Stephens Investment Management Group®

The Power of Growth®

STEPHENS MID CAP GROWTH COMPOSITE

QUARTERLY COMMENTARY[1]

FOURTH QUARTER 2025

MARKET OVERVIEW

As expected, the Federal Reserve delivered two more 25 basis point cuts to the Fed Funds rate this quarter, although it was less clear if there are more cuts on the table for early 2026. Longer term interest rates moved lower early in the period but finished the quarter nearly unchanged. GDP figures for Q3 came in surprisingly high, and employment data has been resilient enough not to spook markets.

News out of D.C. remained chaotic. There was continued trade noise with China. The 43-day long government shutdown added some stress to markets and the economy but ultimately resolved without much issue.

While the technology itself seems to continue to scale and improve, the investment narrative around Artificial Intelligence got more complicated this quarter. Some investors have begun to fret about a "bubble." As the industry races to build capacity, the easy and obvious funding of capex has been used up. There was real volatility under the surface, but equity markets continued their march forward with the S&P 500® Index gaining 2.66%.

MID CAP GROWTH COMPOSITE PERFORMANCE

Of all Russell's major domestic equity indexes, the Russell Mid Cap® Growth was the only one in negative territory for the quarter. Our performance was also slightly negative but was decidedly better. The Stephens Mid Cap Growth Composite was down 1.14% gross of fees (-1.26% net), while our benchmark was down 3.70%.

In relative terms, we did well in Communication Services, although returns for the sector were negative. It wasn't so much what we owned, as it was what we don't – the largest weight in the benchmark, ROBLOX Corp. Roblox was down over 40% this quarter in part over concerns about the company's liability with respect to exploitation and abuse of the children using the app.

Despite our underweight position, we did well in Consumer Discretionary. Ross Stores seems to be benefiting from a more targeted, higher tech advertising approach, and generated same store sales growth of 7%. Five Below shares continued their epic recovery following "Liberation Day" panic, posting double digit same store sales and strong financial results across the board.

Our holdings in Energy generally did well also. Crude prices slid throughout the quarter, but we are exposed to natural gas, where prices moved higher.

We trailed the index in Financials just slightly. There wasn't much activity in the space, but Robinhood Markets sold off a little this quarter, after two quarters of stellar results. Their share gains and initiatives into new markets continue to drive results.

We had a great quarter in Healthcare. We were the beneficiaries of a wave of M&A activity. Both Hologics and Exact Sciences were purchased for healthy premiums, and Exact was our second biggest contributor to returns. We re-initiated a position in Penumbra, a medical device maker focused on vascular diseases.

Industrials were a weak spot for us this quarter for primarily two reasons. Many of our aerospace and defense-related names pulled back on valuation concerns. Early in the period we trimmed some of these same positions, reducing the impact. Fundamentals remain very healthy there. Secondly, long-time holding, Trex Company, a maker of wood decking alternatives, posted weak results and guided to a year-over-year decline for 2026. We sold our position.

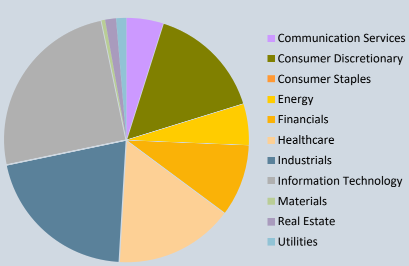
Technology was our strongest sector in relative terms. Leading the way was Coherent Corp., the world's largest optical component and photonics company. Their high speed networking components have become critical infrastructure in AI data centers and cloud computing. Teradyne, a semiconductor capital equipment manufacturer was also a top contributor, as AI buildout is driving demand for increased semiconductor manufacturing capacity. Software issuers were a headwind for us, as investors began to worry that AI's ability to code and develop software might displace current solutions. We sold our position in Monday.com partly because of this concern. We remain mindful of these risks but believe the rest of our holdings have sufficient barriers to entry and mission critical reliability.

TOP 10 HOLDINGS*

COMPANY	% of PORTFOLIO
1. Vertiv Holdings Co.	1.96%
2. Burlington Stores, Inc.	1.92%
3. Ross Stores, Inc.	1.91%
4. FirstCash Holdings, Inc.	1.87%
5. Take-Two Interactive Software, Inc.	1.83%
6. Coherent Corp.	1.81%
7. Axon Enterprise Inc	1.75%
8. Five Below, Inc.	1.66%
9. Evercore Inc.	1.65%
10.Guidewire Software, Inc.	1.55%

SECTOR WEIGHTINGS*

Communication Services	4.87%
Consumer Discretionary	15.35%
Consumer Staples	0.00%
Energy	5.44%
Financials	9.53%
Health Care	15.74%
Industrials	20.81%
Information Technology	25.00%
Materials	0.48%
Real Estate	1.45%
Utilities	1.34%



Excludes Money Market Fund Holdings. Portfolio holdings and asset allocations are subject to change and are not recommendations to buy or sell a security. The percentages in the tables above are derived from the model account within the composite.

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[1] The information is supplemental only and complements the full disclosure presentation located at the end of this document. The Russell Midcap® Growth Index measures the performance of those Russell Midcap® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000® Growth Index measures the performance of those Russell 3000® Index 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 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 bought four new positions this period and eliminated six. Technology and Industrials are our two largest sectors, with Healthcare and Consumer Discretionary in a dead heat for third. Relative to our benchmark, we are overweight Tech and Energy, and underweight Consumer.

With slightly negative returns but continued growth, valuations pulled back from last period. Our weighted harmonic average P/E on forward earnings is 27.5x, versus the benchmark at 24.6. Our median holding grew earnings at 17.7% in the most recent period, slightly ahead of that in the benchmark.

After several quarters of shifting toward catalyst, our split tilted back toward core this time. At the end of the year, 58.4% of the portfolio was *core growth* and 41.6% was *earnings catalyst*.

OUTLOOK

In 1969, Milton Friedman first wrote about the idea of "helicopter money," as a thought experiment where the government simply adds money to the economy by dropping if out of a helicopter. It didn't matter exactly who got the money or whether they deserved it or not, it's just about injecting money into the system. Ben Bernanke referenced the idea during his term as Fed Chairman as one of the tools to fight deflation. It turns out that stimulus from the government can take many forms.

During the worst of COVID, policy makers were sufficiently terrified of the recession and potential deflation, that if they were to make any policy error, it would be in the direction of inflation. As a result, they went overboard with stimulus. We all know about the stimulus checks that were directly sent to many Americans but less is written about how prolific the PPP loans were (in many cases for businesses that clearly didn't need the help), and less still about the PPP loan fraud or the unemployment fraud.

Since in-person interactions were discouraged, unemployment offices went fully online in a hurry, and whether because of the time constraints, shoddy programming, or mal-intent, unemployment claims were paid very quickly, without vetting. Fraudsters figured this out very quickly, and it became a lucrative operation – all you needed was a name and a social security number, and you could have money sent to your account. Estimates of this type of fraud during COVID range from $100-$400B. It's a shocking number. And taxpayers would be justified to be outraged. While the government did look into the issue, and some people were chased down (supposedly less than $1B has been recovered), the whole scam largely was ignored. Why? Because it was helicopter money. It was less important that "bad" guys got the money via fraud, it was far more important that money was entering the economy.

Yes, I know I'm a cynic.

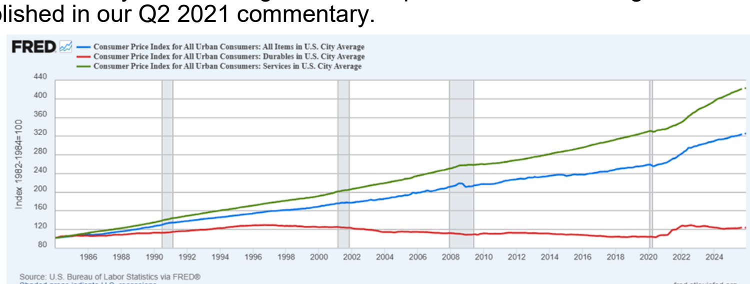
You may have seen the news lately about the allegations of fraud in Minnesota, with respect to Medicaid, and other state-supported services, like day care and nutrition programs. Estimates are in the billions of dollars. Depending on who you listen to, there are allegations that some state officials were complicit with the fraud, and actively thwarted investigations into it. Again, taxpayers should be outraged, but some policy makers might just see it as helicopter money, or even a just form of wealth redistribution. Afterall, that money makes its way into the economy very quickly. It contributes to GDP, and there's no doubt it contributes to inflation.

What's the point of all this? It's just another piece of my inflation puzzle. I've often wondered if deflation is really the bogeyman that economists make it out to be. I think the answer is that it's not such a terrible problem, **but only in a world without reliance on debt**. In a system built on debt, deflation is downright toxic, and policy makers will do anything and everything to fight it. I'm not going to go so far as to say that the government welcomes fraud as a way to fight inflation, but it's not a stretch to think that some may be ambivalent about it after the fact. Elon Musk (after his time with DOGE) has estimated that such fraud and waste could amount to as much as $1.5 Trillion dollars. As I write this, Treasury Secretary Scott Bessent was quoted as saying fraud and abuse is "about 10% of the federal budget, 1 to 2% of GDP." (Article linked here) [1]Incrementally, removing spending on even fraudulent activities or imprudent matters is disinflationary. After eliminating such wasteful spending, policy makers might have to compensate for it elsewhere in order to keep inflationary/deflationary pressure neutral.

For the other puzzle pieces, it's important to remember that technological innovation is a powerful source of deflation, and generative AI might be one of the most powerful we've seen. Nonfarm Productivity just ticked up to 4.9%, contributing to a *reduction* in Unit Labor Costs of 1.9%. We regularly hear from company management teams that AI is leading to material improvements in productivity across a variety of industries and applications, and we are still in the early days of adoption.

As AI succeeds in being a powerful engine of productivity, it will tautologically be a powerful deflationary force. Central bankers know that deflation cannot be allowed, so policy makers will have to ramp up policies which spur inflation to offset it. On top of that, the current administration is effectively pursuing policies that will lead to less spending on immigration and immigration support programs, and that will be an additional incremental source of disinflationary or deflationary pressure. *Perhaps this is the reason the current administration is so hellbent on getting interest rates lower.*

Years ago, I wrote about how inflation had really come from growth in the price of services, not goods – this was a 40 year trend. Here's the updated version of the chart we published in our Q2 2021 commentary.



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* Ratios and percentages in this section are based on holdings of the model account within the composite.

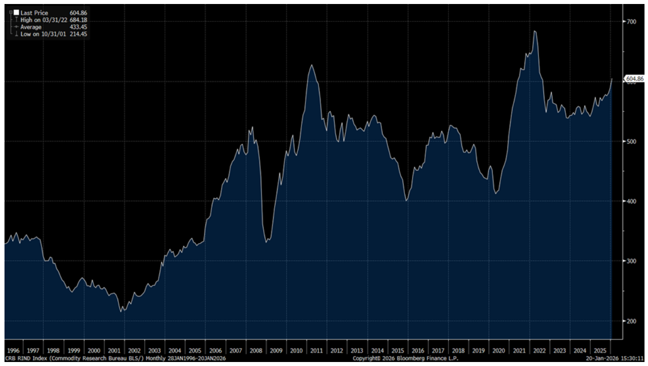
OUTLOOK

Technology, manufacturing efficiencies, and globalization (wage arbitrage) were some of the powerful forces that drove the price of durable goods lower, while anything services-related (and particularly things subsidized by the government, like education and healthcare) were inflating at an uncomfortable pace. Combined, the CPI picture was relatively tame…until COVID.

During COVID we saw a big uptick in goods inflation. As Roberto Perli said, we responded to a supply shock with a demand shock. Since 2022, the goods inflation has settled back down.

I don't think there's any question that the near-term impact of AI will be deflationary for white collar work first. We are seeing evidence of this in real time. Not all services will be impacted by AI in the near term, but certainly some will. I believe it's very possible that AI will be the catalyst for disinflation or maybe downright deflation in services.

At the same time, it seems like we are at an inflection point for goods as well. Tariff policies, complex trade negotiations, the recognition of strategic resources, and other factors could have the effect of driving goods prices higher. Here's the CRB RIND index, which is made up of raw industrials (that usually aren't affected by trading or speculation in financial markets) like hides, tallow, burlap, cotton, tin, etc. The latest trend is a little troubling.



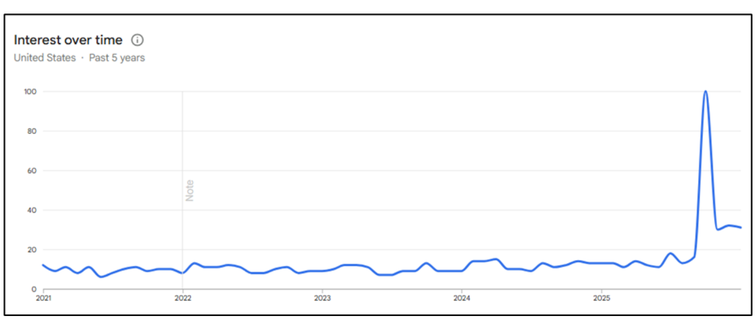
The cynic in me worries a little less today about CPI or headline inflation. I think it's quite possible that CPI will be managed to look tame (see my prior commentaries on how this happens). What I do worry about is that I don't think the world is prepared for a reversal in this 40 year trend – that goods inflation could reignite while services deflate. What I'm describing here are changes in inflation dynamics as a result of underlying market forces – not the impending monetary policy or direct fiscal policy, which complicate things further.

In summary, we could have a situation where:

- AI causes deflation in services (and longer-term maybe in goods too, because of robotics).
- Changes in immigration policy are deflationary (in terms of government support).
- Government addressing fraud, waste, and abuse is deflationary.
- Goods or commodity disinflation could be reversing in the short-term.
- In the complexity and gyrations of all this change, policy makers will not risk deflation and will likely err in the direction of adopting very accommodative policies.
- These inflationary policies will have implications elsewhere, namely exacerbating the K-shaped economy and in capital markets and in asset prices.

Now, I don't mean to totally dismiss the risk of actual measured inflation. What's going on with raw materials and goods could overwhelm the deflationary aspect of AI in the near term. The changes to immigration policy could drive wages higher for some jobs – a pretty clear path to inflation. On top of that, inflation expectations aren't as anchored as we might like them to be.

Google Search Trends for the term "Debasement"



Last quarter I mentioned the risk of a fiat-asset spiral (as opposed to a wage-price spiral). If enough people come to the conclusion I've outlined above (and in previous commentaries), the logical step is to avoid fiat currency and own assets. Recently silver has gone into meme-stock territory. Other commodities have moved higher as well. I stand by my claim that gold is telling us something - don't ignore its message.

OUTLOOK

Since AI plays a key role in my argument above, let's check in on developments there.

First off, the investment landscape for AI got a bit more complicated. In the race to build out data centers, the hyperscalers have spent a great deal of cash, and are now having to get more creative in terms of financing further expansions. The best example of the change in reality and the change in sentiment might be Oracle. Investors loved it in Q3 as they were ramping spend in AI and signing contracts with the major providers, but this quarter it appeared to be over-hyped as revenue and earnings missed expectations and investors worried about debt, timing, and profitability.

If AI really is a winner-take-all or winner-take-most market, then some of today's players won't make the cut. When that happens, the data center capex ecosystem will take a hit. I won't begin to venture a guess as to when, but it's something we should all consider, and is probably behind some of the volatility in the stocks.

Secondly, the competitive landscape really seemed to shift. Google's Gemini demonstrated massive performance improvements. Anthropic's Claude showed continued gains in commercial use and adoption from corporate America. Meanwhile, OpenAI's position has weakened a little, in part due to a legal battle with Elon Musk over their shift away from non-profit status.

Most importantly, is that there is no evidence that generative AI systems have hit a wall in terms of scalability. It's quite the contrary – there have been almost weekly developments and improvements in functionality. Just recently, OpenAI's GPT 5.2 Pro generated a novel proof to a previously unsolved decade's old mathematical problem. Naysayers have complained that generative AI simply regurgitates rather that creates or innovates; this could be important evidence that it can be creative and expand human knowledge.

Finally, I think the market is underappreciating the potential inflection point in robotics. AI's ability to create synthetic data is allowing for much faster improvements in robot development. Long-term, there are profound economic and societal implications.

Given these changes, I stand by my claim last quarter that the AI theme has entered the second inning. In this quarter there was a fair amount of chatter of an "AI bubble," and if people are using the term "bubble," then it's clearly not the first inning. But it's not a late inning either. People thought the Internet investment theme was a bubble in 1997, before today's Internet leaders were even in existence. We have a long, long way to go!

I know I sound like a broken record at this point, but I'll keep reiterating this message as long as it is true: the fundamental, secular change that is taking place across the economy and society is unprecedented and change is the fuel for our process. The various factors that impact inflation and the economy at large are changing rapidly and all at the same time. Expect volatility; expect policy errors; expect opportunity. It's an exciting time…just be on the lookout for things falling from helicopters.

PERFORMANCE FOR PERIOD ENDED 12/31/2025

	Quarter Ended 12/31/2025	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception Annualized (6/2/2006)	Since Inception Cumulative (6/2/2006)
Stephens Mid Cap Growth Composite Gross*	-1.14%	13.58%	13.58%	18.00%	6.29%	14.01%	11.34%	721.47%
Stephens Mid Cap Growth Composite Net of Fees*	-1.26%	13.05%	13.05%	17.44%	5.79%	13.43%	10.65%	626.05%
Russell Midcap® Growth Index	-3.70%	8.66%	8.66%	18.62%	6.64%	12.48%	10.28%	580.31%

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	USD (millions)	Composite		Russell Midcap® Growth	Composite Dispersion	Composite Gross	Russell Midcap® Growth
							Gross	Net				
2024	7,637	1,675	21	1,517	16	116	14.34%	13.80%	22.10%	0.11%	20.82%	22.15%
2023	6,986	1,062	22	923	17	112	26.56%	25.96%	25.87%	0.07%	20.01%	21.06%
2022	5,664	805	23	668	18	118	-27.31%	-27.65%	-26.72%	0.19%	24.57%	24.53%
2021	7,845	1,185	27	980	22	179	13.58%	13.03%	12.73%	0.22%	20.55%	20.19%
2020	6,916	984	25	878	22	97	41.77%	41.09%	35.59%	0.34%	22.26%	21.45%
2019	5,416	654	17	263	13	28	33.57%	32.85%	35.47%	0.29%	14.79%	13.88%
2018	4,301	342	13	216	11	11	3.22%	2.68%	-4.75%	0.12%	14.13%	12.82%
2017	4,442	338	12	240	11	0.00	29.68%	29.01%	25.27%	0.20%	11.72%	10.88%
2016	3,644	287	13	201	9	0.46	7.98%	7.24%	7.33%	0.09%	13.13%	12.17%
2015	2,897	152	12	38	10	0.44	-0.27%	-1.01%	-0.20%	N.A.	12.01%	11.29%

The investment objectives, risks, charges and expenses should be carefully considered before investing. SIMG nor their representatives provide legal or tax advice. Please consult your tax advisor before making any decisions.

There are additional risks associated with investments in smaller and/or newer companies because their shares tend to be less liquid than securities of larger companies. Further, shares of small and new companies are generally more sensitive to purchase and sales transactions involving the company's stock and to changes in the company's financial condition or prospects, and, therefore, the prices of such stocks may be more volatile than those of larger company stocks. Clients' investment results and principal value will fluctuate.

- 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 Mid Cap Growth Strategy. Prior to 2020, the mutual fund assets managed to the strategy were not included in composite assets. Advisory-Only Assets are as of 11/30/2024.
- N.A.—Composite Dispersion information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Mid Cap Growth Composite *contains fully discretionary accounts and pooled investment vehicles invested primarily in mid cap common stock of U.S. companies. Under normal market conditions, most of the securities purchased for this composite have market capitalizations between $1.0 billion and the market capitalization of the largest company in the Russell Midcap® Index at the time the security was initially purchased by accounts in the composite which appear to have clear indicators of future earnings growth or that appear to demonstrate other potential for growth of capital. In addition to common stock the composite may also purchase convertible and preferred stock as well as certain Exchange Traded Funds. This composite is actively managed and securities in the composite are frequently purchased and sold by the manager. For comparison purposes the composite is measured against the Russell Midcap® Growth Index.*

Stephens Investment Management Group, LLC claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Stephens Investment Management Group has been independently verified for the periods December 1, 2005 through December 31, 2024. 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 *Mid Cap Growth Composite* has had a performance examination for the periods June 2, 2006 through December 31, 2024. 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 fees and include the reinvestment of all income. Net of fee performance is calculated using actual fees incurred. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

The maximum fee charged is 1.00% of assets under management. Actual investment advisory fees incurred by clients vary.

The Mid Cap Growth Composite creation and inception dates are June 2, 2006.

Prior to September 1, 2011, composite policy required the temporary removal of any account from the composite which incurred a client initiated significant cash inflow or outflow of 10% or more of the value of the net assets of the account in any 30 day period. The temporary removal of such an account occurred at the beginning of the month in which the significant cash flow occurred and the account re-entered the composite at the beginning of the month after the cash flow. This policy was deleted effective September 1, 2011. Additional information regarding the treatment of significant cash flows is available upon request.

The 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.

Certain accounts in this composite direct trading to broker-dealers that execute trades for no commission. Assets in these accounts are 1.06% of total composite assets as of December 31, 2024.

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

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.