Stephens
Investment Management Group®
The Power of Growth®

STEPHENS SMALL CAP GROWTH COMPOSITE

QUARTERLY COMMENTARY
SECOND QUARTER 2022

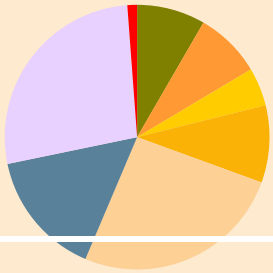
TOP 10 HOLDINGS[1]

COMPANY	% of PORTFOLIO
1.MGP Ingredients, Inc.	2.53%
2.Acadia Healthcare Company, inc.	2.23%
3.Chef's Warehouse, Inc.	2.13%
4.Manhattan Associates, Inc.	2.06%
5.SPS Commerce, Inc.	1.94%
6. Viper Energy Partners LP	1.91%
7.Omnicell, Inc .	1.90%
8.Repligen Corporation	1.75%
9.HealthEquity Inc	1.71%
10.Papa John's International, 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 WEIGHTINGS[1]

Communication Services	0.00%
Consumer Discretionary	8.36%
Consumer Staples	8.09%
Energy	4.68%
Financials	9.43%
Health Care	25.83%
Industrials	15.36%
Information Technology	27.06%
Materials	1.19%



Stephens Investment Management Group, LLC

9 Greenway Plaza
Suite 1900
Houston TX 77046

CUSTOMER SERVICES,
SALES & MARKETING
(800) 458-6589

WEBSITE:
stephensimg.com

MARKET OVERVIEW

It's hard to believe that in March the Fed was still implementing QE, and had only just begun to raise short term rates off of zero. Inflationary pressures only picked up steam throughout the quarter. Resultantly, the gloves came off, as Quantitative Tightening began and the Fed hiked rates by 125 basis points. (It's not widely understood that QT does not mean the Fed is selling securities. Rather, QT defines the maximum amount of bonds that the Fed is willing to let roll-off or mature in a given month. Any amount above those maximums is reinvested in the market, buying more bonds.)

As rates moved higher, equities moved lower. The S&P 500® was down over 16%, and the Russell 2000® fell over 17%. In the face of higher rates, investors' willingness to pay expensive multiples greatly diminished.

Fundamentally, some bellwether consumer companies reported a slowdown in discretionary spending. Real wages are falling, many consumers have spent their extra savings from the last two years, and are quickly ramping revolving debt. GDP growth in Q1 was negative, and the Fed's own Atlanta GDPNOW data indicates that the economy contracted again in Q2, giving us at least a technical recession. As the Fed fights further inflation, a real recession seems more and more likely.

While we have had significant valuation compression, we have not yet had meaningful estimate revisions, which seem sure to follow. The question is: Has the market properly anticipated this quarter's results.

SMALL CAP GROWTH COMPOSITE PERFORMANCE

Even after the difficult environment in Q1, this quarter was worse. Every category in the domestic equity market suffered double digit negative returns. Value strategies outperformed growth at every market cap level. The most expensive, and the fastest growing stocks were weakest, and this negatively impacted our strategy, relative to the benchmark. Despite this headwind, we were able to modestly beat the index. The Stephens Small Cap Growth composite was down 18.82% (-18.95% net), while the Russell 2000® Growth Index lost 19.25% of its value.

Consumer Discretionary stocks were on the front lines of the economic battles. Inflation, falling real wages, rising energy prices, and rising rates have all impacted consumer spending. We have significantly less exposure here than our benchmark, but we couldn't escape the damage. Our internet retailers were the hardest hit, but we used the weakness to add to a position in FarFetch Ltd.

Consumer Staples represented our best relative and absolute performance. MGP Ingredients was our biggest contributor to returns this quarter, as demand for alcohol remains strong, and their vertical consolidation efforts have helped profitability. As MGP grew to be our largest position, we trimmed it back significantly, in order to take profits and manage risk. Chefs' Warehouse was another top performer as high-end dining has experienced some pent-up demand. Additionally, Chefs' business model, as a distributor, allows them to pass through higher costs.

Energy stocks pulled back this quarter after stellar returns earlier in the year. Commodity prices peaked mid-quarter, but fell throughout June. We continued to add exposure to the sector, and initiated a new position in Southwestern Energy Company. There are three main components of our enthusiasm around energy. There has been underinvestment in traditional energy production. LNG infrastructure has finally reached a point where natural gas is becoming a global commodity, allowing low cost producers in the US to sell into much higher-priced markets. While nominal energy prices have moved higher, relative to most other goods, energy prices haven't advanced nearly as much.

We were roughly inline with the benchmark in Financials, although we have significantly more exposure. Silvergate Capital Corp was our single largest detractor to performance. As a leader in institutional cryptocurrency trading, the stock couldn't help but get wrapped up in the crypto rout. However, the economics of the bank itself are not directly tied to crypto prices. We expect Silvergate to continue to deliver strong earnings results.

Our Healthcare stocks outperformed those in our benchmark. Once again, our underweight position in biotechnology helped. Additionally, many healthcare companies are somewhat immune from the cyclical economic concerns as financial conditions tighten. Acadia Healthcare Company continued to set 52-week highs, as demand for behavioral health services has soared post-pandemic.

Industrials underperformed for us, but we didn't have many fundamental problems. Our process leads us to secular growth companies (as opposed to cyclical), and these stocks tend to trade at higher valuations. Some of these stocks pulled back significantly during the quarter, without any obvious deterioration in their business. Kornit Digital, one of our best performers in 2021, fell by over 60% this quarter. We still believe the company has a leadership position and is poised to grow, and is also now trading at a level where the valuation is attractive.

Our Technology holdings' performance was inline with that of the benchmark. One of our highlights was GTY Technology, which was acquired by a private company for a whopping 122% premium. We initiated a position in Toast, Inc., a software company which is rapidly gaining share as the leader for front-end systems for restaurants. We trimmed some of our exposure to semiconductors as lead times have shortened, and we are incrementally more concerned about demand.

[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.*

** See our attached GIPS Report.*

PORTFOLIO CHARACTERISTICS

We added seven new positions this quarter, and sold seven as well. Our sector weights didn't change very much, but the Russell reconstruction did have an impact on our benchmark and thus our relative positioning. Our Technology position shrank a little, but we still remain overweight by almost 5%. Healthcare was stable at our second largest sector, and we are now slightly overweight. Industrials shrank by about 1%, but we went from being inline with the index to now being slightly underweight. Despite adding to our Energy exposure, we are underweight the benchmark as a result of the rebalancing.

There was significant valuation compression during the quarter. Our portfolio's weighted harmonic average P/E is only 20, down from almost 28 just three months ago. Our median company grew earnings at 22% and revenues at 23% this most recent quarter.

As *core growth* stocks outperformed *earnings catalyst*, our allocation to core expanded again. The split is now an even 50/50.

OUTLOOK

The Zone

I'm sure you've experienced it before: the *zone*. Being in the zone or in a state of "flow" is that wonderful condition when you're so engrossed in some challenging activity that you shut down just about every conscious thought. You're exclusively in the moment - 100% focused on the challenge at hand. Even though the task is difficult, you're managing it well. It's a glorious thing.

For me, I can sometimes get in the zone on my mountain bike. It happens when my training has gone well, and my technical skills are dialed in, and then I find some section of trail that's hard, but not too hard. It's where I'm just at the edge of my capabilities.

Psychologist Mihaly Csikszentmihalyi defined this state of flow as: when a person is engaged in an activity where the difficulty is balanced with the individual's skill. For me, on a downhill mountain bike, the easy, green trails are just too tame. The double black technical single track is rideable, but just seems like bad risk/reward. But put me on a fast and flowy blue or black freeride trail, and boom, I'm in the zone. My skills are just good enough that I can ride those sections well, but only if I'm 100% focused.

So we've got two factors, skill and difficulty, and when they are roughly aligned, you might be in a state of "flow". Let's introduce a third variable: confidence. If you think your skill level is expert, but it's really more like intermediate, then you won't find "the zone" on those double blacks. It's more likely that you'll find a trip to the emergency room. This is the scenario I have explained to all my kids as they were learning to drive. My message to them was, the real danger of crashing your car isn't the first week you start driving. You're nervous, so you're focused and careful. Your skill level is low, but so is your confidence. You are self-aware. But after a couple weeks of cruising around town, your confidence grows. The problem is that a teenager's confidence grows much faster than their skill. And before you know it, they're not as nervous, not as focused, and not as careful. They're out of the zone. **And that's when accidents happen.**

I think it's safe to say that Jerome Powell and the Federal Reserve Board are not in a state of flow. I don't know if there's a term for the opposite of "the zone", but they're in it. It's the condition where one mistake leads to an overcorrection, which leads to an even bigger mistake, and then reversal and overcorrection, so on and so forth until something goes terribly wrong.

In a conversation with economist, Roberto Perli last month, he said what I thought is the most succinct way of describing the policy errors of the last couple years:

"We responded to a supply shock with a demand shock."

Economist John Cochrane referred to the original COVID-induced economic troubles as a "snowstorm recession". It was a recession because people were stuck at home. On a global scale, being stuck at home meant goods weren't being manufactured at their normal pace. Demand itself wasn't the problem – people wanted to get out and spend money normally, they just weren't able. Somehow the response to this situation was to massively stimulate demand. If that's not a recipe for inflation, I don't know what is.

What's amazing is how few economists saw this coming. It's a reminder that as much as economists have learned over the years, we still don't have a strong grasp of how this all works. The predictions and forecasts of the Federal Reserve were worthless – completely wrong**. As we talk about 75 and 100 basis points hikes today, don't forget that they were still doing QE and had rates at zero just a few months ago!**

Given the unusual tools of ZIRP and QE, they're having to deal with this problem in unconventional ways too. I can't help but imagine Jay Powell on a brand new, prototype mountain bike, bombing down a double black technical trail, when all he's ever done before is coast down the well-groomed beginner trails. Soft landing? Unlikely.

Relativity

If you're like me, you remember the mind-blowing feeling you had when you first grasped the basics of Einstein's theory of relativity, specifically the notion that time itself is relative. The passage of time seems like such an immutable constant, it's hard to reprogram your brain to think anything different.

Nowhere near as profound, but also difficult to intuitively grasp, is that the value of a dollar is not constant either. For the last 40 years or so, the rate of change has been so slow that it's nearly imperceptible over short or even medium time frames. We've been lulled into a sense of stability regarding the worth of a dollar. The recent surge in inflation is changing this perception.

I bet in the last few months you've caught yourself saying something like, "Wow, <some good or service> sure has gotten expensive!" Gasoline. Houses. Cars. Dining in. Dining out. Airfares. Just about anything.

It's not that things are getting more expensive, it's that the purchasing power of your dollar has deteriorated. A lot.

Year to date, a lot of ink has been spilled on the subject of rising energy prices. The price of a barrel of oil stayed above $100 for most of the quarter. For many people, $100 is an important milestone. Back in 2008, the price of oil ramped up quickly, breaking through the $100 barrier, and even trading up to $147. In hindsight, it's easy to see that high energy costs contributed to the recession we had then.

So, $100 oil again might mean the same thing this time too?

Except $100 today is nothing like $100 in 2008. Rather than using dollars, let's put the price of a barrel of oil in terms of other things. In July of 2008, oil hit $147. As I write this, it's under $100. Back in 2008 an ounce of gold was $925. An ounce of gold would buy you 6.3 barrels of oil in 2008. Today, an ounce of gold would command over 17 barrels. Oil, in terms of gold, is still cheap, and it's not as if gold has been some great performing asset.

Groceries? Since 2008, the price of eggs is up 123%. A loaf of bread costs 76% more. Bacon is 88% higher.

The median home price in 2008 was $210,000, today it's $407,600 – 94% higher.

Incomes have grown too. Median household income in 2008 was just over $50,000, and today it is $67,500. Average hourly earnings have grown from $21.59 to $31.95.

Since 2008, the price of just about everything is higher, except oil. Oil is not higher. Now, I realize I've deliberately chosen a time frame where oil had peaked, but that's the point. $100+ oil in 2008 dollars contributed to a recession, but depending on how you want to adjust that 2008 price to today, you'd be looking at an equivalent oil price of $180 or more. You could make a compelling case that oil or gasoline is one of the few bargains out there today.

European countries and other countries without energy reserves have a different problem. Oil prices in terms of their currencies are indeed higher. A barrel of oil priced in Euros or Yen is making all-time highs now. Natural gas is an even worse problem, since it is much more difficult to transport.

The point is: for the US, oil prices could go a lot higher before they catch up to other goods and services. Remember to think in real terms, and not just nominal.

The way out

It's a little funny to me that the institutions and individuals that caused this inflation problem, arrogantly dismissing it as a risk whilst engaging in the very policies that drove inflation, and then promising it would be short-lived once they couldn't ignore the facts, are the very same people who confidently claim they know how to fix the problem…the problem they promised wouldn't be a problem.

I can't really think of any other profession where this happens. If a doctor misdiagnoses you and prescribes something that only makes you worse, odds are you'll seek out another doctor. If the mechanic broke something on your car, you'll find another shop. But the folks that went out of their way to tell us this wouldn't happen, are the ones charged with fixing it. We should be very skeptical.

On top of that, they've effectively sent us mixed signals over the years with respect to interest rates and inflation. Since 2008, short term rates have bounced along the zero-bound more or less, and real rates have been negative. All that time, the good people at the Fed assured us that low rates don't and won't cause inflation. But somehow, raising rates is a surefire way to tame inflation? It's somehow not symmetrical? I think it's safe to say that it's a bit more complicated than that. On some level, I suppose that they may end up being successful in taming inflation, but only because the Fed can induce a recession, and the recession will cure some of the demand-driven inflationary pressure.

Remember: There's always a trade off! We got stimmies and PPP loans and generous unemployment benefits, but at the cost of high inflation. Now, we might remedy some of the inflation, but the cost might be a recession. To make matters worse, the recession may already be here.

Given that real GDP growth was negative in Q1, and the Atlanta Fed's GDP NOW forecast shows negative GDP growth again this quarter, we may already be in at least a technical recession. The data confirming a slowdown is rapidly piling up. Walmart saw a significant slowdown. Target saw it too, then just a few weeks later had to revise down those already reduced expectations. We've seen hiring freezes across many large companies.

As I write this, the Fed Funds' Futures market is pricing in rate cuts in 2023! So, the market is anticipating a couple more aggressive hikes into the end of the year, only to have the Fed immediately reverse course (presumably to deal with a recession). In a twisted view, investors are encouraged by this. We are back in bad-news-is-good-news mode. I can't help but think that it's not that easy. Recessions are painful.

I don't think this is a contrarian view. The R-word gets bantered about on a daily basis in the media. The stock market has squashed expensive stocks, partly in anticipation of slowing growth. But, like I do almost every time I write, I'll remind you to apply our behavioral economic principals – **people chronically underestimate the magnitude and duration of change.** It was true for COVID, it's been true for inflation, and it may very well be the case for this new environment too – one of tightening financial conditions, slowing growth, and even a global recession.

As scary and bearish as that sounds, I'm not afraid. There's actually part of me that's pretty excited. I truly believe there will be some generational opportunities to make money in the coming months. You've got to be ready, you have to have done the prep work, and you have to be up for the challenge. Just like that downhill trail, it's going to be a bumpy and intense ride with a few scary moments, are you ready to ride into the zone?

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	Advisory-Only	Composite Gross	Composite Net	Russell 2000® Growth	Composite Dispersion	Composite Gross	Russell 2000®
2021	7,845	2,260	18	2,259	17	1	15.18%	14.43%	2.83%	0.13%	21.63%	23.08%
2020	6,916	2,074	17	1,972	13	0	38.76%	37.83%	34.63%	0.15%	24.41%	25.1%
2019	5,416	1,691	17	1,289	16	0	24.17%	23.31%	28.48%	0.13%	16.42%	16.37%
2018	4,301	1,518	19	1,155	18	0	4.40%	3.67%	-9.31%	0.06%	16.08%	16.46%
2017	4,442	1,820	18	1,242	17	0	20.24%	19.41%	22.17%	0.08%	13.06%	14.59%
2016	3,644	1,781	23	1,174	21	0	11.41%	10.62%	11.32%	0.10%	15.46%	16.67%
2015	2,897	1,610	26	1,095	25	0	-3.61%	-4.26%	-1.38%	0.06%	14.64%	14.94%
2014	3,430	2,198	29	1,501	28	0	-2.31%	-2.91%	5.60%	0.08%	13.59%	13.82%
2013	3,054	2,359	29	1,630	28	0	44.65%	43.74%	43.30%	0.14%	15.30%	17.27%
2012	1,222	1,096	20	888	19	0	16.99%	16.21%	14.59%	0.07%	18.00%	20.72%

*Strategy Assets are shown as supplemental information as these assets include composite assets and advisory-only assets, and include advisory-only UMA assets managed within the Small Cap Growth Strategy. Prior to 2020, the mutual fund assets managed to the strategy were not included in composite assets.

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 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 December 31, 2021. 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 December 31, 2021. The verification and performance examination reports are available upon request.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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.