Stephens
Investment Management Group®
The Power of Growth®

STEPHENS MID CAP GROWTH COMPOSITE

QUARTERLY COMMENTARY
SECOND QUARTER 2020

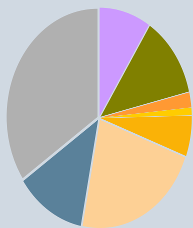
TOP 10 HOLDINGS[1]

COMPANY	% of PORTFOLIO
1. Shopify, Inc.	2.62%
2. DexCom, Inc.	2.54%
3. Spotify Technology	2.33%
4. MarketAxess Holdings Inc.	2.25%
5. Cadence Design Systems, Inc.	2.20%
6. Match Group Inc	2.09%
7. DocuSign, Inc.	2.09%
8. IDEXX Laboratories, Inc.	2.03%
9. MercadoLibre, Inc.	2.02%
10.ResMed Inc.	1.97%

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]

Sector	Weight
Communication Services	9.12%
Consumer Discretionary	12.14%
Consumer Staples	2.23%
Energy	1.13%
Financials	6.05%
Health Care	22.40%
Industrials	12.35%
Information Technology	34.59%
Materials	0.00%



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MARKET OVERVIEW

In many respects, the second quarter of 2020 could not have been more different than the first. Absolute returns were phenomenal across the board. While it is still unclear if the economy will have a "v-shaped" recovery, equity markets delivered v-shaped returns. The S&P 500® Index rose 20.54%.

Despite a steady increase in Covid-19 cases in the U.S., mortality rates trended lower, and many state and local governments eased virus-related restrictions. Although the economy is nowhere near "normal," employment numbers weren't nearly as bad as many had suspected. Low interest rates and economic stimulus packages seemed to ease the pain.

A deeper look in the market revealed a tale of two cities – for dominant technology and consumer companies it was the best of times, but for companies directly impacted by travel restrictions and stay-at-home orders, it was the worst of times. The stocks of many market leaders hit all-time highs, while the weakest companies filed for bankruptcy.

Perhaps it really is as simple as, "Don't fight the Fed."

MID CAP GROWTH COMPOSITE PERFORMANCE

Since the financial crisis of 2008, the accommodative monetary policies and bullish market regime have resulted in a relatively low volatility, low dispersion environment. We have commented frequently on this phenomenon, with a variety of metaphors: a rising tide which floats all boats, everyone gets a trophy, low interest rates is like low gravity – everything rises. Active managers have struggled to differentiate themselves. 2020 has been a very different environment. Covid-19 and the accompanying unprecedented lockdown measures, monetary and fiscal stimuli, and radical changes in consumer behavior have resulted in great disruptions across many industries. This has in turn created dispersion among companies and their stock prices. In most cases, the strong have become stronger, and the weak are falling by the wayside.

As a result, it has been a ripe environment for stock picking. In the face of economic uncertainty, high quality growth stocks beat value stocks, which tend to be lower quality, and in many cases, more cyclical. The Russell Mid Cap® Growth Index had a return of 30.26% for the quarter while the Stephens Mid Cap Growth Composite grew by 35.02% gross of fees (34.86% net of fees). While we did benefit from a complete lack of exposure to Real Estate and Materials, the majority of our excess return came from security selection.

The Communication Services sector was relatively strong, and our holdings bested those of the benchmark. Spotify Technology was our second biggest contributor to returns. They have continued to dominate the music streaming category, and recently grabbed a significant amount of market share in podcasts too. Their business has not been negatively affected by the Covid-19 situation. The same is true for our video game companies, Take Two Interactive and Electronic Arts.

Consumer Discretionary stocks were true standouts. On average, our holdings were up over 46% for the quarter. Ollie's Bargain Outlet Holdings and MercadoLibre more than doubled. Ollie's stores generally remained open during the lockdown, as they were deemed "essential." As an off-price retailer, they are also benefiting from their ability to purchase excess inventory from other struggling retailers. MercadoLibre extended their e-commerce and electronic payment system dominance in Latin America.

We did well in Financials, too. MarketAxess was a top contributor. The electronic bond trading platform continues to take share from more traditional avenues, and the recent volatility in fixed income markets boosted volumes. TradeWeb Markets benefitted from the same trends.

We slightly edged out the benchmark in Healthcare. The widespread elimination of elective procedures in most hospitals (in order to keep spare capacity available for Covid-19 patients), affected several of our holdings. We believe this is largely a timing issue – there is pent up demand, and these procedures will eventually happen. Additionally, as less screening and routine medicine is happening, it is likely there may be a bolus of more severe and more advanced diseases that will need to be addressed. DexCom, Inc. stood out as a top performer. We trimmed our position into the strength, as risk management control.

Industrials were up double digits, but only in line with the benchmark. Aerospace and Defense related holdings were relatively weak. Our holdings in our automation and robotics theme fared relatively well.

Our largest sector, Technology, was the source of most of our relative outperformance. Shopify, Inc. was our biggest contributor to performance, up over 127% for the quarter. Their e-commerce solutions saw even greater demand in this environment as many consumer companies were forced to focus on online sales. As a risk control measure, we trimmed some of our position. We added a new position in Wix.com Ltd., which is also benefitting from the companies seeking to increase and enhance their online presence.

[1]The information is shown as supplemental only and complements the full disclosure presentation located on the back. The Russell Midcap® Growth Index measures the performance of those Russell Midcap® 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 © 2020, 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.*

PORTFOLIO CHARACTERISTICS[1]

As the volatility and disruption continued from Q1 into this quarter, so did our trading activity. We added six new companies to the portfolio and eliminated four.

Technology remains our largest sector at about 30% of assets. Healthcare represents just over 22%, while Industrials and Consumer Discretionary stand at 12%. Our benchmark shifted at the end of the period as a result of Russell's reconstruction process, and our relative positioning changed as a result. From a sector perspective, our portfolio is more in line with benchmark weights, although that is not by design.

Nearly all of the robust returns this quarter were driven by an expansion in valuation. Stocks are not cheap. The weighted harmonic average P/E ratio based on the next twelve months' earnings expectations is now just over 35. That same statistic for our benchmark is 32. Growth rates have pulled back as the economy has slowed. Actual revenue growth for the most recently reported quarter was only 6.8% for our median company. Growth statistics for our portfolio and the benchmark have converged, but we believe the estimates are just a conservative guess. We are looking forward to this quarter's reports.

The changes in the underlying economy have presented more catalyst opportunities for us. As a result, our split between *core growth* and *earnings catalyst* shifted significantly. The portfolio now stands at 59% core and 41% catalyst.

OUTLOOK

If you've been in the investment business even for just a short while, you've probably heard this bit of wisdom before: "The market hates uncertainty."

I can't remember a time with more uncertainty. We are living in strange times indeed. If I had told you last year, that we would all be wearing masks and in various phases of lockdown and isolation, schools would be entirely online, professional and college sports would be cancelled, and the political divide across our country would result in genuine civil unrest, no one would have thought that even remotely possible.

None of these issues are anywhere near being resolved. As for the virus itself, there is still much debate and many unknowns about just how transmissible it is and what the lasting effects might be. As I write this, tighter lockdowns are being announced across the country. My hometown of Houston has a verifiable problem with ICU bed utilization – apparently we haven't flattened the curve enough.

The puzzle is that the market doesn't seem to hate this at all. We got a v-shaped recovery in the market, without any of these uncertainties being resolved. If anything, all these matters seem to be deteriorating further.

I don't know that I have an answer to this puzzle yet, but perhaps it is as simple as the other Wall Street wisdom – Don't fight the Fed. With interest rates near zero, there aren't many alternatives to equities. And with that belief in the power of monetary policy, then perhaps the market is back in the mindset of "bad news is good news." That is to say, as fundamental conditions deteriorate, the policy makers will add further stimulus, fueling financial assets higher.

This is a dangerous game of course, and clearly defies logic in anything other than the short term. Will the market behave symmetrically? When fundamental conditions improve, will the market pull back as stimulus is removed?

There's another potential answer to this puzzle. Something we've noticed across our portfolios is that the disruption caused by Covid-19 has accelerated and amplified many secular trends that were already in place: e-commerce, working from home, restaurant delivery and take-away, social media, streaming services, telemedicine, and so on. The winners in these segments haven't missed a beat. As many of these companies were already successful, the cap-weighted bias of most major indices has contributed to their strong performance.

However, underneath the surface of the headline returns of these benchmarks is a great deal of dispersion. Bankruptcy filings are up considerably. Many companies won't survive this disruption.

Most of you know that I've been a competitive cyclist for most of my life. There's an interesting parallel in road racing to the market today. Most long road races start off at a moderate pace – fast, but not so fast that everyone can't keep up. Inevitably this changes, maybe because of a long climb or a strong cross wind, or sometimes the stronger riders just want to push the pace. There's almost always at least one moment of truth in a race – something that separates the strongest riders from the weaker ones.

For years now, the market has been rolling along with a nice tailwind, and everyone has been able to keep up, sitting in the pack, drafting off the work of other riders. But with Covid-19, we just hit a nasty cross wind, and there's nowhere to hide in the pack anymore. Everyone is on their own, and only the strong will succeed.

All we have ever done is to try to identify the strongest companies, those that can win. Today's challenging environment is revealing the relative strengths and weaknesses of so many companies. I don't know how long this will last. Just like in racing, eventually the conditions change, and the field comes back together, some of the weaker riders had just enough in them to hang on.

OUTLOOK

Additional Thoughts on the World Today

Most of you know that I am a huge proponent of behavioral economics. It is the very basis of our investment philosophy. For all of humanity, psychology and emotions creep into decisions and often lead to irrational or suboptimal outcomes. We go to great lengths to check these emotions and biases. A key part of our decision-making process revolves around something akin to the Socratic Method. After forming a thesis, the team engages in a debate and period of intense questioning, in an attempt to challenge the thesis and uncover any flaws or biases. We must identify the conditions and data points that would cause us to reject the thesis before we move forward. We do this in an effort to fight confirmation bias, and to build a plan and framework to overcome the endowment effect after we have made a decision.

The information age that we live in, complete with social media and overtly biased news sources, is a dangerous environment for finding the truth. No matter how outlandish or incorrect an idea, there is almost limitless data to support it online. While there are obvious implications for politics and the social fabric we live in, this is also true to security analysis and investing. The impact of this phenomenon in politics is quite scary. For investing however, I believe the result is less efficiency, greater dislocations, and thus more opportunity for investors who can overcome these biases.

As a final comment, I'd like to remind you of our core thesis: **because of human nature and behavioral biases, investors chronically underestimate the magnitude and duration of change**. We've been dealt a lot of change lately. And the instinct for most people is to assume that we will revert back to normal sooner rather than later. I'll take the other side of that bet. We've only yet begun to understand the long term ramifications of these profound changes in our daily lives, the economy, and the market itself. While it has been challenging and even depressing dealing with all of this change on a personal level, it has been exciting and rewarding on a professional one. We remain disciplined and diligent in our efforts to take advantage of these unusual times.

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 Midcap® Growth	Composite Dispersion	Composite Gross	Russell Midcap® Growth
2019	5,416	654	17	263	13	33.57%	32.85%	35.47%	0.29%	14.79%	13.88%
2018	4,301	342	13	216	11	3.22%	2.68%	-4.75%	0.12%	14.13%	12.82%
2017	4,442	338	12	240	11	29.68%	29.01%	25.27%	0.20%	11.72%	10.88%
2016	3,644	287	13	201	9	7.98%	7.24%	7.33%	0.09%	13.13%	12.17%
2015	2,897	152	12	38	10	-0.27%	-1.01%	-0.20%	N.A.	12.01%	11.29%
2014	3,430	165	6	31	4	4.19%	3.40%	11.90%	N.A.	11.71%	10.87%
2013	3,054	155	6	35	4	34.63%	33.60%	35.74%	N.A.	13.54%	14.62%
2012	1,222	85	6	7	2	16.74%	15.78%	15.81%	N.A.	16.44%	17.91%
2011	933	40	3	1	1	3.26%	2.44%	-1.65%	N.A.	18.13%	20.82%
2010	919	25	2	1	1	30.65%	29.63%	26.38%	N.A.	24.46%	26.37%

*Strategy Assets are shown as supplemental information as these assets include mutual fund assets which are managed within the Mid Cap Growth Strategy
* Strategy Assets are shown as supplemental information as these assets include UMA assets managed within the Mid Cap Growth Strategy
N.A. - Composite Dispersion information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

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 decisions.

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 prices of such stocks may be more volatile than those of larger company stocks. Clients' investment results and principal value will fluctuate.

Mid Cap Growth Composite *contains fully discretionary accounts and pooled investment vehicles invested primarily in mid cap common stock of U.S. companies. Under normal conditions, securities purchased for this composite have market capitalizations between $1 billion and the market capitalization of the largest company in the Russell Midcap® Growth Index at the time of initial purchase, 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 Midcap® 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 December 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 Mid Cap Growth Composite has been examined for the periods June 2, 2006 through December 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 fees and include the reinvestment of all income. Net of fee performance is calculated using actual fees incurred. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The management fee schedule begins at 1.00% of assets under management. Actual investment advisory fees incurred by clients may vary. The Mid Cap Growth Composite was created June 2, 2006.

Prior to September 1, 2011, composite policy required the temporary removal of any account from the composite which incurred 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 occurred at the beginning of the month in which the significant cash flow occurred and the account re-entered the composite at the beginning of the month after the cash flow. This policy was deleted effective September 1, 2011. Additional information regarding the treatment of significant cash flows is available upon request.

The information provided herein has been prepared solely for informative purposes and is not a solicitation, or an offer to buy or sell any security. It does not purport to be a complete description of the securities, markets or developments referred to in the material. All expression of opinion is subject to change without notice. The information is obtained from sources, which we consider reliable, but we have not independently verified such information and we do not guarantee that it is accurate or complete. We, or our affiliates and their officers and directors, may have a long or short position in any security.

The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

Certain accounts in this composite direct trading to broker-dealers that execute trades for no commission. Assets in these accounts are 6.27% of total composite assets as of December 31, 2019.

This composite was redefined January 1, 2020 to include pooled investment vehicles following SIMG's Mid Cap Growth Strategy.

Prior to January 1, 2020, this composite was known as the Mid Cap Growth Separate Account Composite.

Firm AUM does not include accrued dividends.

NOT FDIC INSURED MAY LOSE VALUE NOT BANK GUARANTEED

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