Stephens
Investment Management Group®
The Power of Growth®

STEPHENS SMALL CAP GROWTH SEPARATE ACCOUNT

QUARTERLY COMMENTARY
THIRD QUARTER 2019

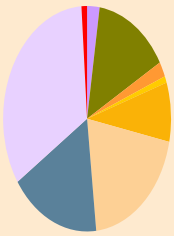
TOP 10 HOLDINGS[1]

COMPANY	% of PORTFOLIO
1.Aaron's, Inc.	2.17%
2.ICON Plc	2.11%
3.Trex Company, Inc.	1.89%
4.PROS Holdings, Inc.	1.84%
5.Aspen Technology, Inc.	1.83%
6.HEICO Corporation	1.81%
7.Proofpoint, Inc.	1.80%
8.Euronet Worldwide, Inc.	1.78%
9.Encore Capital Group, Inc.	1.73%
10.Q2 Holdings, Inc.	1.68%

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	2.40%
Consumer Discretionary	14.29%
Consumer Staples	2.17%
Energy	0.94%
Financials	8.49%
Health Care	19.97%
Industrials	17.29%
Information Technology	33.38%
Materials	1.07%



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

If there was a lot of news to digest in the second quarter of 2019, there was even more in the third quarter. The geopolitical realm provided an almost daily barrage of market-impacting headlines. Trade tensions with China (and others) have dragged on, and we seem no closer to a deal at the end of the quarter than we were at the beginning. China also had internal issues: growth continued to slow, the Yuan devalued unexpectedly, and protests continued in Hong Kong. In addition to China, Brexit drama continued throughout the quarter, with no clear end in sight. Crude oil spiked after a major terminal in Saudi Arabia was bombed by drones.

The domestic political scene was just as dramatic. As the quarter drew to a close, impeachment inquiries were ongoing into President Trump's handling of a conversation with the Ukrainian president. Democratic candidates clashed with each other in several debates, and the field has started to narrow. It seemed the market started to discount the possibility of an Elizabeth Warren win.

As for directly relevant market news, interest rates and the state of the economy were front and center. Rates fell through July and August around the globe with many developed countries seeing negative rates. At its peak in August there was over $17 Trillion of negative-yielding sovereign debt. As rates fell around the globe, it forced rates lower here in the US as well. The Fed cut the Fed Funds rate, helping to reverse the inversion of the yield curve (and fears that it might be a recession signal).

Despite all the volatility, the S&P 500® Index posted a gain of 1.70%. Large companies generally outperformed smaller ones. At the small end of the market cap spectrum there was a marked difference between growth and value, where value beat growth by several percentage points.

SMALL CAP GROWTH SEPARATE ACCOUNT COMPOSITE PERFORMANCE

It was an unusual and volatile quarter, to say the least. Underneath the surface of the broad market, there was even further volatility across investment styles and factors. When interest rates bounced in early September, it seemed to trigger a rotation out of growth, quality, and momentum, and into value and cyclical stocks. Utilities, Staples, and Real Estate were the only sectors which posted a gain. This was a headwind for our style. We trailed our benchmark slightly – the Stephens Small Cap Growth Composite posted a loss of 5.30% Gross (-5.46% Net), while the Russell 2000® Growth lost 4.17% of its value.

Consumer Discretionary stocks were generally in-line with the broad market, but we trailed a little. Ollie's Bargain Outlet Holdings Inc. posted disappointing results because of some cannibalization from a rapid new store roll-out. This negatively impacted our performance for the quarter, but we believe the business model is still intact. We added to our position.

Consumer Staples did well, but we had a company-specific issue with MGP Ingredients, Inc. The company reported another confusing quarter, with signs that demand and pricing are weakening. The management team doesn't disclose enough information about their inventory and sales for us to maintain conviction. We sold our position.

Energy stocks sold off this quarter, but it had little effect on our portfolio, as it is a very small weight. We were busy in the space this quarter, though, consolidating our exposure into fewer names.

We also trailed in Financials. After more difficulties with Green Dot Corporation, we sold our position. They reported an increase in competition for their core business (pre-paid debit cards), while new initiatives have not ramped up as quickly as hoped. We added a new position, Palomar Holdings Inc., a specialty insurance company.

Healthcare stood out as our sector with the best relative performance, most of which was a result of our differentiated positioning in Biotechnology. Biotech stocks were down double digits. Our reduced exposure to the industry, and our focus on companies with profitable business models led to much better returns than those for the benchmark. Additionally, we had success with Insulet Corporation. They reported a breakout quarter on robust sales of their OmniPod insulin management system.

Industrials were essentially flat for the quarter, and our performance was generally in-line with the benchmark. In a reversal from last quarter, our aerospace and defense-related holdings lagged. However, we had success with Trex Company, Inc., as they continue to dominate the alternative wood decking market.

Our largest sector, Technology, performed relatively better than the broad market, although we trailed the benchmark by a bit. Our semiconductor holdings were the best performers, led by Inphi Corp. and Silicon Laboratories Inc. Our software-related positions fared better than those in the benchmark, but our overweight position here worked against us. In general, most of the weakness can be attributed to changes in valuation, not as a result of any material fundamental issues.

[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.*

PORTFOLIO CHARACTERISTICS

We had a little more turnover than usual this quarter. We added two new positions, but eliminated thirteen. Some of those sales were a result of a deterioration of fundamentals, although some cases were an effort to remain style pure – selling a position because it had grown too large for our mandate. The net result is that the portfolio became slightly more concentrated, with 92 holdings in total. Despite the extra transactions this quarter, sector weights didn't change much. Technology, Healthcare, and Industrials remain our three largest, at 32%, 19%, and 17%, respectively. We are overweight Technology and underweight Healthcare (because of unprofitable biotech), Real Estate, and Materials.

Valuations remained about the same as last quarter. The weighted harmonic average P/E ratio for our portfolio is 26.3, versus 19.3 for the Russell 2000® Growth Index. Growth expectations remained modest and nearly identical to last quarter. 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 10.2% and revenues at 13.2%. The same statistics for the Russell 2000® Growth are 9.9% and 7.7%, respectively.

Our mix between *core growth* and *earnings catalyst* tilted back to core this period. Catalyst represents 50.7% of the portfolio, while core growth is the remaining 49.3%.

OUTLOOK

I can't remember a quarter in which so much happened. I've thought extensively about how I should write this quarter's outlook, and I think the right thing to do is cover my thoughts on:

US/China trade negotiations
Hong Kong protests
Yuan devaluation
Middle East disruptions
Brexit
Broken IPO market
Impeachment
Slowing Global Growth
Negative sovereign interest rates
Inverted yield curve
Fed rate cut and balance sheet expansion
Repo market disruptions
Factor rotation in domestic equities
The 2020 Presidential Election

While I'm willing to opine and write on all these subjects, I assume I would have lost your interest somewhere along the way. Instead, I'll do my best to condense and summarize what I think is most important and relevant for our investors.

Greek philosopher, Heraclitus said, "The only constant is change." I whole-heartedly agree.

But I would also like to add to that thought. While change is constant, the *rate* of change is not! As history has progressed from Heraclitus' time, I think it's safe to say that change has occurred in an exponential fashion, and we are living in the elbow of the curve.

I realize I'm not saying anything particularly novel, but let me add to that idea once more - the rate of change has reached a point that we are changing *entire systems*. All of these changes below have occurred in just the last few years.

Negative interest rates and seemingly permanent QE? That's changing the very system of monetary policy and the tools central bankers use, and is disrupting the system of banking by up-ending the normal flow of capital.

Brexit and trade negotiations with China (and others)? Changing the system of global trade.

Impeachment inquiries, overt media bias, extreme polarization of the populace, and the potential shift to socialism in the US (under a new administration)? All of those things are signs of a political system that have radically changed, and will continue to change.

More than a decade of assets flowing out of active and into passive, algorithmic trading, dark pools, the explosion in ETFs, the bubble in private equity, and the prevalence of top-down or factor investing? The very system of the stock market has changed. The way stocks are chosen has changed; the nature of liquidity and trading is very different than just a few years ago.

Behavioral economics tells us that individuals make systematic mistakes: they stay anchored to an idea or a data point; they are overconfident about their ability to understand or estimate things; they suffer from confirmation bias; and they will only incrementally adjust their opinions when change is required. As you probably already know, our effort to mitigate these biases internally and then exploit these mistakes when other investors make them is key to our investment process. I'm oversimplifying, but we look for change, and then exploit the chronic underestimation of the magnitude and duration of that change.

In addition to securities analysis, this concept can and should be applied to examining the world around us. I feel certain that most everyone is underestimating the impact of these changes. To add to the problem, for the few of us that assess these changes with eyes wide open, it's far from clear what the consequences and collateral impact will be. It's not just that we are in uncharted territory, but that we're accelerating into the unknown.

I don't mean to sound alarmist. The sky isn't falling (although the "black swan" risk is probably rising). The economy is performing remarkably well, and the stock market is flirting with new highs. My point is that noise, volatility, and disruption are here to stay and show no signs of slowing. There will be winners and there will be losers. **It's a great time to be a bottom-up, active manager. At the same time, this environment will test and challenge any investor's resolve, process, and discipline.**

OUTLOOK

Consider this caveat, one that I think is critically important in this environment - investors are conditioned to draw inferences from price action alone, and this can be a trap. For instance, when investors see a stock's price move significantly for no apparent reason (no news, no earnings, no sell-side research or anything in the public domain that would explain it), the obvious reaction is to assume that there is some new information that other investors have seen. Oftentimes price action like this will send us on a wild goose chase, trying to figure out if there's something fundamental happening that we just haven't uncovered yet. And many times, this is indeed the case. After some research, we eventually find the information that was impacting the stock. Historically, the collective wisdom of the market has been pretty effective at ferreting out new information and incorporating it into the price of a given security. This is effectively the definition of an efficient market.

If you think my hypothesis has merit (that change is accelerating, noise and volatility are increasing, and the market is much less efficient today), then you must be careful in assuming that price action implies a fundamental change. Now more than ever, price action is a result of non-fundamental, non-company specific factors. This non-fundamental price action is one of the opportunities we seek to exploit.

This non-fundamental, non-company specific market action has been pushing stocks around more and more. Typically, it's little by little, only very incremental deviations that are nearly imperceptible. Fundamentally driven investors won't be persuaded to transact by these minor, imperceptible deviations on any given day. But when new information hits the market, fundamental investors spring into action, digest the new data, incorporate it into their investment thesis, and actually put dollars to work in the market. The most obvious example of this is a quarterly earnings report.

When you compare the volatility of stock prices around earnings announcements versus other periods, there has been a steady rise over the last decade. In fact, the relative volatility during earnings periods has doubled. Earnings reports are a moment of reckoning. It's the one day of the quarter that fundamental investors collectively weigh in and force the market back to its most efficient form. For the other 89 days of the quarter, especially when there's no new news to digest, the machines take over, the ETFs flow, and passive investors swing these companies along a random path.

In closing, I'll echo my comments from the last several years. Buckle up for the volatility and noise. Go (or stay) active. It's a complicated and dynamic world out there. For the patient and disciplined investor, there's more opportunity than ever.

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 June 30, 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 June 30, 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.