Stephens
Investment Management Group®

STEPHENS SMALL CAP GROWTH SEPARATE ACCOUNT

QUARTERLY COMMENTARY
FIRST QUARTER 2017

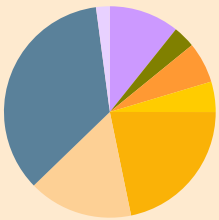
TOP 10 HOLDINGS[1]

COMPANY	% of PORTFOLIO
1. WageWorks, Inc.	1.79%
2. ICON Plc	1.74%
3. Euronet Worldwide, Inc.	1.69%
4. Cognex Corporation	1.66%
5. Microsemi Corporation	1.59%
6. PAREXEL International Corp.	1.56%
7. HMS Holdings Corp.	1.55%
8. NuVasive, Inc.	1.49%
9. CoStar Group, Inc.	1.49%
10.HealthEquity Inc	1.45%

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]

Consumer Discretionary	10.72
Consumer Staples	3.39
Energy	6.25
Financials	4.65
Health Care	21.76
Industrials	15.98
Information Technology	35.14
Materials	2.10
Telecommunication Services	0.00



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

The first quarter of 2017 was dominated by news relating to the new Trump administration. As reality set in, the post-election speculation and excitement about healthcare reform, tax reform, and fiscal stimulus began to fade. Despite the daily barrage of headlines, animal spirits remained high and equity markets posted strong gains. The S&P 500® rose 6.07%. Investors pushed markets into record territory. The Dow Jones Industrial® average broke 20,000 and then 21,000 soon after. The S&P 500® hit all-time highs as well.

Volatility remained surprisingly low, especially given so much macro-driven news.

While soft economic data still appears strong, the hard data has shown signs of slowing. Even though the Federal Reserve was able to raise rates in March without any market disruption, yields at the long end of the curve have begun to weaken. By the end of the quarter, the prospects of reflation have become less clear.

SMALL CAP GROWTH SEPARATE ACCOUNT COMPOSITE PERFORMANCE

Similar to last quarter, the strong returns of the broad market indices don't tell the whole story – it was the turbulence across economic sectors that drove relative performance. In fact, the winning and losing sectors were essentially reversed from the prior quarter. And the massive sector differences between the growth and value versions of Russell's indices were the primary drivers of their relative performance. The net result is that growth strategies bested value, and large cap beat small.

The Russell 2000® Growth Index rose 5.35%. The Stephens Small Cap Growth Strategy gained 5.03% (4.84% net) for the quarter.

Consumer Discretionary stocks lagged the broad market. There wasn't much positive data in the entire sector. We sold our stake in Buffalo Wild Wings, Inc. after another disappointing quarter. We trimmed our position in National CineMedia, Inc. We continue to be underweight the sector.

Energy stocks gave up some of the returns they enjoyed from the prior quarter. Our stocks significantly outperformed those in the benchmark, but were still in negative territory. Our overweight position hurt the strategy's performance. Crude prices sold off in March over concerns of an inventory build. Activity levels in North America continue to improve and we continue to believe the supply/demand imbalance has been remedied.

After an impressive Q4, Financials lagged the market this period. However, our holdings fared much better. While our bank holdings were essentially flat, our investment in MarketAxess Holdings Inc. drove our positive returns. They posted a stellar earnings result early in the quarter and the stock held onto those gains.

Industrials lagged the market (another reversal from Q4), but our portfolio did well. In the Professional Services space, Advisory Board Company stood out as a strong performer. We added two new companies, Kornit Digital, Ltd. and CIRCOR International, Inc.

Healthcare benefitted from the sector reversals – it was the best performer of the bunch. The biotech issue we have pointed out in the past was present in Q1. Non-earners, and unprofitable biotech companies in particular were the best performers. Since we tend to avoid companies that lack earnings and revenue, we are underweight the industry. However, it is over 8% of our benchmark. It was a massive headwind this quarter, and accounts for 0.98% of drag on our returns. Outside of biotech, we did well in Healthcare. VCA Inc., a company focused on veterinary care and animal hospitals, was acquired for a significant premium. We also had successes in the pharmaceutical industry.

Technology stocks rebounded from Q4 as well. Our overweight position here helped returns. Cognex Corporation was our single biggest contributor to returns. The stock jumped after posting strong Q4 results. After the report, we trimmed some of our position just as a risk control measure. Additionally, our software holdings generally did well, and this is where we have the most exposure.

PORTFOLIO CHARACTERISTICS

Turnover ticked up a bit. We eliminated six positions and initiated nine new ones. The strong performance in Technology combined with some new holdings resulted in a slight uptick in exposure. It is still our largest sector and represents about 34% of assets. Healthcare remained about 21% and Industrials rounded out the top three at just under 16%. Relative to the benchmark, we are still overweight Technology and Energy, and underweight Real Estate, Materials, and Consumer.

Valuations expanded across the board. The weighted harmonic average P/E ratio on next twelve months earnings is over 26. For the Russell 2000® Growth, the same measure is 20.3. Growth expectations didn't change too much. Our median holding is expected to grow earnings at 15.5% and revenues at 11.7%. Actual growth for the most recently reported quarter came in at very similar levels, 15.2% and 11.4% respectively. The metrics for the benchmark pale in comparison, at 7.0% (earnings) and 7.6% (revenues).

Our split between *core growth* and *earnings catalyst* companies shifted back toward catalyst – in part because one of our core stocks was acquired and most of our new positions are catalyst. The mix is now 53% catalyst, 47% core.

[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. 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.

OUTLOOK

Last quarter, our *Outlook* focused on the impact of ETF use in Q4. Digging into the matter, we realized how important the issue really is. We have just recently published a paper on the impact of the growth in ETFs and passive investing. If you haven't seen it yet, please check our website or call or email us.

As a result of having spent a great deal of time thinking about the implications of this ETF/Passive phenomenon, I have an interesting conclusion as it relates to our outlook: I am less certain about any near term market outlook, but more certain about the longer term. To explain that, I'll have to give you a bit of background…

Prior to the 1990s, most individual investors had their money with a stock broker. And that broker would help their clients invest in a handful of stocks. The '90s brought us the tremendous growth in mutual funds. Brokers began to outsource the stock picking to mutual fund managers. For a small fee they got the benefits of diversification, the expertise of a professional investment team, and the ability to gain exposure to more parts of the market. Just as the accumulation of assets by mutual fund managers was an enormous change in the market, the advent of ETFs has brought about another shift.

Since 2007 or so, the average wealth manager has been firing her mutual fund manager and allocating more assets to ETFs. Academia makes a powerful argument for passive investing, and the industry has embraced it. Before ETFs, the assets of an average investor were being allocated by a wealth manager, generally with a long term focus, and the managers of those allocations were making security selection decisions. Today the wealth manager is allocating their client assets among ETFs, and they have the ability to gain exposure to almost any market segment, industry, country, commodity, or factor - long or short - with a simple equity trade. The average wealth manager has become a master of the universe. But there's a dirty little secret with all of those assets: *no one is paying attention to security selection.*

Security selection is as much art as it is science, and every portfolio manager has a different approach, but the common function they all serve is determining whether or not the security in question is or will be worth more or less than its current price.

So when money goes into an ETF it is price (valuation) indifferent. It is simply seeking exposure. We've talked about this in prior commentaries, but it's worth mentioning again. We've previously pointed out some examples of this with USMV and IBB.

Actively managed assets represent only about 56% of the market, down from 80% just 11 years ago. The direction is clear. Already we are noticing signs of a structural change in the market. The price discovery process is not as robust as it once was. What will the market be like with active assets representing less than 50% of the market? Less than 40%? **What will be the catalyst to reverse this trend?**

Here's the other dirty secret*: even though investors are using ETFs and so-called passive vehicles, they are actively trading, maneuvering and rebalancing exposures across the market. This is not passive investing.* All you have to do is look at the daily volume in ETFs, and you'll understand just how active this market is.

With that background in place, maybe you can see where I'm heading. In the short run, the outlook is more uncertain than normal. There are a lot of investors wrestling the direct control of assets back, but at the same time ignoring company fundamentals. As more investors paint with a broad brush and are drawn to the flavor of the month, the performance disparity across sectors and factors will only expand.

The longer term is easier to see, in my opinion. There will be a reckoning day. It always comes. Sure, it's different this time. It's different every time. But human nature is what it is, and history repeats itself. The trend will extend for much longer than it should, and it will reach some extreme. There will be unintended consequences and collateral damage. People will be reminded why they used to hire active managers. Having a team of thoughtful professionals that painstakingly handpick individual securities based on the merits of that company will once again be in vogue. Until that day, we will be here doing what we've always done, picking those companies, but evolving and learning new tricks to deal with these changing times.

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
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%
2008	387	362	15	320	12	-39.92%	-40.33%	-38.54%	0.08%	20.87%	21.26%
2007	391	353	10	192	8	15.66%	14.92%	7.05%	0.05%	13.36%	14.23%

*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 conditions, 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 of initial purchase which appear to have clear indicators of future earnings growth or that appear to demonstrate other potential for growth of capital. In addition to common stock the composite may also purchase convertible and preferred stock as well as certain Exchange Traded Funds. This composite is actively managed and securities in the composite are frequently purchased and sold by the manager. For comparison purposes the composite is measured against the Russell 2000® Growth Index.*

Stephens Investment Management Group, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Stephens Investment Management Group has been independently verified for the periods December 1, 2005 through December 31, 2016. 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 December 31, 2016. 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.