

### Stephens Small Cap Growth Fund

#### Market Overview

In our last quarterly commentary, we marveled at the fact that equity markets were incredibly resilient in the face of a financial crisis and economic slowdown. Although the market initially responded well to the interest rate cuts delivered by the Federal Reserve, the weakening economic news proved to be too much. The S&P 500 was down 3.33% and every domestic Russell Index had negative returns for the quarter.

The subprime contagion kept sending shockwaves through the markets in the fourth quarter of 2007. Financial stocks continued to underperform as nearly every major investment bank announced billions of dollars of write-offs. Even smaller, regional banks suffered meaningful losses.

In part because of the subprime issues, consumer spending has slowed dramatically. Individuals are feeling the combined burdens of reset mortgage payments, falling home prices, inflation for food and energy, and most recently an increase in unemployment. Not all the data is in yet, but this holiday selling season looks to be one of the weakest in recent years, even with heavy discounting before Christmas.

These concerns have continued to cause investors to seek out higher quality companies, which in many cases are "growth" stocks. Just as in Q3, large cap stocks fared slightly better than their smaller cap counterparts, but investment style was more influential on performance – growth strategies dramatically outperformed value at every market cap level.

#### Performance as of 12/31/2007

	3 month	YTD	1 Year	Since Inception (12/1/05)	Expense Ratio Gross	Expense Ratio Net
Stephens Small Cap Growth Fund (w/ Sales Charge)	-6.96%	8.27%	8.27%	6.55%	1.62%	1.46%
Stephens Small Cap Growth Fund (w/out Sales Charge)	-1.79%	14.23%	14.23%	9.33%		
Russell 2000® Growth Index	-2.10%	7.05%	7.05%	8.65%		
S&P 500® Index	-3.33%	5.49%	5.49%	9.47%		

**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.

In a challenging quarter for all equities, the Stephens Small Cap Growth Fund once again managed to beat its benchmark. The Fund was down only 1.79% (without sales charge) versus the Russell 2000® Growth's loss of 2.10%

Our investment discipline had recently led us to reduce our exposure to the Consumer Discretionary and Financials sectors. Our underweight positions here helped our performance relative to our benchmark. However we continue to find some selective investment opportunities in each of these sectors, and we may have reached a bottom in terms of our exposure.

Technology was our area of greatest relative strength. One of our holdings, CyberSource Corp., acquired one of our top ten holdings, Authorize.net Holdings. The combined entity is now our largest position, and both stocks were top contributors for the quarter. The Fund also benefitted from another acquisition. Nextest Systems Corp. was acquired by a much larger semiconductor capital equipment company for a large cash premium.

Less sensitive to the economy, and perceived to be a safe haven, Healthcare stocks were up for the quarter on average. The Fund had held yet another company that was acquired at a significant premium: MGI Pharma Inc. announced that a Japanese company was buying the firm for cash. Another area of strength for the Fund was its holdings in companies that provide outsourced clinical research for drug companies.



WWW.STEPHENSFUNDS.COM

1.866.735.7464

### Stephens Small Cap Growth Fund

Once again, oil prices hit new highs, although small cap energy stocks did not necessarily respond in kind. Investor worries about the impact of an economic slowdown on commodity prices caused some hesitation in energy stocks. The Fund remains overweight in the sector as we believe that longer term supply is severely constrained and demand for oil is very price inelastic.

Although not coded as Energy per se, the Fund's biggest contributor to performance was SunPower Corp. Higher energy prices, a desire to rely less on petroleum, and a more environmentally conscious marketplace are driving demand for alternative energy and solar power in particular.

### Portfolio Characteristics

The Fund remained underweight in Consumer Discretionary and Financial stocks, but we increased exposure to Consumer Staples by about 1%. Most other sectors remained unchanged, although the Fund was holding slightly more cash than last quarter. For the third consecutive quarter, we saw an increase in our exposure to core holdings (as opposed to earnings catalyst), which now stands at 39%.

Valuations and growth rates were little changed for the Fund. Our median company trades at 24 times earnings and is projected to grow 25% over the next twelve months. For the median company in the Russell 2000® Growth, the price-to-earnings ratio is 16 and the forward growth rate projection is 22.6%. In the most recently reported quarter, the Fund's median company grew at 22.2%, while the benchmark's grew at only 12.5%.

### Outlook

Last quarter, we had begun to express concerns about entering an economic recession, and today, those concerns are at the forefront of our minds. Many economists believe that we are either headed for a recession or that we are already in one. The questions now become: If this is a recession, how severe and how long might this be? Will the slowdown here impact the rapidly expanding developing economies abroad? Will a recession cause commodity prices (namely energy, metals, and food) to weaken or has the price action there been more a function of limited supply and supply growth?

We have been positioning the Fund for a slower economic environment; it has been a result of our investment discipline and our bottom-up research. Even with the adjustments we have made, the Fund is still (and will always be) biased towards high quality growth companies. There is even more evidence today that growth (in general) is slowing, thus making growth more scarce. The forecast for growth in the Russell 2000® Growth is 22.6%, while actual growth today is barely more than half as much. This is the largest discrepancy between those two metrics that we have seen in years, and eventually those numbers should converge – which direction seems more likely? We believe that the companies in which the Fund is invested have a greater chance of achieving real earnings growth, and current data supports this case.

The first part of 2008 may prove to be challenging and may test the resolve of investors. Recession or not, we still believe that growth strategies are poised to outperform value. With fear in the marketplace and as valuations retreat, this could be a compelling opportunity to invest in what we believe could be a multi-year cycle in favor of growth stocks.

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. 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.**

Quasar Distributors, LLC, distributor 1/08

### Top Ten Holdings

CyberSource Corp.	2.12%
Core Laboratories N.V.	1.72%
Vocus, Inc.	1.71%
NuVasive, Inc.	1.45%
FLIR Systems, Inc.	1.42%
SunPower Corp.	1.39%
Hologic, Inc.	1.38%
Phase Forward, Inc.	1.38%
ICON PLC	1.30%
GameStop Corp.	1.26%

**TOTAL TOP TEN HOLDINGS\*** **15.13%**

\* 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:

#### 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](http://WWW.STEPHENSFUNDS.COM)

1.866.735.7464