Stephens
Investment Management Group®
The Power of Growth®

STEPHENS SMALL CAP GROWTH SEPARATE ACCOUNT

QUARTERLY COMMENTARY

SECOND QUARTER 2019

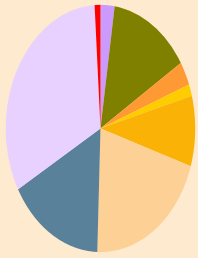
TOP 10 HOLDINGS[1]

COMPANY	% of PORTFOLIO
1.ICON Plc	2.04%
2.PROS Holdings, Inc.	1.94%
3.Aaron's, Inc.	1.91%
4.Euronet Worldwide, Inc.	1.89%
5.Aspen Technology, Inc.	1.83%
6.HEICO Corporation	1.80%
7.Ollie's Bargain Outlet Holdings	1.67%
8.Omnicell, Inc.	1.60%
9.Repligen Corporation	1.57%
10.FirstCash, Inc.	1.57%

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 WEIGHTINGS[1]

Communication Services	2.39%
Consumer Discretionary	13.72%
Consumer Staples	3.11%
Energy	1.53%
Financials	9.19%
Health Care	20.59%
Industrials	16.27%
Information Technology	32.20%
Materials	0.99%



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MARKET OVERVIEW

There was a lot of news to digest in the second quarter of 2019. There was unrest around the globe: Iran military aggressions, Sudan conflicts, Hong Kong protests, and continued drama over Brexit. Here in the U.S. there was a lot of focus on the Mueller report and the announcement of anti-trust probes into our biggest tech companies. But from a market perspective, the news that stole the show was the trade negotiations with China, their economic fallout, and the anticipated response from the Federal Reserve.

The market sold off sharply throughout May and into early June, as concerns escalated over a growing impact from a breakdown in U.S./China trade talks, but managed to rally back to all-time high levels before the end of the quarter. The S&P 500® Index gained 4.30% for the quarter.

Part of the reason for the rebound was increasingly accommodative language from the Fed, signaling that future interest rate cuts are back on the table. Over the last decade, the market has been well conditioned: "Don't fight the Fed."

Rates fell globally as well. By the end of the quarter, the US 10-year rate was essentially the highest of any developed country. More than a handful of countries have sovereign 10-year rates back in negative territory.

SMALL CAP GROWTH SEPARATE ACCOUNT COMPOSITE PERFORMANCE

Once again, every broad-based domestic equity index posted gains for the quarter. Large cap stocks outperformed their smaller counterparts, growth strategies edged out value. Significant intra-quarter volatility, combined with slowing (and scarcity of) growth, yielded a market environment that suits our strengths. The Stephens Small Cap Growth Composite gained 6.92% gross of fees (6.74% net), while our benchmark, the Russell 2000® Growth Index, only rose 2.75%.

We did well in Consumer Discretionary stocks. Wingstop, Inc. continued to perform well and displayed that they are ideally positioned for the shift to more delivery and mobile ordering. For risk-control purposes, we slightly trimmed our position into the strength. We did the same with Boot Barn Holdings. We eliminated our position in Potbelly Corp. after a disappointing quarter.

There wasn't much to talk about within the Energy complex. The entire group lagged the market. We continue to be very selective and maintain only minimal exposure to the sector.

We outperformed with our holdings in Financials despite a difficult quarter for Green Dot Corporation. MarketAxess Holdings was a top contributor, as its electronic bond trading platform continued to gain share.

Our differentiated positioning in Healthcare contributed to this quarter's success. The massive biotech component in the benchmark was a drag on its performance, particularly for the non-earners. Our disciplined process has kept us away from these types of companies, and contributed to our relative success this quarter. Repligen Corporation, a profitable biotech-related company, was one of our top contributors. We also benefitted from Dassault (a French company) acquiring Medidata Solutions, Inc., a long-time holding of ours.

Industrials were the strongest performer in absolute terms, with our holdings gaining nearly 15%. We had success with Aerospace and Defense holdings such as HEICO Corporation and Kratos Defense & Security Solutions. Kornit Digital was also a source of strength as their automated textile printing solutions gained traction.

Our largest sector, Technology, was also an area of relative and absolute strength. PROS Holdings was the strategy's top contributor. Other software holdings aided returns as well. We sold a significant portion of our holdings in CoStar Group, Inc. in an effort to maintain style purity – while we continue to love the fundamental story, its market capitalization has grown beyond what we define as small cap. We expect to continue to work our way out of the position and rotate those assets into smaller companies.

PORTFOLIO CHARACTERISTICS

We added three new positions this quarter and eliminated as many. Sector weights didn't change much relative to last quarter: Technology, Healthcare, and Industrials remain our three largest, at 31%, 20%, and 16% respectively. With the Russell rebalance this quarter, there were some minor changes to our relative weights. We are still overweight Technology and underweight Healthcare (strictly because of unprofitable biotech).

As interest rates fell and the market rose, it was generally because of multiple expansion. Our weighted harmonic average P/E ratio on next twelve months earnings grew to 26.8 times, while the benchmark sits at 19.0 times. Growth expectations remain modest. Our median company is expected to grow earnings by 14% and revenues by 11%. In the most recently reported quarter, our median holding grew earnings per share at 10.7% and revenues at 10.1%. The same statistics for the Russell 2000® Growth are a meager 4.8% and 7.7%, respectively.

Our mix between *core growth* and *earnings catalyst* tilted back to catalyst this period. Catalyst represents 51.4% of the portfolio, while core growth is the remaining 48.6%.

[1]The 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. *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.*

OUTLOOK

I remember a decade ago when Quantitative Easing (QE) and near-zero interest rate policy (ZIRP) first became reality. It was an unprecedented and unconventional response to an unprecedented economic and market environment. No one really knew if it would work, and what the consequences of such actions would be. The consensus among some of the sharpest economic minds was this, however; these are potentially powerful tools, ones to which the market or economy might become "addicted," so beware of the slippery slope. The unwind may be the hardest part.

On June 4th, Fed Chairman Powell gave a speech and said the following:

> Perhaps it is time to retire the term "unconventional" when referring to tools that were used in the crisis. We know that tools like these are likely to be needed in some form in future ELB spells, which we hope will be rare. We now have a significant body of evidence regarding the effectiveness, costs, and risks of these tools, including those used by the FOMC and others tried elsewhere. Our plans must take advantage of this growing understanding as assessments are refined.

There's an important tenant in Behavioral Economics – don't trust trial and error learning. For instance, I can be running late to the airport, and so I decide to do something "unconventional" and drive significantly over the speed limit, or maybe even run a red light. If I make it to the airport in time and don't get any tickets or cause any accidents, then perhaps I would judge that decision to be a good one. It would be wrong for me to deduce that driving recklessly and running red lights is a good strategy, just because it worked that one time, or even one hundred times. From a risk-reward standpoint it's a terrible strategy to adopt, or to make conventional. Perhaps in a life or death situation or for some other serious cause it could be justified. But *learning* from a limited sample of trial and error would be downright foolish.

It scares me to think that central bankers have convinced themselves that money printing and zero (or negative) interest rates could be conventional. Money printing works until it doesn't…and then it really doesn't. See Zimbabwe. Zero or negative interest rates are mind boggling to me. I cannot fathom how it is healthy or sustainable.

Just as intriguing, is the market's reaction to this news. As some economic data showed signs of weakening, the market rallied in anticipation of the implementation of more accommodative monetary policy, perhaps in the unconventional/conventional terms Chairman Powell was referring to.

The market loves good news. A strong economy and healthy growth push markets higher. Sometimes the market loves bad news, too. More trial and error learning maybe? For the last decade, the market has been conditioned to "not fight the Fed" or recognize the so-called Bernanke/Yellen/Fed put. If the economy weakens, the Fed will bail us out.

When does bad news actually mean bad things for the market? Or maybe I should ask the question this way: When will the market perceive bad economic news as actually being bad for the market? I don't know the answer to this question. But it does concern me that we seem to be heading down that slippery slope and economists and investors have picked up some bad habits lately.

I don't mean to come off as bearish. It's not all bad news. In fact, there are a lot of things going right. I don't think the dangers of this slippery slope will manifest themselves anytime in the very near future. Who knows? In the meantime, there's still innovation and growth to be found at the company-specific level.

The *Groundhog Day*-like routine of gyrations around the US/China trade negotiations have continued. There's a lot of reason to believe that a deal will get done. Game theory analysis would indicate that new equilibrium should be in the upper-right hand, co-operative quadrant. President Trump has been arguing for a rate cut. China would love one as well. With their effective currency peg, they import our monetary policy. The reduction in rates would benefit their sagging economy, too. A summer time rate cut from the Fed and then a subsequent trade deal could be a magical thing for the economy and the market.

I'm still excited about our prospects. The volatility, the scarcity of growth, and the complexity of it all mean that there will be more opportunities for us. All this is at a time when passive strategies continue to take share. So many dollars investing mindlessly and without regard to any of these complex situations – I love it. When I wrote our white paper on the impact of passive investing, I hypothesized that the prevalence of passive could one day lead to a golden age of active management. Is this the beginning?

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.

IMPORTANT LEGAL DISCLOSURES

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 Gross	Composite Net	Russell 2000® Growth	Composite Dispersion	Composite Gross	Russell 2000® Growth
2018	4,303	1,518	19	1,155	18	4.40%	3.67%	-9.31%	0.06%	16.08%	16.46%
2017	4,446	1,820	18	1,242	17	20.24%	19.41%	22.17%	0.08%	13.06%	14.59%
2016	3,658	1,781	23	1,174	21	11.41%	10.62%	11.32%	0.10%	15.46%	16.67%
2015	2,903	1,610	26	1,095	25	-3.61%	-4.26%	-1.38%	0.06%	14.64%	14.94%
2014	3,436	2,198	29	1,501	28	-2.31%	-2.91%	5.60%	0.08%	13.59%	13.82%
2013	3,076	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%
2010	919	878	18	779	16	27.82%	26.98%	29.09%	0.05%	25.69%	27.70%
2009	554	521	15	459	14	38.41%	37.53%	34.47%	0.25%	23.61%	24.85%

*Strategy Assets are shown as supplemental information as these assets include mutual fund assets which are managed within the Small Cap Growth Strategy.

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.

Small Cap Growth Separate Account Composite *contains fully discretionary accounts 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 March 31, 2019. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Small Cap Growth Separate Account Composite has been examined for the periods October 7, 2004 through March 31, 2019. The verification and performance examination reports are available upon request.

Stephens Investment Management Group, LLC is a registered investment advisor specializing in equity investment management, specifically small and mid-capitalization growth companies. The firm maintains a complete list and description of composites, which is available upon request.

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 valuating portfolios, calculating performance, and preparing compliant presentations are available upon request.

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

The Small Cap Growth Separate Account Composite was created 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.