2010. Additional copies of the report are available by calling Shareholder Services at 1-800-877-6089, or you can view the report on our web site at www.membersfunds.com.

Electronic delivery of disclosure documents.

For many of you, we offer the ability to consent to suppress paper copies of the funds' required disclosure documents, for instance the semiannual report which was just mailed. "Consenting" to electronic delivery will provide you with fund information faster and reduce fund expenses, which benefits all shareholders.

To enroll, log-in to Account Access at www.membersfunds.com and click on "Electronic Delivery Options." An email notification will be sent to the email address you provide when a new report is made available. The email will contain a link to view, print and save the documents electronically. If at any time you wish to change your consent options, you simply log-in to your account and withdraw your consent. Thereafter, the next available document will be mailed to you free of charge.

Low Balance Accounts. Are you a non-retirement account holder owning shares of a fund with a market value of less than \$1,000 (see your enclosed statement)? Due to the high fixed costs of maintaining mutual fund accounts, MEMBERS Funds reserves the right to close any non-retirement account (excluding those with an established systematic investment

program) with a balance below \$1,000. We hope to never have to do so. You can help assure this by:

- Consolidating your investments held with other fund families and making MEMBERS Funds one of your primary long-term investment choices.
- Moving your investments into a single MEMBERS fund or perhaps one of our asset allocation funds that reflects your risk tolerance and investment strategy.
- Pay yourself first. Invest regularly through a systematic investment program. This will help grow your account to meet your investment goals and, at the same time, work toward achieving the fund's required minimum balance. Call your financial adviser to set up a systematic investment plan on your account, or complete an account maintenance form which can be found in the Service Center on www.membersfunds.com.

Economic and Market Review

Stocks suffered their worst May returns since 1940 as we saw a spike in investor anxiety, which approached levels close to the market crash of 2008. But unlike the systemic economic woes that drove the stock market downward in 2008, the precipitating factors that led to this broad decline were largely external to the U.S. stock market and company fundamentals. We continued to suffer through the European sovereign debt crisis and witnessed the unnerving "flash crash" in early May, which intraday sent the market down 10%. However, the most prominent and relevant external factor was the relentless Gulf oil spill, which powered the double-digit loss in the S&P 500's Energy Sector.

During the month of April, financial reform in the United States also moved front and center for investors and the public when Goldman Sachs' executives appeared before Congress. Just as Greece suffered a loss of trust, so has Wall Street as testimony by Goldman Sachs reinforced the conclusion that reform is necessary. Republicans stopped a filibuster attempt and appeared to be moving toward a compromise reform package covering the trading of derivatives, the improvement of client protections, and a substantive increase in regulation. These changes will alter the business models of most of the large bank holding companies, create more restrictions in the financial markets, and, during the transition, create a heightened level of uncertainty. The changes being proposed are intended to increase trust and transparency in the financial markets.

The 10% decline in the market over the last several weeks of May qualifies as a correction and puts the broad stock market in the red for the year with the S&P 500 returning -1.50% through the end of May. The good news is company fundamentals are coming in stronger than we and most others expected at the start of the year. Although the short-term direction of the markets is becoming increasingly unpredictable, the long-term fundamental outlook for stocks appears to still rest on solid ground. Given the previous year's run in speculative companies, we believe the current climate of uncertainty will point investors towards high-quality, profitable companies. As we work through these external shocks to the market, we think patience will be rewarded.

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