Stephens
Investment Management Group®
The Power of Growth®

STEPHENS SMALL-MID CAP CORE GROWTH SEPARATE ACCOUNT

QUARTERLY COMMENTARY
SECOND QUARTER 2021

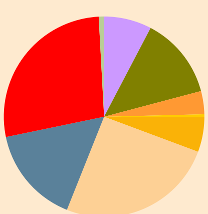
TOP 10 HOLDINGS[1]

Company	% of Portfolio
1. IDEXX Laboratories, Inc.	3.75%
2. Cadence Design Systems, Inc.	3.12%
3. MercadoLibre, Inc.	3.00%
4. ResMed Inc.	2.55%
5. ICON Plc	2.35%
6. CoStar Group, Inc.	2.31%
7. Domino's Pizza, Inc.	2.19%
8. Copart, Inc.	2.18%
9. SVB Financial Group	2.15%
10. Omnicell, Inc.	2.11%

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	7.68%
Consumer Discretionary	13.19%
Consumer Staples	3.73%
Energy	0.46%
Financials	5.62%
Health Care	25.36%
Industrials	15.70%
Information Technology	27.38%
Materials	0.86%



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MARKET OVERVIEW

In general, people's intuition is bad at understanding exponential functions. Just as the COVID situation deteriorated so quickly as it was spreading exponentially, things have returned to almost normal with surprising speed, too. There is a glut of vaccines today in the US, and many firms have returned to work, or are in the process. Concerts and sporting events have resumed in earnest. As animal spirits and something approaching normalcy returns, so does the economy.

That being said, the reopening had already been highly anticipated. Last quarter's returns reflected investors' enthusiasm over unlocking pent-up demand. As expected with the recovery, GDP is expanding rapidly, and corporate profit margins are at or near record levels. Stocks continued their march higher. The S&P 500® Index gained 8.55% for the quarter. Larger companies generally fared better than their smaller counterparts.

What was different is that growth strategies easily outperformed value-based strategies, except among smaller cap stocks, where the returns were very similar. It appears that yet another market regime change is unfolding, as investors have exhausted the reopening trade, and look to the future where growth may be a little harder to come by.

Inflation data continued to come in hot, but the Fed showed no signs of real concern. Somewhat surprisingly, interest rates fell in spite of higher inflation signals. Labor markets continued to show a disconnect, with record levels of job openings and many companies struggling to staff up, while headline unemployment numbers remain elevated. The debate on whether this uptick in inflation is transitory or more structural raged on.

SMALL-MID CAP CORE GROWTH SEPARATE ACCOUNT COMPOSITE PERFORMANCE

The Stephens Small-Mid Cap Core Growth Composite posted a gain of 6.96%, gross of fees (6.74% net). We were able to outperform our benchmark this quarter – the Russell 2500® Growth rose 6.04%. As the re-opening trade began to fade, and investors worried about tough growth comparisons in the coming quarters, our style seemed to be more in favor.

Consumer Discretionary was a bright spot in both absolute and relative performance. We did particularly well in the restaurant industry, with Domino's Pizza and with Wingstop, Inc. We added to our position in Warner Music Group.

Our performance in the Financial sector slightly lagged that of the benchmark. SVB Financial Group, our sole bank holding, did rather well this quarter. After several quarters of stellar performance, MarketAxess finally pulled back. We continue to see positive developments with their electronic bond trading platform.

We did very well in Healthcare relative to the benchmark, and absolute returns were the best of any sector. Biotechnology stocks lagged the broad market, and our lack of exposure contributed to our relative returns. Omnicell, Inc. was one of our best performers this quarter, as their automated pharmacy dispensing solutions benefit patients and providers. ResMed Inc. was our second biggest contributor to returns; they gained significant market share, as one of their competitors had a product recall.

Industrials was another bright spot this quarter, although there was no particular theme tying together the stocks that worked well. Copart, Inc. was a top contributor, as they are enjoying the tailwind of commodity inflation and strong used car pricing. We initiated a new position in Axon Enterprise, manufacturer of Tasers and police body cameras.

Our largest sector, Technology, had positive returns, but we didn't quite keep up with the benchmark here. Our focus on core growth, means our technology holdings are relatively lower risk and lower beta. Software companies were a bright spot for us, particularly with our focus on cyber security. Long time holding and cybersecurity-focused, Proofpoint, Inc. was acquired for a healthy premium. We began selling our position and rotating those assets back into other cybersecurity companies.

[1]The information is shown as supplemental only and complements the full disclosure presentation located on the back, The Russell 2500® Growth Index measures the performance of those Russell 2000® 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. 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 in the Important Legal Disclosure Section

PORTFOLIO CHARACTERISTICS[1]

We added two new positions this quarter, and we eliminated one. Technology remains our largest sector, and now represents just over 26% of assets. Healthcare stands at 24.5%. Industrials rounds out the top three, at 15% of assets. With the Russell rebalance this period, our relative exposures changed a little. We are overweight Communication Services and underweight Consumer Discretionary, Materials, and Real Estate.

Valuations generally remained stable for the quarter, as much of the performance was generated by underlying earnings growth. Our weighted harmonic average P/E on next twelve month earnings is still elevated, at 36.9. Growth accelerated, and it was an easy year-over-year comparison. Our median company grew revenues at 17%, up from just 9% last quarter.

OUTLOOK

Six months ago, we highlighted the inflationary pressures which were building quickly. There is a silent and hidden war raging in our economy. It is an epic struggle between the inflationary pressures of trillions of dollars of monetary and fiscal stimulus, negative real interest rates, pent-up demand, and constrained supply versus the secular disinflationary trends of technological advancement, ecommerce, demographics, and price transparency. It's hard to tell who is winning, but that hasn't stopped the prognosticators from choosing sides.

One of the defining characteristics of our investment philosophy is the recognition that forecasts are almost always wrong, and that people are overconfident in their ability to make predictions. As I highlighted last quarter, the most thoughtful opinions on inflation (or just about any matter, really), are ones that recognize risk and uncertainty across a variety of outcomes. From a historical perspective, there is essentially no evidence that analyzing interest rates, the term structure, inflation expectations, or break-even rates gives us any insight into future inflation rates. There is no predictive value – uncertainty rules.

If one could predict inflation, if there was some special signal that told you when inflation was imminent, then inflation would already be here. The market is efficient in that regard. It's important to remember that there is a psychological element to inflation. If you *knew* rampant inflation would begin tomorrow, you would behave differently today, converting cash into durable assets, buying goods earlier than needed, selling fixed income securities, and the like. The behavior in response to inflation would only serve to exacerbate inflation itself. This is the reason that there is worry about "unanchored" inflation expectations. Inflation has been so tame for so long, expectations have been centered around or anchored to 2% inflation for as long as anyone can remember.

Today, inflation expectations remain relatively well-anchored. Consensus seems to be that while there are temporary inflationary pressures, eventually we will return to that 2% level, more or less. But "temporary" and "transitory" are decidedly ambiguous terms. Is one year considered transitory? Two years? How long does this uptick in inflation have to last, or how long do people have to believe it will last, in order for the long term inflation expectations to begin to drift away from 2%?

One of the reasons long-term inflation expectations have remained tame is that the market seems to believe that the Fed will act if inflation persists. And that their actions will work to bring inflation back to that 2% level. This topic alone deserves much attention, but for the purposes of this letter, suffice it to say that there is legitimate concern that the Fed may have painted itself into a corner, rendering them unable to take a tough stance on inflation.

If anything, inflation expectations seemed to retreat as the quarter unfolded. The yield on the 10-year Treasury went from 1.746% to 1.443%. As the yield curve flattened, I think it's safe to assume that growth expectations also diminished. With lower nominal interest rates, and high current inflation, real interest rates have become increasingly negative. In a sense, the Fed has become more accommodative by not doing anything in the face of even temporary inflation. Is this the right approach? Is there a bill to pay for this?

There is some merit to the transitory inflation thesis. The big recent outlier component of CPI has been used car pricing. Last month, I traded in a vehicle which I bought three years ago; it had about 30,000 miles on it, and had been in a fender bender. The trade-in value was almost 20% more than what I paid for it, brand new. This is not sustainable, and surely will be transitory. The bottleneck in new car production has caused used car values to skyrocket. Sometime soon, the supply constraints on new cars will ease, and used car pricing will return to normal levels. When this happens, it will drag CPI lower.

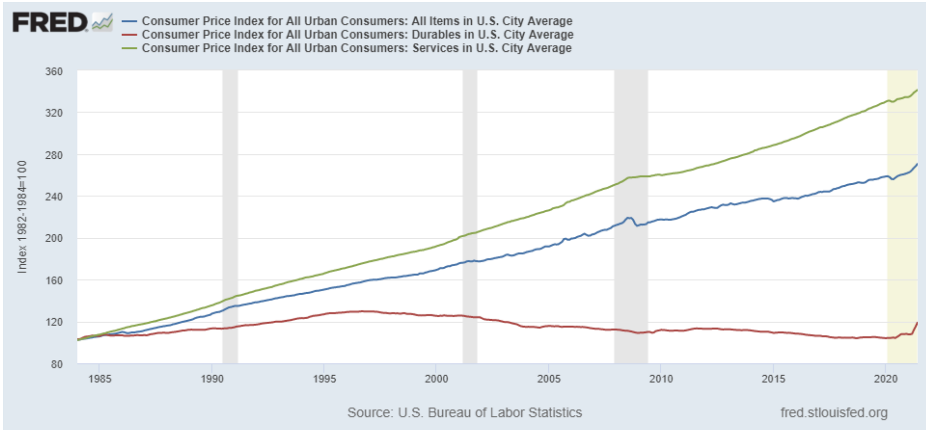
There are also legitimate reasons to worry that inflation might be more than temporary. This dislocation in the labor market is significant. There are a record number of job openings today, even as unemployment remains elevated. Many companies are struggling to hire enough people to run their business at its potential. As a result, wages are heading higher. Economists generally agree that wages are "sticky". Additionally, as housing prices soar, so too will rent costs, a major component of CPI.

Our examination of inflation over the last decade or so has led us to a hypothesis: since real interest rates are very low in nominal terms, and negative in real terms, money is cheap. Goods and services for which capital is the primary input have seen deflation, because additional capital can be obtained for a very small cost. On the other hand, when skilled labor is the primary input, there has been inflation – low interest rates and a glut of liquidity don't ease labor constraints.

I had a conversation with economist John Cochrane, Senior Fellow at the Hoover Institution at Stanford and read his blog post (after our conversation). He was able to quantify some of what I was saying. Consider the following graph:

OUTLOOK

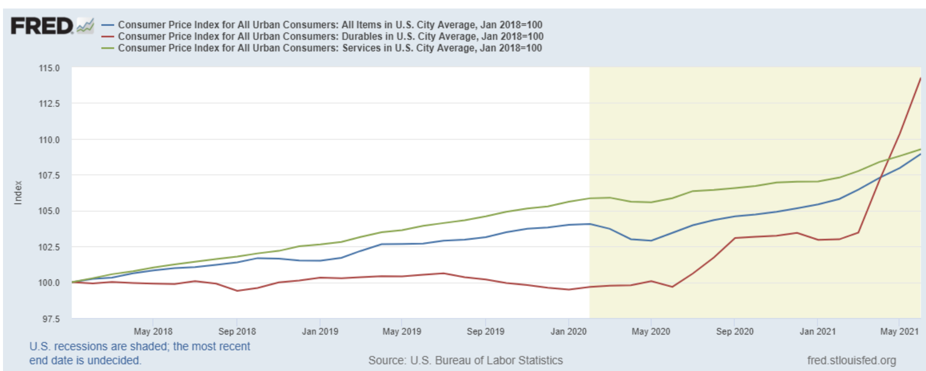
The blue line is a CPI index. As you can see it's been fairly steady and not terribly steep going all the way back to 1984. The red line is CPI for durable goods. Since the late 1990s, this has been deflationary – prices have actually gone down. Here is where the secular trends have been most prevalent: goods manufactured in locations with cheaper labor, technological improvements, and ecommerce-driven competition.



Now have a look at the green line, CPI for services. Cheap capital doesn't help here. Technology can help productivity, but only so much. At the end of the day, services depend on a (usually skilled) human being. A glut of liquidity and negative interest rates won't necessarily lead to more teachers, doctors, lawyers, mechanics, watch makers, et alia. Inflation in services has not been transitory; it has been persistent for decades. Balancing that out, durables have experienced deflation (note: not just disinflation) for decades, and this significantly brought down the overall CPI number.

Now if we zoom in and re-index in 2018, during the recent recession, the downward trend for durables sharply reverses. Rather than mitigating the underlying inflation in services, as it has for years, it's now contributing to inflation in a meaningful way.

It's hard to deconstruct the recent spike in durables. It's almost certainly a combination of supply shortages, labor shortages, and record disposable income.



I began with the idea that there is a war between the multiple inflationary pressures and the many disinflationary (or downright deflationary) forces. I think Milton Friedman's famous statement on inflation is still valid – the inflationary pressure is a monetary phenomenon. However, because the deflationary pressures are not uniform, they are primarily impacting segments of the economy which are driven by technological advancement or capital-intensive (and not skilled-labor intensive) industries.

I think it's fairly obvious why inflation and the Fed's actions are so important to us. These are major factors that are influencing companies differently. The complexity and uncertainty of the situation, and the dispersion it may create, can make for a target-rich investment environment.

Enough on inflation! Let's wrap things up with some quick thoughts on growth. It is clear that the economy has had some powerful medicine over the last year or so – unprecedented levels of monetary and fiscal stimulus. Personally, I'm shocked that policy makers think we still need more. We are seeing the bizarre dynamic of the Fed buying $80B of treasuries each month, only to drive yields to zero and soak up the supply of treasuries, which forces banks and money market funds to go to the Fed and use their reverse repo facility, in which the Fed sells them back the very same treasuries.

Maybe this is a poor analogy, but it seems to me that stimulus at this point in the cycle is like ordering a couple rounds of tequila shots at last call. Sure, it seems like a good idea at the moment, but pretty soon the lights are going to come on, we will be asked to leave the bar, and the next morning we will ask ourselves, "How in the world did we think tequila shots at 2:00 am was a good idea?"

OUTLOOK

The Fed hoovering up treasuries when rates are at zero and buying mortgage-backed securities every month when the housing market is already red-hot is equivalent to that round of tequila. The last stimulus checks and the extended unemployment benefits are on par with Jello shots. What will our metaphorical hangover look like? It depends on how much more stimulus we keep getting. The sooner we get off the juice, the better!

And finally, I'm sure I'm oversimplifying, but at this point I see two likely paths (other than the Goldilocks scenario that the market seems to believe). One is more persistent inflation, but also decent growth. Higher prices get passed through. Firms fill those job openings by luring people back into the workforce with higher wages. We trade one set of problems, for another (inflation).

The other scenario is the hangover. We overstimulated. We will have difficult comparisons as things normalize. If firms can't attract workers and fill those job openings, then they won't be operating at their potential. In aggregate, this means GDP won't be at its potential. If we get slowing growth and no inflation, and policy makers have thrown everything they have at this, I'm not sure what's next.

Inflation is scary, but if we don't get inflation after all this, I think that might be scarier.

I don't mean to sound bearish. But I do mean to convey the idea that the market and the economy are at an inflection point, and that things are very complicated. We aren't going to bet the farm on inflation or deflation, growth or stagnation, but we are going to monitor the data with an open mind, and be ready to pounce when opportunities present themselves . . . and they surely will.

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			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 Pure Gross[1]	Composite Net	Russell 2500® Growth	Composite Dispersion	Composite Gross	Russell 2500® Growth
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%
2012	1,222	29	12	11	9	100%	18	16.63%	15.44%	16.13%	0.14%	15.01%	19.82%
2011	933	23	11	9	9	100%	13	3.50%	2.35%	-1.57%	0.07%	17.67%	22.91%

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.

__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, 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 and Mid Cap Core Growth Separate Account Composite has had a performance examination for the periods February 1, 2005 through December 31, 2020. The verification and performance examination reports are available upon request.

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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. [1]Pure 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. 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 fee schedule begins at 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 conversion of our accounting system resulted in SIMG materially overstating our net performance for this composite for 4Q2019 by 0.14%, for 2019 by 0.177% and our 3, 5, 10-year and ITD net performance. Corrections have been made.

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.