Stephens Investment Management Group®

STEPHENS SMALL 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 2000® Growth Index was up 17.11% this quarter.

The double digit returns belie the continuing economic difficulties: persistently high unemployment, government budget problems (federal, state, and local), 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 Small Cap Growth Fund (Class A) was up 15.75% (without sales charge) in the fourth quarter, trailing its benchmark, the Russell 2000® Growth by 1.36%. From a sector perspective, all of them were well in positive territory, and the trends we saw were remarkably similar to those in Q3.

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. In nearly a repeat of last quarter, Core Laboratories N.V. again finished the quarter as one of the Fund's largest holdings; nearly all of the Fund's energy holdings posted gains this quarter; and our overweight position here helped.

Although they were up, Consumer Discretionary stocks underperformed the broad market. Some of our specialty retail companies lagged. The Fund enjoyed success with certain internet based retailers like Blue Nile Inc. and Shutterfly Inc. Our exposure to education stocks hurt the Fund as these companies came under scrutiny, we exited our positions here in order to limit further risk.

We continue to have an overweight position in Financials, and that is largely because of our exposure to Portfolio Recovery Associates Inc. and Encore Capital Group Inc., two companies focused on debt collections. After lagging the market last quarter, they posted significant gains more recently, and Encore Capital Group Inc. was one of the Fund's top contributors.

Healthcare stocks trailed the broad market, due to their more conservative nature, and perhaps due to concerns that the recent healthcare legislation will be repealed. Our biotechnology stocks were once again the best performers within Healthcare. We also saw strength in some of our Healthcare I.T. investments like Athenahealth Inc.

Once again, technology stocks were some of the biggest winners. Some of the gains were fueled by merger and acquisition activity and speculation. One of the Fund's biggest contributors was Isilon Systems Inc., as they were acquired by EMC Corp for a significant premium. Although in a different industry, we benefited from a similar situation as Oracle Corp acquired Art Technology Group Inc.

Historically, we have had very little exposure to Basic Materials, and we are still underweight relative to our benchmark. However, our recent additions here have performed well.

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

	3 Month	YTD	1 Year	3 Year	5 Year	Since Inception	Since Inception Date	Expense Ratio Gross	Expense Ratio Net«
Stephens Small Cap Growth Fund Class A (w/out Sales Charge)	15.75%	26.37%	26.37%	0.98%	4.71%	4.32%	12/1/05	1.55%	1.36%
Stephens Small Cap Growth Fund Class A (w/Sales Charge)	9.71%	19.78%	19.78%	-0.83%	3.58%	3.23%	12/1/05		
Stephens Small Cap Growth Fund Class I	15.89%	26.77%	26.77%	1.22%	-	5.89%	8/31/06	1.30%	1.11%
Russell 2000® Growth Index	17.11%	29.09%	29.09%	2.18%	5.30%	A: 4.78% I: 5.29%			
S&P 500® Index	10.76%	15.06%	15.06%	-2.86%	2.29%	A: 2.02% 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 1.35% for Class A and 1.10% 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 roughly 30% of assets. Healthcare remained at about 20%. Our weightings in Energy and Financials are still significantly greater than our benchmark. Industrials and Materials are similarly underweight, although we have recently been doing more work in the Materials segment, looking for further opportunities.

Valuations expanded in the quarter, and growth rates stabilized. Today, our median holding reported 35.7% earnings growth in the most recent quarter. Expectations for the next twelve months declined from a robust 25% growth to a still respectable 22.5%. Coming off of a cyclical bottom, the Fund's median growth rate had converged with the benchmark's. Further evidence that we are entering the next phase of this market, the Fund has extended its lead relative to the Russell 2000 Growth® (35.7% growth vs. 26.5%).

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 now 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

Portfolio Recovery Associates, Inc.	1.71%
Core Laboratories NV	1.68%
Encore Capital Group, Inc.	1.62%
Vocus, Inc.	1.38%
Riverbed Technology, Inc.	1.38%
VistaPrint NV	1.32%
EZCORP, Inc.	1.30%
Ansys, Inc.	1.28%
IMAX Corp.	1.26%
Medidata Solutions, Inc.	1.26%
TOTAL TOP TEN HOLDINGS*	**14.19%**

* Excludes Money Market Fund holdings.

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

FOR MORE INFORMATION, CONTACT:

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