

## MARKET OVERVIEW

Financial crises know no calendar, certainly not a quarterly one, and the ramifications of our existing predicament continued wreaking havoc on equity markets in the first quarter of 2008. The S&P 500 was down 9.44% this quarter, and as in Q4 of 2007, every domestic Russell Index also had negative returns, many in double digits.

The dual uncertainties of *what else could the subprime contagion affect?* and *are we in a recession or headed towards one?* are still troubling the market. Bear Stearns' fate was a shocking example of the extent to which banks, investment banks, and asset managers have been impacted by the subprime debacle. Despite seeing the first signs of trouble last summer, the contagion continued to surprise the market.

Economic data has weakened: housing prices fell at a record pace; consumer spending was weak; unemployment tracked higher; and inflation concerns have not abated. It is clear that the U.S. economy has slowed, however by most measures we are not in recession territory, yet.

The Federal Reserve has cut key interest rates extensively this quarter. So far, each of those efforts has only had a short-lived effect. The Fed's recent move to use its own balance sheet to help investment banks seems to have been a greater source of reassurance to investors.

The uncertainty and fear in the marketplace have caused investors to shy away from equity investments in general. Within equities, there were two dynamics that worked against growth strategies. First, the bearish market sentiment has favored more "defensive" investments. And second, in an ironic twist, the stocks that have suffered the most since last summer – the ones with the most exposure to subprime credit issues and slower consumer spending – were some of the best performers in Q1. Not necessarily because fundamentals were improving, but more likely because they had overcorrected, and contrarian investors were hoping to catch the bounce.

## PERFORMANCE AS OF 3/31/2008

	3 month	YTD	1 Year	Since Inception (12/1/05)	Expense Ratio Gross	Expense Ratio Net
Stephens Small Cap Growth Fund Class A (w/ Sales Charge)	-19.12%	-19.12%	-11.23%	-1.11%	1.68%	1.50%
Stephens Small Cap Growth Fund Class A (w/out Sales Charge)	-14.62%	-14.62%	-6.29%	1.19%		
Russell 2000® Growth Index	-12.83%	-12.83%	-8.94%	1.53%		
S&P 500® Index	-9.44%	-9.44%	-5.08%	3.90%		

**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 60 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% of the Fund's average daily net assets indefinitely. Investment performance reflects fee waivers, in the absence of such waivers, total return would be reduced.

The Stephens Small Cap Growth Fund Class A was down 14.62% (without sales charge) for the first quarter of 2008. The Fund's benchmark, the Russell 2000® Growth Index was down 12.83%.

Rapidly deteriorating fundamentals had led us to underweight positions in Consumer Discretionary and Financials. Although that helped the Fund in prior quarters, it worked against us in Q1 as some stocks sharply rebounded on speculative buying. We did add a few new holdings in Consumer Discretionary as we have found some areas that we feel are showing signs of strength or improvement. The Fund's best performing stock in the first quarter of 2008 was Portfolio Recovery Associates Inc., a firm specializing in debt collections.

Technology suffered the most in the quarter, and our overweight position here negatively impacted the Fund. Our best performer in the sector was BladeLogic Inc., which was acquired by BMC Software Inc.

From a sector standpoint, Industrials hurt the Fund the most, specifically our holdings in companies that make solar cells. These are the same stocks that had been some of our best performers in the prior quarters. These stocks were easy targets for a pull-back following their recent stellar performance. The fundamental thesis behind these investments remains intact.

Some of the same trends behind the solar stocks have also benefitted our energy holdings. Energy was the Fund's top performing sector. After a brief retracement, oil prices hit new highs in the quarter, and natural gas rebounded as well.

Finally, Healthcare was a mixed bag. There were areas of strength in our core growth stocks here, but there were also some stocks unexpectedly affected by disruptions in capital markets and the slowing economy.

## PORTFOLIO CHARACTERISTICS

We reversed the trend on our holdings in Consumer Discretionary and now have a 15.6% weight versus 14.3% at last quarter's end. The Fund increased its exposure to Industrials slightly, and reduced Technology by a similar amount. Our cash position remained at the higher end of what we consider normal, just under 5%. We also saw a shift towards more *core growth* holdings, as they were better relative performers.

This quarter there were dramatic moves in our valuations and growth rate statistics. The projected earnings growth rate for the Fund's median holding declined from 25% to 20.4%. For the Russell 2000® Growth Index, that statistic shrank even more; from 22.6% to 17.1%. Valuations also contracted. The Fund's median holding had a price-to-earnings ratio of 19.6 versus 24.0 for the previous quarter. In what looks to be a very positive indicator (but may be an anomaly), the Fund's actual earnings growth rate jumped back up to 27.3%, while the benchmark's shrank to only 11.1%.<sup>1</sup>

## OUTLOOK

Investors have tended to reward companies that have been consistent, predictable performers, i.e. equity markets love visibility. Knowing (or the illusion of "knowing") what's around the corner gives confidence to companies' management and to retail and institutional investors alike. Today there seems to be little visibility. This uncertainty leads to fear, and in our opinion fear, in turn, leads to volatility and negative returns. Daily market fluctuations are back at the levels we saw in August 2007 and March 2000, i.e. five or six standard deviations away from the norm.

Last quarter, we mentioned the large discrepancy between actual growth and forecasted growth, and that there should be some convergence (i.e. lower forecasted growth). In addition to lower valuations, Wall Street's expectations for growth were significantly reduced. Earnings growth forecasts for the median company in the Russell 2000® Growth Index was 22.6%, but just one quarter later, they are 17.1%. Actual earnings growth has slowed as well, but not nearly as much.

Things may get worse before they get better, but by the time they do get better, and visibility has returned, the market may have rebounded sharply. As gloomy as it seems now, we believe there could be some bright spots on the horizon: historically it has taken about 6 to 9 months after the Federal Reserve begins lowering interest rates before the effects may be felt in the economy; this summer the government will be sending out billions of dollars to U.S. households in a "tax rebate" program; and the simple fact that the year-over-year growth comparisons should be much easier in Q3 – just when the fiscal and monetary stimulus efforts should be having their biggest impact.

For the past two quarters, we have expressed concerns about a slowing economy and continued fall-out from the subprime contagion. Admittedly, the news and the market reactions have been worse than what we would have expected. The last line of our last quarterly commentary read "With fear in the marketplace and as valuations retreat, this could be a compelling opportunity to invest..."

There was, and still seems to be, plenty of fear. Valuations did retreat. Additionally, now growth expectations appear more reasonable. Consequently we believe that we may be in the midst of some potential investment opportunities. Warren Buffet once said, "Be fearful when others are greedy, and be greedy when others are fearful." Your investment management team wholeheartedly believes this, and throughout this quarter we have made significant additions to our personal investments in both Stephens mutual funds.

<sup>1</sup>Earnings per share (EPS) is calculated by taking the total earnings divided by the number of shares outstanding by the price per share. Earnings growth is based on a year-over-year basis for the median company's for the most recently reported quarter.

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 Price to Earnings (P/E) ratio reflects the multiple of earnings at which a stock sells. Standard Deviation is a statistical measure of the historical volatility of a mutual fund or portfolio, usually computed using 36 monthly returns. 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.*

**The Fund invests in smaller companies, which involve additional risks such as limited liquidity and greater volatility than larger companies. Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.**

NOT FDIC INSURED MAY LOSE VALUE NOT BANK GUARANTEED

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4/08

## TOP TEN HOLDINGS

CyberSource Corp.	2.06%
Core Laboratories N.V.	1.98%
ICON PLC	1.60%
Vocus, Inc.	1.57%
NuVasive, Inc.	1.54%
MICROS Systems, Inc.	1.45%
FLIR Systems, Inc.	1.38%
LKQ Corp.	1.38%
Phase Forward, Inc.	1.37%
LifeCell Corp.	1.36%

**TOTAL TOP TEN HOLDINGS\*** **15.69%**

\* 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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