

# Stephens Inc.

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## **Form ADV: Part 2A**

June 2012

Uniform Application for Investment Advisor Registration

This brochure provides information about the qualifications and business practices of Stephens Inc. If you have any questions about this brochure or its content, please contact us at 877-891-0095 or [www.stephens.com](http://www.stephens.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Stephens Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Stephens Inc. is a registered investment adviser with the United States Securities and Exchange Commission. Registration does not imply a certain level of skill or training.

## **Item 2 Material Changes**

There are no material changes.

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## **Item 4 Advisory Business**

### **A. Advisory Firm and Principal Owners**

Stephens Inc. ("Stephens") is an Arkansas corporation which was registered with the SEC as a broker dealer in September 1946 and began providing investment advisory services in September 1980. Stephens registered as an investment advisor with the Securities and Exchange Commission on September 19, 1980.

#### ***Who Are Our Owners***

Our Firm is owned by SI Holdings Inc. which is a privately held company owned by the Warren A. Stephens Trust which is controlled by Warren A. Stephens. Stephens is owned by the following individuals and entities in the percentages noted:

Warren A. Stephens	100%, Trustee of
Warren A Stephens Revocable Trust #Two	100%, which owns
Stephens Financial Services LLC	100%, which owns
SI Holdings Inc.	100%, which owns
Stephens Inc.	

### **B. The Types of Investment Advisory Services We Provide**

We provide investment advisory services to individuals, pension plans, foundations, corporations, other business entities and other types of clients. Our investment focus is on US equity securities, fixed income securities, mutual funds, exchange-traded securities, American depository receipts of foreign companies, options, commodities and other types of securities that may be purchased for client accounts depending on the investment objective of the client.

Stephens also provides advice to certain clients regarding private equity investments, precious metals, other pooled investment vehicles and other investments.

### **C. Advisory Services**

Our investment management service seeks to tailor an investment program for the unique financial circumstances and objectives of a particular client. When we are engaged as an investment manager, the client typically pursues one or more of our investment strategies described below. Clients may impose investment restrictions on the manager of their accounts, such as restrictions on investing in particular securities or types of securities or restrictions on investing in particular industries.

### **D. Wrap Fee Programs**

#### ***Our Separately Managed Account Advisory Programs***

We offer investment management on a discretionary basis in some programs and on a non-discretionary basis through separately managed accounts in the other programs.

In addition to other indications of individual ownership, including the right to withdraw, hypothecate, vote, or pledge securities held in the wrap fee client's account, a wrap fee client has the ability to place limitations and/or restrictions on the investments in their portfolio. Where restrictions are imposed, Stephens will manage the client's portfolio

investments to comply with these restrictions, but the investment performance of the client's account will likely differ (positively or negatively) from other clients following a similar investment strategy, that is not subject to the same restrictions. The minimum account size for wrap fee programs varies from program to program, and a person considering a wrap fee program should review the disclosure document provided by Stephens of the applicable program for details regarding the operation of the program, its risks, fees, and other charges. See Item 5 for further discussions on fees.

In determining the suitability of an investment strategy for a particular wrap fee program client, we rely on the information provided by the client regarding the financial objectives of the client for each account. This information may come from, among other sources, personal interviews with the client and written questionnaires completed by the client and other communications with the client or its representative regarding the client's situation, investment objectives, risk tolerances and investment restrictions, if any. Our strategies are not appropriate for all investors, and investors should only invest a portion of their portfolio in these programs.

### ***Discretionary Wrap Programs***

In the following types of separately managed accounts, we have the discretionary authority to determine the securities, and the amount of securities, to be bought and sold for our clients without obtaining specific client consent. The discretionary authority regarding investments may, however, be subject to certain restrictions and limitations placed by the client on transactions in certain types of securities or industries or to restrictions or limitations imposed by applicable regulations.

### **Professional Wealth Management Program**

Professional Wealth Management Program ("PWM") is an investment advisory program offered by Stephens. Clients receive advice from seasoned professional managers, with individual attention to the client's investment needs and objectives. Stephens or the Professional Wealth Management Financial Consultants (PWM FC) may also provide brokerage and other services to certain clients or engage in other functions and duties associated with the Stephens' business as advisor or as broker/dealer, to which they may devote as much time as necessary.

In the Professional Wealth Management Program ("PWM"), Stephens provides investment management services for client assets on a discretionary basis, utilizing strategies that may consist of equity, fixed income, mutual funds, exchange traded funds and, in some cases, alternative investment classes. The goal of the PWM Program is to seek to earn a high total return on investments for the client consistent with the client's investment objectives subject to market conditions. In balancing the potential return for a client's portfolio against the risk exposure in the portfolio, the PWM FC considers the risk tolerances of the client, and asks the clients to complete a risk assessment questionnaire. The assessment, when combined with the client's stated investment objectives and other information provided by client, leads to an asset allocation strategy designed to seek to achieve returns based on and commensurate with the client's risk tolerance and time horizon, without exposing the client's portfolio to excessive risks.

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**Stephens Capital Management**  
**Discretionary Program**

Stephens Capital Management (“SCM”) is a division of Stephens. In the Stephens Capital Management Discretionary Program (“SCMD”), seasoned professional registered personnel of SCM (“Investment Advisor Representatives”) manage client assets on a discretionary basis, utilizing both equity and fixed income strategies and, in some cases, alternative investment classes. The goal of SCMD is to seek to earn a high total return on investments for the client consistent with the client’s investment objectives and investment strategies, subject to market conditions. SCMD seeks to fully invest cash balances at all times, investing assets otherwise un-invested in money market funds. From time to time investments may include mutual funds.

Investment Advisor Representatives are responsible for making day-to-day discretionary investment decisions subject to oversight and review by the SCM Supervisory Principals. The SCMD seeks to keep client assets fully invested at all times, investing assets otherwise un-invested in money market mutual funds. In many accounts, investments include mutual funds or other pooled investment products.

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**Stephens Capital Management**  
**Fixed Income Strategy Program**

In the Stephens Capital Management Fixed Income Strategy Program (“SCMFIS”), Stephens Capital Management (“SCM”) manages client assets on a discretionary basis using a fixed income strategy. All accounts are advised and managed by the Fixed Income Management Committee, which has overall responsibility for investment policy, strategy and security selection. The committee is responsible for making day-to-day investment decisions.

The committee employs a strategy of disciplined management of highly rated government and agency bond portfolios with the objective of maximizing risk-controlled returns over full market cycles. The goal of the SCMFIS program is to seek to earn a high total return on income securities for the client consistent with the client’s investment objectives subject to market conditions. SCMFIS seeks to fully invest cash balances into investment grade debt instruments. Some balances may be invested in money market mutual funds.

Clients choosing the Fixed Income Strategy will own a portfolio comprised of U.S Treasury and Agency securities but may also include up to 20% in investment grade corporate bonds. The average maturity of the portfolios will be managed to take advantage of our intermediate term outlook for interest rates.

The style of management of the fixed income portfolios of SCMFIS is duration management. All portfolios are constructed primarily from U.S. Government and agency securities with maturities of less than ten years.

SCM Investment Advisor Representatives take into account both our clients' unique situations and the changing financial markets in developing investment strategies tailored to meet our clients' financial goals.

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### **Stephens Capital Management Asset Allocation & Advisory Services**

In the Stephens Capital Management Asset Allocation & Advisory Services (“AAA”), SCM manages client assets on a discretionary basis, utilizing primarily exchange traded index funds representing a broad spectrum of equity and fixed income markets. All accounts are advised and managed by the AAA Committee, which has overall responsibility for investment policy, strategy and security selection. The AAA Committee is responsible for making day-to-day investment decisions. The goal of AAA is to seek to earn a high total return on investments in index fund securities for the client consistent with the client’s asset allocation boundaries. AAA seeks to fully invest cash balances at all times. Some balances may be invested in money market mutual funds.

#### ***Investment Process***

Our investment process begins with the selection of indices representing the various segments of the market from which we wish to build our portfolios. Utilizing software leased from Ibbotson Associates, model portfolios are constructed which combine those indices in various ratios to create portfolios that would have had the highest return for given levels of risk and diversification based on historical performance since 1986, according to the Ibbotson analysis. These models are updated annually for additional historical information.

Clients authorize SCM to invest their accounts into the model portfolios that SCM deems appropriate within predetermined boundaries set by the Client. These boundaries are set by the Client after consultation and discussion regarding appropriate levels of risk for the Client.

The SCM AAA Committee may consider many factors in arriving at their decision of the appropriate model at a given time. These factors include, but are not limited to, the ratio of the broad stock market earnings yield to short term interest rates, the outlook for inflation and interest rates.

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### **Stephens Capital Management Real Return Strategy**

In the Stephens Capital Management Real Return Strategy (“RRS”), SCM manages client assets on a discretionary basis, utilizing primarily stocks, bonds and exchange traded index funds representing a broad spectrum of inflation sensitive investments. All accounts are advised and managed by the Real Return Strategy Investment Committee (“RRS Committee”), which has overall responsibility for investment policy, strategy and security selection. The RRS Committee is responsible for making day-to-day investment decisions. The goal of RRS is to seek to structure investment portfolios that are likely, in the judgment of the RRS Committee, to earn a total return on investments in excess of

inflation, as measured by the Consumer Price Index. RRS seeks to fully invest cash balances at all times. Some balances may be invested in money market mutual funds.

### ***Investment Process***

The RRS Committee, utilizing our proprietary analysis of Federal Reserve Monetary Policy, seeks to position investments that the RRS Committee believes are likely to benefit from forecasts of the future direction of inflation.

The RRS Committee adopts asset allocation strategies using an array of investment options that the RRS Committee believes are likely to be sensitive to changes in inflation. A typical account could own a combination of stocks, bonds, mutual funds, index funds, exchange traded funds or other similar options. Unless otherwise instructed by our clients, the RRS Committee, at times, may determine to take long positions or short position in any of the above investments.

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### **StephensChoice Program**

The StephensChoice Program (“SC”) is a platform designed by Stephens to assist clients qualified retirement plans or other deferred compensation programs (“Plan”) to establish an appropriate asset allocation for the investment of plan assets through investment in a portfolio of “no load” or “load waived” mutual funds through Stephens based upon a line-up of mutual funds representing a range of designated asset classes.

### ***Mutual Fund Strategy***

Stephens selects for the SC standard line-up one or more actively managed mutual funds representing each asset class included in the SC program and establishes and communicates to clients standard SC model asset allocation portfolios for differing risk and time horizon parameters. Ongoing investment selection, monitoring, fund replacement, periodic rebalancing, investment performance measurement and quarterly reporting are provided by Stephens, throughout the life of the account. Stephens provides the services described above to clients under a Plan Services Agreement, and Stephens also provides, if requested by client, brokerage and/or custodial services needed to effect transactions for SC accounts and certain compliance functions relating to the services provided by Stephens.

### ***For Trustee Directed Accounts***

Based on individual consultations with the Plan Trustee(s) and the Risk Tolerance Questionnaire, a SC asset allocation model will be chosen from the SC asset allocation models previously developed by Stephens, for each trustee directed account, intended to reflect the investment objectives, risk tolerance and investment time horizon communicated to Stephens by the Trustee(s). Following selection of an asset allocation model by the Trustee(s), Stephens will initiate and execute the transactions that are required to invest the client’s account in accordance with such asset allocation model. Best execution is sought for all transactions.



### ***For Participant Directed Accounts***

If requested by the client, Stephens will conduct group enrollment meetings on dates agreed to by the client and Stephens. Stephens will be available to meet with plan participants in connection with initial enrollment to assist participants in identifying the participant's objectives, risk tolerance, and time horizon. Following initial enrollment, Stephens will be available to meet with individual participants on an as needed basis, as well as to provide annual account reviews. Following receipt of participant asset allocation directions via an enrollment form, Stephens will initiate the transactions that are required to invest the participant's account in accordance with the asset allocation selected by participant, if custodied by Stephens. Best execution is sought for all transactions.

### ***SC Strategy Changes***

Stephens may change from time to time the mutual fund or mutual funds representing any asset class in the standard line-up of StephensChoice funds, or add or eliminate asset classes from the standard SC platform line-up. Stephens communicates such changes in the standard line-up to plan trustees. The plan trustees have discretion to adopt such changes when recommended by Stephens. Stephens with the Trustee's acknowledgement may realign the standard SC asset allocation models.

The SC program is a "wrap fee program" in which the client pays a single fee for investment advisory services and related services, which may include executions, custody and clearing charges. Fees for other services, such as wire transfer fees, document copying fees, account research fees and other services will be charged at Stephens' standard rates in addition to the "wrap fee". Additionally, fees charged by the mutual funds included in each client's portfolio will be borne by the plan or participant. Many mutual fund companies impose (among other fees) short-term trading fees with respect to any purchase and redemptions of fund shares effected within a time frame designated by the mutual fund company (such as, but not limited to sixty (60) or ninety (90) days). Mutual fund companies may also impose other fees from time to time. Any fees imposed by any mutual fund company with respect to SC account assets will be charged to the account, whether resulting from fund transfers, withdrawals, rebalancing transactions, or other transactions in the account. Accounts that elect to use third party custodians or third party brokerage services will bear the costs of such third party services in addition to the fees payable to Stephens.

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### **Stephens Fixed Income Management**

Stephens Fixed Income Management ("FIM") is a division of Stephens FIM manages client assets on a discretionary basis, under the Stephens Fixed Income Management program ("SFIM"). All accounts are advised and managed by the Fixed Income Management Committee. The goal of SFIM is to seek to earn a high return on income investments for the client consistent with the client's investment objectives subject to market conditions. SFIM seeks to fully invest cash balances at all times. The portfolio objective will be to invest in fixed income securities and money market mutual funds, which invest in fixed income securities.

### **Limited-Discretionary Wrap Programs**

Stephens provides wrap fee programs in which client assets are managed by designated third party Sub-Advisors. Under these programs, the Sub-Advisor provides discretionary investment management services for the management of client assets. Each client enters into an investment advisory agreement with the Stephens. The Sub-Advisor in turn has a separate Sub-Advisory agreement with Stephens. The client pays an agreed fee quarterly in advance to Stephens, based on the net value of the assets under management that covers the advisory fees of both Stephens and the Sub-Advisor.

### **Stephens Allocation Strategies Program** **Limited -Discretionary**

The Stephens Allocation Strategies Program (“SAS”) is an asset allocation program sponsored and administered through Stephens whereby the client is offered a strategy of purchasing a portfolio of “no load” or “load waived” mutual funds and Exchange Traded Funds (“ETFs”) representing a broad spectrum of equities and fixed income markets through Stephens. Mutual funds and ETF’s are collectively referred to as “Funds” in this document.

#### ***Fund’s Strategies***

Stephens, acting as the registered investment advisor manages the selection of funds representing each asset class included in the SAS Asset Allocation Models in the SAS program and establishes standard SAS model asset allocation portfolios for differing risk and time horizon parameters. Ongoing investment monitoring, fund replacement, periodic rebalancing, investment performance measurement and quarterly reporting is provided by Stephens, throughout the life of the account.

Based on individual consultations with the client and a written risk questionnaire, an SAS asset allocation model recommendation is developed by Stephens for the client’s account, intended to reflect the investment objectives, risk tolerance and investment time horizon communicated to Stephens by client. Following client’s approval of the recommended asset allocation, Stephens will initiate and execute all transactions that are required to manage the client’s account in accordance with such asset allocation. Best execution is sought for all transactions.

Stephens has investment discretion to change the funds representing any asset class, to add or eliminate asset classes from the asset allocation model and to adjust the standard SAS asset allocation models, all consistent with the client’s investment profile as communicated to Stephens.

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### **Stephens Managed Assets Program (Limited -Discretionary)**

The Stephens Managed Assets Program (“MAP”) is an asset allocation program sponsored by Stephens whereby the client selects certain participating investment managers (the “Sub-Advisors”) to direct the investment of client’s assets. In this program, Stephens acts as the registered investment advisor establishing a separate account for the client. A separate account is a portfolio of individual securities privately managed or recommended

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by a Sub-Advisor. A separate account may include a mix of equity securities, fixed income securities, cash equivalents and other investments. The Financial Consultant (“FC”) assists clients in selecting particular Sub-Advisors to manage or assist Stephens in managing the client’s assets based upon the client’s investment objective(s) as described below.

In the MAP Program, certain Sub-Advisors provide Stephens with their Model Portfolios, and if it deems appropriate, Stephens can deviate from the recommended Models. In these instances Stephens has discretion over the client’s assets in the Sub-Account rather than the Sub-Advisor. Where the Sub-Advisors selected by the client manage client’s Sub-Account directly rather than through a Model, the Sub-Advisor has discretion over client’s account.

***MAP Investment Option --The Strategy***

A strategy is customized for the client by using sub-accounts (“Sub-Accounts”) which follow a strategy of various Sub-Advisors selected by the client. Stephens will recommend Sub-Advisors to the client from the list of Sub-Advisors, which are included in Stephens’ list of available Sub-Advisors for the MAP Program based on the information included in a written client questionnaire (“Questionnaire”) and other sources. Sub-Advisors not currently available through Stephens may be added, at Stephens’ sole discretion.

In the MAP Program, certain Sub-Advisors provide Stephens with their Model Portfolios, and Stephens can deviate from the recommended Models if it deems appropriate. In these instances Stephens has discretion over the Client’s assets in the Sub-Account rather than the Sub-Advisor. Where the Sub-Advisors selected by the Client manage Client’s assets directly rather than through a Model, the Sub-Advisor has discretion over Client’s account.

Each Sub-Advisor will be responsible for complying with all legal and regulatory requirements applicable to its activities as manager of funds in Sub-Accounts they manage.

If Stephens removes a Sub-Advisor from the list of Sub-Advisors available through Stephens, Stephens will recommend that the client transfer management of any assets previously managed by the removed manager to a new Sub-Advisor or Sub-Advisors, selected by client and included on the list of Sub-Advisors available through Stephens. Stephens will review the investment activities of the Sub-Advisors in management of assets and provide regular reports on the status and performance of the Sub-Advisors.

Stephens will execute all transactions in client’s account following the instructions of the client and/or the designated Sub-Advisor(s). Best execution is sought for all transactions.

The MAP strategy is part of a “wrap fee program” in which the client will pay a single fee for investment management and related services such as, executions, custody and clearing charges and Sub-Advisor fees. Fees for other services, such as wire transfer fees, document copying fees, account research fees and other services will be charged at Stephens’s standard rates in addition to the “wrap fee”. Clients will incur commission

charges for trades directed by client to be executed through other brokers or other execution venues other than Stephens.

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### **Stephens Small-Mid Cap Core Growth Program**

Stephens Small-Mid Cap Core Growth Program (SMID) is an investment advisory wrap program of Stephens. The investment portfolio of SMID accounts is managed by Stephens Investment Management Group, LLC (SIMG), an affiliate of Stephens. SIMG was organized in July 2005 and is registered with the SEC as an investment advisor. SIMG will manage and direct the investment of the assets in each SMID program client's account on a discretionary basis in accordance with its small and mid cap equity investment style and on the basis of the individual objectives and needs of the client within the criteria established by the SMID program. SIMG personnel may also provide services to other clients and to other products or programs.

In the SMID program, SIMG will establish the investment policy and strategy for the portfolio make the selections of securities to be included in the portfolio and make the day-to-day investment decisions. The goal of SIMG is to seek growth of the equity value of a portfolio of small and mid cap equity investments for clients, consistent with clients' investment objectives.

SIMG will attempt to identify core growth stocks among stocks of companies that have a market capitalization at the time of purchase no larger than the market capitalization of the largest company then included in the Russell 2500<sup>TM</sup> Index, using a disciplined bottom-up approach, employing financial screening techniques, fundamental research and the portfolio managers' judgment, with a focus on identifying small cap companies and mid-cap companies believed to have above-average potential for equity growth. *The Russell 2500<sup>TM</sup> Index is a trademark/service mark of the Frank Russell Company. Russell® is a trademark of the Frank Russell Company.* The portfolio benchmark is the Russell 2500<sup>TM</sup> Growth Index. The Russell 2500<sup>TM</sup> Growth Index measures the performance of those Russell 2500<sup>TM</sup> companies with higher price-to-book ratios and higher forecasted growth values. *The Russell 2500<sup>TM</sup> Growth Index is a trademark/service mark of the Frank Russell Company.* SIMG seeks, as a rule, to fully invest cash balances.

SIMG intends to invest SMID assets primarily in long positions in equity securities. However, from time to time SIMG may invest SMID assets in other types of securities, including without limitation, short term fixed income securities, exchange-traded funds and other investment company securities, and stock index futures.

Investments to be made through the SMID program are expected to be concentrated in investments in equities of small- and mid- cap growth companies and are not expected to be diversified across other asset classes. Small and mid cap growth strategies may be more volatile and less liquid than other investment strategies. Typically, individual investors are advised not to allocate more than ten to fifteen percent of their overall

investment portfolio to a small and mid cap growth strategy. The SMID program portfolio is not managed for tax efficiency.

Investing in Small Cap and Mid Cap issuers involves greater risk than investing in more established companies and investors should only invest a portion of their total portfolio in these securities.

The investment strategy used by SIMG in the SMID program is also available to appropriate Stephens' clients in the Stephens MAP program.

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#### **Non-Discretionary Wrap Fee Programs:**

##### **Stephens Advisor Non- Discretionary Program**

In the Stephens Advisor Program ("SA"), professional registered personnel of Stephens, the Financial Consultant ("FC") provide advice to clients utilizing equity strategies, fixed income strategies, balanced strategies, or other strategies, or a combination of strategies. The goal of the SA Program is to seek to address the particular investment situation, needs and objectives of investment clients through individualized investment advice and recommendations.

FCs provides advice and make recommendations to clients at client's request or as the FCs deem appropriate. Stephens Advisers in the SA Program do not have discretionary authority over client assets, and all transactions in client assets are directed by client or client's designee.

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##### **Stephens Capital Management Arkansas Municipal League Cash Management Trust**

The SCM division of Stephens also provides certain advisory services to local governments in Arkansas through the Municipal League Cash Management Trust ("CMT"). CMT was organized in conformity with the Local Government Joint Investment Trust Act ("the Act"), which provides specific authority for local governments in Arkansas to join together to establish trusts for joint investment of moneys not currently needed so as to enhance their investment opportunities and increase investment earnings.

The general objective of CMT is to permit the participants of the trust to invest in one or more Common Trust Funds which provide high investment yields, subject to market conditions, while maintaining liquidity and preserving capital by investing only in short term instruments authorized by the Act or other applicable provisions of the law.

Under its agreement with CMT, the Trust Administrator and SCM are paid a fee for investment advisory and administrative services at an annual rate times the average daily net assets. The fee is calculated daily and is paid monthly.

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**Stephens Capital Management**  
**Non-Discretionary Program**

In the Stephens Capital Management Non-Discretionary Program (“SND”), seasoned professional registered personnel of SCM (“Investment Advisor Representatives”) advise clients regarding their management of client assets on a non-discretionary basis, utilizing both equity and fixed income strategies and, in some cases, alternative investment classes. The goal of SND is to assist clients with the management of their investment assets consistent with the client’s investment objectives and investment strategies, subject to market conditions. SND seeks to assist clients with fully invest cash balances at all times, investing assets otherwise un-invested in money market funds. From time to time investments may include mutual funds.

Investment Advisor Representatives are responsible for providing non-discretionary investment advice, subject to oversight and review by the SCM Supervisory Principals. The SND seeks to assist clients with keeping client assets fully invested at all times, investing assets otherwise un-invested in money market mutual funds. In many accounts, investments include mutual funds or other pooled investment products.

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**Pension Management Trust Program**

The Pension Management Trust Program (“PMT”) is an asset allocation program, made available to Arkansas Local Pension and Relief Plans (“the Plan(s)”) that become participants in the Arkansas Local Government Pension Management Trust, pursuant to a trust agreement. Under the advice of SCM, as investment advisor, the local board selects certain participating investment management companies (the “Active or Passive Managers”) to direct their investments of funds. Assets may include, but are not limited to, securities, mutual funds, money market funds, collective funds, exchange-traded funds, select individual fixed income securities and other investments. SCM provides advisory services to the PMT and to participating plans, by establishing asset performance comparisons, risk profiles, assisting participants in developing and writing investment policies, preparing asset allocation modeling, and ongoing monitoring of plan portfolios. The selected Active or Passive Managers manage their respective portions of the plan’s assets on a discretionary basis, utilizing Index/Active portfolio management. All accounts are advised and monitored by an Investment Advisor Representative of SCM. The participating Active or Passive Managers, which are selected by the pension plans, make the day-to-day investment decisions and security selections in the program. The goal of PMT is to bring together investment managers creating a customized investment strategy subject to market conditions consistent with each participating plan’s risk profile and investment objectives, which will be approved by the local pension plan board.

From time to time investments in any of the strategies may include mutual funds or separate accounts money management.

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### **Health Management Trust Program**

The Health Management Trust Program (“HMT”) is an asset allocation program, made available to Arkansas municipalities that become Participants in the Arkansas Local Government Health Management Trust, pursuant to a trust agreement. Under the advice of SCM, as investment advisor, the local board selects certain participating investment management companies (the “Active and/or Passive Managers”) to direct their investments of funds. Assets may include, but are not limited to, securities, mutual funds, money market funds, collective funds, exchange-traded funds, select individual fixed income securities and other investments. SCM provides advisory services to the HMT program and to participating accounts, by establishing asset performance comparisons, risk profiles, assisting participants in developing and writing investment policies, preparing asset allocation modeling, and ongoing monitoring of Participant portfolios. The selected Active or Passive Managers manage their respective portions of the Participant’s Plan assets on a discretionary basis. All accounts are advised and monitored by an Investment Advisor Representative of SCM. The managers of the funds or other investment portfolios in which the Participant’s Plan assets are invested make the day-to-day investment decisions and security selections in their respective funds or portfolios. The goal of the HMT program is to bring together investment managers creating a customized investment strategy subject to market conditions consistent with each Participant’s Plan’s risk profile and investment objectives, as approved by the Participant.

From time to time investments in any of the strategies may include mutual funds or separate accounts money management.

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### **Stephens Capital Management Advisory Services for Employee Benefit Plans**

The SCM division of Stephens also provides advisory services to employee benefit plan fiduciaries whereby, pursuant to an agreement with plan fiduciaries, SCM assists fiduciaries in choosing primary fund advisers or managers to invest plan funds and in certain cases advises the fiduciaries with respect to allocation of plan assets among funds managed by others. After the initial selection process of the primary advisor, SCM may provide the client with reports analyzing the primary advisor’s performance and comparing such performance with that of other indices with similar investment objectives. In certain cases, the plan compensates SCM for this service based upon a negotiated fee calculated as a percentage of assets under management. In other cases, the primary adviser on a percentage basis may compensate SCM. Written agreements between SCM and plan fiduciaries are typically for one-year terms, subject to renewal.

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### **Stephens IA Consultations**

From time to time Stephens through its different divisions is requested to furnish investment advice through consultations, not as part of its investment supervisory

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services, i.e., for clients whose assets are not managed by Stephens. Such investment advice ordinarily will be given upon the request of a client under a separate contract, which will be negotiated, depending on what services are actually requested and the personnel involved in performing the services.

Stephens and the client will negotiate the specific fee arrangement in advance. However, certain services may be provided for a fixed fee on a “per job” basis; such fees will be negotiated in advance by the parties. Fees will be payable on a schedule as negotiated by the parties.

Either party may terminate contracts for such services upon written notice. Should a contract be terminated prior to completion of the services requested, the client will pay fees for time actually spent and expenses incurred by Stephens.

Stephens may develop and present periodic reports regarding the client’s investments.

In the normal course of its business Stephens publishes research reports on a limited number of publicly traded companies. These reports from time to time may include charts, graphs, formulas, etc. The reports are made available to clients requesting such reports at no additional charge.

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#### **E. Assets Under Management**

As of March 31, 2012 we managed the following amount of client assets as follows:

\$3,281,848,143.00	Discretionary
\$ 890,532,185.00	Non-Discretionary
<u>\$1,203,655,613.00</u>	Consulting
\$5,376,035,941.00	Total Assets Under Management

### **Item 5 Fees and Compensation**

#### **A. Overview of Fee Arrangements**

Stephens typically charges fees for investment advisory services based on a percentage of assets under management (“asset based fee”). Fees are negotiable and vary from client to client. Fees are generally charged quarterly in advance; in some cases fees are charged quarterly in arrears and may be paid on a schedule negotiated by the parties. In specialized situations, Stephens may charge a fixed fee on a “per job” basis for certain services. These fees will be negotiated in advance by the parties. At any time the client can terminate its contract upon the terms without penalty. Please refer to Item 5 D.

Services similar or comparable to those provided to a wrap program client may be available to the client at a higher or lower aggregate cost elsewhere on an unbundled basis. We encourage you to carefully consider other investment structures and programs which are available in considering whether to establish or maintain an advisory fee-based account. As a general matter, a fee-based advisory account approach may be considered appropriate for customers who rely on investment advice or investment management services or who engage in moderate to high levels of trading activity. A fee-based

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approach may be more economical for customers who engage in active trading, since the price per trade is reduced as the number of trades increases under a fee-based approach. However, fee-based advisory account arrangements may not be appropriate for customers who rely primarily on their own independent resources and judgments for making their investment selections and decisions and do not wish to purchase advisory services. Customers who engage in a lower level of trading activity might prefer a traditional brokerage account with a commission payable on each transaction, particularly if the customer typically does not utilize advisory services for trading decisions, as transaction cost savings might be realized in the context of a traditional pay-per-trade commission structure.

Typically, a portion of any revenue that the firm realizes in connection with an advisory account will be included in the calculation of the compensation to be paid by the firm to the investment advisory account representative; and, therefore, the investment advisory account representative will experience conflicts of interest similar to those experienced by the firm.

#### **B. Payment of Fees**

Our advisory fees for investment advisory accounts are paid quarterly. Typically, Stephens will deduct the fee from the account being charged. In some cases the client will pay the fee out of its separate assets.

#### **Collection of Fees**

Stephens is authorized to deduct from your account each quarter in advance the amount of the total quarterly wrap fee as described in the Investment Advisory Agreement, and the other fees, if any, applicable to your account for such calendar quarter. Stephens will issue quarterly reports to you reflecting the transactions in your account and the performance of the investments. Service fees and other transactions changes, if any, will be applied to the account as incurred.

#### **C. Other types of Fees and Expenses Clients May Pay**

The wrap fee covers custody services and securities execution services provided by Stephens for the account. If a client's account is under a wrap fee program such as the programs listed in Item 4.D, commission charges are also included as part of the Stephens advisory fee. This is more fully described in the brochure of each wrap fee program. Clients may engage an independent custodian. The fees of any custodian other than Stephens are not covered by the wrap fee and are the separate responsibility of the client. Clients may direct trading through another broker or other execution venue, and, in such a situation, the client will be responsible for all costs and commissions incurred in connection with such trading.

For any mutual fund investments Stephens' clients invest in, fees are also charged by the mutual fund, as more fully described in the mutual fund's prospectus. In discretionary accounts, Stephens has discretion to invest client funds in investment company securities in many of its advisory accounts. Individual mutual funds may pay fees to Stephens as a result of these investments. These fees received by Stephens would be in addition to the fees received from clients. The existence of such applicable fees is disclosed in the client contract and such fees are more fully described in the fund prospectuses mailed to each client on initial investment. Past performance is no guarantee of future results.

Clients that invest in mutual funds advised by Hotchkis & Wiley Capital Management LLC (“H&W”) or advised/sub-advised by Stephens Investment Management Group LLC (“SIMG”) funds would bear a proportionate share of the fees and expenses of those funds including the management fees or other fees paid to H&W or SIMG. These fees and expenses include commissions or fees, if any, paid to Stephens in connection with portfolio transactions. Please refer to each mutual fund’s prospectus for a full discussion of the fees and expenses of each mutual fund.

In the Stephens’ advisory programs, Stephens has discretion to select money market mutual funds, or comparable investments, in which to hold cash reserves. The selections are limited to investments authorized by Stephens in its capacity as custodian. The alternatives authorized by Stephens include select money market mutual funds and from time to time its in-house pending reinvestment account. The money market mutual fund may pay Stephens a distribution fee. The income to Stephens is in addition to the fees that are received from these accounts. In most accounts, cash balances arising from the sales of securities, redemption of debt securities, dividend and interest payments and funds received from clients not otherwise invested are automatically invested on a daily basis in a money market mutual fund designated by a client or selected on a discretionary basis by Stephens.

Funds placed in a client’s account by personal check usually will be invested in a money market mutual fund within two business days after deposited with Stephens. Due to the foregoing practices, Stephens, may obtain federal funds prior to the date that deposits are credited to client accounts and thus may realize some economic benefit because of the delay in investing these funds.

#### ***Additional Fees***

MAP Program fees are based on the assumption that client assets will be invested directly in securities through a Sub-Advisor included in the MAP Program. The client may experience additional fees if other managers or investment strategies are employed or if a portion of the portfolio is invested in other alternative asset classes (e.g. commodities, venture capital, real estate, hedge funds or others). It is common for alternative asset class managers to use an incentive fee structure in calculating their management fees which could result in higher fees. In any event, Stephens will comply with Rule 205-3 of the Investment Advisers Act of 1940.

#### ***Custodial Services***

Stephens will provide custodial services to advisory accounts. Custodial services provided by Stephens include custody of securities in your account, periodic statements, certain tax reporting and other similar services. Your account will be subject to the terms and conditions described in the Investment Advisory Agreement/Contract, Stephens’ standard account agreement and any separate agreement or agreements executed in connection with the account.

Stephens includes custodial fees for custody services and securities services provided by Stephens within the wrap fee charge. If a client’s account is under a wrap fee program, commission charges are included as part of the Stephens advisory fee. Clients may engage an independent custodian. The fees of any custodian other than Stephens are not covered by the wrap fee and are the separate responsibility of the client. Clients may

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direct trading through another broker or other execution venue, and, in such a situation, the client will be responsible for all costs and commissions incurred in connection with such trading.

Where an unaffiliated third party acts as custodian of account assets, Stephens does not have discretion to select where cash reserves will be held. The client and/or custodian will make the selection.

### ***ERISA***

Fees charged to accounts of ERISA-covered plans will comply with the limitations made applicable under ERISA.

### ***ERISA Section 408(b)(2) Disclosures***

You may be, or may be acting on behalf of, a pension plan governed by the Employee Retirement Income Security Act of 1974, as amended (ERISA). ERISA section 408(b)(2), requires most parties that provide services to employee benefit plans to disclose certain information to a responsible plan fiduciary. Generally, the service provider must disclose the services that it provides to the plan and the compensation that it expects to receive in connection with the services.

Stephens Inc.'s disclosures are available at the following web address:  
[www.stephens.com/ERISA408b2](http://www.stephens.com/ERISA408b2)

**If you are the responsible plan fiduciary, please view the disclosures on this website. If you are not the responsible fiduciary, please forward this information to the responsible fiduciary of the plan.**

**Please review this website periodically for any required updates.**

### ***Principal Transactions***

Pursuant to SEC Rule 206(3), Stephens, acting as a principal for its own account, will not knowingly sell any security to or purchase any security from an advisory client, without obtaining the client's prior consent to each such transaction and disclosing the capacity in which it is acting.

As a practical matter, the above requirements may impose delays on the time at which principal transactions may be effected for advisory accounts, and thereby may impair the execution quality of such transactions for advisory clients. Accordingly, transactions are generally executed on an agency basis.

Investment advisory clients are advised that they have the option to seek execution of transactions recommended by the Investment Adviser through broker/dealers other than Stephens. However, on transactions executed through Stephens, Stephens will not charge a commission to the client, except when an underwriting issue in which Stephens participates is purchased for an account; in this case, the sales concession and underwriting fees are built into the offering price.

Stephens will strive to obtain “best execution” of transactions for clients in such a manner that the client’s total cost or proceeds in each transaction is the most favorable under the circumstances.

Transactions in securities in which Stephens acts as a market-maker or otherwise as a principal will only be effected for clients subject to the client’s written consent to such transaction indicating the quantity and price of the securities being purchased or sold. If Stephens is acting as a market-maker or otherwise as a principal, Stephens has the potential for profit or loss on securities it sells to or buys from a customer agreement within five (5) business days after the entering into the agreement.

#### **D. Pre-Paid Advisory Fees**

In some programs offered by Stephens the client is required to pre-pay the advisory fees quarterly. Under these programs, Stephens is typically compensated based on a percentage of the value of the assets in each advisory account.

In the event a client’s account is closed between quarter-ends, pre-paid fees will not be refunded. The following programs require fees to be paid in advance:

- Professional Wealth Management (“PWM”)
- Stephens Advisor (“SA”)
- Stephens Allocation Strategies (“SAS”)
- Stephens Managed Assets Program (“MAP”)

#### **E. Compensation for the Sale of Securities and Investment Products**

Stephens does not charge clients brokerage commissions for securities trades executed by Stephens for the client’s account in any of the offered wrap programs listed above. Therefore none of our personnel receive revenues based on commissions from the purchase or sale of securities for those accounts.

For mutual fund investments, fees are also charged by the mutual fund as more fully described in the mutual fund’s prospectus. Some of the fees charged by the mutual funds may be paid to Stephens by the mutual fund. See Item 5.C for further discussion.

### **Item 6 Performance-Based Fees and Side-By-Side Management**

Stephens does not offer any performance-based fee alternatives. Stephens typically charges clients an investment advisory fee based on the value of the assets in the client’s account. Stephens does from time to time consider performance-based fee proposals initiated by clients or prospective clients. Should Stephens determine to engage in performance-based fees any such fee arrangement would be negotiated with the client on an individualized basis.

In each instance fees are negotiable and vary depending on the size of the investment, the nature of the services to be rendered by Stephens to the client, and other factors. Fees are typically invoiced quarterly.

Should Stephens determine to engage in performance-based fees any such fee arrangement would be negotiated with the client on an individualized basis. The

performance fee arrangement could create an incentive for Stephens to seek to maximize the investment return by making investments that are subject to greater risk, or are more speculative, than would be the case if Stephens' compensation were not based upon the investment return or could create an incentive for Stephens to seek to limit investment returns by pursuing investments with reduced risk. With a performance fee arrangement Stephens' fee is contingent upon the returns on the Client's Assets, which is computed based upon unrealized and realized appreciation or depreciation of Client's Assets. Accounts participating in a performance fee arrangement may pay Stephens more compensation, or less compensation, when compared to standard fee rates. Performance fee arrangements may not be available for all investment accounts and must be approved by Stephens on a case-by-case basis. Performance fee rates are negotiable. A client may negotiate a base fee rate, performance fee rates, an index to be used to calculate the performance fee, or the use of no index in calculating the performance fee.

Any performance fee that Stephens charges is intended to comply with Rule 205-3 and other applicable requirements under the Investment Advisers Act of 1940 (the "Adviser's Act"). Stephens may also be perceived to have an incentive to favor accounts which it charges a performance fee over other types of client accounts by allocating more profitable investments to performance fee accounts or by devoting more resources toward the accounts' management. Stephens seeks to mitigate the potential conflicts of interest which may arise from managing accounts that bear a performance fee through its policies and procedures, including those related to investment allocation, and by complying with the provisions of Rule 205-3 as stated above.

## **Item 7 Types of Clients**

Stephens's advisory programs are available to individuals, banks, foundations, pension and profit sharing plans, trusts, IRA's, endowments, corporations, partnerships and other entities requiring investment advisory services.

Many of Stephens' clients are high net worth individuals. We provide investment advice to individuals, trusts, to boards and retirement systems for various governmental pension and retirement plans, to corporate pension and retirement plans, to various foundations and private entities.

Additionally, we advise wrap fee accounts in various programs sponsored by affiliated and unaffiliated investment advisers. The sponsor establishes a minimum account size for each program, and you should refer to the sponsor's wrap fee brochure for a discussion of minimum account sizes and whether the minimum account size can be waived.

Only those clients we deem in our discretion suitable will be accepted into these programs.

## **Item 8 Methods of Analysis, Investment Strategies and Risk of Loss**

### **A. Methods of Analysis**

Stephens utilizes street and independent sources for our research, but it is not the sole basis of our investment decision making process. Other sources of information we utilize can include industry data obtained from subscription services, company filings, street research and models. We utilize these services for real-time news and pricing. We also utilize other independent research sources for quantitative reports that measure such things as price changes, growth rates, profitability, valuation, earnings surprises and earnings revisions. These quantitative reports are used to help identify new securities that meet our investment criteria and to monitor existing holdings.

Investing in securities involves risk of loss that clients should be prepared to bear.

## **B. Investment Strategies**

Stephens offers many investment strategies through our programs sponsored through Stephens Capital Management, Stephens Fixed Income Management and Stephens Private Client Group. Our investment management service seeks to tailor an investment program for the unique financial circumstances and objectives of a particular client. When we are engaged as an investment manager, the client typically pursues one or more of our investment strategies. Clients may impose investment restrictions on the manager of their accounts, such as restrictions on investing in particular securities or types of securities or restrictions on investing in particular industries. All of the programs are more fully described in Item 4D and their respective ADV Part 2A, Appendix 1.

Under certain Stephens Advisory PCG programs, such as PWM, your FC may currently provide investment advisory services for your discretionary portfolio. Your FC has the flexibility to adapt strategies to a changing financial environment while maintaining a focus on long-term growth and capital appreciation.

**Stephens Capital Management (“SCM”)** currently services discretionary and non-discretionary portfolios of equity, fixed income and alternative asset classes and provides asset allocation advice to clients. As an operating division of Stephens, an independent financial services firm, Stephens has a unique perspective on investing that enables SCM to spot opportunities that others miss and avoid the pitfalls of narrow, short-term thinking. Independence also affords us the flexibility to adapt our strategies to a changing financial environment while maintaining a focus on long-term growth and capital appreciation.

As an operating division of, an independent financial services firm, we have a unique perspective on investing that enables us to spot opportunities that others miss and avoid the pitfalls of narrow, short-term thinking. Independence also affords us the flexibility to adapt our strategies to a changing financial environment while maintaining a focus on long-term growth and capital appreciation.

SCM's Investment Advisors take into account both our clients' unique situations and the changing financial markets in developing investment strategies tailored to meet our clients' financial goals.

**Stephens Private Client Group (“PCG”)** currently provides investment advisory services for discretionary portfolios or non-discretionary portfolios. Stephens has the flexibility to

adapt strategies to a changing financial environment while maintaining a focus on long-term growth and capital appreciation.

### ***A Full Range of Investment Solutions***

As a full-service financial services firm, Stephens offers access to a complete array of financial solutions designed to help you achieve your investment goals and objectives. Stephens can assist you in selecting and managing investment solutions that best fit your wealth management goals.

These investment solutions can include:

- Investment management and advisory services
- Wealth management
- Corporate executive services
- Individual equities, mutual funds and exchange traded funds
- Taxable and tax-exempt fixed income securities
- Alternative investments
- Insurance and annuities

### **C. Risk of Loss**

The material risks associated with our strategies are:

Alternative Investments -- Investing in alternative investments presents risks that may differ from the risk of investing in stocks and bonds. The prices and performance of alternative investments can be affected by changes in stock prices, bond prices, interest rates, credit availability, real estate prices, foreign currency exchange rates, global or domestic demand for commodities or other goods or services, international relations, the stability and policies of foreign and domestic governments, natural or manmade disasters, weather and climatic conditions, business or economic conditions and other factors.

Debt Obligations -- Investing in debt (bond) obligations entails additional risks, including interest rate risk such that when interest rates rise, the prices of bonds and the value of bond funds shares can decrease and the investor can lose principal value.

Equity Market Risk – Overall stock market risks may affect the value of the investments in equity strategies. Factors such as U.S. economic growth and market conditions, interest rates, and political events affect the equity markets.

Foreign Debt Obligations – Investing in foreign debt obligations entails additional risks, including those related to regulatory, market or economic developments, foreign taxation and less stringent investor protection and disclosure standards.

Foreign Securities -- Investing in foreign securities presents certain risks that may not be present in domestic securities. For example, investments in foreign and emerging markets present special risks including currency fluctuation, the potential for diplomatic and political instability, regulatory and liquidity risks, foreign taxation and differences in auditing and other financial standards. In addition to the greater exposure to the risks of foreign investing, emerging markets present considerable additional risks, including potential instability of emerging market countries and the increased susceptibility of emerging market economies to financial, economic and market events.



Management Risk -- Our judgments about the attractiveness and potential appreciation of a particular asset class or individual security may be incorrect and there is no guarantee that individual securities will perform as anticipated. The price of an individual security can be more volatile than the market as a whole and our investment thesis on a particular stock may fail to produce the intended results.

Options Risk -- Options involve risk and are not suitable for all investors.

Small Cap and Mid Cap Company Risk -- Investing in Small Cap and Mid Cap issuers involves a significantly greater risk than investing in larger, more established companies. The daily trading volume for Small Cap and Mid Cap issuers can be much lower than for more widely held, established companies. There may be periods when it is difficult to invest in or liquidate portfolio investments for our various investment strategies. This is particularly the case when breaking news on a company occurs or when significant market forces and events occur. In addition, small and mid-cap companies may be more vulnerable to economic, market and industry changes. Because smaller companies may have limited product lines, markets or financial resources, or may depend on a few key employees, they may be more susceptible to particular economic events or competitive factors than larger capitalization companies.

Investors should only invest a portion of their total portfolios in these securities, and investors should be prepared to lose their entire investments.

## **Item 9 Disciplinary Information**

In its capacity as a broker/dealer, Stephens has been subject to legal or disciplinary events in the ordinary course of its business, such as regulatory sanctions relating to compliance with broker/dealer trade reporting requirements and other regulatory actions. Stephens has not been subject to legal or disciplinary events of the types required to be disclosed under this item in its investment advisory capacity.

## **Item 10 Other Financial Industry Activities and Affiliations**

### **A. Other Business Activities**

In addition to Investment Advisory services, Stephens is registered with the SEC as a Broker/Dealer. Stephens provides services as appropriate and contemplated under these registrations.

### **B. Stephens Industry Affiliations**

Stephens is registered with the CFTC as a Futures Commission Merchant. Stephens provides services as appropriate and contemplated under this registration.

Stephens is also registered as an investment advisor with the SEC. Stephens derives greater revenues from its broker/dealer and investment-banking activities than it derives from its investment advisory activities. Affiliates of Stephens are also separately engaged in financial services businesses, including merchant banking, insurance agency and investment advisory businesses.



### **C. Affiliations**

Stephens, from time to time, may enter into arrangements with other broker/dealers, investment advisers or other persons whereby such parties may refer customers seeking advisory services to Stephens pursuant to Rule 206 (4)-3, the “Solicitation Rule”.

Stephens may from time to time engage in transactions on behalf of clients with Hotchkis & Wiley Capital Management LLC (“H&W”) or with Stephens Investment Management Group LLC (“SIMG”) or with mutual funds advised by H&W or SIMG. H&W is an investment adviser registered with the SEC in which affiliates of Stephens hold a substantial ownership interest. H&W provides investment advisory services to corporate, pension, public, endowment, foundation, mutual fund and other clients, and H&W also advises its own family of mutual funds. SIMG is an investment adviser registered with the SEC in which affiliates of Stephens hold the entire ownership of voting securities. SIMG provides investment advisory services for separate account clients and for mutual funds known as the American Beacon Stephens Funds®.

H&W advised mutual funds and SIMG advised mutual funds may be offered through Stephens’ broker dealer services and/or investment advisory services as part of an investment program. Clients that invest in H&W advised mutual funds or in SIMG advised mutual funds would bear a proportionate share of the fees and expenses of those funds including the management fees or other fees paid to H&W or SIMG. These fees and expenses include commissions or fees, if any, paid to Stephens in connection with portfolio transactions. Please refer to each mutual fund’s prospectus for a full discussion of the fees and expenses of each mutual fund.

Stephens sometimes refers clients to Stephens Insurance, LLC, an affiliate of Stephens, for advice pertaining to products that may be provided through Stephens Insurance, LLC.

For further information that pertains to related persons of Stephens, please refer to “Other Potential Conflicts of Interest”.

### **D. Arrangements with related Investment Adviser or Investment Companies**

H & W, a related person of Stephens, will be paid a negotiated fee on a quarterly basis, based on the average assets under management using the value strategy, for which SCM utilizes H&W’s model portfolio service offered to Stephens. Such benefits are disclosed in H&W’s Form ADV or other disclosure documents.

An affiliate of Stephens has more than a 25% ownership interest in H & W. An affiliate of Stephens is the sole owner of all the voting securities of SIMG. Both H&W and SIMG are investment advisors registered with the SEC. H&W and SIMG provide investment advisory services for corporate, pension, public, endowment, foundation, mutual fund and other clients. H&W advises its own family of mutual funds. SIMG advises mutual funds known as the Stephens Funds®. Stephens has acted, and may act, as a selected dealer, agent or as broker/dealer with respect to portfolio transactions (including securities and other financial transactions) of the mutual funds or investment advisory accounts advised by H&W or SIMG. In addition, Stephens provides investment research services to H&W and SIMG. Stephens also serves as an intermediary to facilitate purchases and redemptions of shares of mutual funds advised by H&W or SIMG for brokerage and advisory clients of Stephens.

Parties referring advisory clients to Stephens may receive compensation as a result of the client's participation in the program. The amount of compensation may be more than what the referring party would receive if the client participated in other Stephens' programs or paid separately for investment advice, brokerage, and other services. Consequently, the referring party may have a financial incentive to recommend a Stephens' advisory program over other programs or services.

## **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **A. Investment Advisory Code of Ethics**

Stephens has adopted an Investment Advisory Code of Ethics ("Code"), which defines the requirements and expectations for the business conduct of all of its Investment Advisory employees, including employees of Stephens.

Furthermore, all Stephens' employees are expected to adhere to Stephens' Mission and Values Statement and Code of Professional Conduct.

The fundamental position of Stephens is that all aspects of its business are to be conducted in an ethical and legal manner in accordance with federal law and the laws of all states where the investment advisory divisions do business. In accordance with that position general principles apply:

1. The interests of Stephens' clients are our first consideration. Any personal securities transaction, which would be detrimental or potentially detrimental to any client account and any personal securities transaction, which is designed to profit by the market effect of any client account, must be avoided.
2. All personal securities transactions should be conducted in such a manner as to be consistent with the Code and to avoid actual or potential conflicts of interest or abuse of a Stephens' employee's knowledge of customer information or customer transactions.
3. Investment adviser personnel should not take inappropriate advantage of their positions. Information concerning the identity of security holdings and financial circumstances of clients is confidential.
4. Independence in the investment decision-making process is paramount.

Accordingly, there are certain standards of conduct, which Stephens investment advisory employees follow to reduce potential conflicts with the interests of our clients. Stephens will provide a copy of the Code to any client or prospective client upon request.

### **B. Conflicts of Interest Ownership**

Pursuant to SEC Rule 206(3), Stephens, acting as a principal for its own account, will not knowingly sell any security to or purchase any security from an advisory client, without obtaining the client's prior consent to each such transaction and disclosing the capacity in which it is acting.

As a practical matter, the above requirements may impose delays on the time at which principal transactions may be effected for advisory accounts, and thereby may impair the execution quality of such transactions for advisory clients. Accordingly, transactions are generally executed on an agency basis.

Transactions in which Stephens acts as a principal will only be effected for clients subject to the client's written consent to such transaction indicating the quantity and price of the securities being purchased or sold. If Stephens is acting as a market-maker or otherwise as a principal, Stephens has the potential for profit or loss on securities it sells to or buys from a customer.

Stephens Funds® and Hotchkis & Wiley Funds ("Affiliated Funds") are funds managed by affiliates of Stephens. ERISA accounts and IRA accounts are discouraged from investing in these Funds. Other advisory accounts may invest in the Affiliated Funds in an appropriate amount if: (1) the manager and the client determine that the investment is suitable for the account, and (2) the client signs an Affiliate Funds Consent Letter ("Consent Letter") prior to directing the purchase of the affiliated fund shares. For further discussion on Affiliated Funds, see 10D.

### **C. Stephens Personal Trading**

Stephens' personnel may not participate in initial public offerings. All employees are required to maintain their personal accounts and accounts in which they have a beneficial interest at Stephens unless the account has been specifically exempt in writing from this requirement. Stephens' employees are required to provide copies of all of their trade confirmations and brokerage account statements to Stephens' Compliance Department in order to permit the monitoring of compliance with personal trading policies and restrictions. Additionally, employees are required to report all personal securities transactions no less than quarterly. Stephens' Code requires employees to report violations of the Code to Stephens Chief Compliance Officer – Investment Advisor.

### **D. Conflict of Interest with Personal Trading and Client Trades**

To minimize potential conflicts of interest, advisory personnel who determine or approve what recommendations will be made for client accounts will not participate in Stephens' trading activities and will not know what trading strategies are employed for its proprietary accounts.

It should be noted, however, that Stephens allows purchases to be made in the marketplace by its employees of securities owned by any client account, provided that such purchases are made in amounts consistent with the normal investment practice of the person involved. Such purchases must be made after the investment advisory accounts managed by such employee (or in the management of which such employee participates has completed its transactions in such securities. Under certain circumstances, employee transactions may be permitted prior to full completion of investment advisory division's transactions. Such exceptions require prior approval of the appropriate Preclearance Officer and will only be granted after considering factors such as the time element involved in filling the order, market considerations, etc.

## **Item 12 Brokerage Practices**

## **A. Broker-dealers Selection or Recommendations**

Stephens's investment advisory client accounts typically trade through Stephens. In most of Stephens' investment advisory programs, brokerage commissions for trades executed by Stephens for investment advisory accounts are included in the investment advisory fee and no separate brokerage commissions are charged by Stephens for the execution of such trades. Clients may arrange to execute transactions in their accounts through other broker-dealers. In such event, all commissions and other charges of the other broker-dealers will be borne by the account or the client, and will not be borne by Stephens.

### **1. Research and Other Soft Dollar Benefits**

Stephens does not enter into arrangements with other broker-dealers whereby it receives free research in exchange for the placement of a specified amount of client trades.

### **2. Brokerage for Client Referrals**

Stephens typically does not recommend other broker-dealers to our clients. Stephens's client accounts typically trade through Stephens. In most of Stephens' investment advisory programs, brokerage commissions for trades executed by Stephens for investment advisory accounts are included in the investment advisory fee and no separate brokerage commissions are charged by Stephens for the execution of such trades. Clients may arrange to execute transactions in their accounts through other broker-dealers. In such event, all commissions and other charges of the other broker-dealers will be borne by the account or the client, and will not be borne by Stephens.

### **3. Directed Brokerage**

Investment advisory clients will be advised that they have the option of seeking execution through broker/dealers other than Stephens.

From time to time some of Stephens' clients may wish to direct Stephens to route their entire portfolio transactions through a particular broker-dealer at a rate agreed upon between the client and such broker-dealer. In such cases, Stephens typically does not negotiate commission rates with such broker-dealers. Clients are free to choose or change broker-dealers at their discretion unless there is reason to believe the chosen brokerage firm cannot offer adequate service. In such an event, Stephens might be unable to accept management of the account.

**a. Directed Brokerage** A client who directs Stephens to use a particular broker-dealer should carefully consider whether such a directed brokerage arrangement could result in additional costs or disadvantages to it. These costs and disadvantages may include paying higher commissions and receiving less favorable executions. Accordingly, the client should satisfy itself that the broker-dealer it directs us to route their trades to can provide adequate price and execution of transactions. All commissions and other charges of the directed broker-dealers will be borne by the account or the client, and will not be borne by Stephens.

A client that directs us to use a particular broker-dealer may also be subject to certain disadvantages regarding allocation of new issues and aggregation of orders. See below. Accounts custodied at brokerage firms that do not permit

Stephens to place transactions with other brokerage firms may not be able to participate in the initial transaction and may not be able to participate in the same gains or losses as other clients whose accounts are not so restricted. In determining whether to direct Stephens to use a particular broker-dealer, the client may wish to compare the possible costs or disadvantages of such an arrangement.

**b. Aggregation of Client Transactions** Stephens may determine in particular circumstances that, while it would be both desirable and suitable that a particular security or other investment be purchased or sold for the account of more than one of Stephens' client accounts, there is a limited supply or demand for the security or other investment. Under such circumstances, Stephens will seek to allocate the opportunity to purchase or sell that security or other investment among those accounts on an equitable basis; and Stephens will not be required to assure equality of treatment among all of its clients (including that the opportunity to purchase or sell that security or other investment will be proportionally allocated among those clients according to any particular or predetermined standards or criteria) or to undertake to make investment opportunities offered or provided to clients of other divisions of Stephens or to clients of other representatives of Stephens available to Stephens or to clients of the representative assigned to client's account, including client.

Stephens may aggregate purchase or sale orders in a particular security for client's account with orders for other clients' accounts when appropriate. However, Stephens is under no obligation to aggregate orders. Where, because of prevailing market conditions, it is not possible to obtain the same price or time of execution for all of the securities or other investments purchased or sold for client's account in an aggregated order, Stephens may average the various execution prices and charge or credit client's account with the average price.

## **Item 13 Review of Accounts**

### **Supervision and Review of Accounts**

Primary responsibility for the supervision of these accounts lies with the applicable Stephens Branch Office Manager ("BOM"). BOM's monthly reviews consist of analysis of activity in advisory accounts, considering suitability and general performance. Further considerations are levels of activity, timing of transactions in relationship to research recommendations, transactions in restricted securities, unprofitability, concentration in one security and individual objectives and needs of the client based on information provided by the client. In addition to the monthly reviews, regular quarterly reviews of the total value of the account and assets in each security and category are completed by the advisory staff. The reviewers may refer accounts to the Compliance Department for further analysis if necessary.

When Stephens executes a transaction for you through a Stephens' order execution system, you will receive a written confirmation of the transaction which provides information regarding the transaction. You will also receive a written monthly account statement if you have had activity in your account that is custodied by Stephens during

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the month which will detail the activity and the positions in your account. If you have not had any activity during the quarter and you have positions in your account, you will receive a written quarterly account statement which details the positions in your account. Confirmations and account statements will be mailed to you unless you have chosen to receive the confirmations and account statements via StephensAccess.

In addition, we provide account reports and/or statements for client accounts reflecting account holdings and account performance on a quarterly basis.

## **Item 14 Client Referrals and Other Compensation**

A. Neither Stephens nor any of our employees receives any economic benefit, sales awards or other prizes from any outside parties for providing investment advice to our clients.

B. Stephens does not currently compensate any person who is not a supervised person for client referrals. Stephens may consider referral proposals from time to time, subject to SEC Rule 206(4)-3 and other applicable rules, regulations and restrictions.

## **Item 15 Custody**

Stephens is pleased to furnish account statements or reports for your information and review. The information contained in the Stephens statements and reports was obtained from sources believed to be reliable but has not been independently verified. Only the statement of the custodian of the account assets should be considered the official record of account assets, and only the statement of the custodian of the account assets should be relied upon for tax reporting purposes. If Stephens is not the custodian of assets, statements or reports may not be provided unless requested. If Stephens is the custodian of the account assets, then the Stephens brokerage account statement is the custodial statement for the account assets. Please review that statement carefully and compare it with any portfolio reports, performance reports or other statements or reports that may be provided regarding the account assets. Please notify us promptly if you do not receive an account statement on at least a quarterly basis from the custodian(s) of all account assets.

## **Item 16 Investment Discretion**

### **Investment or Brokerage Discretion**

Clients that desire to give Stephens investment discretion execute an Investment Management Agreement with Stephens which states that Stephens will have investment discretion in the client's account.

Stephens discretionary account programs, such as Stephens Capital Management Discretionary Programs ("SCM"), Professional Wealth Management Programs ("PWM"), Stephens Allocation Strategies ("SAS"), Stephens Managed Assets Program ("MAP") and Stephens Fixed Income Management Program ("SFIM"), give the client an opportunity and authority to instruct SCM, PWM, SAS, MAP or SFIM of limitations applicable to the account, i.e., undesirable investments, asset allocations, etc. The FC under the SCM, PWM, SAS, MAP and SFIM Programs will supervise and direct the investments of an account subject to such limitations as the client may impose in writing

## Item 17 Voting Client Securities

### **Policies and Procedures for Proxy Voting**

Proxy voting on securities managed by a Sub-Adviser is to be directed by the Sub-Adviser managing such investment. Proxy voting on securities managed pursuant to a model portfolio provided by a Sub-Adviser is generally directed by such Sub-Adviser or by Stephens.

For proxy voting directed by Stephens, it is Stephens' policy to vote proxies on securities that are owned in an account and held in custody for the account by Stephens and to utilize Investment Advisory policies and procedures, which are reasonably designed to vote client securities in the best interests of the client and to address how potential conflicts of interest are handled.

Stephens' proxy voting policy is to vote in accordance with the recommendation of the Board of Directors of the issuer, unless the advisory representative has a potential objection with management of the issuer and elects to vote the shares against the recommendation of the Board of Directors.

If the Client chooses to have their securities custodied away from Stephens it will be the responsibility of the client to vote or to arrange for the voting of their proxies.

Stephens will make available information of the firm's proxy voting policy and procedures including information regarding how Stephens voted proxies, if requested. In response to any request as to how the client's proxies were voted, the Chief Compliance Officer – Investment Advisory would provide the information to the client.

### **Procedures**

Stephens' procedures to implement the Firm's proxy voting policy, is as follows:

- a. Voting Procedures
  - Proxy materials are received on behalf of clients in Stephens' Reorganization Department ("Reorg. Department");
  - Copies of the Voting Form and the Annual Proxy are sent to respective investment advisory area for review;
  - Stephens will vote the proxy through the Reorg Department in accordance with applicable voting guidelines, either by electronically voting or by mailing the proxy in a timely and appropriate manner.
  - Unless the responsible advisor or advisory committee loses confidence in management of the issuer or the client directs the vote, Stephens will vote the shares as recommended by the Board of Directors of the issuer.
- b. Proxy Voting Guidelines
  - Stephens, if custodied here is responsible for voting proxies.
  - If securities are custody elsewhere the client or custodian is responsible for voting.
  - In a Sub-Advisory relationship the Sub-Advisor is responsible to vote the client's proxies.
- c. Conflicts of Interest



- On an annual basis Stephens will disclose to affected clients any identified potential material conflicts of interest by providing a list of said conflicts electronically or by mail.
- Where Stephens has identified a specific potential material conflict of interest relating to one or more matters to be voted on by shareholders, Stephens: (1) will notify affected clients of the potential conflict of interest, (2) will disclose how the proxy will be voted absent a voting direction from the client, and (3) will give affected clients the opportunity to vote the proxy themselves.
- Stephens will maintain a record of the voting resolution of any conflict of interest.

From time to time there may also be a variety of corporate actions or other matters for which shareholder action is required or solicited and with respect to which Stephens may take action that it deems appropriate in its best judgment except to the extent otherwise required by agreement with the client. These actions may include, for example and without limitation, responding to tender offers or exchanges, bankruptcy proceedings and proposed class action settlements. However, Stephens will have no power, authority, responsibility or obligation to take any action with regard to any claim or potential claim in any bankruptcy proceeding, class action securities litigation or other litigation or proceeding relating to securities held at any time in the client account, including, without limitation, to file proofs of claim or other documents related to such proceeding, or to investigate, initiate, supervise or monitor class action or other litigation involving client assets.

## **Item 18 Financial Information**

To the best of our knowledge, there is no financial condition that is reasonably likely to impair our ability to meet our contractual commitments to our clients.

## **Other Potential Conflicts of Interest**

Stephens is a diversified financial services company that directly or through affiliates provides a wide variety of investment banking, securities, insurance and other investment-related services to a broad array of customers. These relationships could give rise to potential conflicts of interest. Any of the following types of transactions could present a potential for a conflict of interest.

- a) Client account assets may be invested in interests of money market funds, mutual funds, other investment companies, privately offered investment funds and other collective vehicles (collectively, “Funds”) for which Stephens or its affiliates may act as investment advisor, sponsor, administrator, distributor, selling agent, or in other capacities (“Affiliated Funds”). In addition, client account assets may be invested in interests of Funds for which Stephens or its affiliates do not act as investment adviser, sponsor, administrator or in other capacities. Stephens or its affiliates typically receive fees for services provided to such Funds, which often include (but are not limited to) fees payable under a plan adopted pursuant to Rule 12b-1 under the Investment Company Act of 1940, as amended (“12b-1 fees”) and fees paid to compensate Stephens for providing administrative services, distribution services,



shareholder services, investment advisory services or other services to or for the benefit of such Funds.

b) Client account assets are often invested in transactions that involve or constitute a purchase, sale or other dealings with securities or other instruments for which (i) Stephens, (ii) an affiliate or employee of Stephens, (iii) an entity in which Stephens or an affiliate has a direct or indirect interest, or (iv) another member of a syndicate or other intermediary (where an entity referred to in (i), (ii), or (iii), above is or was a member of the syndicate), has acted, now acts, or in the future may act as an underwriter, syndicate member, market maker, dealer, broker, principal, agent, research analyst or in any other similar capacity, whether the purchase, sale or dealing occurs during the life of the syndicate or after the close of the syndicate.

c) Stephens, or any other broker-dealer that is or may become affiliated with Stephens (the “affiliated brokers”), is expected to act as broker or dealer to execute transactions on behalf of client’s account. Client will not be charged a separate fee for brokerage services provided to the Account by affiliated brokers.

d) Stephens or its affiliates sometimes effect transactions for client’s account with other accounts for which Stephens or an affiliate provides investment advisory services (“Cross Trades”). Such Cross Trades are intended to enable Stephens to purchase or sell a block of securities at a set price and possibly avoid an unfavorable price movement that may be created through entrance into the market with such purchase or sell order. Stephens typically receives compensation from other accounts involved in a Cross Trade.

e) Subject to applicable regulations, Stephens or its affiliates may execute “Agency Cross Transactions” for the client’s account. Agency Cross Transactions are transactions where Stephens, or any affiliate of Stephens, acts as broker for both the Client’s account and the other party to the transaction. In such transactions, Stephens, or any of Stephens’s affiliates acting as broker, may receive commissions from the other party to such transaction, to the extent permitted by law, in addition to its customary investment management or advisory fee for client’s account.

f) Clients of other divisions of Stephens or clients of other advisory representatives of Stephens or Stephens, its principals, employees, affiliates and their family members, sometimes hold, and sometimes engage in transactions in, securities purchased or sold for client or about which Stephens may give or may have given client advice. The client’s account may purchase as investments securities of companies with which Stephens or its affiliates maintain investment banking relationships or other relationships or securities of companies in which Stephens or its affiliates have an ownership or other investment interest.

h) Subject to applicable law, Stephens sometimes pays fees to, and/or shares revenues with, affiliates or non-affiliates in connection with referrals for investment advisory accounts.

i) Stephens, or its affiliates, may provide more than one type of service to client (or a related organization), including (but not limited to), investment management

services, investment advisory services, financial advisory services, underwriting services, placement agency services, investment banking services, securities brokerage services, securities custodial services, insurance agency services, insurance brokerage services, administrative services or other services, or any combination of services, all on such terms as may be agreed between Stephens (or its affiliate) and client (or its related organization).

j) Other divisions and other advisory representatives of Stephens perform investment advisory services for clients other than client and such other divisions or other advisory representatives of Stephens give advice or take action with respect to other clients that may be similar to or different from the advice given or action taken for client's account, in terms of securities, timing, nature of transactions and other factors. Stephens will, to the extent practicable, attempt in good faith to allocate investment opportunities among its clients, including client, on a fair and equitable basis. However, other divisions and other advisory representatives of Stephens will not undertake to make any recommendation or communication to client with respect to any security which such other divisions or advisory representatives may purchase or sell (either as principal or for any other client's account) or recommend to any other client, or in which such other divisions or advisory representatives, or their respective principals, employees, affiliates or their family members, may engage in transactions.

***For more detailed information regarding Private Client Group Programs, SCMD, SND, SCMFIS, SMID, AAA, RRS, PMT, HMT, SC, and the SFIM Programs, please see the ADV Part 2A Appendix 1 for each program.***

### **Who to Contact**

We are pleased to have an opportunity to serve as your investment adviser. If you have any questions about the information contained in this brochure or about any aspect of the services we provide, please do not hesitate to call Stephens at (877-891-0095). Clients often receive this information by electronic delivery.