

SECOND QUARTER 2006

### Stephens Small Cap Growth Fund

#### Market Overview

Volatility — this single word could sum up the second quarter of 2006. Out of 63 trading days in the quarter, the Russell 2000 Growth® Index closed up or down more than 1% on 25 different occasions, more than 2% ten times, and in June alone it moved more than 3% three times.

A variety of macroeconomic and geopolitical concerns seemed to be the cause of the increased volatility. The Federal Reserve continued to raise interest rates to combat an uptick in inflation. At the same time, elevated energy prices were also putting a drag on consumer spending, as was a weakening housing market. From a geopolitical standpoint, nuclear tensions with Iran and North Korea, combined with existing troubles in the Middle East have only added to the equity risk premium. Consequently, equity markets were down significantly for the quarter.

The S&P 500 Index was down (1.44%) for the quarter, and the Russell Midcap® Growth Index lost (4.69%). In a symmetrical fashion, the market segments that were the best performers in Q1 were the biggest losers in Q2.

Investor sentiment seems so focused on macro- issues that good news on an individual stock level sometimes gets lost. The old cliché could be turned around to say that investors can't see the trees for the forest. We have not wavered, however. Within our disciplined approach, we are still finding plenty of growth opportunities, and we are opportunistically using the volatility to our advantage — building positions in high quality growth companies.

#### Performance

	3 month	YTD	Since Inception (12/1/05)
Stephens Small Cap Growth Fund (w/ Sales Charge)	-11.95%	-0.10%	-1.52%
Stephens Small Cap Growth Fund (w/out Sales Charge)	-7.07%	5.48%	3.90%
Russell 2000® Growth Index	-7.25%	6.07%	3.90%
S&P 500® Index	-1.44%	2.71%	1.51%

*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. Short term performance, in particular, is not a good indication of the Fund's future performance, and an investment should not be made based solely on returns. 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 broad based rally that we enjoyed in Q1 came to a halt in May. The Stephens Small Cap Growth Fund was down (7.07%) for the second quarter of 2006. Our benchmark, the Russell 2000 Growth® Index was down slightly more, at (7.25%). As a sector, Energy best represents the volatility we have seen in the broad market, and in fact is a driving force behind that volatility. In aggregate, our energy holdings were up more than 14% for the period, and it was not only our best sector in terms of absolute performance, but it was also where we excelled versus our benchmark. In our Q1 commentary, we mentioned one of our favorite energy companies, Tetra Technologies Inc NYSE:TTI. It was our second largest contributor to performance in Q2, up 29%. We continue to be slightly overweight in the sector and positioned in energy service companies, as opposed to exploration and production.

Higher interest rates, higher energy prices, and a slowdown in housing should impact consumer spending, and consequently Consumer Discretionary stocks were down this quarter. We have slightly reduced our exposure to the group. One of the benefits of small cap investing is that it is possible to find small companies that can grow nicely even in a difficult environment. Two of our winners in the space this quarter were Zumiez Inc. NASD:ZUMZ and Too Inc. NYSE:TOO, both specialty retailers. Second only to energy, consumer stocks were an area of relative outperformance for the Fund.

Healthcare was our hardest hit sector. Normally healthcare issues outperform in times of increased uncertainty, but this quarter was clouded by various rulings from the F.D.A and fears of changes in reimbursement guidelines. Our underweight position in biotechnology companies proved to be a headwind in Q1, but in Q2 we were rewarded for not owning many of these companies, as they were some of the worst performers. Areas of concentration for the Fund are in companies that provide tools and services for drug discovery, those that sell diagnostic tools, and companies that offer systems to automate and improve information systems. Despite a slightly weaker environment for the hospitals, not-for-profit hospitals, which make up the majority of the market, are still spending on new systems and technology



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to satisfy their competitive need to continue to increase their efficiency and patient outcomes.

Technology was weak across the board, with the exception of software. The software companies in which we invest can sometimes defy larger technology trends as their end markets are narrow enough that they tend to rise and fall with the health of their customers rather than technology spending in general. Blackbaud Inc. NASD:BLKB and FactSet Research Systems Inc. NYSE:FDS are two such examples; they sell software to manage non-profit organizations and software for investment professionals, respectively. One of our long time holdings, Applied Films Corp. NASD:AFCO, was acquired by industry behemoth, Applied Materials NASD:AMAT for a 24% premium. The quarter was not without some disappointing results as well, we sold our holdings in SafeNet Inc. NASD:SFNT after a negative earnings announcement.

Whereas most of our sector weightings were largely unchanged, we did significantly reduce our exposure to financials. In part because of the recent volatility, we have trimmed positions in companies with exposure to capital markets.

#### Portfolio Characteristics

At the end of Q1 we expressed concern over an increase in company valuations combined with slower earnings growth. Today, both metrics are headed in a better direction. This market correction has caused valuations to come in — the Fund's median P/E based on the next twelve month's earnings estimate declined to 22.3 versus 25.8 for the previous quarter's end. The earnings growth forecast<sup>1</sup> has increased to 24.2% from 21.4%, and the earnings growth for the most recently reported quarter has remained very robust at 32%, far exceeding our benchmark. Technology, Healthcare, and Consumer Discretionary remained the Fund's three most heavily weighted sectors at 29%, 22%, and 18%, respectively. The ratio of core growth vs. earnings catalyst stocks has changed back to roughly 40/60.

#### Outlook

Our concern last quarter about increased valuations and slowing growth unfortunately proved to be valid. We did indeed give up some of the gains made in Q1. On the bright side, the market stabilized in June and seemed to be behaving in a more rational fashion.

We are not out of the woods yet, though. The U.S. economy faces headwinds from inflation, interest rates, and a housing correction; however we have yet to see the impact. For instance, demand for gasoline has increased despite record prices and a call for greater conservation. Until we see signs that the economy is truly slowing, and that inflation is under control, the Federal Reserve will continue to raise interest rates. Conventional wisdom would indicate that we should not expect a rally in equity markets until investors believe that rates have stabilized.

Most economic data lag the current reality, and it is possible that the Fed over-corrects and takes rates too high just as these other headwinds finally show up. Conversely, perhaps the stabilization of the market in June is evidence that we are almost out of the woods — equity markets tend to be leading indicators. While we monitor these issues, and consider the possible outcomes, we always focus on individual company fundamentals. Clearly there are some companies that are directly affected by interest rates, energy, and so on. For us these are just additional inputs into our bottom-up analysis. As most investors are focused on guessing about the direction of key macroeconomic issues, we continue to find growth opportunities in individual companies and compelling investment themes.

<sup>1</sup> Earnings growth based on First Call mean estimate for the next twelve months. The **Price to Earnings (P/E) Ratio** is calculated by dividing current price of the stock by the company's trailing 12 months' earnings per share.

The Russell 2000<sup>®</sup> 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. 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.**

Quasar Distributors, LLC, distributor (7/06)

#### Top Ten Holdings

Euronet Worldwide Inc.	1.82%
Tetra Technologies Inc.	1.65%
CoStar Group Inc.	1.64%
Psychiatric Solutions Inc.	1.36%
Trimble Navigation Limited	1.34%
Zumiez Inc.	1.32%
Gen-Probe Inc.	1.31%
Universal Compression Holdings Inc.	1.25%
Oceaneering International Inc.	1.25%
CyberSource Corp.	1.19%

**TOTAL TOP TEN HOLDINGS\*** 14.12%

\* Excludes Money Market Fund holdings.

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

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