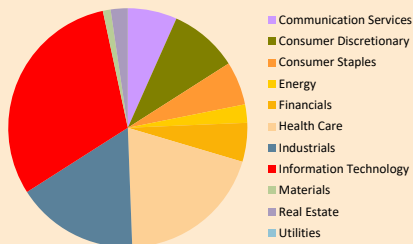


TOP 10 HOLDINGS²

Company	% of Portfolio
1. ICON Plc	3.08%
2. Cadence Design Systems, Inc.	3.03%
3. Copart, Inc.	2.96%
4. Manhattan Associates, Inc.	2.90%
5. Verisk Analytics Inc	2.58%
6. Microchip Technology Incorporated	2.42%
7. CoStar Group, Inc.	2.30%
8. SPS Commerce, Inc.	2.23%
9. Axon Enterprise Inc	2.11%
10. Domino's Pizza, Inc.	2.08%

SECTOR WEIGHTINGS²

Communication Services	6.67%
Consumer Discretionary	9.30%
Consumer Staples	5.89%
Energy	2.48%
Financials	5.25%
Health Care	19.82%
Industrials	16.56%
Information Technology	30.68%
Materials	1.05%
Real Estate	2.30%
Utilities	0.00%



²Excludes Money Market Fund Holdings.
Portfolio holdings and asset allocations are subject to change and are not recommendations to buy or sell a security. The percentages in the tables above are derived from the model account within the composite.

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MARKET OVERVIEW

There was quite a bit of volatility in both the equity and fixed income markets this period. After touching a 5% yield, the 10-year Treasury went on to have a massive rally, and triggered a renewal of enthusiasm for risk assets. Equities went parabolic in December as the Fed unexpectedly indicated multiple rate cuts were likely in 2024. The S&P 500® Index had gained 11.69% for the quarter, and the 10-year yield had fallen by over 120 basis points, peak to trough.

Economic data confirmed that if a recession is coming, it's not here yet. Unemployment remained low, and inflation continued to ease. Inflation is still above the Fed's target, but it seems as if policy makers are content with the progress so far.

Having been starved for yield, investors had flocked to higher short-term yields in T-bills, money market, and high yield savings accounts. That massive amount of cash on the sidelines grew impatient as equity markets ripped higher. Investors moved \$176B into equity ETFs in Q4, with most of that in December, adding more fuel to the rally. CNN's Fear and Greed Index had a reading of "Extreme Greed" at year end. Fundamentally, the world isn't that different than it was three months ago, but sentiment certainly is.

As for the year, 2023 was a wild ride. We had a banking crisis. We had four rate hikes from the Fed. We had the emergence of generative AI. US credit got downgraded. A war broke out in the Middle East on top of the conflict in Ukraine. And yet somehow, the Russell 3000® Growth was up 41.21%. Even with all the volatility and change, amazingly, longer term interest rates finished the year right where they started.

SMALL-MID CAP CORE GROWTH SEPARATE ACCOUNT COMPOSITE PERFORMANCE

As we have outlined in our prior work, large flows into passive investment vehicles have the tendency to disproportionately impact the least liquid, least institutionally owned, and lowest quality securities. This was the case in December. In fact, Q4 set a record in terms of flows into equity ETFs. This type of environment creates a meaningful headwind for most active managers, and certainly does for us given our bias toward high quality companies. Staying close to the benchmark in a period like this is a victory in my opinion.

The Stephens SMID Core Growth Composite was up 13.15%, gross of fees (12.92% net), beating our benchmark, the Russell 2500® Growth, which was up 12.59%.

Given the sensitivity to the market and to lower rates, Consumer Discretionary was one of our best performing sectors. Wingstop, Inc. was our biggest contributor, posting stellar earnings results, and rallying into the end of the year. We trimmed our position here for risk control issues, and to harvest some of the gains. Nearly all of our holdings in retail or apparel posted double digit gains.

Most of our exposure in Communication Services is in the entertainment industry, and these stocks all performed well. We are particularly excited about our video game publishers, as they are set to benefit from advancements in artificial intelligence on several fronts.

Energy stocks didn't really participate in the rally. Crude prices softened throughout the period, even in spite of disruption and conflict in the Middle East. We haven't changed our thesis here, but we are closely watching commodity prices and global demand.

We were able to outperform the benchmark in Financials. We still have no exposure to banks, given the lack of secular growth and a still difficult backdrop. MarketAxess Holdings did well, rebounding from a tough prior quarter, benefitting from a shift to electronic bond trading and interest rate volatility. We added a new position in Kinsale Capital Group, a specialty insurance company.

Several of our Healthcare stocks were hit last quarter with concerns over the widespread use of GLP-1 drugs. Many of those stocks recovered this quarter, helping our returns. The only significant overhang was Biotechnology. As the market shifted toward a risk-on stance, coupled with some M&A activity in the industry, biotech stocks were some of the top performers in the benchmark. This was the single largest headwind from an industry standpoint.

¹The information is supplemental only and complements the full disclosure presentation at the end of this document. The Russell 2000® Growth Index measures the performance of those Russell 2000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000® Growth Index measures the performance of those Russell 3000® Index companies with higher price-to-book ratios and higher forecasted growth values. You cannot invest directly in an index. The S&P 500® Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. Copyright © 2023, S&P Global Market Intelligence (and its affiliates as applicable). All rights reserved. See additional information regarding S&P ratings at <https://www.stephensimg.com/terms-and-conditions/>. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000® Index. You cannot invest directly in an index. See our attached GIPS Report.

SMALL-MID CAP CORE GROWTH SEPARATE ACCOUNT COMPOSITE PERFORMANCE

We slightly trailed the benchmark in Industrials. We continued to do well with our aerospace and defense holdings like Axon Enterprise.

Technology fared well for us. Related to AI, we've been concerned that advancements in AI technology would at least temporarily give the upper hand to hackers, fueling incremental demand for cyber security solutions. Security-related companies in particular, were some of our best performers.

PORTFOLIO CHARACTERISTICS

We bought two new positions this period and eliminated three. Technology is still our largest sector and our biggest overweight. Healthcare is our second largest followed by Industrials. We are underweight Consumer Discretionary, Financials, Industrials and Materials. We are overweight in Tech, Communication Services and Consumer Staples.

As interest rates fell and animal spirits came back to life, valuations expanded. The weighted harmonic average P/E on forward earnings jumped to 29. Growth rates remained about the same, however.

OUTLOOK

My youngest child is about to turn eighteen, so maybe I'm just old fashioned about this. Admittedly, it's been a while. But I never really understood the logic of waiting to discover the sex of your child at their birth. People who did this would tell me that they want it to be a surprise. For each of our kids, we went to the doctor, got an ultrasound and experienced our "surprise" then. The question isn't whether or not you're going to be surprised and relish the moment, the question is: when do you want to experience that moment of surprise – before they're born or after they're born? I suppose for some people, there is value in building extra suspense over that time.

A real surprise would be having the ultrasound determination be wrong! If you want to maximize your odds of a surprise, go to a really unskilled ultrasound technician. Surprises are a function of expectations. So, expectations matter a lot.

This concept is taught to economics students, too. Expectations about monetary policy are almost as important as the policy itself. If everyone expects interest rates to rise, they will price that into the market immediately. It works this way with inflation as well. If everyone expects more inflation, they'll pull forward purchases and drive prices higher.

If expectations are important, then the manner in which the Fed manages them is also important. In this area, the Fed has evolved quite a bit over my career. Alan Greenspan was deliberately evasive and obscure. He even once said, "Since I've become a central banker, I've learned to mumble with great incoherence. If I seem unduly clear to you, you must have misunderstood what I said." Today however, the Fed proclaims it is focused on transparency and forward guidance.

We witnessed the practical application of this at the Fed meeting in December, when there was quite the change in tone. Suddenly and unexpectedly, we are told that rate cuts are on the table for 2024. Three of them in fact. In Greenspan's world we would have to wait to be surprised when the cuts happened in 2024. In Powell's Fed, it's as if he's the ultrasound technician and just told us what we can expect in 6 months. All we did was pull forward the response to lower rates, which in this case was a celebration.

Admittedly, I was confused by the magnitude of the market reaction. While the dot plot from the Fed showed three potential rate cuts, by the end of the year, the market quickly priced in more than six cuts for 2024. I get that maybe the Fed could take a little bit of a victory lap with some progress on inflation, and scale back on short term rates, but *six* cuts? To me, six cuts seemed excessive and would only be necessary in a seriously deteriorating economy, i.e. a recession. Had this whole "bad news is good news" thing gone too far? Sometimes bad news really is bad news.

Since the GFC, then the "Repocalypse" in 2019, and then the banking crisis last March, I've been paying more and more attention to the plumbing of the financial system. And let me be clear, I am not an expert. But I have learned a great deal on this subject recently, and I think it helps bridge the gap from the Fed's implied three cuts to the market's estimation of six.

Some of you may know all this, but for those of you who don't, I hope you find this interesting and not too oversimplified. Here's a quick synopsis of what has happened, and what I've learned.

Economics teaches us that in a free market, price will adjust to find the equilibrium point where supply equals demand. Simple enough. Such that if price is externally set at a different level, then there will be more demand than supply or vice versa. A shortage or a surplus. The price (interest rate) for very short term investments is set by the Fed. It is not the result of a free market. If the Fed sets the price, I think it's safe to assume that it won't ever be perfectly at what would have been the equilibrium price (rate), and so there will necessarily be a market where there is either excess demand or excess supply.

Quick side note here: this is a massive simplification. The demand curve and the supply curve for short term investment/funding are very different from those of normal goods. For the sake of brevity, I'm going to stick with these incomplete and imperfect assumptions because I think this framework still conveys the right message, directionally.

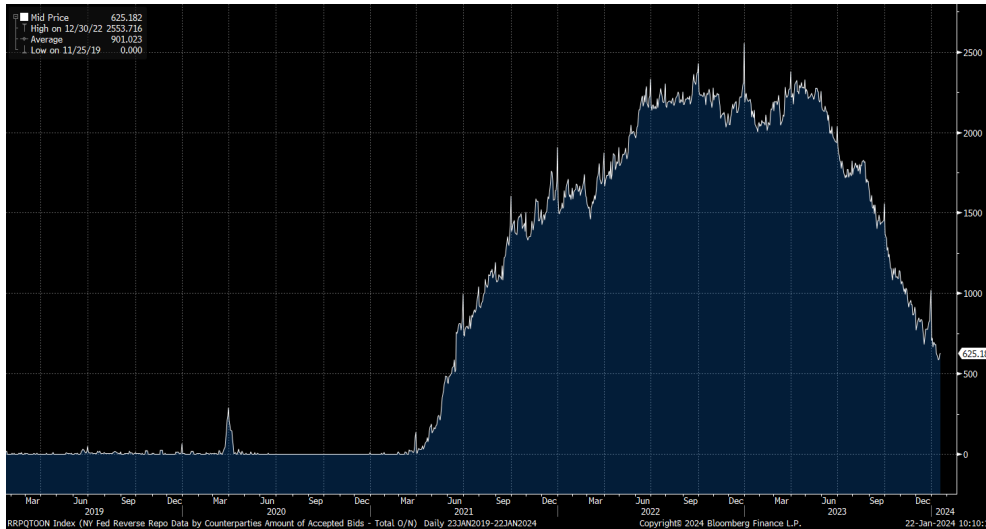
The Fed helps address these imbalances in supply and demand. If you're going to fix the rate, you've got to be willing to step in and satisfy the unmet portion of the market to keep markets functioning smoothly. In September of 2019, there wasn't enough liquidity in the system; it needed cash. So the Fed stepped in and created the Standing Repo Facility (SRF), and it injected cash into the system, buying up short term securities.

When COVID hit, policy makers threw liquidity at the problem. We've talked about this before – lower rates, QE, stimulus checks, PPP loans, enhanced unemployment, tax credits, and so on. The problem was that they overshot. There was *too much* money in the system. It's certainly one of the reasons we've had this inflation problem. But it also created a problem in the plumbing of the financial system. Too much liquidity, and not enough places for it to go in the system. (It gets more complex here with changes to the Supplementary Leverage Ratio and the shift in rates, among other factors, but I'm trying to keep it simple).

OUTLOOK

With too much liquidity, the Fed stepped in again, this time with the Overnight Reverse Repo Facility (RRP). Here, the Fed is soaking up liquidity and lending out securities overnight. This grew to over \$2.5 Trillion, effectively taking that money out of the system.

Janet Yellen needed some of that money to fuel our government's profligate spending. Once the debt ceiling issue was resolved, the Treasury Department issued an unprecedented amount of T-bills, luring that money away. From June of last year to today, the RRP facility has shrunk by over \$1.7T. At this trajectory, it will be back at zero around March.



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There have been some alarmist reactions to this, but I'm not sure they're warranted. This is an important observation nonetheless. That excess pool of liquidity that has been parked at the Fed's RRP is about to be empty. And with the fiscal situation plowing ahead with massive deficit spending, the Treasury needs liquidity from somewhere. Foreign central banks aren't buying our debt the way they used to. So if we hold rates fixed, and the system needs more liquidity, it's going to have to come from the Fed.

Lorie Logan, Dallas Fed President, recently said this:

So, given the rapid decline of the ON RRP, I think it's appropriate to consider the parameters that will guide a decision to slow the runoff of our assets. In my view, we should slow the pace of runoff as ON RRP balances approach a low level.

She is recommending that the Fed start to scale back Quantitative Tightening as the RRP starts to run out. The unspoken message is that in order to maintain stability in the system, the Fed can't let the securities on its balance sheet simply mature and run off, because the Treasury will have to find new buyers, new liquidity to take their place. So in her opinion, the Fed should start buying Treasuries again.

In addition to that, she explicitly referenced that the Standing Repo Facility (SRF), which was established in 2019, is ready to provide liquidity again if needed. My guess is that as soon as the RRP is gone, the SRF will ramp up, and the SRF is just yet another form of QE.

So to bring all this together, **I think there's a reasonable argument that the Fed is having to shift to a more accommodative stance not because the economic data require easing, but that there is a little stress in the system itself.** Everyone talks about the Fed's dual mandate of price stability and full employment. But let's be clear, there is a mandate that supersedes those things – stability in the banking system itself.

Why is there stress in the system? There's been a lot of intervention since the GFC. Precision is impossible in these matters, and our policy makers have overshoot and then had to correct. And then the correction overshoots and they have to deal with that. It's unclear if we will escape a cycle of overcorrection, without a serious policy error. But more importantly, **I worry that the bigger cause of stress in the system is the massive deficit spending, the accumulation of debt, the rising cost to service that debt and what might become "fiscal dominance."**

According to an [article](#) on the St. Louis Fed's webpage, Charles Calomiris states that fiscal dominance is when "accumulating government debt and deficits can produce increases in inflation that 'dominate' central bank intentions to keep inflation low." In another [paper](#), Eric Leeper of George Mason University argues that we've already been in fiscal dominance since the GFC. It's not a stretch to conclude that all the rate hikes we just endured to fight inflation were really a response to fiscal imprudence. From today's perspective, it doesn't appear like the fiscal situation is getting better. Quite the opposite.

The United States is running huge deficits and has amassed an incredible amount of debt at a time when we have essentially full employment. What happens in the "soft landing"? What happens if the landing isn't so soft? How much more deficit spending can the system support? At some point, deficit spending won't be stimulative, the burden of debt will overwhelm any short-term benefits.

What does all this mean for stocks? It depends, of course! Soft landing, hard landing, no landing - it's still not clear where we are headed. There's data that support each of those three scenarios. My best guess had been that things were slowing, and that a recession was likely at some point. To properly fight inflation, the cost would be economic growth. But as long-term rates fell in the last quarter, combined with the Fed pivot, financial conditions eased considerably. The Goldman Sachs Financial Conditions Index had one of the biggest month-over-month declines in recent history. It measures an array of factors that assess how restrictive or accommodative the current environment is.

It probably shouldn't surprise you that there's a reasonable amount of correlation between this metric (financial conditions) and future inflation. Everyone assumes that Chairman Powell aspires to be like Volker, but he is starting to look more like Burns. I'm not so sure the inflation issue has been solved. Broadcasting rate cuts and systemic issues forcing more QE will only serve to reignite inflationary pressures.

OUTLOOK

I don't know that this is how it will play out, but it is starting to seem like the base case, especially given that it's an election year. The incumbent administration will likely do everything in its power to avoid a recession. It might very well be successful in doing that, but as always, there's a trade-off.

To sum things up, I think the market needs to digest the giant run up in December. It felt a little manic – too much, too fast. After that, if the Fed is forced into a position of providing liquidity to the market, and possibly lowering rates in the back drop of more spending and accommodation from the fiscal side too, then equity markets might very well resume their rally. That is, up until the point where inflation rears back up, or the fiscal dominance narrative spooks investors. Personally, I'm not sure I agree with the market's implied opinion that there will be six rate cuts. I think that only happens when the news is really bad. In that case, all bets are off if it looks like we are tipping into a recession. It's just too early to call. Is the Fed's dot plot equivalent to the ultrasound technician's accurate determination? Are we in for a *real* surprise? My guess is that fixed income markets were too aggressive to price in six cuts for 2024, but at the same time don't appreciate how the Fed might be more aggressive and creative with its balance sheet.

The massive ETF flows and risk-on stance in December overwhelmed my case for active-over-passive thesis temporarily. But frankly, all it did was build up additional tension for the pendulum to swing back our way. Given all the uncertainty and risk on economic, political, and geo-political fronts, combined with some powerful secular forces of AI innovation and a reversal of globalization, I stand by the importance of active management and the ability to rapidly deal with change.

P E R F O R M A N C E F O R P E R I O D E N D E D 1 2 / 3 1 / 2 0 2 3

	Quarter Ended 12/31/2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception Annualized (2/1/2005)	Since Inception Cumulative (2/1/2005)
Stephens Small-Mid Cap Core Growth Composite Pure Gross*	13.15%	22.02%	22.02%	-0.58%	12.57%	9.80%	10.55%	567.41%
Stephens Small-Mid Cap Core Growth Composite Net of Fees*	12.92%	21.03%	21.03%	-1.39%	11.61%	8.87%	9.45%	451.89%
Russell 2500® Growth Index	12.59%	18.93%	18.93%	-2.68%	11.42%	8.77%	9.42%	449.78%
S&P 500® Index	11.69%	26.29%	26.29%	10.00%	15.68%	12.03%	9.81%	488.25%

G L O B A L I N V E S T M E N T P E R F O R M A N C E S T A N D A R D S (G I P S) R E P O R T

Year	Total Firm Assets (millions)	Strategy Assets*		Composite Assets			Advisory-Only Assets*	Annual Performance Results				3 Yr Annualized Standard Deviation		
		USD (millions)	Number of Accounts	USD (millions)	Number of Accounts	Wrap Fee Assets		USD (millions)	Composite		Russell 2500® Growth	Composite Dispersion	Composite Gross	Russell 2500® Growth
									Pure Gross¹	Net				
2022	5,664	77	13	48	10	44.21%	29	-28.39%	-28.96%	-26.21%	0.09%	23.31%	25.18%	
2021	7,845	100	13	59	10	51.58%	41	12.45%	11.53%	5.04%	0.03%	19.25%	21.97%	
2020	6,916	91	13	54	10	52.28%	37	36.47%	35.33%	40.47%	0.09%	21.26%	23.93%	
2019	5,416	77	14	48	11	47.09%	29	34.86%	33.51%	32.65%	0.19%	14.04%	15.85%	
2018	4,301	64	14	39	11	44.09%	25	5.18%	4.31%	-7.47%	0.09%	13.84%	15.33%	
2017	4,442	59	14	39	11	46.05%	19	22.76%	21.76%	24.45%	0.67%	10.86%	13.04%	
2016	3,644	54	13	32	10	45.60%	23	6.72%	5.82%	9.73%	0.05%	12.43%	14.67%	
2015	2,897	51	13	27	10	51.11%	24	0.45%	-0.40%	-0.19%	0.39%	11.44%	13.29%	
2014	3,430	52	14	27	10	51.36%	25	1.78%	0.90%	7.05%	0.10%	10.94%	12.54%	
2013	3,054	51	13	27	10	51.46%	24	35.31%	34.07%	40.65%	0.12%	12.05%	16.48%	

The investment objectives, risks, charges and expenses should be carefully considered before investing. SIMG nor their representatives provide legal or tax advice. Please consult your tax advisor before making any decision.

There are additional risks associated with investments in smaller and/or newer companies because their shares tend to be less liquid than securities of larger companies. Further, shares of small and new companies are generally more sensitive to purchase and sales transactions involving the company's stock and to changes in the company's financial condition or prospects and therefore, the price of such stocks may be more volatile than those of larger company stocks. Clients' investment results and principal value will fluctuate.

*Strategy assets include composite assets and advisory-only assets, and are shown as supplemental information as these assets include advisory-only UMA assets managed within the SMID Core Growth Strategy. Advisory-Only Assets are as of 11/30/22.

¹Pure Gross returns are shown as supplemental information and are stated gross of all fees and transaction costs; net returns are reduced by all fees and transaction costs incurred.

Small and Mid Cap Core Growth Separate Account Composite contains fully discretionary accounts invested primarily in small cap and mid-cap common stock of U.S. companies. Under normal market conditions, most of the securities purchased for this composite have market capitalizations equal to or less than the largest company contained within the Russell 2500® Growth Index at the time the security was initially purchased by accounts in the composite and are securities of companies which appear to have clear indicators of future earnings growth or that appear to demonstrate other potential for growth of capital. Securities purchased for this composite are predominantly those categorized by SIMG as core growth securities which are securities SIMG perceives to be high quality, well managed businesses that have the potential for consistent, predictable revenue and earnings growth. In addition to common stock the composite may also purchase convertible and preferred stock as well as certain Exchange Traded Funds. This composite is actively managed and securities in the composite are frequently purchased and sold by the manager. For comparison purposes the composite is measured against the Russell 2500® Growth Index. Prior to September 1, 2011, this composite was known as the Small/Mid Cap Growth Separate Account Composite.

Stephens Investment Management Group, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Stephens Investment Management Group has been independently verified for the periods December 1, 2005 through December 31, 2022. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Small and Mid Cap Core Growth Separate Account Composite has had a performance examination for the periods February 1, 2005 through December 31, 2022. The verification and performance examination reports are available upon request.

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Stephens Investment Management Group, LLC is a registered investment advisor specializing in equity investment management, specifically small and mid-capitalization growth companies.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance is calculated using actual fees incurred. In addition to a management fee, the accounts pay an all-inclusive fee based on a percentage of assets under management. Other than brokerage commissions, this fee includes advisory, custody, execution and other services provided in connection with the program. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

The maximum fee charged is 1% of assets under management for non-bundled fee accounts. Actual investment advisory fees incurred by clients vary.

The Small-Mid Cap Core Growth Separate Account Composite inception date is February 1, 2005, and the creation date is December 1, 2005. Performance for the period prior to December 1, 2005 occurred while the Portfolio Management Team provided services on behalf of the prior firm, Stephens Inc., and the Portfolio Management Team members were the only individuals responsible for selecting the securities to buy and sell.

Beginning September 30, 2007, composite policy requires the temporary removal of any account from the composite which incurs a client initiated significant cash inflow or outflow of 10% or more of the value of the net assets of the account in any 30 day period. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite at the beginning of the month after the cash flow. Additional information regarding the treatment of significant cash flows is available upon request.

The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. The three-year annualized ex-post standard deviation of the composite and annual composite dispersion are calculated using gross-of-fees returns.

Firm AUM does not include accrued dividends.

A list of composite descriptions, a list of limited distribution pooled fund descriptions and a list of broad distribution pooled funds are available upon request.