Stephens
Investment Management Group®
The Power of Growth®

STEPHENS MID CAP GROWTH SEPARATE ACCOUNT

QUARTERLY COMMENTARY
FIRST QUARTER 2018

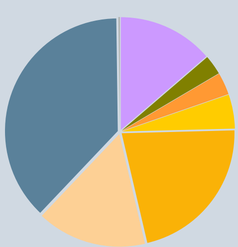
TOP 10 HOLDINGS[1]

COMPANY	% of PORTFOLIO
1. IDEXX Laboratories, Inc.	1.98%
2. CoStar Group, Inc.	1.97%
3. SVB Financial Group	1.92%
4. FLIR Systems, Inc.	1.77%
5. Monster Beverage Corporation	1.72%
6. Microchip Technology Incorporated	1.71%
7. Burlington Stores, Inc.	1.69%
8. MarketAxess Holdings	1.67%
9. Verisk Analytics Inc	1.66%
10. MercadoLibre, Inc.	1.65%

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	13.69%
Consumer Staples	2.82%
Energy	3.19%
Financials	4.89%
Health Care	21.75%
Industrials	15.73%
Information Technology	37.72%
Materials	0.21%



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

It doesn't always work this way – a new year brings in a new market regime. Admittedly, it didn't align exactly with January 1, but the first quarter of 2018 saw the market change in many respects.

The S&P 500® Index lost 0.76% of its value over the course of the quarter, but that modest figure doesn't tell the whole story. Before January was over, the same benchmark had already gained over 7.5%, but then promptly fell over 10% in the next 9 trading days. The volatility that had been noticeably absent in recent times came back with a vengeance.

The VIX Index, which had hit all-time lows last year and again in early January, spiked to levels not seen in years. Initially, volatility was driven by the market reaction to strong employment data and signs of inflation, under the assumption that interest rates would have to rise faster than expected. From there, the volatility took on a life of its own, largely due to systemic imbalances created by VIX-related ETFs. (You may remember that we specifically spelled out this risk in our Q3 2017 commentary.)

Meanwhile, the economy is moving along. Employment trends are strong. And the Fed was confident enough to raise rates. The Trump administration is targeting trade now, and the quarter ended with investors worried about a possible trade war.

If there were a handful of notions that summed up investor sentiment in 2017, they would be*: risk on, buy the dip, FANG stocks, ETFs,* and *low volatility*. Those days are over. Now, stability is being rewarded over risk, the dips are too sharp and scary to blindly buy, the so-called FANG stocks have relinquished their leadership position (as regulatory concerns mount), ETF flows have turned negative, and volatility is back. There is no doubt that there was a regime change in the market this quarter.

MID CAP GROWTH SEPARATE ACCOUNT COMPOSITE PERFORMANCE

Growth strategies beat value across the market cap spectrum, and much of the difference can be attributed to the disparities across sector weights.

The Russell Mid Cap® Growth Index posted a gain of 2.18% for the quarter, while the Stephens Mid Cap Growth Composite was up 6.31% gross of fees (6.17% net of fees).

Suffice it to say that many of the style-based headwinds we have been facing abated, and in some cases turned into tailwinds. The factors that were associated with outperformance were: growth, stability of revenues, companies with no debt, companies outside the benchmark, and so on.

Consumer Discretionary stocks were in negative territory for our benchmark, but we posted nearly healthy gains this quarter. Netflix, Inc. was a top contributor; we sold roughly half of our position due to style purity concerns as its market cap has grown beyond the boundaries of mid cap. We also had success with the recent addition Lululemon Athletica Inc. That performance was a result of a big earnings surprise associated with strong holiday sales. We used the intra-quarter volatility to add to our position in Live Nation Entertainment, Inc.

Energy stocks were in negative territory, and this was the only sector that was a drag on our relative performance, albeit a very small one. We reduced our energy exposure last year, and thus the impact was very small. We remain cautious on the long term fundamentals for crude oil, but constructive on natural gas demand.

We lagged the benchmark slightly in Financials, mostly as a result of not owning any insurance companies. Our bank stocks did well, as did MarketAxess Holdings. We sold our position in Affiliated Managers Group after a mixed quarter and concerns about asset flows.

Our overweight position in Healthcare contributed to returns. Our relative performance in Healthcare was generally inline. ABIOMED Inc. was one of our largest contributors to performance. Pacira Pharmaceuticals was one of our biggest detractors to performance, in part because of some negative news regarding an FDA panel's failure to recommend a label expansion. (However, at the time of publishing this, the FDA did indeed expand the label, just after quarter's end.)

Industrials lagged the broad market, but our holdings fared better than those in the benchmark. We did well in the aerospace and defense industry with HEICO Corporation and Harris Corporation.

Our largest sector and largest overweight position in Technology helped deliver the bulk of our outperformance. Software issuers and internet-related companies both posted double digit gains at the industry level. It appears that we may have benefitted as other investors have rotated out of the FANG stocks (Facebook, Amazon, Netflix, and Google) and into mid cap software companies.

[1]The information is shown as supplemental only and complements the full disclosure presentation located on the back. The Russell Midcap® Growth Index measures the performance of those Russell Midcap® 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. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000® Index. You cannot invest directly in an index.

PORTFOLIO CHARACTERISTICS[1]

We added three new positions and eliminated six. Technology, Healthcare, and Industrials remained our three biggest sectors in absolute terms at about 37%, 21%, and 15% respectively. Relative to our benchmark, we are still overweight Technology and Healthcare, and underweight Materials, Real Estate, and to a lesser extent, Consumer Discretionary and Financials.

Despite robust returns, valuations actually retreated a little (because the earnings expectations have improved so much). The weighted harmonic average P/E ratio on next twelve months earnings for our strategy is 26.4. That same statistic for the Russell Mid Cap Growth is 19.3. Forward earnings growth accelerated to nearly 21%, up from 15% last quarter. The benchmark's median growth is expected to be just under 17%. Actual growth rates improved as well. Our median company reported 22% earnings growth and 15% revenue growth in the most recent period, while the benchmark came in at 18% and 11% respectively.

The balance between *core growth* and *earnings catalyst* continued moving in favor of catalyst this quarter. Catalyst represents 42.3% of the portfolio, while core stands at 57.7%.

OUTLOOK

My daughter, Claire, has been a very competitive soccer player from an early age. I still remember the first team she was on, the "Killer Bees". It was typical youth soccer – not much skill yet, no strategy, just a bunch of girls chasing the ball around the field. And I remember the end of season party too, a fun get together replete with pizza, trophies, and kind words from the coach for every player. A few years later, on the "Mudcats," the level of play was different: the girls had grown physically and as players, there was real strategy and tactics at work, and ***even a casual observer could begin to tell which girls were the best athletes and which girls just didn't have the athleticism or dedication to go much further in the sport****. Regardless, we had a similar party, with pizza, (maybe a beer or two for the parents), trophies, and witty compliments from the coach for each player. Literally, everyone got a trophy. But at the same time, everyone in the room knew that there were a small handful of players responsible for the team's success, but at this age, it was more about participation and making sure everyone was having fun. If we had speculated who would be the MVP, or who would go on to play in college, you might very well have identified Claire – she was fabulous. But if you had only joined us for the season-end party, from the trophies, awards, and positive comments, you wouldn't have been able to differentiate any of the players.*

Since the Great Recession, central bankers around the globe have taken unprecedented steps to provide accommodative monetary policy. Quantitative Easing and Zero Interest Rate Policy were very clear efforts to keep rates low (in some cases negative), to encourage risk taking, and to reflate asset prices. And I suppose we can look back and say that, in general, it worked. I also think that we should be asking ourselves, "How did it work?" and "What are the side-effects and unintended consequences?"

By suppressing interest rates, central bankers were also suppressing risk. Loose monetary policy isn't meant to help the strong companies; it helps the marginal company – the one on the verge of bankruptcy or failure. And by helping those entities, you save them from the downside event of failure, you save them from risk.

And when you reduce the downside risk of marginal companies, the next logical conclusion is that volatility is also reduced. Suppress rates → suppress risk → suppress volatility.

Another way of saying the same thing: **Everyone gets a trophy**.

If we set about trying to determine the MVP of the market, or the companies with the most growth potential, we could surely come up with some candidates. But in this unusual environment, it didn't matter. Every company got a trophy.

It turns out that markets are very good at capitalizing on powerful external forces. If we assume that volatility is suppressed, then we should short volatility, right? There's an ETF for that (well, at least there used to be). If everyone gets a trophy, why bet on the best player? Why not just bet on them all? That could be called "passive investing".

As Claire grew older, she advanced in the soccer world. Eventually she was playing at a very competitive level, and guess what. Not everyone got a trophy. In fact, it was quite the opposite; oftentimes girls were going home from games in tears, because losing games had real world consequences.

For the last several years, if you've been reading these commentaries along the way, you've probably heard me say all this before in some form or another. If you're tired of hearing about it, I've got good news. Everything has changed. Interest rates are higher, inflation is real. Risk is a thing again (you don't hear much about "risk on" or "buy the dip" any more). And volatility is back.

Speaking of volatility, if you were tuned in on February 5th, you probably saw what was happening with the VIX Index. The market decided it was a little more concerned about rising rates and inflation that day, and volatility spiked. The crowded short-volatility trade that had been so lucrative began to unwind in a violent way. By the end of that day, two ETFs had completely imploded and anyone short the long-VIX ETFs got burned badly.

OUTLOOK

We had suspected that the subsequent trading days would bring continued volatility as margin calls and panic set in. And sure enough, it was a crazy week. We were busy sifting through the noise trying to take advantage of situations where good stocks were trading down in sympathy with the market action. At first, it was a major disappointment – nearly every time we had a great idea to round up a position in one of our high conviction ideas, we found that that stock was trading higher (in a sharply down tape). There simply weren't that many opportunities to take advantage of. Despite the disruption and volatility in the market, the really great, high quality companies weren't being affected. Bummer.

But wait. This is how it's supposed to work: the market is supposed to differentiate "good" companies from "bad". It seemed a little foreign to us, because it's been so long since this has been true. **It was a beautiful thing, that first full week in February. Active managers were back in charge, dictating prices on individual stocks.**

I've been saying for a long time now, that we've been facing stylistic headwinds. More recently I've been saying that it feels like the winds are changing, and that we might get some tailwinds on the other side of this. And that one day, people will be reminded of why they once hired active managers.

This was that quarter.

Now, I don't know how long this will persist. But I do know two things. The spring was wound tightly. We had nearly a decade of unusual monetary policy and massive flows into passive vehicles. The unwind of this phenomenon probably won't happen in just one quarter. More importantly, the market regime has changed. There is no obvious consensus. Will the Fed raise rates three times this year? Or four? Some say maybe just twice. Will the Trump administration's sabre rattling on international trade issues cause a trade war? Or will it lead to a better Nash equilibrium? Or will a trade war lead to a real war – boots on the ground? Are we in a late-cycle economy? Or are we just emerging from a repressed economy due to the unusual monetary policy, and this is actually the first part of the real recovery?

It's back to being a market again. There are no easy answers, no shortcuts to wealth creation. Old fashioned fundamental stock picking seems to be working again. I don't know how long this will last - eventually, this too shall pass - but this quarter, we got to bring home a trophy.

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 Midcap® Growth	Composite Dispersion	Composite Gross	Russell Midcap® Growth
2017	4,446	338	12	240	11	29.68%	29.01%	25.27%	0.20%	11.72%	10.88%
2016	3,658	287	13	201	9	7.98%	7.24%	7.33%	0.09%	13.13%	12.17%
2015	2,903	152	12	38	10	-0.27%	-1.01%	-0.20%	N.A.	12.01%	11.29%
2014	3,436	165	6	31	4	4.19%	3.40%	11.90%	N.A.	11.71%	10.87%
2013	3,076	155	6	35	4	34.63%	33.60%	35.74%	N.A.	13.54%	14.62%
2012	1,222	85	6	7	2	16.74%	15.78%	15.81%	N.A.	16.44%	17.91%
2011	933	40	3	1	1	3.26%	2.44%	-1.65%	N.A.	18.13%	20.82%
2010	919	25	2	1	1	30.65%	29.63%	26.38%	N.A.	24.46%	26.37%
2009	554	16	2	1	1	42.29%	41.18%	46.29%	N.A.	22.61%	24.01%
2008	387	12	2	1	1	-44.27%	-44.69%	-44.32%	N.A.	N.A.	N.A.
2007	391	19	2	1	1	25.53%	24.73%	11.43%	N.A.	N.A.	N.A.

*Strategy Assets are shown as supplemental information as these assets include mutual fund assets which are managed within the Mid Cap Growth Strategy
N.A. - Composite Dispersion information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. Information for the 3-Yr Annualized Standard Deviation is not presented because there is less than 36 months of performance data.

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.

Mid Cap Growth Separate Account Composite *contains fully discretionary accounts invested primarily in mid cap common stock of U.S. companies. Under normal conditions, securities purchased for this composite have market capitalizations between $1 billion and the market capitalization of the largest company in the Russell Midcap® 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 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 September 30, 2017. 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 Mid Cap Growth Separate Account Composite has been examined for the periods June 2, 2006 through September 30, 2017. 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 fees and include the reinvestment of all income. Net of fee performance is calculated using actual fees incurred. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The management fee schedule begins at 1.00% of assets under management. Actual investment advisory fees incurred by clients may vary. The Mid Cap Growth Separate Account Composite was created 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 information provided herein has been prepared solely for informative purposes and is not a solicitation, or an offer to buy or sell any security. It does not purport to be a complete description of the securities, markets or developments referred to in the material. All expression of opinion is subject to change without notice. The information is obtained from sources, which we consider reliable, but we have not independently verified such information and we do not guarantee that it is accurate or complete. We, or our affiliates and their officers and directors, may have a long or short position in any security.

The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

NOT FDIC INSURED MAY LOSE VALUE NOT BANK GUARANTEED

Stephens Investment Management Group®