

**MARKET OVERVIEW**

In hindsight, the difficult and depressing market in Q3 was only a preview of what October would bring, coincidentally the same month of the market crashes of 1929 and 1987. As quickly as the market accepted the reality of a global recession, talk turned to that of another Great Depression. Tight credit, plummeting home values, and the contraction of consumer spending resulted in one of the worst quarters on record in terms of equity market performance.

The economic data now clearly shows a severe recession is underway. Well after the fact, the National Bureau of Economic Research officially announced that the U.S. economy peaked in December of 2007 and has been contracting ever since. And as the economy has slowed down here in the U.S., what some thought to be a “decoupled” global economy is clearly more “coupled” than anyone thought.

Not only have all the global economies been more closely correlated, but so have asset classes, investment strategies, economic sectors, and even individual securities. *Everything went down.*

The government has continued to take extraordinary steps to correct these problems, both monetarily and fiscally, with apparently few limits as to how far they will go to try to find a remedy. But at best, these actions take time to have an impact on the market, and in some cases are like pushing on a string.

The S&P 500® Index was down 21.94% in the fourth quarter, and finished the year losing 37% of its value. No segment of the equity markets was spared; every Russell Index was down more than 18% for the quarter.

**PERFORMANCE AS OF 12/31/2008**

	Inception Date	3 Month	YTD	1 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net <sup>Ⓔ</sup>
Stephens Mid Cap Growth Fund Class A (w/ Sales Charge)	2/01/06	-32.14%	-48.52%	-48.52%	-14.83%	3.14%	1.50%
Stephens Mid Cap Growth Fund Class A (w/out Sales Charge)	2/01/06	-28.39%	-45.69%	-45.69%	-13.25%		
Stephens Mid Cap Growth Fund Class C (w/out CDSC)	3/28/08	-28.49%	-37.00%	-	-37.00%		
Stephens Mid Cap Growth Fund Class C (w/CDSC)	3/28/08	-29.21%	-37.63%	-	-37.63%	3.89%	2.25%
Russell Midcap® Growth Index		-27.36%	-44.32%	-44.32%	-13.89%*		
S&P 500® Index		-21.94%	-37.00%	-37.00%	-9.48%*		

*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 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 performance data shown w/ CDSC reflects a 1.00% Contingent Deferred Sales Charge.*

\*Since inception returns are as of the fund’s Class A inception date for the index.

Ⓔ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 2.25% for Class C of the Fund’s average daily net assets indefinitely. Investment performance reflects fee waiver, in the absence of such waivers, total return would be reduced.

For the fourth quarter of 2008 the Stephens Mid Cap Growth Fund Class A was down 28.39% (without sales charge), similar to its benchmark, the Russell Midcap® Growth Index, which fell by 27.36%.

Normally this section of our quarterly commentary provides detail on stocks we own, categorized by sector. Under normal circumstances, meaning and information can be inferred or derived from analyzing the price action of a stock or a group of stocks. However, this last quarter was an unusual time, with record volatility and essentially a market crash. In some cases it was difficult for us to determine why certain stocks performed the way they did. Liquidity-driven selling, end-of-day rebalancing by ETFs, panic and fear, et cetera all played a big part in this quarter, in many cases more so than company fundamentals. In other terms, the volatility is noise, and the signal-to-noise ratio fell dramatically.

Consumer stocks in general were weak, for obvious reasons. Although the Fund was underweight in the sector, it was still a cause for underperformance. The Fund’s biggest contributor was DeVry Inc., an education company, which has fared well in a slowing economic environment as displaced members of the workforce are going back to school. Our exposure to specialty retail and apparel companies hurt the Fund.

The relative performance of the Fund’s holdings in Healthcare was mixed. After being top performers all year, several of our holdings in the contract research industry suffered, as investors realized they were not completely immune to the economic slowdown. Some of our pharmaceutical and biotech holdings managed to generate positive returns, however.

Some of our top holdings in Technology suffered in a similar fashion to our healthcare stocks – as the market crashed, it appeared anything that had been doing well seemed to be singled out by investors and sold. In a relative sense, the Fund did well in Technology, largely because of our bias towards companies with very stable business models.

Energy was the worst performing sector for the quarter. Despite the long term supply constraints, the reduction in energy demand proved to be overwhelming, and it drove commodity prices lower and with it, the shares of energy related companies.

Although a small weight in the portfolio, Consumer Staples fared well and helped offset losses in other segments.

**PORTFOLIO CHARACTERISTICS**

The trend in our changes to sector allocations continued from the third quarter, although a portion of the changes were due to performance

differentials and not completely by active trading. Energy and Consumer Discretionary declined by about 3.5% and 1.5% respectively. Financials and Technology both grew by about 2.5%.

Valuation metrics contracted in a dramatic fashion this quarter. The Fund's median holding had a price-to-earnings ratio of 13.4, down from 15.1 last quarter. Expectations of growth were also dramatically reined in. Our median company is now expected to grow earnings by 7.6% over the next twelve months, down from 19.7% last quarter. For our benchmark, the expectation is for only 2.8% growth. Actual growth rates have come in, but are not as bad as one might expect. The Fund's median company grew earnings at 17.4% in the most recent quarter versus 11.7% for our benchmark.

**OUTLOOK**

For the last couple of quarters, we have said "things may get worse before they get better." *They got worse.* So bad, that the negative news is seemingly everywhere all the time: newspaper headlines, TV, radio, internet.

Rather than following the crowd and rehashing all the bad news, and theorizing about what else could go wrong, I would prefer to focus on what could get better. There is good news. We believe that there are some prerequisites for a market improvement.

- Volatility must subside
- Valuations should be near or at a historical trough
- Growth expectations need to become overly conservative
- Capitulation

I think it is safe to say that the first two have been met. Without much mention in the press, volatility has quietly gone back to more normal levels. Valuations have come in a great deal, and were at historically low levels in November. The next two points are harder to make with any degree of certainty, but Wall Street has been aggressively cutting earnings estimates, in many cases doing so blindly, not based on specific fundamental knowledge, but simply for the sake of conservatism. We feel that, in and of itself, is a form of capitulation.

This does not necessarily mean that markets will instantly rebound. Growth expectations have more downside, and corporate earnings for Q4 will be terrible. It is likely that economic data, such as GDP growth and unemployment will continue to weaken, but as we mentioned last quarter, we believe equity markets will almost certainly rebound before we see improvement in economic data – the stock market is a leading indicator. And from the lows in November, the Russell 2000® Growth Index is up about 33%. So now, I can say with more certainty that it is possible that the worst is behind us, at least in the sense of stock performance.

Also, there are two other phenomena that give us reason to be optimistic. First, within nearly every sector this quarter, there were *some* winners – fewer and farther between, but winners nonetheless. This is the beauty of investing in smaller companies. Even in an abysmal market, there is almost always some little innovative company that can find a way to grow. Second, we feel the volatility and immense selling pressures combined with (at least some) capitulation, have created opportunities in the market.

Whichever words you choose to characterize this market: bear market, market crash, severe recession, et alia, it is clearly a bad thing. But just as forest fires are a bad thing, there is good that comes from them. It used to be believed that forest fires should be prevented at all cost. But we have come to learn that forest fires serve a purpose, cleansing the forest of old and diseased trees, and enabling new ones to spring up and grow to greatness. A sad reality is that some trees must burn. So too must some companies. In times such as these, weak or over-levered companies, ones with bad business models, or bad management, are purged. Their stronger, healthier rivals are left to flourish in their absence, and opportunities arise for new business creation. We believe that we have bound ourselves to the sturdiest trees, and as the heat subsides, we are scouring the ground for fresh saplings.

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 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. The Price to Book (P/B) Ratio is calculated by dividing the current price of the stock by the company's book value per share. The Price to Earnings (P/E) ratio reflects the multiple of earnings at which a stock sells. You cannot invest directly in an index.

*The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling (866)735-7464, or visiting [www.stephensfunds.com](http://www.stephensfunds.com). Read it carefully before investing.*

**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**

Quasar Distributors, LLC, distributor

1/09

**TOP TEN HOLDINGS**

FLIR Systems, Inc.	2.66%
Iron Mountain, Inc.	2.54%
Gen-Probe, Inc.	2.26%
Express Scripts, Inc.	2.26%
Stericycle, Inc.	2.16%
ResMed, Inc.	2.11%
Cerner Corp.	2.10%
Global Payments, Inc.	1.89%
Qiagen N.V.	1.89%
Covance, Inc.	1.86%

**TOTAL TOP TEN HOLDINGS\* 21.73%**

\* Excludes Money Market Fund holdings.

Fund holdings and asset allocations are subject to change and are not recommendations to buy or sell and security. *Current and future portfolio holdings are subject to risk.*

**FOR MORE INFORMATION, CONTACT:**

**Stephens Funds®**  
c/o U.S. Bancorp Fund Services, LLC  
P.O. Box 701  
Milwaukee, WI 53201-0701

**Stephens Investment  
Management Group, LLC**  
111 Center Street  
Little Rock, AR 72201

3700 Buffalo Speedway, Suite 900  
Houston, TX 77098

**WWW.STEPHENSFUNDS.COM**

**1.866.735.7464**