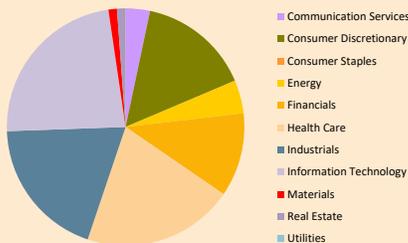


## TOP 10 HOLDINGS<sup>2</sup>

Company	% of Portfolio
1. Burlington Stores, Inc.	1.77%
2. HEICO Corporation	1.69%
3. FirstCash Holdings, Inc.	1.66%
4. Take-Two Interactive Software, Inc.	1.54%
5. Vertiv Holdings Co	1.50%
6. RBC Bearings Incorporated	1.50%
7. Piper Sandler Companies	1.49%
8. MACOM Technology Solutions Holdings, Inc.	1.47%
9. Palomar Holdings, Inc.	1.47%
10. Ligand Pharmaceuticals Incorporated	1.46%

## SECTOR WEIGHTINGS<sup>2</sup>

Communication Services	3.31%
Consumer Discretionary	15.30%
Consumer Staples	0.00%
Energy	4.53%
Financials	11.42%
Health Care	20.61%
Industrials	19.26%
Information Technology	23.25%
Materials	1.16%
Real Estate	1.16%
Utilities	0.00%



<sup>2</sup>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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## 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%

## SMALL-MID SELECT GROWTH PERFORMANCE

For the first time in a while, value strategies beat growth across the market cap spectrum. Our performance slightly beat that of our benchmark on a gross of fee basis. The Stephens Small-Mid Select Growth Composite was up 0.38% gross of fees (0.30% net), while the Russell 2500® Growth Index gained 0.33%.

We did very well in Consumer Discretionary. 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.

Financials were another source of relative strength this quarter, largely because of Encore Capital. Encore posted fantastic earnings results, benefiting from a combination of healthy collections growth, less competition, and technology-driven efficiencies.

We posted solid absolute returns in Healthcare, but we trailed the benchmark entirely because of our underweight position in unprofitable biotech companies. As the biotech space has continued to mature, we have been able to find more stocks that meet our criteria and have closed some of the gap versus the benchmark. One newer biotech position for us was a top contributor this period: Traveer Therapeutics.

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 stocks were down in absolute terms, but our holdings did better than those in the benchmark. Leading the way as our top contributor was Ciena Corporation. Ciena’s high speed networking solutions have become critical infrastructure in connecting AI data centers. We trimmed our position into strength as a matter of risk control. 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 are mindful of these risks, but believe our holdings have sufficient barriers to entry and mission critical reliability.

<sup>1</sup> The information is supplemental only and complements the full disclosure presentation at the end of this document. The Russell 2500® Growth Index measures the performance of those Russell 2500® 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. Copyright © 2025, S&P Global Market Intelligence (and its affiliates as applicable). All rights reserved. See additional information regarding S&P ratings at <https://www.stephensimg.com/terms-and-conditions/>. The Russell 2500® Growth Index measures the performance of the 2,500 smallest companies in the Russell 3000® Index. You cannot invest directly in an index. See our attached GIPS Report.

## PORTFOLIO CHARACTERISTICS\*

We bought five new positions this period and eliminated seven. Technology, Healthcare and Industrials are our three largest sectors. Relative to our benchmark, we are overweight Consumer Discretionary, Energy, Financials and Tech, and underweight Healthcare, Staples and Industrials.

With slightly positive returns, valuations pulled back from last period. Our weighted harmonic average P/E on forward earnings is 25.2x, versus the benchmark at 20.5. Our median holding grew earnings at 23.1% in the most recent period, ahead of the benchmark's 20.6%.

After several quarters of shifting toward catalyst, our split tilted back toward core this time. At the end of the year, 46.7% of the portfolio was *earnings catalyst* and 53.3% was *core growth*.

## 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 it 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.

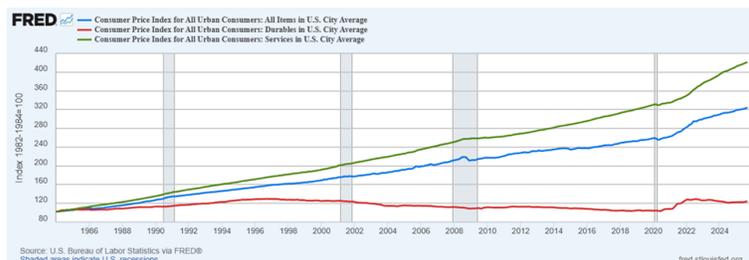
You may have seen the news lately about the allegations of fraud in Minnesota, with respect to Medicaid, and other state-supported services, like day care and nutrition programs. Estimates are in the billions of dollars. Depending on who you listen to, there are allegations that some state officials 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. After all, 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](#)). 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.

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

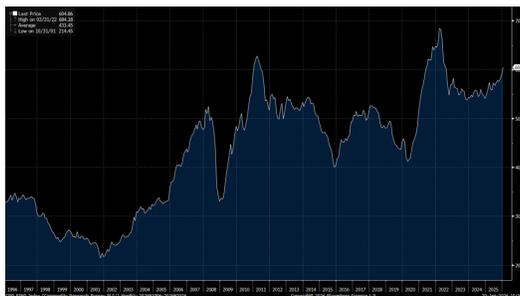


Technology, manufacturing efficiencies, and globalization (wage arbitrage) were some of the powerful forces that drove the price of durable goods lower, while anything services-related (and particularly things subsidized by the government, like education and healthcare) were inflating at an uncomfortable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

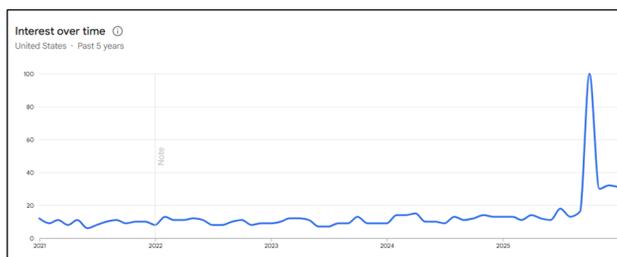
In summary, we could have a situation where:

- 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.

## OUTLOOK

### 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.

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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 than 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!

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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 (09/01/2011)	Since Inception Cumulative (09/01/2011)
<b>Stephens Small-Mid Cap Select Growth Composite Gross*</b>	0.38%	13.31%	13.31%	17.07%	5.85%	13.83%	13.55%	519.31%
<b>Stephens Small-Mid Cap Select Growth Composite Net of Fees*</b>	0.30%	12.95%	12.95%	16.69%	5.52%	13.51%	13.19%	491.10%
<b>Russell 2500® Growth Index</b>	0.33%	10.31%	10.31%	14.31%	2.98%	10.54%	11.58%	381.51%

**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	Composite		Russell 2500® Growth	Composite Dispersion	Composite Gross	Russell 2500® Growth
						Gross	Net				
2024	7,637	4,443	15	4,414	8	13.39%	13.03%	13.90%	0.05%	21.34%	22.80%
2023	6,986	4,048	9	4,047	8	24.94%	24.52%	18.93%	0.10%	20.38%	20.95%
2022	5,664	3,350	7	3,350	7	-29.03%	-29.25%	-26.21%	0.07%	25.13%	25.18%
2021	7,845	4,506	5	4,506	5	16.68%	16.35%	5.04%	N.A.	20.76%	21.97%
2020	6,916	3,889	6	3,889	6	44.60%	44.15%	40.47%	N.A.	23.43%	23.93%
2019	5,416	3,064	5	3,064	5	30.43%	30.05%	32.65%	N.A.	15.55%	15.85%
2018	4,301	2,408	5	2,408	5	6.62%	6.34%	-7.47%	N.A.	15.65%	15.33%
2017	4,442	2,243	3	2,243	3	25.05%	24.75%	24.46%	N.A.	12.52%	13.04%
2016	3,644	1,554	3	1,554	3	9.43%	9.19%	9.73%	N.A.	14.74%	14.67%
2015	2,897	1,109	3	1,109	3	-0.86%	-1.11%	-0.19%	N.A.	13.52%	13.29%

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 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.

N.A. – Composite Dispersion information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. Strategy Assets include composite assets and assets from accounts that are excluded from the composite due to restrictions.

**Small and Mid Cap Select Growth Separate Account Composite** contains fully discretionary accounts invested primarily in small cap and mid-cap common stock of U.S. companies. Under normal market conditions, most of the securities purchased for this composite have market capitalizations equal to or less than the largest company contained within the Russell 2500® Growth Index at the time the security was initially purchased by accounts in the composite and are securities of companies which appear to have clear indicators of future earnings growth or that appear to demonstrate other potential for growth of capital. In addition to common stock the composite may also purchase convertible and preferred stock as well as certain Exchange Traded Funds. This composite is actively managed and securities in the composite are frequently purchased and sold by the manager. For comparison purposes the composite is measured against the Russell 2500® Growth Index.

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 Small and Mid Cap Select Growth Separate Account Composite has had a performance examination for the periods September 1, 2011 through December 31, 2024. The verification and performance examination reports are available upon request.

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**Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results.**

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The maximum fee charged is 1.10% of assets under management. Management Fees vary depending on the nature of the services rendered and other factors. Actual investment advisory fees incurred by clients vary. This composite includes two accounts in which we sub-advise a portion of a mutual fund. One of these accounts has a performance-based component known as a "fulcrum fee." The fulcrum fee modifies the base fee in a symmetrical manner, adding to our base fee in periods of outperformance and reducing our base fee in periods of underperformance. It is asset-weighted and based on our performance relative to our benchmark over the trailing 60-month period, calculated after accounting for base fees and after an allocation of the fund's expenses. At its maximum, the fulcrum fee can add or subtract up to 30% of the base fee.

The Small and Mid Cap Select Growth Separate Account Composite creation and inception dates are September 1, 2011.

Orders for certain accounts in the Composite are directed and do not pay commission charges. Assets in these accounts are 0.34% of total composite assets as of December 31, 2024.

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.



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