Stephens Investment Management Group®

The Power of Growth®

STEPHENS SMALL CAP GROWTH COMPOSITE

QUARTERLY COMMENTARY

FOURTH QUARTER 2020

MARKET OVERVIEW

Let there be no doubt that the market is forward looking. Even as Covid-19 infections spread to the highest levels yet, and many states and cities responded with lockdowns, the market rejoiced as multiple vaccines became available. The market also shrugged off a relatively messy and hotly-contested presidential election. It seemed almost as if any news was interpreted as “good news”. The S&P 500® Index gained 12.15% in value in the fourth quarter of 2020.

Economic data was mixed. Unemployment data improved slightly, but remains at elevated levels. GDP levels rebounded from their lows in the summer, but were still negative on a year-over-year basis. The Federal Reserve has maintained its very accommodative stance with near-zero short-term rates and a massive balance sheet. At the same time, Congress is considering additional stimulus checks to individuals. At the end of the year, leading economic indicators showed a significant improvement.

Anticipation of the vaccine-driven reopening fueled a risk-on attitude, and cyclical stocks outperformed. Value strategies beat their growth counterparts, and smaller companies beat larger ones. Valuations across all equities reached some of the highest levels on record.

SMALL CAP GROWTH COMPOSITE PERFORMANCE

The framework we provided last quarter is still relevant: investors tend to oscillate from periods of anticipation and speculation to periods of “reckoning”. In the speculative time frames, investors tend to paint with a broad brush, lumping stocks together on the basis of sectors, industries, factors, and risk, paying less attention to the idiosyncratic differences among stocks. In periods of reckoning, as investors are forced to deal with new information, they apply this calculus to each company, and dispersion increases as companies are judged on their individual merits in light of the new reality.

Q4 was yet another period dominated by anticipation and speculation. Enthusiasm regarding the impending reopening reached almost euphoric levels. This is not to say that the enthusiasm was misplaced, but that much of the good news was priced in during the quarter. The market behaved as it would coming out of a recession, disproportionately rewarding lower quality companies and those more exposed to the economic cycle.

Given our bias toward high quality, secular growth companies, this was a stylistic headwind for us. As a result, the Stephens Small Cap Growth Composite return of 23.70% (23.48% net) lagged the benchmark return of 29.61%. Stocks of companies without earnings beat those with profits by over 1200 basis points this quarter.

Consumer Discretionary stocks behaved much like they did in Q3. The best performers were the companies depending on a reopening, specifically in travel and leisure. Our holdings didn’t quite keep up with those in the benchmark, as our portfolio is more focused on secular growth companies, many of which held up quite well during the difficult Covid-related shutdowns. We did well with two of our more recent additions, Fox Factory Holding Corp. and YETI Holdings. Fox makes high performance suspension products used on mountain bikes, ATVs, and trucks. YETI’s innovative coolers have a loyal following. Both companies have benefited from a shift in consumer preferences to more outdoor recreational activities. Another of our holdings in the outdoor recreation arena is Sportsman’s Warehouse, who announced they were being acquired by Bass Pro Shops.

Energy stocks were the top performers across the entire market. Despite great enthusiasm for clean energy and renewables, the economy still depends on traditional energy sources. A reopening and the subsequent increase in economic activity, especially travel, could create much higher energy demand. This is a very small component of our portfolio today, but we did initiate a new position in Viper Energy Partners, which owns and develops oil and natural gas.

We trailed the benchmark in Financials, largely due to underperformance in the Consumer Finance industry. Our positions in pawn shops and debt collectors haven’t kept up with the rest of the space. This recession was remarkably different than any other, in that disposable household income was up double digits! Stimulus checks, PPP, and enhanced unemployment benefits actually put more income in consumers’ hands. This disrupted many of the finance-related products and services that those consumers often use.

As it has been the case lately, the performance of Health Care as a sector is dominated by biotechnology. (The same could be said for the Russell 2000® Growth Index itself!) Enthusiasm over vaccines and a risk-on environment drove these stocks even higher. Our portfolio of profitable biotech companies didn’t keep up with their riskier, unprofitable counterparts. We continued to have success with Repligen Corp., and we used that strength to trim our position there. We benefited from a spate of M&A activity. Biotelemetry Inc., Omnicell Inc., and HMS Holdings all announced they were being acquired, and they were all strong performers for us.

We were generally in-line with our Industrials performance. Many of these companies are more exposed to the business cycle, so we did well to keep up. Kornit Digital was our second biggest contributor to returns as their solutions for digital printing on textiles continues to take market share. We trimmed our position simply as a risk control measure.

Technology stocks were second only to Energy in terms of absolute performance, and our overweight position helped our returns. For the fourth consecutive quarter, Five9 Inc. was a top contributor. They are still benefitting from the shift to a distributed workforce. In a common theme with our other top performers, we also trimmed this position.

[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 in the Important Legal Disclosures section.*

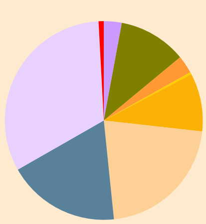
TOP 10 HOLDINGS[1]

COMPANY	% of PORTFOLIO
1.Five9, Inc.	2.30%
2.Kornit Digital Ltd.	2.20%
3.Chegg, Inc.	2.17%
4.Repligen Corporation	2.10%
5.Globant	1.92%
6.ICON Plc	1.87%
7.SiteOne Landscape Supply, Inc.	1.80%
8.Kratos Defense & Security Solutions	1.78%
9.Axon Enterprise Inc	1.72%
10.Omnicell, Inc.	1.61%

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	2.92%
Consumer Discretionary	11.10%
Consumer Staples	2.91%
Energy	0.38%
Financials	9.46%
Health Care	21.60%
Industrials	18.40%
Information Technology	32.39%
Materials	0.85%



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PORTFOLIO CHARACTERISTICS

We added seven new positions this quarter and eliminated four. Technology remains our largest sector at 31.5% of assets. Healthcare shrank a little from last period, and now sits at 21%. Industrials is our third largest at 18% of assets. Relative to the benchmark we are significantly overweight Technology and underweight Biotechnology.

Valuations continued to expand in Q4, ending the year at very elevated levels from a historical perspective. Our weighted harmonic average P/E ratio on the next twelve months earnings expectations is 34. Growth began to rebound from the lows of the summer, and our median company grew earnings by over 15% and revenues in excess of 11%. Forward estimates show continued acceleration.

There was a big shift in our split between *core growth* and *earnings catalyst* this quarter. Some of this was organic and due to trading and relative performance, but we also re-categorized some of our holdings as this rapidly changing economic environment has had an impact on business models. Core growth represents 53% of the portfolio, while catalyst makes up the remaining 47%.

OUTLOOK

Over the years here, I've spilled a lot of ink on the topic of inflation. For me, it's been the most interesting economic puzzle. Last quarter, I said this:

> **What if all that money growth isn't being transmitted to the baskets of goods that CPI and PCE track, at a time when deflationary forces of ecommerce and technological innovation are very powerful?** What if that money is going into assets (via investment and saving) rather than goods (via consumption)? Are record-high equity valuations a sign of a different kind of inflation? What about collectible cars or art? Have you seen what has happened to the price of high-end watches lately? Commercial real estate has been negatively impacted by Covid, but have you seen residential real estate in prime locations?

This is just a working theory, but I'm starting to think that we may not see inflation in CPI or PCE for a very long time, and that the Fed will keep their foot on the gas, only to inflate asset prices. Is this why we are seeing record valuations across so many stocks?

I stand by this theory, except on timing. I now believe we will see inflation in the traditional sense (CPI and PCE) this year.

As for money growth, M2 is up over 25% in the last year. This is pretty unprecedented. At the same time, the Fed has set short-term rates at essentially zero. It's hard to be more accommodative. Well, at least from a monetary standpoint. If you wanted to be more accommodative, you'd have to look to fiscal tools. Oh wait, we've been using those in an unprecedented manner as well. The combination of stimulus checks, PPP, and higher unemployment benefits resulted in disposable income *rising* by about 17% in the middle of the Covid-induced recession. You read that right. Real disposable personal income rose on a year-over-year basis more than any other time. A hallmark of most recessions is that disposable income is down. Extreme situations (the global health crisis) called for extreme solutions.

The vaccines have arrived with potentially more around the corner. I personally know quite a few people who have already received it. Equity markets have been frothing in anticipation of the great reopen that will go along with the vaccines. Barring something completely unexpected, it is imminent. So, the unusual measures of zero rates, QE, massive money growth, fiscal stimulus, direct transfers to individuals, that were a result of the health crisis can go away now that the vaccine is here? Nope.

The Fed keeps saying they'll let the economy run hot. Remember, they changed the 2% inflation target to a 2% *average*, implying that since it's been below 2%, they won't mind if it's in excess of 2% for a while. Congress is working on new stimulus payments. Improved unemployment benefits persist.

The exogenous shock of Covid-19 wasn't unique to the US economy. The global economy suffered as virtually no country was spared from the wrath of the disease (although tip of the hat to New Zealand on their relative success). As vaccines get distributed globally, every country will be reopening. For the first time ever, it seems as if every country on the planet is going to be experiencing an economic expansion at the same time.

Supply chains are still not operating normally, and inventories are very lean. Vaccines and an improvement in Covid-19 should almost immediately unlock pent-up demand. But it won't unlock supply. It will take time for companies to re-hire and bring employees back into the organization. Initially, productivity will be low as workers are re-trained. The inflation pressure isn't just from increased demand, but also reduced supply, at a time with a glut of liquidity.

Whether you believe in the merits of cryptocurrencies or not, it's undeniable that something profound is happening with Bitcoin. Some of the appreciation is a result of Bitcoin becoming much more institutionally viable. Custody operations and trading have become more robust. In theory, it is also a great hedge against inflation. Bitcoin is telling us something.

Bitcoin is also a symbol of the enthusiasm, or dare I say euphoria, in the market today. It seems as if investors are in a state of positive sentiment override – everything that happens, any new developments are perceived with a positive bias. Early last year, strategists and investors believed that a democratic administration would be less market-friendly, potentially raising corporate taxes and increasing the regulatory burden relative to the Trump administration. Sometime in the Fall, investors changed their minds, deciding that it wouldn't be that bad at all, and in fact might be a net positive because of additional fiscal stimulus. After the election, those same strategists made the case it was a good outcome for the market because of gridlock - with a republican-controlled Senate, it would be hard to make any significant changes, and the market loves stability. The market moved higher. As I write this, post Georgia Senate runoffs, we no longer have gridlock, but the so-called Blue Wave investors initially feared. No matter! The market keeps going higher.

OUTLOOK

In my mental model for the market of shifting between periods of speculation and anticipation to periods of reckoning and recalibration, we are near peak speculation. There will be surprises. There will be periods of reckoning. And those are the environments where alpha can be unlocked by active managers who are prepared.

In early February of 2020, we became concerned about Covid-19, and went to great lengths to prepare a game plan in the portfolio. We didn't want to move the portfolio around based on our speculation, but we wanted to be fully prepared if and when it became evident Covid-19 would be a problem. Much of our success last year was based on this work. We are doing the exact same thing now with respect to our concerns on inflation. We aren't making changes to the portfolio based on speculation, but we are going to be well prepared as we monitor the situation with a laser focus.

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		Russell 2000® Growth	Composite Dispersion	Composite Gross	Russell 2000® Growth
						Gross	Net				
2020	7,062	2,074	17	1,968	13	38.76%	37.83%	34.63%	0.15%	24.41%	25.10%
2019	5,416	1,691	17	1,289	16	24.17%	23.31%	28.48%	0.13%	16.42%	16.37%
2018	4,301	1,518	19	1,155	18	4.40%	3.67%	-9.31%	0.06%	16.08%	16.46%
2017	4,442	1,820	18	1,242	17	20.24%	19.41%	22.17%	0.08%	13.06%	14.59%
2016	3,644	1,781	23	1,174	21	11.41%	10.62%	11.32%	0.10%	15.46%	16.67%
2015	2,897	1,610	26	1,095	25	-3.61%	-4.26%	-1.38%	0.06%	14.64%	14.94%
2014	3,430	2,198	29	1,501	28	-2.31%	-2.91%	5.60%	0.08%	13.59%	13.82%
2013	3,054	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%

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 September 30, 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 Cap Growth Composite* has had a performance examination for the periods *October 7, 2004 through September 30, 2020*. The verification and performance examination reports are available upon request.

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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. Our GIPS Policies are available upon request. 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.