Stephens Investment Management Group

STEPHENS MID CAP GROWTH FUND

QUARTERLY COMMENTARY

FOURTH QUARTER DECEMBER 31, 2010

MARKET OVERVIEW

It has been said that what the market does best is make the most number of people look wrong. After last year's recovery and with most economic data looking less than robust, there were few outright bulls at the beginning of 2010. And in keeping with the aforementioned saying the market delivered a big year, surprising most investors, with most of the returns coming in the last two quarters. Even after double digit returns in Q3, the S&P 500® was up 10.76% and the Russell Midcap® Growth Index was up 14.01% this quarter.

The double digit returns belie the continuing economic difficulties: persistently high unemployment, government budget problems (federal, state, and local), and tensions with North Korea, to name a few.

But perhaps the biggest story, at least in terms of market impact, has been the continued Quantitative Easing (QE) by the Federal Reserve. The Fed normally controls monetary policy by setting short term interest rates, but rates are already at or near zero, and nominal rates cannot turn negative. In order to pursue further expansionary policy, the Fed essentially creates money and uses it to buy assets, in this case mostly U.S. Treasuries and some mortgages. In theory, buying these assets keeps interest rates low, and gives high-powered money to banks, increasing the supply of money. With more money in the system and yields at next to zero, where will the extra money go? Assets of course: gold, silver, and other hard assets have risen steadily all year. We have seen money flow into stocks (but in this case, mostly foreign) perhaps evidenced by the healthy returns in the last two quarters. Normally real estate and housing prices would benefit, but it seems that there are too many problems there to see the impact.

The market's move hasn't been all liquidity driven. Fundamentals have improved as well. We are able to find plenty of public companies with sound business models and improving results. Merger and acquisition activity has been particularly strong this year, and the buyers don't seem to mind paying relatively high prices for their targets. Valuations are slightly higher than historical averages, but prices do not appear unreasonable, given the very low yields on fixed income assets.

PERFORMANCE OVERVIEW

The Stephens Mid Cap Growth Fund (Class A) was up 13.64% (without sales charge) in the fourth quarter, trailing its benchmark, the Russell Midcap® Growth Index by 0.37%.

Energy stocks continued their rebound from the challenges due to the blowout and oil spill in the Gulf of Mexico earlier in the year. Commodities marched higher as well, with many pundits speculating oil would be at $100 per barrel soon. National Oilwell Varco Inc. was a top contributor for the second quarter in a row. Nearly all of the Fund's energy holdings posted gains this quarter, and our overweight position here helped, as it was the best performing sector.

Our Consumer Discretionary and Consumer Staple stocks trailed the broad market, and we continued to have an underweight position here. Within those sectors, Whole Foods Market Inc. was the biggest contributor for the Fund. We sold our position in Strayer Education Inc. as that industry came under intense regulatory scrutiny.

Our holdings in Financials slightly edged out the benchmark. Affiliated Managers Group Inc. performed well as financial markets rebounded. Our exposure to the sector is inline with the benchmark.

Healthcare stocks trailed the broad market, due to their more conservative nature, and perhaps due to concerns that the recent healthcare legislation gets repealed. However, the Fund's holdings did better than the benchmark's. Illumina Inc. was a top performer after posting excellent Q3 earnings results. Intuitive Surgical Inc. was one of the few stocks that was down during the quarter, but we continue to see a compelling growth opportunity.

In general, Technology stocks performed inline with the market, however there were some of the big winners in the group. F5 Networks Inc. was the Fund's largest contributor and largest holding at the end of the period. A relatively new position for us, Atmel Corp., also performed well, in part based on the strength of their touch screen business in tablets and mobile devices.

Performance data as of 12/31/10 — **Average Annualized Total Returns**

	3 Month	YTD	1 Year	3 Year	Since Inception	Since Inception Date	Expense Ratio Gross	Expense Ratio Net«
Stephens Mid Cap Growth Fund Class A (w/out Sales Charge)	13.64%	27.89%	27.89%	-0.94%	3.48%	2/1/06	2.78%	1.51%
Stephens Mid Cap Growth Fund Class A (w/Sales Charge)	7.64%	21.21%	21.21%	-2.69%	2.36%	2/1/06		
Stephens Mid Cap Growth Fund Class I	13.75%	28.26%	28.26%	-0.68%	6.37%	8/31/06	2.53%	1.26%
Russell Midcap® Growth Index	14.01%	26.38%	26.38%	0.97%	A: 3.71% I: 5.37%			
S&P 500® Index	10.76%	15.06%	15.06%	-2.86%	A: 1.75% I: 1.32%			

Performance data quoted represents past performance and does not guarantee future results. Investment returns and principal value will fluctuate, and when sold, may be worth more or less than their original cost. Performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by calling 866-735-7464. The Fund imposes a 2% redemption fee on Class A shares held less than 30 days. Performance data does not reflect the redemption fee. If reflected, total returns would be reduced. Performance data shown without Sales Charge does not reflect the deduction of the sales load or fee. If reflected, the load or fee would reduce the performance quoted. Performance data shown with Sales Charge reflects the maximum sales charge of 5.25%.

«The Investment Advisor has contractually agreed to reduce its fees of the Fund to ensure the total amount of Fund normal operating expenses does not exceed 1.50% for Class A and 1.25% for Class I of the Fund's average daily net assets until March 31, 2011. Investment performance reflects fee waiver, in the absence of such waivers, total return would be reduced.

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PORTFOLIO CHARACTERISTICS

Technology remained the Fund's largest sector, at about 30% of assets. Healthcare is the second largest at roughly 18%. Both Healthcare and Tech are about 7% larger than the Russell Midcap® Growth Index. Our weighting in Energy remains significantly greater than our benchmark, although Industrials and Materials are underweight by a similar amount.

Valuations inched higher, the Fund's median position trades at about 20 times the next twelve months' earnings estimate. Growth is still at a healthy level. Today, our median holding reported 23.8% earnings growth in the most recent quarter. Expectations for the next twelve months remained at a respectable 16.5% growth.

OUTLOOK

In our most recent quarterly commentary, we noted that "asset classes that are normally *inversely* correlated went up in tandem. Stocks were up, gold was up, but bonds were also up." This phenomenon recently came to an end, and our prediction in that same commentary seems to be playing out:

> *"Our belief is that such low interest rates and QE will continue to cause asset prices to rise. In this scenario, bonds are likely to suffer, while stocks and commodities post gains, at least in nominal terms."*

Stocks continued their advance, gold gained a little, and bond prices fell. In the short run, it is reasonable to expect more of the same, although perhaps not without some volatility thrown in for good measure.

For nearly two years, the market has been fueled by stimulative monetary and fiscal policy, easy comparisons, inventory restocking, and corporate cost-cutting initiatives. These factors caused a rising tide among almost all stocks – hence the broad market rally, yet it disproportionately helped lower quality companies. We have said this before, but we still believe that these same factors are losing steam. The first phase of a market recovery is driven by *beta*, and the second phase is driven by *alpha*. Another way of saying the same thing is: the easy money has been made; picking the right stocks is what will likely create gains going forward.

While we focus on finding great growth stocks, we are also acutely aware of the macro environment. For the last two years, market participants have been worried about either rapid inflation or deflation. And after an immeasurable amount of debate between the two sides, today it seems that the market is pricing in the "Goldilocks" scenario – just the right amount. Historically, this seems too good to be true. The Fed got it just right this time? Normally the so-called solution to one financial crisis is the beginning of the next. We still believe that inflation is a big risk. While Consumer Price Index numbers don't show cause for alarm, the average consumer knows that the prices of many basic needs has risen dramatically. Corn, sugar, and wheat prices are all up substantially, as are industrial metals like copper and aluminum. Oil is now above $90, when it nearly touched $30 in early 2009. Oil (or at least energy, broadly speaking) is an input to almost everything. CPI figures are being depressed by a very weak housing market and manipulated basket of goods.

In economics we are taught that inflation is an increase in general price levels of goods and services, including wages. The Federal Reserve assures us that inflation is not a problem today. Perhaps what we have today is some variation of inflation – higher prices for energy, food, and everyday needs, but without wage growth or a rising price in many American's largest asset, their home. Is this a result of China exporting commodity inflation to the rest of the world?

What we worry about the most is a situation where rising energy and commodity prices cut into every consumer's discretionary spending. Just as $147 per barrel of oil had a hand in causing the last recession, a similar situation could play out again.
While we are concerned about inflation, we haven't ruled out "Goldilocks" yet. It is possible that the rebound in the economy and the market will initiate a virtuous cycle of consumer confidence and more spending. Earnings growth rates are as high as they have been in years. We are still finding plenty of companies that have exciting prospects. Inflationary concerns might also be lifting stock prices too, as investors realize that cash and bonds suffer the most as a result of inflation.

On a net basis, money has been flowing out of domestic stocks for years, and in spite of this, the market has delivered very healthy returns. Those investors still sitting on the sidelines, those that realize what will happen to bonds as inflation becomes a problem, and even the masses that tend to chase performance could provide a tailwind for equity valuations as they enter the market.

We are as focused as ever in navigating these complicated waters. While we can't be sure about the absolute direction of the market, we believe that we are entering a market environment that favors growth strategies and stock selection.

TOP TEN HOLDINGS

Holding	%
F5 Networks, Inc.	2.04%
ARM Holdings PLC - ADR	1.87%
Netflix, Inc.	1.69%
Newfield Exploration Co.	1.67%
Stericycle, Inc.	1.64%
Cognizant Technology Solutions Corp.	1.61%
Red Hat, Inc.	1.57%
Illumina, Inc.	1.54%
Core Laboratories NV	1.53%
Salesforce.com, Inc.	1.52%
TOTAL TOP TEN HOLDINGS*	**16.68%**

* Excludes Money Market Fund holdings.

Fund holdings and asset allocations are subject to change and are not recommendations to buy or sell any security.

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice.

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 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. You cannot invest directly in an index. **Alpha:** A measure of risk-adjusted return. **Beta:** A statistic that measures the volatility of the fund, as compared to that of the overall market. **Forward EPS Growth:** Earnings per share (EPS) is calculated by taking the total estimated forward earings divided by the number of shares outstanding by the price per share. **Forward earnings does not guarantee a corresponding increase in the market value of the holdings or the Fund.**

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contains this and other important information about the investment company, and may be obtained by calling (866)735-7464, or visiting www.stephensfunds.com. Read carefully before investing.

Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.

Mutual fund investing involves risk. Principal loss is possible. The Fund invests in small and/or mid sized companies, which involve additional risks such as limited liquidity and greater volatility than larger companies. The fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

NOT FDIC INSURED MAY LOSE VALUE NOT BANK GUARANTEED

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