

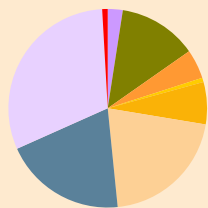
TOP 10 HOLDINGS¹

COMPANY	% of PORTFOLIO
1. Kornit Digital Ltd.	2.27%
2. Repligen Corporation	2.07%
3. Chegg, Inc.	2.00%
4. AeroVironment, Inc.	1.94%
5. SiteOne Landscape Supply, Inc.	1.94%
6. Five9, Inc.	1.93%
7. ICON Plc	1.83%
8. Globant	1.78%
9. Manhattan Associates, Inc.	1.73%
10. Omnicell, Inc.	1.69%

Excludes Money Market Fund Holdings. Portfolio holdings and asset allocations are subject to change and are not recommendations to buy or sell a security. Current and future portfolio holdings are subject to risk.

SECTOR WEIGHTINGS¹

Communication Services	2.44%
Consumer Discretionary	12.83%
Consumer Staples	4.77%
Energy	0.70%
Financials	6.87%
Health Care	20.79%
Industrials	19.92%
Information Technology	30.79%
Materials	0.89%



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MARKET OVERVIEW

Let the record show that *Operation Warp Speed* has been a success. Relative to other countries, the U.S. has done a fantastic job of rolling out the various COVID vaccines. From just three months ago, cases have declined precipitously, as have hospitalizations and deaths. States are beginning to open back up, and mobility data shows that consumers are unlocking that pent up demand.

We mentioned in Q4 that the market was fully anticipating this result, and it seems that the market got this right. Stocks behaved as you might expect, with cyclical stocks rallying the most along with those stocks that suffered the most during the lock down. As a result, value strategies beat growth across the market cap spectrum. The S&P 500® Index gained over 6%, but the Russell 2000® Value Index rose a whopping 21.17%!

Even with a significant improvement in the economy, the Federal Reserve has maintained its accommodative stance, promising to keep rates low for the foreseeable future. Additional fiscal stimulus is on the way, with the passage of another COVID relief bill and a massive infrastructure bill in the works. As we pointed out last quarter, investors have become more aware of potential inflation risks, with monetary and fiscal stimulus in full swing as the economy is rebounding on its own. The yield on the 10-year treasury rose from 0.92% to 1.75%, partly due to improving economic growth, but also because of rising inflation expectations.

There were some troubling signs of frothiness in the market this quarter. Retail investors, using Reddit as a rallying point, staged a short squeeze on a variety of stocks. And at the end of the quarter, a massively leveraged hedge fund failed, forcing several prime brokers to suffer multi-billion dollar losses. It's unclear if this was an isolated incident or evidence of something more problematic.

SMALL CAP GROWTH COMPOSITE PERFORMANCE

The cyclical, value-oriented rally was a significant headwind for us. Our bias toward high-quality, secular growth companies resulted in some relative underperformance. We didn't see any fundamental deterioration across our portfolio – quite the contrary, nearly all the data pointed to an improvement. However, it wasn't enough to keep up with the euphoria and the enthusiasm for mean reversion.

The Stephens Small Cap Growth composite was up 3.04% gross of fees, (2.87% net of fees), while the Russell 2000® Growth Index grew by 4.88%.

Consumer Discretionary stocks did well, but we lagged the benchmark here, due to our high-quality bias. Specialty Retail companies fared well in anticipation of the reopen and stimulus checks, as did Household Durables. We did well with and added to our position in Revolve Group, a leading apparel online retailer, on the thesis that many consumers need a wardrobe refresh after a year of working from home and minimal social engagements. The Tex-Mex restaurant Chuy's Holdings was another top contributor.

Consumer Staples remains a relatively small stake for us, but we had great success by buying back a position in MGP Ingredients. The company supplies ingredients for and produces alcohol. Industrial alcohol, which used to be a low margin segment for the company was in high demand for its use in hand sanitizer and cleaning products.

Energy was the top performing sector. We are overweight the benchmark, and this helped our relative returns, but it remains a small component of the portfolio.

As interest rates climbed higher, some of our holdings in Financials did well. Silvergate Capital Corp was a top contributor. They are a leader in institutional trading and use of cryptocurrencies. We sold our stake in EZCORP, Inc. and FirstCash, Inc. as stimulus payments crowded out any incremental demand for pawn.

Healthcare was a bright spot for the strategy. The relative pain we felt the last couple of quarters from our underweight position in biotech, reversed. Our positioning in biotech generated nearly 300 basis points of relative performance this period. PRA Health Sciences agreed to merge with another of our holdings, ICON PLC. Ligand Pharmaceuticals was our top contributor, and we trimmed our position into the strength.

Similar to Q4, the more cyclically exposed companies in Industrials fared best. In spite of this trend, we managed to post strong numbers. Montrose Environmental Group, a recent IPO, was one of our strongest performers. We initiated a position in Ameresco, Inc., a leader in renewable energy solutions.

Technology was a challenging sector for us this quarter. Software stocks generally lagged, as investors rotated out of these winners and into more cyclical companies in anticipation of the reopen, although fundamentals remain intact. Semiconductor companies did very well. As global demand has picked up, there are significant shortages of semiconductors, enabling companies to raise prices. We added a small position in Onto Innovation, a semiconductor capital equipment company. They are poised to benefit from the industry adding more manufacturing capacity, and on the desire to move more production to the U.S.

¹The information is shown as supplemental only and complements the full disclosure presentation located on the back. 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 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 © 2021, 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.

PORTFOLIO CHARACTERISTICS

We added eight new positions and eliminated seven. Turnover was a little higher than usual, but is still consistent with our relatively low long-term average. Technology is still our largest sector, at about 30% of assets. Healthcare was essentially unchanged at 20%. Industrials grew to just over 19% of assets. Relative to the benchmark, we are overweight Tech and Industrials, and underweight Healthcare, entirely because of biotech.

In the small cap space, valuations are still at historically elevated levels. The weighted harmonic average P/E ratio for our strategy is about 38. Revenue growth picked up to over 12% on a year over year basis.

After last quarter's shift toward core growth companies, the split between core and catalyst stocks inched back towards catalyst. *Core growth* represents 51% of assets, and *earnings catalyst* is 49%.

OUTLOOK

A key component of our investment process is a rigorous debate - a deliberate challenge of any investment thesis. Even if we agree, the team will aggressively argue the other side in an attempt to uncover any biases or mistakes.

In last quarter's commentary, I focused on inflationary risks, and in the last three months, the world has become laser-focused on the issue. So far, our thesis has played out as expected, and the data seem to support the case that we will have some inflation. The real question is whether it will be transitory or structural.

If you were to ask me to make a case for unanchored inflation, and a sharp rise in interest rates, I am certain I could present a very compelling argument. If you asked me to take the other side and present a case for a temporary uptick in inflation and then a reversion back to continued low inflation and low rates, I have just as much confidence I could deliver that line of reasoning as well.

The NY Times ran an [article](#) on March 14 in which they asked ten economists to comment on inflation. I thought Larry Summers, the Harvard economist and former Treasury Secretary had an insightful answer. He said that he thought there was a 1/3rd chance for each of these scenarios: 1. higher inflation, 2. financial instability and recession, and 3. policy makers getting it right.

As much sense as Secretary Summers' analysis made, I think I preferred Olivier Blanchard's answer best. He is the former chief economist for the IMF. Here is his response:

I shall plead Knightian uncertainty. I have no clue as to what happens to inflation and rates, because it is in a part of the space we have not been in for a very long time. Uncertainty about multipliers, uncertainty about the Phillips curve, uncertainty about the dovishness of the Fed, uncertainty about how much of the \$1.9 trillion package will turn out to be permanent, uncertainty about the size and the financing of the infrastructure plan. All I know is that any of these pieces could go wrong.

Knightian uncertainty is a notion developed by economist Frank Knight. His distinction is that "risk" applies to situations where we can define the potential outcomes, and assign some probability to those outcomes. There is risk in rolling a pair of dice, but we know what the odds are of any given number. "Uncertainty" on the other hand, applies to matters where we can't identify all the possible outcomes, and can't even begin to know what the likelihood of any particular outcome. Think: Donald Rumsfeld's famous line on unknown unknowns.

Interesting stuff, for sure, but where am I going with this?

The same could be said for the COVID situation: one could easily paint a rosy picture of the success with the vaccines and the reopening. At the same time, there's real reason for concern about new variants and the deteriorating situation in Brazil and India being a threat to the entire globe.

In fact, we could run down the list of macro-related issues, and encounter the same dilemma. And these are the risks we can identify. We are well aware of the inflation risks, the COVID risks, geopolitical risks and so on. Discounting the probabilities of the various outcomes is challenging, but something we can make educated guesses about. But what about *uncertainty*? What about the events that we are entirely unable to anticipate or measure?

We are used to dealing with risk and uncertainty; it's ever-present, and it's at the very core of what we do. What's different is that *so many of these risks and uncertainties are in the hands of policy makers*, and therefore they aren't company-specific, but instead are sweeping factors impacting the entire economy. In some sense it's been this way since 2008 and the GFC, but the scale has only grown since then. What keeps me up at night is Mr. Blanchard's comment, "All I know is that any of these pieces could go wrong."

And it's not just about what can go wrong, but it's also about the side effects and unintended consequences. If you've taken enough economics classes, you probably learned that price controls are problematic at best. They rarely produce the intended results, and they create some odd incentives. The classic example is rent control, which are intended to keep the cost of housing low. However, with artificially low rent, there is a reduced incentive to build new properties or to invest in existing ones, which in turn limits the available supply. By definition, this leads to a market out of equilibrium, and a shortage of the very thing they're trying to supply.

If you think of interest rates as the price of money, then the Fed's actions are significant price controls, and have created a market that is out of equilibrium and surely filled with strange incentives. What will be the lasting impact of those incentives? If the Fed stopped all intervention, and promised to let natural market forces dictate the entire yield curve, where would rates be today? What would the impact be to the stock market? Would we be worried about inflation still?

OUTLOOK

When COVID appeared, it wasn't a risk that anyone was prepared for – it was an uncertainty. As horrible as COVID has been, it created an environment full of opportunity for investors like ourselves. We were able to generate a great deal of alpha in the middle of the crisis.

There are a lot of risks on the horizon. Investors are aware of most. In terms of Knightian uncertainty, we *aren't* aware of the curve balls coming at us. All of this reinforces a thesis I proposed some time ago, that the rate of change in the world and in the economy is only accelerating. While this is scary news, it's not necessarily bad news. I don't mean to imply that these uncertainties are reasons to be bearish. As a long-term investor, these events can create compelling opportunities for alpha. I would contend that what we at Stephens Investment Management Group do best is identify change, and exploit the market's chronic underestimation of the magnitude and duration of change. The more change, the more opportunity.

In conclusion, I don't have any definitive answers on the outlook for the near and medium terms, other than to say that we expect change and disruption – the realization of some of the risks we know, and probably a curve ball or two that no one will see coming. Given that the market has largely priced in the reopening, it seems as if we are in store for yet another regime change in the market.

Earnings growth for a portfolio holding does not guarantee a corresponding increase in the market value of the holding or the portfolio. Earnings Growth is a measure of growth in a company's net income over a specific period, often one year. Return on Equity is the amount of net income returned as a percentage of shareholders equity and measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS) REPORT

Year	Total Firm Assets (millions)	Strategy Assets*		Composite Assets		Annual Performance Results				3 Yr Annualized Standard Deviation	
		USD (millions)	Number of Accounts	USD (millions)	Number of Accounts	Composite		Russell 2000® Growth	Composite Dispersion	Composite Gross	Russell 2000® Growth
						Gross	Net				
2020	6,916	2,074	17	1,972	13	38.76%	37.83%	34.63%	0.15%	24.41%	25.1%
2019	5,416	1,691	17	1,289	16	24.17%	23.31%	28.48%	0.13%	16.42%	16.37%
2018	4,301	1,518	19	1,155	18	4.40%	3.67%	-9.31%	0.06%	16.08%	16.46%
2017	4,442	1,820	18	1,242	17	20.24%	19.41%	22.17%	0.08%	13.06%	14.59%
2016	3,644	1,781	23	1,174	21	11.41%	10.62%	11.32%	0.10%	15.46%	16.67%
2015	2,897	1,610	26	1,095	25	-3.61%	-4.26%	-1.38%	0.06%	14.64%	14.94%
2014	3,430	2,198	29	1,501	28	-2.31%	-2.91%	5.60%	0.08%	13.59%	13.82%
2013	3,054	2,359	29	1,630	28	44.65%	43.74%	43.30%	0.14%	15.30%	17.27%
2012	1,222	1,096	20	888	19	16.99%	16.21%	14.59%	0.07%	18.00%	20.72%
2011	933	859	20	761	19	3.43%	2.74%	-2.91%	0.08%	20.96%	24.31%

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 are shown as supplemental information and include all assets managed by the firm to the Small Cap Growth Strategy. Prior to 2020, the mutual fund assets managed to the strategy were not included in composite assets.

Small Cap Growth Composite contains fully discretionary accounts and pooled investment vehicles invested primarily in small cap growth 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 2000® 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. 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 2000® Growth Index.

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 September 30, 2020. 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 Cap Growth Composite has had a performance examination for the periods October 7, 2004 through September 30, 2020. 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 management fees and performance fees incurred. Prior to June 2, 2005, accounts in the composite were charged a bundled fee based on a percentage of assets under management. The bundled fee covered investment management, trading and other account expenses. Gross returns for this period 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. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

The management fee schedule begins at 1.25% of assets under management. Actual investment advisory fees incurred by clients vary.

The Small Cap Growth Composite inception date is October 7, 2004, 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.

This composite was redefined January 1, 2020 to include pooled investment vehicles following the Small Cap Growth Strategy. Prior to that date, only separately managed accounts were included in the composite. Prior to January 1, 2020, this composite was known as the Small Cap Growth Separate Account.

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.

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