

## **Form ADV Brochure**

### **Stephens Investment Management Group, LLC**

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This brochure provides information about the qualifications and business practices of Stephens Investment Management Group, LLC. If you have any questions about the contents of this brochure, please contact us at [contactsimg@stephens.com](mailto:contactsimg@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 Investment Management Group, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Stephens Investment Management Group, LLC 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**

This is an annual update of Form ADV for Stephens Investment Management Group, LLC. Our last annual update was filed with the SEC on March 29, 2016.

Since our last Form ADV Part 2 annual update, there have been no material changes to Form ADV Part 2.

Our brochure may be requested, free of charge, by contacting Michael W. Nolte, Chief Operating Officer at (501) 377-2569 or at [mnolte@stephens.com](mailto:mnolte@stephens.com).

Additional information about Stephens Investment Management Group, LLC is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with us who are registered, or are required to be registered.

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## Item 4 Advisory Business

### Overview

Stephens Investment Management Group, LLC ("SIMG") is an Arkansas limited liability company which was established in June 2005 and began providing investment advisory services in December 2005. We became registered with the Securities and Exchange Commission on September 2, 2005.

### Who Are Our Owners

Our Firm is a subsidiary of Stephens Investments Holdings LLC, which is a privately held company owned by the Warren A. Stephens Trust which is controlled by Warren A. Stephens. The ownership of SIMG is made up of two types of units—"A units" which are voting units and "B units" which are non-voting units. Stephens Investments Holdings LLC owns 100% of the voting "A units" of SIMG, which are entitled to receive 80% of the net profits of SIMG. Certain key SIMG employees own "B units" in SIMG which are non-voting and which collectively are entitled to receive 20% of the net profits of SIMG. B units are owned by the following SIMG key employees in the percentages noted:

Ryan Crane	35%
John Thornton	20%
Kelly Ranucci	20%
Samuel Chase	20%
Warren Simpson	5%

SIMG operates from two geographic locations—Houston, Texas and Little Rock, Arkansas. Investment management, trading, marketing, client service, and certain compliance and operations functions are located in Houston, Texas. Operations, administration, compliance and legal functions and additional client service functions are located in Little Rock, Arkansas.

Our investment team initially joined Stephens Inc. in September 2004 and provided investment advice through Stephens Inc. through the end of November 2005. Advisory services began to be offered through SIMG in December 2005.

### The Types of Investment Advisory Services We Provide

Most of our clients are institutions and high net worth individuals. We provide investment advisory services to individuals, pension plans, foundations, corporations and other business entities, investment companies and other types of clients. Our investment focus is on U.S. equity securities, although fixed income securities, mutual funds, exchange-traded securities, ADRs and other types of securities could be purchased for client accounts from time to time. We are a long only manager, and we do not generally use margin.

SIMG manages six distinct investment management strategies as listed below. We do not tailor a customized investment program for the unique financial circumstances and objectives of a particular client. Nevertheless, clients can impose investment restrictions that would otherwise be traded in the strategy they select such as restrictions

on investing in particular securities or types of securities and restrictions on investing in particular industries.

#### Our Separately Managed Account Advisory Programs

We offer investment management on a discretionary basis through separately managed accounts in the following six strategies:

- Small Cap Growth

Our Small Cap Growth Strategy seeks long term growth of capital by investing primarily in common stock of U.S. companies with market capitalizations equal to or less than the largest company contained within the Russell 2000® Growth Index at the time of initial purchase which appear to us to have clear indicators of future earnings growth or appear to demonstrate other potential for growth. Our Small Cap Growth Strategy is available as a separately managed account advised by SIMG.

- Mid Cap Growth

Our Mid Cap Growth Strategy seeks long term growth of capital by investing primarily in common stock of U.S. companies with market capitalizations between \$1.0 billion and the market capitalization of the largest company in the Russell Midcap® Growth Index at the time of initial purchase which appear to us to have clear indicators of future earnings growth or appear to demonstrate other potential for growth.. Our Mid Cap Growth Strategy is available as a separately managed account advised by SIMG and in model programs offered through various affiliated and unaffiliated investment advisers.

- Small and Mid Cap Core Growth (“SMID Core Growth”)

Our Small and Mid Cap Core Growth Strategy is a diversified strategy which seeks long term growth of capital by investing primarily in small and mid-cap core growth companies which have market capitalizations equal to or less than the largest company contained within the Russell 2500® Growth Index at the time of initial purchase which appear to us to have clear indicators of future earnings growth or appear to demonstrate other potential for growth of capital. Securities purchased for this composite are predominantly those categorized by us as core growth securities. Core growth securities are those we perceive to be high quality, well managed businesses that have the potential for consistent, predictable revenue and earnings growth. Our SMID Core Growth Strategy is available as a separately managed account advised by SIMG, in a wrap fee program sponsored by Stephens Inc. for which SIMG acts as sub-adviser and in model programs offered through various affiliated and unaffiliated investment advisers.

- Small and Mid Cap Select Growth (“SMID Select Growth”)

Our Small and Mid Cap Select Growth Strategy is a diversified strategy which seeks long term growth of capital by investing primarily in common stock of U.S. companies with market capitalizations equal to or less than the largest company contained within the Russell 2500® Growth Index at the time of initial purchase which appear to us to have clear indicators of future earnings growth or appear to demonstrate other potential for growth. Our SMID Select

Growth Strategy is available as a separately managed account advised by SIMG.

- Leaders and Innovators

The Stephens Leaders and Innovators Strategy is a diversified all-cap growth Strategy which seeks to invest in domestic companies, but can include international companies that we consider to be leaders and/or innovators in a particular industry and provides the opportunity to capitalize on the success of these companies. Our Leaders and Innovators Strategy is available as a separately managed account advised by SIMG and in a model program through an affiliated investment adviser.

- Hybrid Growth

The Hybrid Growth Strategy invests primarily in small cap and mid-cap common stock of U.S. companies. Under normal conditions, securities purchased for this composite have market capitalizations equal to or less than the largest company contained within the Russell 2500® Growth Index at the time of initial purchase which appear to have near term catalysts for growth in addition to a consistent long term growth potential. This strategy is actively managed, and securities are frequently purchased and sold. For comparison purposes the composite is measured against the Russell 2500® Growth Index. However, since portfolio construction is bottom-up, industry and sector exposure will at most times vary greatly from that of the Russell 2500® Growth Index. As a result performance returns of this strategy can vary greatly from that of the Russell 2500® Growth Index. Our Hybrid Growth Strategy is available as a separately managed account advised by SIMG.

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.

In the separately managed accounts we advise, 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. Any such limitations are to be agreed upon in advance with each client.

Mutual Funds We Sub-Advise

We sub-advise the American Beacon Stephens Small Cap Growth Fund and the American Beacon Stephens Mid-Cap Growth Fund. These funds use the same respective investment models that our advised separate accounts use for the Small Cap Growth Strategy and the Mid Cap Growth Strategy. Additionally we serve as one of the investment advisers to the following multi-manager mutual funds using our SMID Select Growth Strategy:

- Vanguard Explorer™ Fund; and
- Bridge Builder Small/Mid Cap Growth Fund

### Wrap Fee Accounts

SIMG serves as a portfolio manager in wrap fee programs sponsored by Stephens Inc. and receives a portion of the wrap fee as its advisory fee. Stephens Inc. is a broker-dealer and investment adviser which is affiliated with SIMG through common ownership. SIMG's investment advisory fee under such a wrap or all inclusive fee arrangement may differ from that offered to other clients. The total investment advisory fees charged by the wrap fee program sponsor, a portion of which includes the fee paid to SIMG, can be higher than if SIMG advises the client directly. In evaluating such an arrangement, a client should recognize that brokerage commissions or the execution terms of transactions in the client's account are established by the sponsor and not by SIMG.

In this arrangement we are retained by the wrap fee program sponsor which, in turn, recommends the advisory services of SIMG to one or more of its clients. Depending on the terms of the particular wrap fee program, we may or may not have investment discretion with regard to a particular program or account.

In addition to other indicia 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, we will modify 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. The minimum account size for wrap fee programs varies from sponsor to sponsor, and a person considering a wrap fee program should review the disclosure document provided by the sponsor of the applicable program for details regarding the operation of the program, its risks, fees, and other charges.

In determining the suitability of an investment strategy for a particular wrap fee program client, we rely on the extensive information on the prospective client maintained by the sponsor of the program. This information may come from, among other sources, a personal interview with the client and a written questionnaire completed by the client that seeks to elicit certain financial and other relevant data including the client's 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.

Securities transactions for accounts that are under a wrap or all inclusive fee arrangement are effected "net" (i.e., without commission), and a portion of the wrap or all inclusive fee is generally considered as being in lieu of commissions. Trades are generally routed only to the broker-dealer with which the client has entered into the wrap or all inclusive fee arrangement so that SIMG may not be free to seek best price and execution by placing transactions with other broker-dealers. Although generally the best price can be offered for listed transactions, no assurance can be given that such will continue to be the case.

### Model-Based Portfolio Programs

We provide a number of our current investment model portfolios to various affiliated and unaffiliated investment advisers which offer these models to their clients in advisory programs through Separately Managed Account (SMA) programs or Unified Managed Account (UMA) program structures.

In these model-based portfolios, we do not enter into a direct advisory relationship with the clients of the investment advisory firm offering the model portfolios (“Sponsor”), and we provide no administrative, portfolio accounting or account-specific performance reporting services to those clients.

Generally, we do not know the identity or any specific information about the advisory firm’s client. The Sponsoring investment advisory firms offering SIMG’s model portfolios are solely responsible for initiating all trading and rebalancing activity recommended by our model(s). SIMG serves as the advisor to the Sponsor of the model-based programs, and we do not have discretion over the accounts at the Sponsor which are following our model portfolio. With UMA structures which incorporate a separate overlay manager, typically SIMG’s agreement is with the overlay manager. In those situations, we serve as adviser to the overlay manager, and it is the overlay manager which we provide our model portfolio(s) to.

In these model-based programs it is the sole responsibility of each Sponsor to determine the operational aspects of its particular model-based program. Depending on the structure of the Sponsor’s program and consistent with its fiduciary obligations to its clients, the Sponsor may elect not to implement the model portfolio we provide to it in whole or in part, may choose not to implement changes we make to our model portfolio or may delay the timing of trading for changes we make to our model portfolio. As a result, the investment performance of a particular client will differ from the investment performance of the clients of SIMG that have elected to follow the particular investment strategy.

SIMG receives fees from these investment adviser Sponsors for providing our investment model portfolio(s), and our fees are negotiated on a case-by-case basis with each Sponsor. Our fees vary depending upon the specific services we provide. Our fees are based upon a percentage of the amount of assets allocated to the model investment strategy we provide to the investment adviser Sponsor. Our fees are paid by the Sponsor quarterly in advance, but this can differ from program to program. Please refer to the Sponsor’s Form ADV and investment advisory agreement for further information about the operation of the Sponsor’s model-based program.

We provide our updated model portfolio(s) to the Sponsor at an agreed upon, periodic basis which varies depending upon the particular terms of the agreement between SIMG and the Sponsor. Our updated model(s) are released to a Sponsor only after we have completed the execution of orders for the separately managed accounts, the wrap fee clients, and the mutual fund clients we advise or sub-advise. As a result, accounts following our model portfolios may receive inferior executions on particular transactions



called for in the model changes relative to the clients we advise due to the timing of trading orders and general market conditions. Additionally, accounts following our model portfolio may be positively or negatively impacted if companies included in our model portfolio(s) release important or material information prior to the time trading orders for a particular security have been completed by the Sponsor.

As discussed above, Stephens Inc. sponsors the Stephens Small-Mid Cap Core Growth Program which is a wrap fee program that we sub-advise which follows our SMID Core Growth Model. Orders for securities traded in this program are usually directed to Stephens Inc. for execution. Stephens Inc. also offers its clients a model-based program known as the Stephens Managed Assets Program (MAP), which follows models of various advisers including SIMG. The Stephens MAP Program currently offers SIMG's SMID Core Growth model, its Mid Cap Growth model and its Leaders and Innovators model as investment choices to MAP clients, and models can be added or no longer used by Stephens Inc. at any time. Consistent with our policy on the timing for the release of our models, our updated model portfolios are released to Stephens Inc. after orders have been completed for the managed accounts we advise and after orders have been completed for the Stephens Small-Mid Cap Core Growth Strategy which we advise or sub-advise.

Clients interested in a model portfolio program following SIMG's models through an SMA or a UMA should review the Form ADV and investment advisory agreement of the Sponsor of the SMA or UMA program for information regarding the details of the operation of the Sponsor's particular SMA or UMA program, including arrangements with respect to fees, the timing of payment of fees and policies regarding fees in the event of termination.

As of December 31, 2016, we managed \$3,657,845,785 in client assets on a discretionary basis.

## **Item 5 Fees and Compensation**

### Overview of Fee Arrangements

SIMG offers investment advisory services to clients under two types of fee structures: (1) fees based solely on a percentage of assets under management ("asset based fee"); and (2) asset/performance fee arrangements which are hybrid fees based on both a percentage of assets under management and on the performance of the client's account ("asset/performance fee"). Fees are negotiable and vary from client to client.

### Asset Based Fees for Separately Managed Accounts

SIMG typically charges clients an investment advisory fee based on the value of the assets in the client's account. Where we act as investment adviser to a client in a separately managed account, our maximum fee is as follows:

Small Cap Growth Strategy	1.25% of assets under management
Mid Cap Growth Strategy	1.00% of assets under management
SMID Core Growth Strategy	1.00% of assets under management
SMID Select Growth Strategy	1.10% of assets under management
Leaders and Innovators Strategy	1.00% of assets under management
Hybrid Growth Strategy	1.25% of assets under management

In each instance fees are negotiable and vary depending on the size of the investment, the nature of the services to be rendered by SIMG to the client, and other factors. Fees are typically invoiced quarterly, in arrears. We provide investment advisory services to our affiliates, their officers, directors, employees and their family members at fee levels that are less than those noted above.

#### Sub-Advisory Relationships

In some instances we are retained to act as sub-advisor for a client's assets in a separately managed account. In these situations the nature of the overall services we render to the particular client differs from those advisory relationships where we act as the sole investment adviser to a client and interface with the client directly. Consequently, our fees in these sub-advisory relationships are generally lower than the fees we charge where we act as the client's sole investment advisor. Sub-advisory fees are negotiated on a case-by-case basis, and SIMG's sub-advisory fees do not include the advisory fee charged by the client's investment adviser.

#### Asset/Performance Based Fee Arrangements

On occasion, SIMG enters into fee arrangements whereby we are compensated under hybrid asset/performance based fee arrangements. Only certain clients qualify for asset/performance fee arrangements which compensate SIMG based, in part, on the performance of the client's account. SIMG only enters into asset/performance fee arrangements with *Qualified Clients* (as defined in Rule 205-3 under the Investment Advisers Act of 1940) and in accordance with the requirements set forth in applicable laws, rules, and regulations.

We offer asset/performance fee arrangements to clients in separately managed accounts which have chosen to follow our Small Cap Growth Strategy. In this type of arrangement SIMG charges an asset based fee plus we receive a performance fee if SIMG's net performance exceeds an agreed upon benchmark. The current benchmark utilized is the Russell 2000® Total Return Growth Index (Russell 2000® Growth Index) which measures the performance of the small-cap growth segment of the U.S. equity universe and includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. The asset component of the asset/performance fee is computed and charged quarterly in arrears. The performance component of the asset/performance fee arrangement is computed and is paid annually in arrears.

In sub-advising the Vanguard Explorer™ Fund, SIMG has entered into an investment advisory agreement wherein we are paid an asset based fee plus a fulcrum performance

fee based on SIMG's average performance versus the benchmark over a five year period. The current benchmark utilized is the Russell 2500® Growth Index.

It is not typical for SIMG to enter into asset/performance fee arrangements with clients. When we do enter into such arrangements, the terms of these arrangements are negotiated with clients on a case by case basis, and the structure of these arrangements will likely differ significantly from client to client.

The particular fee arrangement chosen may not be the most advantageous to the client in all circumstances. We will reject any fee arrangement in instances where: (1) the Qualified Client standard is not met; (2) where we reasonably believe the investor lacks the necessary financial sophistication to enter into such an arrangement; (3) where a client purports to not fully understand our method of compensation and the nature of its risks; or (4) where we otherwise deem the client to be unsuitable for a hybrid asset/performance fee arrangement.

#### Pooled Vehicles

SIMG's fee schedule for investment company and other pooled vehicle accounts may be higher or lower than the fees noted above for separately managed accounts depending on the circumstances of the client relationship. Such fees are negotiated on a case-by-case basis and are based on the assets in the mutual fund or can also include a performance component. The advisory fees for the mutual funds we advise or sub-advise are set forth in each fund's prospectus.

#### Payment of Fees

Our advisory fees for our separately managed accounts are paid quarterly in arrears. If an account is custodied at our affiliated broker-dealer, Stephens Inc., we typically instruct Stephens to deduct our fees from the client's assets pursuant to an authorization from the client. Where client accounts advised by SIMG are custodied away from Stephens Inc., we typically bill clients for fees incurred. Additionally, for accounts sub-advised by SIMG, we typically deduct our fees from client assets pursuant to an authorization from the client. For mutual funds which are sub-advised by SIMG, we typically submit an invoice for our fees to the adviser of the mutual fund.

#### Other Types of Fees and Expenses Clients May Pay

In addition to SIMG's advisory fee, clients pay commission charges on each transaction executed in their account which is charged by the executing broker-dealer or execution facility. However, if a client's account is under a wrap fee program such as the Stephens Small-Mid Cap Core Growth Program, commission charges are generally included as part of the wrap fee. This is more fully described in the brochure of the wrap fee program sponsor.

Many of SIMG's clients have engaged their own custodians, and they pay their custodian directly for any custodial charges. Certain clients of SIMG have selected custodians which are broker-dealers and which impose prime brokerage, trade away or account fees on trades or allocations that are not executed through their broker-dealer firm ("trade

away fees”). These trade away fees are paid by the client to their custodian on each transaction in addition to the commission charged on the trade by the broker-dealer which executes the trade. SIMG does not charge custodial fees.

For any mutual fund investment SIMG clients invest in, fees are also charged as more fully described in the mutual fund’s prospectus. These fees include the advisory fee and can include, if applicable, 12b-1 fees, interest, custodian and transfer agency fees, redemption fees, customary fund expenses and other charges. The mutual funds which SIMG sub-advises pay SIMG an investment advisory fee monthly or quarterly.

#### Pre-Paid Advisory Fees

SIMG does not itself charge clients fees in advance. However, SIMG advises certain wrap fee program sponsors which under the terms of their particular wrap fee program require their clients to pre-pay their advisory fees quarterly. After the wrap fee program clients pre-pay their advisory fees, SIMG is compensated based on an agreement with the wrap fee program sponsor which compensates SIMG based on a percentage of the assets following its model portfolios. These programs include Unified Managed Accounts (UMA’s) and separately managed accounts (SMA’s). Please refer to the Form ADV brochure of the wrap fee program sponsor for a discussion of how clients may obtain a refund of pre-paid fees if the advisory contract is terminated before the end of the billing period.

#### Compensation for the Sale of Securities and Investment Products

None of our personnel receive revenues based on commissions from the sale of securities. However, our marketing personnel are compensated in part based on a percentage of the assets invested by clients in separately managed accounts or based on a portion of the revenues SIMG receives.

Receiving a percentage of assets invested by clients or a percentage of the revenues SIMG receives from client investments presents a conflict of interest in that an SIMG employee who is recommending a particular investment strategy or mutual fund investment to a potential client receives compensation if the client ultimately invests in that strategy or fund rather than focusing on the specific client’s investment needs. However, SIMG does not tailor specific investment programs to any particular client’s financial needs and circumstances as clients hire SIMG for one of its specific investment strategies or funds. Further, SIMG does not advise clients with respect to investing in any mutual funds other than the funds we sub-advise. SIMG has policies and procedures and a Code of Ethics which address such conflicts.

As an investment adviser our recommendations are confined exclusively to the accounts and mutual funds we advise or sub-advise. We advise or sub-advise both load and no-load mutual funds, and these funds are available at net asset value in situations which meet the criteria set forth in the particular mutual fund prospectus.

The mutual funds we advise or sub-advise are available through unaffiliated broker-dealers, through our affiliated broker-dealer and directly from the mutual funds' distributor.

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

For our Small Cap Growth Strategy, SIMG's investment team manages individual accounts at the same time under different fee arrangements. Most of our fee structures are based solely on the assets the client has invested, but we also manage accounts in hybrid fee structures that compensate SIMG based on the assets invested and the capital appreciation of the assets of the client's account. Additionally, our Small and Mid Cap Select Growth separate account strategy utilizes the same model portfolio and investment strategy as the portion of the Vanguard Explorer™ Fund and the Bridge Builder Small/Mid Cap Growth Fund which we sub-advise. The Vanguard Explorer™ Fund pays SIMG an asset based fee plus a fulcrum performance fee. Having the same investment team manage client assets in the same strategy with different fee structures at the same time is known as side-by-side management and constitutes conflicts of interest. This conflict of interest consists of an incentive for our investment team:

- to favor accounts for which we receive a performance-based fee with investment opportunities where we do not receive the full amount of securities we seek to buy for all of our advised accounts
- to give favorable pricing to performance based fee accounts; and
- to prefer performance based fee accounts over asset based fee accounts in the trade entry process.

Potential conflicts of interest exist where established market prices are not available and where SIMG must value such illiquid securities. Additionally, asset/performance fee arrangements provide an incentive for us to make investments that involve more risk and are more speculative than would be the case in the absence of an asset/performance based fee.

We have adopted policies, procedures and practices which are reasonably designed to mitigate these conflicts of interest so that all clients are treated fairly with respect to investment opportunities, pricing and trade entry priority over time depending on the particular strategy or fund in which they invest. For a more complete discussion of our trading practices with respect to the timing of the entry of orders for different strategies or for our mutual funds, please see Item 12 of this Brochure on Brokerage Practices below.

We currently advise one account with an asset/performance fee arrangement in our Small Cap Growth Strategy. We do not have performance fee arrangements in our Mid Cap Growth, SMID Core, Leaders and Innovators or Hybrid Growth Strategies. Our Small and Mid Cap Select Growth Strategy utilizes the same model portfolio and investment strategy as the portion of the Vanguard Explorer™ Fund and the Bridge Builder

Small/Mid Cap Growth Fund which we sub-advise. The Vanguard Explorer™ Fund pays us an asset and fulcrum performance fee

## **Item 7 Types of Clients**

SIMG is primarily an investment adviser to institutional accounts, high net worth individuals and to investment companies. We provide investment advice to individuals, trusts, boards and retirement systems for various governmental pension and retirement plans, corporate pension and retirement plans, various foundations and private entities and investment companies. Our investment focus is on equity securities, although fixed income securities, mutual funds, exchange-traded securities and other types of securities may be purchased for client accounts in our various strategies from time to time. The minimum account size for each strategy SIMG advises is as follows:

Small Cap Growth Strategy	\$3,000,000
Mid Cap Growth Strategy	\$2,000,000
Small and Mid Cap (SMID) Core Growth Strategy	\$1,000,000
Small and Mid Cap (SMID) Select Growth Strategy	\$1,000,000
Leaders and Innovators Strategy	\$1,000,000
Hybrid Growth Strategy	\$1,000,000

We can waive these minimum account sizes in our sole discretion. If the value of an account declines below our minimum account size for any reason after the account is opened, it is our normal practice to continue to maintain the account. However, we reserve the right to accept or decline any account and in accordance with the terms of a particular account's investment agreement, we reserve the right to close an account if appropriate in our discretion.

For the mutual funds we advise or sub-advise, the minimum investment in the American Beacon Stephens Small Cap Growth Fund, the American Beacon Stephens Mid-Cap Growth Fund, the Bridge Builder Small/Mid Cap Growth Fund and the Vanguard Explorer™ Fund varies by the share class and is set out in each fund's prospectus.

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.

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

We manage the following investment strategies:

- Small Cap Growth Strategy
- Mid Cap Growth Strategy
- Small and Mid Cap Core Growth Strategy
- Small and Mid Cap Select Growth Strategy

- Leaders and Innovators Strategy
- Hybrid Growth Strategy

The American Beacon Small Cap Growth Fund we sub-advise utilizes the same investment model as our Small Cap Growth Strategy, the American Beacon Mid-Cap Growth Fund we sub-advise uses the same investment model as our Mid Cap Growth Strategy and the assets in the Vanguard Explorer™ Fund and the Bridge Builder Small/Mid Cap Growth Fund we sub-advise utilize the same investment model as our Small and Mid Cap Select Growth Strategy.

Our investment strategies are premised on our belief that earnings growth drives stock performance. We believe that the small-cap and mid-cap markets are relatively inefficient due in part to less available information about many of the issuer companies in these markets. Lack of sell-side research coverage and lack of expertise at research providers to cover the vast universe of smaller capitalized companies contributes to these market inefficiencies. This in turn leads to opportunities to invest in these companies before they are more widely followed by research analysts. These markets contain securities with the potential to appreciate more quickly than other segments of the market with larger capitalized companies.

We employ a bottom up investment selection process whereby we screen potential investments through a process of fundamental analysis on the potential investment and then apply quantitative screening to identify companies that we believe exhibit the potential for superior earnings growth.

In analyzing potential investments, we seek to identify emerging companies or established high growth companies at an early stage of their lifecycle. Our investment process combines both “core growth” holdings and “earnings catalyst” stocks. Core growth companies are companies that exhibit fundamental traits such as consistent, high level of earnings growth, high returns on capital, experienced management teams, high barriers to entry and competitive edges in the industry. We also seek to own “earnings catalyst” stocks. Earnings catalyst securities are those companies where there is some identifiable event that we believe should cause a period of accelerating earnings growth for the company such as a management change, an acquisition, a new product cycle or loss of a viable competitor.

Our investment decision making process includes among other things some or all of the following steps: an analysis of each company’s business model and financial statements, attendance at presentations by and about the company at investment conferences, quantitative analysis on the company, meetings with company management and detailed industry due diligence. We many times speak with companies we are not considering for investment in order to gain better understanding of the company’s business, industry, competitors, suppliers and/or customers. We frequently utilize channel checks for companies we have invested in or that we are considering for investment.

Most of our research on companies we are considering for investment is done internally through fundamental financial analysis on the company, quantitative screening and meetings with management. Our research process involves a team approach by our five member investment team composed of our Chief Investment Officer, our Portfolio Managers and our Equity Analyst. Each member of our investment team specializes in industry sectors in order to provide our investment team with an in-depth knowledge of our entire portfolio composition. The Portfolio Manager responsible for a specific sector or industry will typically present an idea to the five member investment team for discussion. Stocks are typically discussed at various stages of the research process as a group and may be added or rejected based on several factors. The decision making process typically involves all members of the team.

We utilize sell side research extensively, but it is never the sole basis of our investment decision making process. Other sources of information we utilize can include industry data composed of First Call reports, company filings, street research and models. Our primary investment database and screening tool is FactSet which we have been using since prior to the inception of SIMG. While FactSet is a software application, many of the screening tools we use within FactSet are proprietary applications we have developed. We utilize Bloomberg for real-time news and pricing. We currently use Thomson for some data feeds and research services. We frequently supplement this research by utilizing outside sources such as sell-side research and industry research. We also utilize various 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 stocks that meet our investment criteria and to monitor existing holdings.

We do not have a specific risk target for our portfolios or for our individual investments. Our risk objective is to surpass the performance of the benchmarks for our respective strategies with lower standard deviation, lower beta and a moderate tracking error to the appropriate benchmark. In constructing our portfolios, diversification is one of our primary tools for risk management. We monitor the level of investment in each sector relative to the sector weights of the respective benchmark, and our goal is to attempt to stay within a 50% band of the benchmark's weight. For sectors with very small weights, this does not always hold true.

#### Trading Costs

For each of our six investment strategies and the mutual funds we advise or sub-advise, investors pay commission charges on the trades we enter with the broker or execution facility executing their trades unless the investor's investment is made through a wrap fee program sponsored by an affiliated or unaffiliated investment adviser SIMG is advising. Since we frequently enter orders in most of our investment strategies and funds, commission charges can be substantial and will negatively affect an investor's net investment return.



### Material Risks

Investing in securities involves risk of loss, and clients should be prepared that they could lose all or a portion of their investment.

The material risks associated with our strategies are:

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.

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.

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.

### Risks Associated with Cybersecurity

SIMG relies in part on digital and network technologies (collectively, “cyber networks”) to conduct our business. Such cyber networks are at risk of cyber-attacks that could potentially seek unauthorized access to digital systems for purposes such as misappropriating sensitive information, corrupting data, or causing operational disruption. Cyber-attacks can potentially be carried out by persons using techniques that could range from efforts to electronically circumvent network security or overwhelm websites to intelligence gathering and social engineering functions aimed at obtaining information necessary to gain access. SIMG and its affiliates maintain an Information Security Policy and certain technical and physical safeguards intended to protect the confidentiality of internal data. Nevertheless, cyber incidents could potentially occur, and might in some circumstances result in unauthorized access to sensitive information about SIMG or its clients.

## **Item 9 Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of SIMG or the integrity of SIMG's management. There are no legal or disciplinary events relating to SIMG or our employees.

Stephens Inc. is considered to be a "related person" to SIMG since it is under common control with us and certain of our employees are registered with Stephens Inc. However, Stephens Inc. is not an "advisory affiliate" of SIMG as defined in Form ADV and the instructions thereto. If your investment is made through Stephens Inc. or your assets are custodied at Stephens Inc. please refer to Form ADV of Stephens Inc. for relevant information on legal and disciplinary events relating to Stephens Inc.

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

SIMG is a subsidiary of Stephens Investments Holdings LLC, which is owned by a trust controlled by Warren A. Stephens.

SIMG is also affiliated with firms engaged in a wide variety of businesses including financial and non-financial products and services.

SIMG is affiliated, through common ownership, with Stephens Inc., an investment banking firm which is registered as a broker-dealer, an investment adviser and a municipal adviser with the Securities and Exchange Commission and is an introducing broker and member of the National Futures Association. Additionally, Stephens Inc. performs pension consulting services for certain of its clients. Stephens Inc. is indirectly owned by various trusts controlled by Warren A. Stephens and certain members of his family. SIMG's personnel are typically dual employees of SIMG and Stephens Inc., and may perform services/functions for both entities. SIMG serves as advisor to Stephens Inc. or Stephens Inc. clients in a number of WRAP fee programs sponsored by Stephens Inc. Many of the accounts advised or sub-advised by SIMG are custodied at Stephens Inc. SIMG receives other services from Stephens Inc., including human resources, legal, accounting, research, tax, informational and other technology services. In addition, Stephens Inc. may act as dealer, agent and/or broker-dealer with respect to portfolio transactions for and on behalf of SIMG's clients. Stephens Inc. and its employees may refer prospective clients to SIMG and may be compensated for any such referrals.

Hotchkis & Wiley Capital Management, LLC is a registered investment adviser in which a minority ownership interest is ultimately owned by various trusts controlled by Warren A. Stephens. Hotchkis & Wiley Capital Management, LLC is not controlled by or under common control with SIMG.

Affiliates of SIMG also own investments in other businesses in a wide variety of industries. SIMG, on behalf of its clients, may invest in securities of issuers in which affiliates of SIMG have an ownership interest. SIMG's investment decisions on behalf of

its clients are made independently from the investment decisions of its affiliates. Accordingly, SIMG's investment decisions may be different from and/or inconsistent with investment decisions of its other affiliates.

Many of the operational services performed for SIMG such as computer and technology support and communications services are performed by Stephens Support Services LLC (“SSS”) and CSS Hosted Solutions LLC (“Talisys”). SSS and Talisys are owned by Stephens Financial Services LLC which is owned by various trusts controlled by Warren A. Stephens and certain members of his family.

SIMG serves as sub-adviser to the American Beacon Stephens Small Cap Growth Fund and the American Beacon Stephens Mid-Cap Growth Fund and serves as adviser to the Vanguard Explorer™ Fund and the Bridge Builder Small/Mid Cap Growth Fund for a portion of its assets.

The following management persons of SIMG are also registered representatives of Stephens Inc.:

- Warren Simpson
- Ryan Crane
- John Thornton
- Mike Nolte
- David Prince
- Samuel Chase
- Kelly Ranucci

Other SIMG employees are registered representatives of Stephens Inc. as well.

#### SIMG Industry Affiliations

Stephens Inc. provides a variety of investment banking and other related services to various clients, including issuers of securities that SIMG may recommend for purchase or sale by clients. In the course of providing these services, SIMG and its affiliates may come into possession of material, nonpublic information that might affect SIMG's ability to buy, sell or hold a security for a client account. SIMG and Stephens Inc. have adopted various policies that are intended to prevent the communication of material, nonpublic information to SIMG's personnel.

SIMG believes that the nature and range of clients to whom affiliates of SIMG render investment banking services is such that it would be inadvisable to exclude these companies from a client's portfolio. Accordingly, unless a client advises SIMG to the contrary, it is possible that client holdings may include the securities of companies for which affiliates of SIMG perform investment banking services or other services. Moreover, a client portfolio may include the securities of companies in which affiliates of SIMG make a market or in which SIMG or its affiliates, or their respective directors, officers and/or employees, have positions.

SIMG provides investment advisory services to one or more of our affiliates (including their personnel). With respect to the selection and timing of investment decisions, SIMG will endeavor to treat the advisory accounts of its affiliated clients in a manner that is substantially the same as the manner in which it treats the advisory accounts of its other clients who are similarly situated, absent account specific restrictions and/or limitations, but there can be no assurance that it will do so in all cases. SIMG may, from time to time, be restricted from buying or selling certain securities on behalf of its affiliated clients owing to the business activities of its affiliates. For example, SIMG may not be permitted to purchase certain securities for its affiliates if Stephens Inc. is in possession of material inside information.

Additional information relevant to the conflicts presented by these affiliations is included in Item 11 below.

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

### Code of Ethics

SIMG has adopted a Code of Ethics pursuant to SEC rule 204A-1 that sets forth standards of conduct for SIMG's employees and procedures for securities transactions by its employees in their personal accounts.

Generally, under the Code of Ethics, portfolio managers and other "investment persons" must seek pre-approval of all transactions (subject to certain narrow exceptions). Investment persons may not purchase or sell any security which at the time is being purchased or sold, or to such person's knowledge, is being considered for purchase or sale, by any client account and may not purchase or sell a security within 7 calendar days of a fund or advised account trading in the security. Short term trading is discouraged and investment persons and senior officers may not purchase and sell or sell and then purchase the same security within a 60 day period. These restrictions may be subject to certain de minimis provisions and may be waived upon consent of SIMG's Compliance Department based on individual circumstances. In addition, SIMG's investment persons must pre-clear all trades for personal securities accounts with compliance personnel, subject to certain exceptions (e.g. trades with respect to U. S. government securities, commodities, futures, exchange traded funds, options on futures and options on broad-based indices).

SIMG's personnel may not purchase initial public offerings. SIMG's access persons are required to have duplicate copies of confirmations or statements with respect to every brokerage account they hold sent to SIMG in order to permit the monitoring of compliance with SIMG's personal trading policies and restrictions. Personnel must report all personal securities transactions no less than quarterly. SIMG's employees must report violations of the Code of Ethics to SIMG's Chief Compliance Officer.

All access persons are required to maintain their personal accounts and accounts in which they have a beneficial interest at our affiliated broker-dealer unless the account has been

specifically exempt in writing from this requirement. No individuals enter trades directly in their personal accounts.

A copy of SIMG's Code of Ethics is available free of charge to any client or prospective client who requests a copy.

SIMG may, from time to time, invest in securities issued by clients of the firm, and SIMG may invest in securities in which SIMG or one of our related persons has a material financial interest. SIMG's investment team makes the decision to buy or sell a specific security through a process of consultation among the five members of our investment team. There are information barriers in place in accordance with our Code of Ethics and our procedures which prohibit communication of our investment decisions to others outside of SIMG. Therefore SIMG operates somewhat independently of Stephens Inc. and its affiliates with respect to investment decisions. Sometimes, our investment decisions involve securities in which we or one of our related persons has a financial interest or an ownership position. This presents a potential conflict of interest with respect to our clients. Except for publicly available ownership disclosures to the SEC (Forms 3 and 4, Schedule 13D, 13G and 13F), SIMG is generally not aware of investments Stephens affiliates have in a particular company until they rise to a 5% investment level or higher.

#### Participation or Interest in Client Transactions

From time to time, we may seek to effect a principal transaction between our firm (or an affiliate) and a client. Before buying any security from, or selling any security to, a client, we will obtain the client's prior consent to the transaction and otherwise comply with applicable law concerning the transaction. Principal transactions in securities in which Stephens Inc. acts as a market-maker will only be effected for clients if Stephens Inc. matches or betters the highest bid/lowest ask prices as reflected on NASDAQ, if applicable, and the client's prior consent to such transactions has been obtained. No mark-downs or mark-ups from the highest bid/lowest ask price will be charged. Stephens Inc., acting as a market-maker, has the potential for profit or loss on securities it, as principal, sells to or buys from such clients depending on the price at which the transaction is executed.

Securities may be purchased for certain clients during an underwriting syndicate of which an affiliate of SIMG is a member or from an affiliate of SIMG as a private placement agent. Any such purchase for a client that is a registered investment company will be made in accordance with procedures adopted by the company's board of trustees pursuant to Rule 10f-3 under the Investment Company Act of 1940. All such purchases for ERISA accounts will be made in accordance with Department of Labor Prohibited Transaction Exemption 95-83 (September 13, 1995).

We may effect portfolio transactions in securities or other instruments through an affiliate on an agency basis subject to applicable restrictions under the Securities Exchange Act of 1934, the Investment Advisers Act of 1940, the Investment Company Act of 1940 and ERISA. These transactions will be effected through an affiliate when, in SIMG's

judgment, they are consistent with obtaining best price and execution for the client. These transactions may be effected through affiliates of SIMG even though the total brokerage commission for a transaction may be higher than that which might have been charged by another broker for the same transaction.

SIMG may effect "agency cross transactions" in which an affiliate of SIMG acts as agent for both the buyer or seller in the transaction and receives a commission from both the buyer and the seller. Any agency cross transaction will be effected in compliance with Rule 206(3)-2 under the Investment Advisers Act of 1940 and other applicable law.

From time to time, we may deem it appropriate that one of our clients should purchase a particular security while another client should sell the same security. In this situation, it may be advantageous to both clients to cross the transactions internally between the two accounts by having the "purchasing" client purchase the securities directly from the "selling" client ("cross-trading"). Cross-trading can prevent both accounts from having to pay either the commission charges or the markups or markdowns that would be incurred if the trades were effected through broker-dealers in the open market. Cross-trading presents a potential conflict of interest between the firm and one or both clients in that such trades could be effected for reasons other than the best interests of such clients. We follow specific procedures designed to ensure that any such trades, if effected, are done on a fair and equitable basis.

For certain of our clients such as clients subject to ERISA, we may be limited in our ability to purchase the securities of issuers in which SIMG affiliates have an ownership interest.

SIMG may recommend to clients that they purchase shares of mutual funds we sub-advise. Such clients, along with other fund shareholders, will bear a proportionate share of the expenses of those funds, including, to the extent permitted by law, the management fee paid to SIMG. In addition, we may have discretion to select money market mutual funds, or comparable investments, in which to hold cash reserves. Certain of these money market mutual funds may pay Stephens Inc. a distribution and/or servicing fee. Any such fees would be in addition to the fees that are paid to SIMG for advisory and/or other services.

## **Item 12 Brokerage Practices**

### Selection of Broker-Dealers for Client Transactions

SIMG is typically authorized to determine, without specific client consent, the broker or dealer for securities transactions in the client's account. SIMG's objective in selecting brokers and dealers and in effecting portfolio transactions is to seek to obtain the best combination of price and execution with respect to its accounts' portfolio transactions. The best net price, giving effect to brokerage commissions, spreads and other costs, is normally an important factor in this decision, but a number of other judgmental factors are considered as they are deemed relevant. SIMG frequently selects broker-dealers with

which it has commission sharing arrangements and broker-dealers that have provided SIMG with research services as described in the sections below.

SIMG maintains a list of approved broker-dealers to which it directs client trades. SIMG may consider the following factors, among others, in developing its Approved Broker List: quality of overall execution services provided by the broker-dealer; promptness of execution; creditworthiness and business reputation of the broker-dealer; research (if any) provided by the broker-dealer; access the broker-dealer facilitates with company management including research conferences and individual meetings; promptness and accuracy of oral, hard copy or electronic reports of execution; ability of the broker-dealer to use ECNs to gain liquidity, price improvement, lower commission rates and anonymity; the market where the security trades; any expertise the broker-dealer may have in executing trades for the particular type of security; commission charged by the broker-dealer; reliability of the broker-dealer; whether the broker-dealer gives clients of the Firm access to IPOs; soft dollar program of the broker-dealer; size of the order; financial condition of the broker-dealer; whether the broker-dealer can maintain and commit adequate capital when necessary to complete trades; whether the broker-dealer can respond during volatile market periods; the number of incomplete trades made by broker-dealer; the broker-dealer's level of trading expertise, including its ability to search for and obtain liquidity to minimize market impact, accommodate unusual market conditions, complete trades, execute unique trading strategies, execute and settle difficult trades, and maintain the anonymity of the Firm; ability to account for its trade errors and correct them in a satisfactory manner; and overall commitment to technology and its access to a trading system with the following characteristics: order-entry systems, adequate lines of communication, timely order execution reports, an efficient and accurate clearance and settlement process, and capacity to accommodate unusual trading volume.

In selecting the broker-dealers to which an order will be routed for execution, SIMG does not consider any additional fees which a client's broker-dealer custodian may charge on trades not routed to the client's broker-dealer custodian. Trade away fees charged by the client's custodian will negatively impact the net return which the client experiences.

As discussed below, in selecting broker-dealers SIMG may use client commissions to effect portfolio transactions for client accounts in excess of amounts other broker-dealers would have charged for effecting similar transactions if we determine in good faith that the commissions paid are reasonable in relation to the value of the brokerage and research services provided to us by those broker-dealers, viewed either in terms of a particular transaction or SIMG's overall duty to its discretionary accounts.

#### Research and Other Soft Dollar Benefits

When we believe more than one broker is capable of providing the best combination of overall price and execution, we frequently select the broker on a particular trade based upon the value of research services that firm has provided to us and our clients. Many of the brokerage firms SIMG uses provide us with their research and execute trades for our clients at rates which include bundled research and execution services. These bundled

commission rates are typically higher than rates other broker-dealers would charge for execution only services.

When investment advisers select a broker-dealer because of the value of the research services that broker-dealer provides, this is known as paying for those services with "soft dollars". Because many of those research services benefit SIMG since we do not have to produce or pay for the research services ourselves and because the "soft dollars" used to acquire them are assets of SIMG's clients, we face a conflict of interest in allocating client brokerage business. We have an incentive to select a broker-dealer based on our interest in receiving its research services rather than on our clients' interest in receiving the most favorable execution or lowest commission rate.

SIMG does not have any agreed to levels of commissions which are due to any particular broker-dealer, but we understand that if over time we do not provide a sufficient level of revenue to the broker-dealer providing us with research services, the firm will discontinue providing its research to us.

We use soft dollar benefits to service all of our clients' accounts and the mutual funds we advise or sub-advise. Since we invest mostly in small-cap and mid-cap equity securities, research we receive is generally beneficial to all of our clients, and we make no effort to limit or track which specific clients' commissions have paid for a particular research service. Where it is appropriate we aggregate orders for client accounts, and research provided to us through soft dollar arrangements generally involves commissions from more than one of our advised accounts. Therefore, it is likely that research which benefits a particular client account may have been "paid for" through commissions generated by other clients of SIMG in various advised strategies.

The types of research services provided to us include information as to particular companies and securities, as well as more general market, financial and economic information. Examples of research-oriented services for which SIMG might utilize client commissions include research reports and computerized financial data (such as First Call, StreetEvents, ISI Group Inc., Potomac Research Group Holdings, LLC, Cirrus Research, Inc. and 13D Research Inc.).

If a research product provides both a research and a non-research function, then SIMG will make a reasonable allocation of the use and pay for the non-research portion with hard dollars. The allocation between research and non-research depends on the use of the product.

Our evaluation of the reasonableness of the brokerage commissions paid is based primarily on the professional opinions of the persons responsible for the placement and review of the transactions. Their opinions are formed on the basis of their experiences in the securities industry and information available to them concerning the level of commissions being paid by other investors of comparable size and type.



We may select broker-dealers based on our assessment of their ability to provide quality executions and our belief that the research, information and other services provided to us may benefit client accounts. It is not possible to place a dollar value on the special executions or on the research services SIMG receives from broker-dealers effecting transactions in portfolio securities.

As part of SIMG's review of its trading processes, SIMG reviews the capabilities and brokerage and research services provided to SIMG by broker-dealers we have used and the commission rates charged by those broker-dealers for their services. Each member of the portfolio team rates brokerage firms based on the research services the broker-dealer has provided to SIMG including such factors as research services we have received such as research reports and analyses, access to meetings with company management, access to research conferences and other such services which facilitate Registrant's investment decision making process. Overall, trades are sent to broker-dealers considering these reviews.

Although we receive proprietary research and other services from Stephens Inc., our affiliate, the only client trades SIMG sends to Stephens Inc. for execution are for Stephens Inc. sponsored wrap fee programs in which orders are generally directed to Stephens Inc. under terms of the wrap fee program.

SIMG also participates in commission sharing arrangement programs with certain of our executing broker-dealers. In these programs, the executing broker-dealer executes the order at a previously agreed rate (the execution charge) plus SIMG instructs the executing broker-dealer to add an additional amount as a research credit to compensate entities which provide SIMG with eligible research services. The amount charged to execute the order is the sum of the execution charge plus the research credit. The amount of research credit added to the order may vary since SIMG determines the amount of the research credit on an order by order basis. Research credits accumulate at the executing broker-dealer and periodically, SIMG instructs broker-dealers with which it has commission sharing arrangements to compensate firms which have provided SIMG with eligible research services. These services include providing macroeconomic research, providing daily economic, political and accounting data, newsletters which assist the portfolio management team with perspectives on global events and themes in positioning the portfolios. These services also include hard dollar payments for research services provided by sell-side broker-dealers.

#### Brokerage for Client Referrals

SIMG does not consider whether it has obtained client referrals as a criterion in its selection of a broker-dealer.

#### Directed Brokerage

From time to time some of SIMG's clients direct us to route their portfolio transactions through a particular broker-dealer at a commission rate agreed upon between the client and the broker. In such cases, SIMG typically does not negotiate commission rates with such broker-dealers unless we have been expressly requested to do so by the client.

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, SIMG might be unable to accept management of the account.

A client who directs us 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 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.

A client that directs us to use a particular broker-dealer could also be subject to certain disadvantages as discussed below regarding allocation of new issues and aggregation of orders. SIMG may place orders for transactions in certain securities initially only for those accounts that are custodied at banks or at brokerage firms that permit SIMG to place trades for accounts custodied at that firm with other brokerage firms. Accounts custodied at brokerage firms that do not permit SIMG 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 SIMG to use a particular broker-dealer, the client should compare the possible costs or disadvantages of such an arrangement.

SIMG will often purchase and or sell the same securities for multiple client accounts. It is our practice, where appropriate, to aggregate or "bunch" orders for the purchase or sale of a particular security for the accounts of several clients for whom SIMG has discretion to select the brokerage firm. Bunching may enable us to obtain lower commissions or a more favorable execution based on the volume of the clients in the particular order. However, where a client directs us to send its order to a particular broker-dealer, we are unable to negotiate further volume discounts, thus precluding the client from receiving the benefit of any lower commission that might otherwise be available from the aggregation. Additionally, in most circumstances, where clients directs us to route orders for their accounts to a particular broker-dealer, those orders are not able to be aggregated with the orders of our other clients who have not directed trading for their account to a specific execution venue. Consequently orders which are client directed to a particular broker-dealer are routed by SIMG for execution after we have received executions of the orders of our clients which have not directed their orders.

The fact that some clients have individually negotiated commission rates with their designated broker-dealer will mean that some clients may pay higher commissions than others in an aggregated order.

Trading restrictions placed by a client on its account may preclude us from bunching that client's transactions with others. In such a case, the client may pay a higher commission than those in an aggregated order. In addition, in cases where accounts subject to a directed brokerage arrangement and other advised accounts without directed brokerage are transacting orders in the same security, SIMG will effect the directed brokerage

account transactions after the transactions for its other accounts have been executed. This practice could result in less favorable execution for those accounts subject to a directed brokerage arrangement.

When possible, SIMG aggregates or "bunches" trades for multiple client accounts, including the accounts of SIMG's affiliates and/or employees, to maximize efficiency and minimize trading costs (generally excluding certain trades such as wrap program trades) and places the bunched trade with the broker that SIMG expects to provide best execution. SIMG seeks to allocate bunched trades (and trading costs) in a manner that is fair and equitable to all participating clients, consistent with practical limitations.

SIMG cannot assure the equal participation of every client in every investment opportunity or every transaction. SIMG may determine that a limited supply or demand for a particular opportunity or investment or other factors noted above may preclude the participation of some clients in a particular purchase or sale.

Syndicated initial public offerings or syndicated secondary offerings ("syndicated offerings") present limited opportunities for client participation because not all clients are eligible to participate in every syndicate, and the allotment of shares available to SIMG is often too small to permit meaningful participation by all eligible clients. Some clients are not eligible to participate in syndicated offerings at all, including clients subject to "new issue" restrictions. SIMG also generally does not purchase new issues or other shares of syndicated offerings for wrap program clients, or for other clients (such as ERISA clients) that are subject to exceptionally complex limitations on investing in syndicated offerings underwritten or sold by an affiliated broker.

To promote the fair treatment of clients eligible to participate in syndicated offerings, SIMG will generally seek to assure that over the long term, each eligible client with the same or similar investment objectives and restrictions will receive an equitable opportunity to participate meaningfully in syndicated offerings, and that no eligible client will be unfairly disadvantaged, subject to limitations noted below.

Unless a portfolio manager issues special instructions intended to address particular account needs, investment imbalances, or other unique account or trading considerations, SIMG will use its best efforts to see that eligible accounts participate in syndicated offerings. Participation is, however, subject to multiple factors, including which account previously received shares, whether the syndicated offering has special characteristics (such as small capitalization or a foreign issuer) that make it suitable primarily for particular accounts, whether the syndicated offering allotment is large enough to be material to certain accounts, which accounts have cash available to invest, the significance of an account in helping SIMG to obtain syndicated offering allotments, and whether portfolio managers believe that particular groups or accounts have particular needs, imbalances, or other reasons to participate.

Because of the impact of factors such as those listed above, opportunities to invest in syndicated offerings may not be distributed to all clients equally. SIMG will not

systematically allocate syndicated offerings in a manner that would be unfairly preferential over the long term to: (i) accounts that are beneficially owned or controlled by SIMG, its employees or their immediate family members, or affiliates of SIMG; (ii) accounts with poor performance; (iii) new accounts for which a strong performance record would be advantageous; (iv) accounts with a performance-based fee; or (v) a limited number of accounts within a larger group of accounts that share the same size and other investment circumstances, objectives, policies, and restrictions.

We may allocate a particular investment opportunity, or shares of a particular security or other investment, to one client or to multiple clients, which may include SIMG's affiliates and/or employees. We seek to allocate investment opportunities and securities to clients as fairly and equitably as possible in the particular circumstances of each trade, without favoring particular accounts over the long term. Allocations may take into consideration factors such as the size of or number of holdings, investment objectives and guidelines, purchase cost and cash availability, investment imbalances, prior participation in similar opportunities, limitations on the availability of an investment, special needs and other considerations. SIMG's accounts are managed according to one of six investment styles or "trading groups" (Small Cap Growth, Mid Cap Growth, Small-Mid Cap Core Growth, Small-Mid Cap Select Growth, Leaders and Innovators or Hybrid Growth). The determination whether a particular trading group will participate in a particular purchase or sale is made by SIMG's portfolio managers and is based on the factors noted above. Once it has been determined which trading group or groups will participate in a transaction, the purchase or sale opportunity is allocated among the accounts in the participating trading group or groups. The allocation method that is most commonly used is a pro rata allocation based on order size. Deviations from pro rata allocations occur from time to time for various reasons, including without limitation, specific account restrictions, size of the account, investment imbalances, and cash availability.

### **Item 13 Review of Accounts**

Ryan E. Crane as Chief Investment Officer is responsible for supervisory approval of new advisory accounts, the investment advice given by SIMG to each client, reviewing trading activity and reviewing client portfolios.

The frequency and scope of client portfolio reviews depends upon the investment advisory agreement and the nature of the relationship between the client and SIMG. Trading and investment activity in client accounts and the client's cash position is normally reviewed daily for all accounts. Additionally, portfolio reviews for client accounts are conducted on at least a quarterly basis by SIMG's administrative and operational staff assigned to the account. SIMG's Board of Managers meets periodically and reviews investment performance of the various strategies offered by SIMG, the composition of the various investment strategies, and other matters related to the investment operations of SIMG.

Most clients receive monthly statements from SIMG on their account, but they can request that statements be sent quarterly. The frequency of other reports provided to

clients by SIMG depends on the nature of the client and their reporting needs. For instance, many governmental retirement systems require customized reports and mutual fund clients require specialized reporting in order to allow the board of directors of the mutual fund to discharge its supervisory responsibilities. In addition to the reports clients receive from SIMG, clients receive reports directly from their qualified custodian that provide them with information regarding their investment holdings, transactions during the period covered by the report, management and other fees, investment performance, and portfolio valuation.

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

Neither SIMG 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.

SIMG has a solicitation agreement with Stephens Inc. in accordance with Rule 206 (4)-3 and 206(4)-5 under the Investment Advisers Act of 1940 whereby Stephens Inc. can receive compensation for referrals that representatives of Stephens Inc. make to SIMG. Compensation to Stephens Inc. typically involves paying some portion of the management fee SIMG receives. Clients referred to SIMG by Stephens Inc. pay a higher fee rate than clients who are not referred by Stephens Inc. SIMG is affiliated with Stephens Inc. through common ownership.

SIMG also compensates certain of its employees based in part on new client account relationships developed by them. This compensation to the employees is based on the amount of assets in these accounts under the management of SIMG.

SIMG may from time to time provide additional compensation out of its own resources to financial intermediaries. This compensation can consist of: support payments or compensation to financial intermediaries in connection with cooperative advertising; and client seminars and meetings at which the SIMG advised products or services are discussed. SIMG can from time to time provide exhibit space or sponsor events which provide opportunities for SIMG advised products and services to be discussed. SIMG occasionally gives clients gifts, entertains certain of its clients with meals or tickets to sporting events or other functions and makes contributions to charitable functions and events. Such contributions, payments, entertainment and gifts may provide intermediaries and their salespersons with an incentive to favor the SIMG advised products and services over other products and services.

## **Item 15 Custody**

SIMG has authority from many of our clients to debit fees directly from client accounts. For this reason, we are deemed to have custody of client assets. Additionally, the custodian for a number of our clients is Stephens Inc. which is an affiliated broker-dealer to SIMG through common ownership. Clients should receive account statements at least quarterly directly from the qualified custodian that holds and maintains their investment assets. We urge you to review such statements carefully and compare your official

custodial records to the account statements that we provide. SIMG sends a report to clients quarterly. We urge you to compare the statements you receive from your custodian with the reports we send you each quarter.

## **Item 16 Investment Discretion**

SIMG has discretionary investment authority over the accounts we manage. Clients execute an Investment Management Agreement with SIMG which provides us with discretionary authority to select the securities to be bought or sold in their account. In the Investment Management Agreement or a similar agreement or notification to SIMG, clients can impose restrictions on the type of investments SIMG can make in their account. Investment limitations and restrictions must be provided to SIMG in writing. Examples of restrictions clients have imposed on SIMG are no options or derivative securities, no securities of companies doing business with Sudan in furtherance of the Darfur initiatives and no foreign securities.

## **Item 17 Voting Client Securities**

### Proxy Voting and Corporate Actions

Unless SIMG and a client have otherwise agreed, SIMG will typically vote proxies for the voting securities held in client accounts. Proxies will be voted in the best interest of SIMG's clients in accordance with the SIMG's Proxy Voting Policy (the "Policy"). SIMG has established a Proxy Committee that has responsibility for determining SIMG's voting procedures, exceptions to the procedures and how SIMG will vote proxies on securities held in advisory accounts. SIMG has retained an independent proxy voting service provider to provide research, guidelines, recommendations and other proxy voting services for client proxies. Absent a determination by the Proxy Committee to override the independent provider's guidelines and/or recommendations, SIMG's client proxies will be voted in accordance with those guidelines and/or recommendations.

SIMG is part of a large financial services organization that has investment banking and other business relationships with, and/or ownership interests in, many issuers of securities. Such relationships may, from time to time, create or give rise to the appearance of a conflict of interest between SIMG and its clients. SIMG has implemented procedures designed to help prevent conflicts of interest from influencing its proxy voting decisions. These procedures include information barriers and, most significantly, the use of an independent third party to assist in the proxy voting process.

Clients may obtain a copy of SIMG's Proxy Voting Policy and/or information on how SIMG voted the securities held in their account by sending SIMG a written request. Clients can instruct SIMG on how to vote the securities they hold by providing SIMG with instructions in writing.

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 SIMG 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, SIMG 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**

SIMG currently has the ability to meet all contractual obligations to our clients. We do not have any debt obligations, and we do not plan on borrowing any money in the future.

- A. We do not require prepayment of fees longer than three months in advance.
- B. SIMG has discretionary authority over client accounts. There are no financial conditions that are likely to impair our ability to meet our contractual commitments to clients.
- C. SIMG has not been the subject of a bankruptcy petition at any time during the past ten years.

## **Stephens Investment Management Group, LLC**

### **CUSTOMER PRIVACY NOTICE**

We are committed to protecting your privacy. We have a strict privacy policy to continue to protect financial information that we may receive about you. This Privacy Notice outlines the conditions under which it may be necessary for us to disclose nonpublic personal information about you to third parties. Our privacy policy applies to both current and former clients.

#### **INFORMATION WE COLLECT**

We collect nonpublic personal information about you from the following sources:

- Information we receive from you on applications or other forms or through our web site;
- Information about your transactions with us, our affiliates, or others; and
- Information we receive from third parties such as consumer reporting agencies.

#### **CONFIDENTIALITY AND SECURITY**

We restrict access to nonpublic personal information about you to our employees and employees of affiliated financial service providers. Our employees and the employees of affiliated financial services providers agree to follow our privacy policy. We maintain physical, electronic and procedural safeguards that comply with federal standards to guard your nonpublic personal information.

#### **DISCLOSURE**

We may disclose some or all of the information we collect to non-affiliated third parties for the purpose of assisting us in providing financial products and services to you. These non-affiliated third parties must agree to use the information solely for fulfilling the purpose for which they were hired and not reuse or disclose the information except as permitted by law.

We do not disclose your nonpublic personal information to anyone else, except as permitted by law.



Part 2B of Form ADV Brochure Supplement for

INVESTMENT TEAM

Ryan E. Crane  
John M. Thornton  
Patricia (Kelly) Ranucci  
Samuel M. Chase  
John R. Keller

Stephens Investment Management Group, LLC  
111 Center Street  
Little Rock, Arkansas 72201  
(800) 458-6589

March 17, 2017

**This brochure supplement provides information about the persons listed above that supplements the Stephens Investment Management Group, LLC brochure. You should have received a copy of that brochure. Please contact Michael W. Nolte, Chief Operating Officer at the above number if you did not receive Stephens Investment Management Group, LLC's brochure or if you have any questions about the contents of this supplement.**

**\*Additional information about the persons listed above is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Ryan E. Crane**  
**Executive Vice President**  
**Chief Investment Officer**

Education and Business Background

Year of Birth: 1972

Education:

University of Houston-BS 1994  
Houston, TX

Other Professional Designations:

Chartered Financial Analyst\*

Business Experience:

Stephens Inc., 9/2004 - present  
Stephens Investment Management Group, LLC, 7/2005 - present

Disciplinary Information

None

Other Business Activities:

Mr. Crane is a Senior Vice President of Stephens Inc. and he has passed the Series 7, 9, 10, and 63 examinations.

Additional Compensation:

Mr. Crane is paid incentive compensation which compensates him in part based on the assets under management at SIMG which includes the level of assets in separately managed accounts and SIMG sub-advised mutual funds.

Supervision:

Warren Simpson, Chief Executive Officer of SIMG supervises Ryan E. Crane's advisory activities on behalf of our firm. Mr. Simpson can be reached at (501) 377-2000. Mr. Simpson is in direct contact with Ryan Crane on virtually a daily basis. Both Mr. Simpson and Mr. Crane are members of SIMG's Board of Managers, and our Board meetings review investment activities of Mr. Crane, the SIMG Portfolio Managers and SIMG's Equity Analyst. Both the Chief Compliance Officer and the Chief Operating Officer interface with Mr. Simpson to bring relevant issues to Mr. Simpson's attention.

**John M. Thornton**  
**Co-Portfolio Manager**

**Education and Business Background**

Year of Birth: 1973

**Education:**

Vanderbilt University  
Nashville, TN-B.E. 1995  
University of Texas, Austin, TX-M.B.A. 2000

**Other Professional Designations:**

Chartered Financial Analyst\*

**Business Experience:**

Stephens Inc., 9/2004 - present  
Stephens Investment Management Group, LLC, 7/2005 - present

**Disciplinary Information**

None

**Other Business Activities:**

Mr. Thornton is a Vice President of Stephens Inc. and he has passed the Series 6, 7, and 63 examinations.

**Additional Compensation:**

Mr. Thornton is paid incentive compensation which compensates him in part based on his performance as a portfolio manager which includes the success of his investment ideas. He is not compensated based on sales or the level of assets under management.

**Supervision:**

Ryan E. Crane, Chief Investment Officer of SIMG supervises John M. Thornton's advisory activities on behalf of our firm. Mr. Crane can be reached at (713) 993-4200. SIMG's investment decisions are made by the five member Portfolio Management team which is headed by Mr. Crane as Chief Investment Officer and includes SIMG's three Portfolio Managers of which Mr. Thornton is a member, and the Equity Analyst. Information concerning portfolio holdings and potential investments for SIMG's clients is shared among members of our Portfolio Management team and it is the collective Portfolio Management team which makes investment decisions for our clients. As head of the Portfolio Management team, Mr. Crane is fully integrated into all phases of investment advisory activities of Mr. Thornton.

**Patricia (Kelly) Ranucci**  
**Co-Portfolio Manager**

**Education and Business Background**

Year of Birth: 1971

**Education:**

Texas A&M University-B.B.A. 1993  
College Station, TX  
University of Houston  
Houston, TX-M.B.A. 2003

**Other Professional Designations:**

Chartered Financial Analyst\*

**Business Experience:**

Stephens Inc., 9/2004 - present  
Stephens Investment Management Group, LLC, 7/2005 - present

**Disciplinary Information**

None

**Other Business Activities:**

Ms. Ranucci is Assistant Vice President of Stephens Inc., and she has passed the Series 6, 7, and 63 examinations.

**Additional Compensation:**

Ms. Ranucci is paid incentive compensation which compensates her in part based on her performance as a portfolio manager which includes the success of her investment ideas. She is not compensated based on sales or the level of assets under management.

**Supervision:**

Ryan E. Crane, Chief Investment Officer of SIMG supervises Patricia (Kelly) Ranucci's advisory activities on behalf of our firm. Mr. Crane can be reached at (713) 993-4200. SIMG's investment decisions are made by the five member Portfolio Management team which is headed by Mr. Crane as Chief Investment Officer and includes SIMG's three Portfolio Managers of which Ms. Ranucci is a member, and the Equity Analyst. Information concerning portfolio holdings and potential investments for SIMG's clients is shared among members of our Portfolio Management team and it is the collective Portfolio Management team which makes investment decisions for our clients. As head of the Portfolio Management team, Mr. Crane is fully integrated into all phases of investment advisory activities of Ms. Ranucci.

**Samuel M. Chase**  
**Co-Portfolio Manager**

**Education and Business Background**

Year of Birth: 1977

**Education:**

Washington and Lee University-B.A. 1999  
Lexington, VA,  
Southern Methodist University-M.B.A. 2004  
Dallas, TX

**Other Professional Designations:**

Chartered Financial Analyst\*

**Business Experience:**

Stephens Inc., 9/2004 - present  
Stephens Investment Management Group, LLC, July 2005 - present

**Disciplinary Information**

None

**Other Business Activities:**

Mr. Chase is Assistant Vice President of Stephens Inc. and he has passed the Series 7, 63, and 65 examinations.

**Additional Compensation:**

Mr. Chase is paid incentive compensation which compensates him in part based on his performance as a portfolio manager which includes the success of his investment ideas. He is not compensated based on sales or the level of assets under management.

**Supervision:**

Ryan E. Crane, Chief Investment Officer of SIMG supervises Sam Chase's advisory activities on behalf of our firm. Mr. Crane can be reached at (713) 993-4200. SIMG's investment decisions are made by the five member Portfolio Management team which is headed by Mr. Crane as Chief Investment Officer and includes SIMG's three Portfolio Managers of which Mr. Chase is a member, and the Equity Analyst. Information concerning portfolio holdings and potential investments for SIMG's clients is shared among members of our Portfolio Management team and it is the collective Portfolio Management team which makes investment decisions for our clients. As head of the Portfolio Management team, Mr. Crane is fully integrated into all phases of investment advisory activities of Mr. Chase.

**John R. Keller**  
**Equity Analyst**

**Education and Business Background**

Year of Birth: 1978

**Education:**

University of Puget Sound-B.A. 2000  
Tacoma, WA  
Tulane University-M.B.A. 2005  
New Orleans, LA

**Other Professional Designations:**

Chartered Financial Analyst\*

**Business Experience:**

Stephens Inc., 8/2009 - present  
Stephens Investment Management Group, LLC, September 2013 - present

**Disciplinary Information**

None

**Other Business Activities:**

Mr. Keller holds his Series 7, 63, 65, 86 and 87 licenses.

**Additional Compensation:**

Mr. Keller is paid incentive compensation which compensates him in part based on his performance as an Equity Analyst which includes the success of his investment ideas. He is not compensated based on sales or the level of assets under management.

**Supervision:**

Ryan E. Crane, Chief Investment Officer of SIMG supervises John Keller's advisory activities on behalf of our firm. Mr. Crane can be reached at (713) 993-4200. SIMG's investment decisions are made by the five member Portfolio Management team which is headed by Mr. Crane as Chief Investment Officer and includes SIMG's three Portfolio Managers and Mr. Keller, our Equity Analyst. Information concerning portfolio holdings and potential investments for SIMG's clients is shared among members of our Portfolio Management team and it is the collective Portfolio Management team which makes investment decisions for our clients. As head of the Portfolio Management team, Mr. Crane is fully integrated into all phases of investment advisory activities of Mr. Keller.

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*\*The Chartered Financial Analyst designation is awarded to investment professionals who have successfully completed the requirements set forth by the CFA Institute (formerly known as the Association for Investment Management and Research, or AIMR). The CFA Institute is an international non-profit organization whose stated mission is to promote and develop a high level of educational, ethical and professional standards in the investment industry.*

*To be eligible for the CFA designation, candidates must pass 3 examinations that test the academic portion of the CFA program, possess a bachelors degree from an accredited educational institution or equivalent, and have 48 months of acceptable professional work experience. The CFA curriculum includes the following subject areas: Ethical and Professional Standards; Quantitative Methods (such as the time value of money, and statistical inference); Economics; Financial Reporting and Analysis; Corporate Finance; Analysis of Investments (such as stocks and bonds); and Portfolio Management and Analysis (asset allocation, portfolio risk, and performance measurement).*