

# Stephens Inc.

**111 Center Street  
Little Rock, Arkansas  
72201-4430**

**877-891-0095**

Website: [www.stephens.com](http://www.stephens.com)

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

March 20, 2019

Uniform Application for Investment Advisor Registration

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

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

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

## Item 2 Material Changes

This is an update of Form ADV for Stephens Inc.

Our last annual update was filed with the SEC on March 31, 2018.

This Form ADV contains the following material changes:

- Updated disclosures concerning the receipt by Stephens of revenue sharing, shareholder servicing, 12b-1 and other fees paid on the mutual fund holdings in client advisory accounts;
- A discussion that any 12b-1 fees received by Stephens for mutual fund positions held by advisory clients are rebated to the client and that client portfolio holdings are periodically reviewed to determine whether advisory clients who hold mutual fund positions are invested in appropriate share classes
- Updated information concerning commissions charged by outside managers in the MAP platform who execute transactions away from Stephens
- Stephens Inc. voluntarily participated in the Share Class Selection Disclosure Initiative of the Securities and Exchange Commission wherein Stephens consented to a Cease and Desist Order entered by the Commission on March 11, 2019. This Order alleged that Stephens Inc. did not adequately disclose conflicts of interest relating to the selection of mutual fund share classes for advisory clients and sold advisory clients share classes paid Stephens Inc. 12b-1 fees when less expensive share classes of the same fund were available which did not pay these 12b-1 fees. Stephens agreed to restitution of these fees to advisory clients plus interest. No fine was imposed.

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## **Item 4 Advisory Business**

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

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

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

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

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

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

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

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

### **C. Advisory Services**

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

If your account is an IRA or ERISA account when acting as your investment advisor, Stephens' represents and acknowledges that we act as a fiduciary under the Department of Labor Fiduciary Rule and the IRS code. A "fiduciary" is a person who offers investment "advice" or a "recommendation" specific to your assets for a fee or other compensation, direct or indirect.

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

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

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

In addition to other indications of individual ownership, including the right to withdraw, hypothecate, vote, or pledge securities held in the wrap fee client's account, a wrap fee client has the ability to place limitations and/or restrictions on the investments in their portfolio. Where restrictions are imposed, Stephens will manage the client's portfolio investments to comply with these restrictions, but the investment performance of the client's account will likely differ (positively or negatively) from other clients following a similar investment strategy, that is not subject to the same restrictions. The minimum account size for wrap fee programs varies from program to program, and a person considering a wrap fee program should review the disclosure document provided by Stephens of the applicable program for details regarding the operation of the program, its risks, fees, and other charges. See Item 5 for further discussions on fees.

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

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

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

#### **Professional Wealth Management Program**

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

In the PWM, Stephens provides investment management services for client assets on a discretionary basis, utilizing strategies that include equity, fixed income, mutual funds, exchange traded funds and, in some cases, alternative investments. The goal of the PWM Program is to pursue an investment program to address the client's investment objectives subject to market conditions. In balancing the potential return for a client's portfolio against the risk exposure in the portfolio, the PWM FCs consider the risk tolerances of the client, and asks the client to complete the Investment Objective. The client's stated investment objectives and other information provided by client, leads to an asset allocation strategy designed to seek to achieve returns based on and commensurate with the client's risk tolerance and time horizon, without exposing the client's portfolio to excessive risks.

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

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

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

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

In the Stephens Capital Management Fixed Income Strategy Program (“SCM-FIS”), Stephens Capital Management (“SCM”) manages client assets on a discretionary basis using a fixed income strategy. The SCM-FIS is overseen by the Fixed Income Strategy Committee (“Committee”), which has overall responsibility for investment policy, strategy and advises on security selection parameters. SCM investment advisory representatives make day-to-day investment decisions for accounts advised in the SCM-FIS program within the parameters set forth by the Committee.

The Committee is composed of Larry Bowden, Troy Clark, David Moix, Abigail Buchanan, Larry Middleton and Bo Brister and seeks to provide consistent performance by actively managing portfolios based on a top down macro investment strategy that adjusts duration and sector allocations on the committee’s market views in accordance with evolving economic data, developments and themes. Collectively, the Committee members have in excess of 160 years of investment related experience.

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

Clients choosing the Fixed Income Strategy will own a portfolio comprised of U.S Treasury securities, Government Agency securities, mortgaged backed securities, structured products, municipal bonds and investment grade corporate bonds. Clients may elect to direct deviations from the parameters set forth herein in the management of their particular accounts in appropriate cases. The average maturity of the portfolios will be managed to take advantage of the Committee's outlook for interest rates.

The style of management of the fixed income portfolios managed in the SCM-FIS is duration management.

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

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

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**StephensChoice Program**

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

***Mutual Fund Strategy***

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

***For Trustee Directed Accounts***

Based on individual consultations with the Plan Trustee(s) and the Risk Tolerance Questionnaire, a SC asset allocation model will be chosen from the SC funds line-up for each trustee directed account or segregated participant accounts, intended to reflect the investment objectives, risk tolerance and investment time horizon communicated to

Stephens by the Trustee(s). Following the selection of the strategy by the Trustee(s), Stephens will initiate and execute the transactions that are required to invest the client's account in accordance with such asset allocation strategy. Best execution is sought for all transactions.

***For Participant Directed Accounts***

The Trustee chooses the investment line-up. If requested by the client, Stephens will conduct group enrollment meetings on dates agreed to by the client and Stephens. Stephens will be available to meet with plan participants in connection with initial enrollment to educate participants on the investment options in the available plan. Following initial enrollment, Stephens will be available to meet with individual participants on an as needed basis, for educational purposes about their plan account.

***SC Strategy Changes***

Fees for the SC program will be billed to the Plan sponsor or deducted from client's assets and collected by Stephens from the client's account(s) quarterly in arrears at the rates set forth in the Plan Service Agreement, based on the daily average asset value of the assets in the account(s) for that calendar quarter, for the accounts that Stephens acts as custodian. If Stephens is not acting as custodian, Stephens' fee will be collected by the custodian and may be based on a different quarterly accounting method. Accounts that begin or terminate for any reason within a calendar quarter will be charged on a pro rata basis.

The SC program is a "wrap fee program" in which the client pays a single fee for investment advisory services and related services, which includes executions, custody and clearing charges. Fees for other services, such as administrative or transfer fees will be charged at Stephens' standard rates in addition to the wrap fee.

Additionally, fees charged by the mutual funds included in each client's portfolio will be borne by the plan or participant. Many mutual fund companies impose (among other fees) short-term trading fees with respect to any purchase and redemptions of fund shares effected within a time frame designated by the mutual fund company (such as, but not limited to sixty (60) or ninety (90) days). Mutual fund companies also impose other fees from time to time. Any fees imposed by any mutual fund company with respect to SC account assets will be charged to the account, whether resulting from fund transfers, withdrawals, rebalancing transactions, or other transactions in the account. Accounts that elect to use third party custodians or third party brokerage services will bear the costs of such third party services in addition to the fees payable to Stephens.

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**Stephens Spectrum 401(k)**

The Stephens Spectrum 401(k) ("SSK") is a platform designed by Stephens to assist clients qualified retirement plans or other deferred compensation programs ("Plan") to establish an appropriate list of investment options for asset allocation of the investment of plan assets. SSK offers clients the opportunity to invest in a line-up of index funds, (either exchange traded funds (ETF) and/or index mutual funds), the "Funds" and/or Stephens designed asset allocation Portfolios, that primarily utilize the "Funds". Stephens selects a line-up of funds representing each asset class included in the SSK program and establishes and communicates to clients the lineup of "Funds" and standard SSK asset allocation

Portfolios for differing risk and time horizon parameters. Ongoing investment selection, monitoring, fund replacement, periodic reallocation, investment performance measurement and quarterly reporting are provided by Stephens, throughout the life of the account. SSK seeks to fully invest cash balances at all times, in the Stephens designed asset allocation Portfolios.

Stephens provides the services described above to clients under a Plan Services Agreement, and Stephens also provides, if requested by the Trustee of the Plan, brokerage and/or custodial services needed to effect transactions for SSK accounts and certain compliance functions relating to the services provided by Stephens.

If requested by the Trustee, Stephens will conduct group enrollment meetings on dates agreed to by the Trustee and Stephens. Stephens will be available to meet with plan participants in connection with initial enrollment to assist participants in identifying the participant's investment objectives, risk tolerance, and time horizon. Following initial enrollment, Stephens will be available to meet with individual participants on an as needed basis.

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**Stephens Equity Focused Strategy**  
**Discretionary Program**

The Stephens Equity Focused Strategy ("SEFS") is a concentrated investment strategy offered through Stephens Inc. for institutions and high net worth clients. This strategy is speculative in nature and is only appropriate for investors whose objectives include speculation. In the SEFS program, a seasoned investment professional of Stephens ("SEFS Portfolio Manager") manages client assets on a fully discretionary basis utilizing the SEFS strategy. This strategy evaluates securities based on certain enumerated qualitative and objective factors and purchases these securities for clients through separate accounts. Securities purchased in the SEFS strategy may or may not be followed by the Stephens Research Department. If the security is followed by Stephens Research, it must carry an Overweight rating at time of initial purchase. However, but if the security is downgraded, it will not be forced to be removed from the portfolio and, in fact, additional shares of the security may be purchased. The SEFS Portfolio Manager selects the specific securities to be purchased in the portfolio subject to oversight by the SEFS Investment Committee. The goal of the SEFS strategy is to seek to earn a high total return on investments for the client consistent with the client's investment objectives and investment strategies, subject to market conditions and available investment opportunities. Although the SEFS seeks to fully invest cash balances, during certain market conditions and depending on available investment opportunities there can be times when significant cash balances may be carried. The portfolio of securities in the SEFS strategy is highly concentrated, and the strategy can be volatile. The SEFS strategy should only be utilized by investors whose investment objectives include speculation and only a portion of a client's total investable assets should be invested in the SEFS strategy.

The SEFS Portfolio Manager is responsible for making day-to-day discretionary investment decisions subject to oversight and review by the SEFS Investment Committee. SEFS is a highly concentrated investment strategy and un-invested assets will be placed in money market mutual funds until invested in portfolio companies.

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## **Stephens Fixed Income Management**

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

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

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

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## **Stephens Allocation Strategies Program**

### **Limited -Discretionary**

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

### ***Fund’s Strategies***

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

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

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

Stephens will periodically review client portfolio holdings to determine whether advisory clients who hold mutual fund positions are invested in appropriate share classes for the mutual fund positions in their accounts.. In the event 12b-1 fees are received on client holdings, these will be rebated to the advisory client.

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

The Stephens Managed Assets Program ("MAP") is an asset allocation program sponsored by Stephens wherein Stephens manages the account or the client selects one or more participating investment managers (the "Sub-Advisors") to direct the investment of client's assets. In this program, Stephens acts as the registered investment advisor establishing a separate account for the client. A separate account is a portfolio of individual securities privately managed for the client which includes a mix of equity securities, fixed income securities, cash equivalents and other investments. Where the client chooses to engage one or more Sub-Advisors the Financial Consultant ("FC") will assist in selecting the particular Sub-Advisors to manage or assist Stephens in managing the client's assets based upon the client's investment objective(s) as described below.

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

A strategy is customized for the client by using sub-accounts ("Sub-Accounts") which follow a strategy of Stephens or various Sub-Advisors selected by the client. Stephens will recommend Sub-Advisors to the client from the list of Sub-Advisors, which are included in Stephens' list of available Sub-Advisors for the MAP Program. The client's stated investment objectives and other information provided by client, leads in most situations to an asset allocation strategy designed to seek to achieve returns based on and commensurate the client's risk tolerance and time horizon, without exposing the client's portfolio to excessive risks. Sub-Advisors not currently available through Stephens may be added, at Stephens' sole discretion.

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

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

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

Stephens will review the investment activities of the Sub-Advisors in management of assets and provide regular reports on the status and performance of the Sub-Advisors.

Stephens will execute all transactions in client's account following the instructions of the client and/or the designated Sub-Advisor(s), unless the investment is below the minimum amount of shares allowed to trade.

The MAP strategy is part of a "wrap fee program" in which the client will pay a single fee for investment management and related services such as, executions, custody and clearing charges and Sub-Advisor fees. Fees for other services, such as administrative or transfer fees will be charged at Stephens' standard rates in addition to the wrap fee. Clients will incur commission charges for trades directed by client to be executed through other brokers or other execution venues other than Stephens.

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

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

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

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

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

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

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

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**Non-Discretionary Wrap Fee Programs:**

**Stephens Advisor Non- Discretionary Program**

In the Stephens Advisor Program (“SA”), Clients receive advice from Financial Consultant (the “FC”) with individual attention to the client’s investment needs and objectives. FCs provide advice to clients utilizing equity strategies, fixed income strategies, balanced strategies, or other strategies, or a combination of strategies. FCs provide advice and make recommendations to clients at client’s request or as the FC deems appropriate. FCs in the SA Program do not have discretionary authority over client assets, and all transactions in client assets are directed by client or client’s designee.

***Investment Services***

Stephens shall periodically provide you with investment advice, which can include recommendations regarding investing in available assets in a manner consistent with your investment objectives; and pursuant to your consent, which shall be obtained prior to each transaction, in order to accept transaction in the SA account. Stephens will not provide advice with respect to positions classified as unsupervised assets in the account.

As part of the range of services available to clients in the SA program, advisory variable and fixed annuity contracts may be offered to appropriate retirement investors who are seeking certain income and death benefit solutions afforded by these products.

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**Stephens Capital Management  
Non-Discretionary Program**

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

investing assets otherwise un-invested in money market funds. From time to time investments include mutual funds.

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

The client may pursue its own investment objectives.

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**Pension Management Trust Program**

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

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

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**Health Management Trust Program**

The Health Management Trust Program (“HMT”) is an asset allocation program, made available to Arkansas municipalities that become Participants in the Arkansas Local Government Health Management Trust, pursuant to a trust agreement. Under the advice of SCM, as investment advisor, the local board selects certain participating investment management companies (the “Active and/or Passive Managers”) to direct their investments of funds. Assets include, but are not limited to, securities, mutual funds, money market funds, collective funds, exchange-traded funds, select individual fixed income securities and other investments. SCM provides advisory services to the HMT program and to participating accounts, by establishing asset performance comparisons, risk profiles,

assisting participants in developing and writing investment policies, preparing asset allocation modeling, and ongoing monitoring of Participant portfolios. The selected Active or Passive Managers manage their respective portions of the Participant's Plan assets on a discretionary basis. All accounts are advised and monitored by an Investment Advisor Representative of SCM. The managers of the funds or other investment portfolios in which the Participant's Plan assets are invested make the day-to-day investment decisions and security selections in their respective funds or portfolios. The goal of the HMT program is to bring together investment managers creating a customized investment strategy subject to market conditions consistent with each Participant's Plan's risk profile and investment objectives, as approved by the Participant.

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

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

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

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**Stephens IA Consultations**

From time to time Stephens is asked to furnish clients with investment advice through arrangements which involve consultations and recommendations but do not involve trading of securities. In these consulting arrangements a separate investment advisory agreement is entered into specifying the scope of the services which will be provided and the fee to be charged. Consulting services may be provided with a fixed fee, an annual fixed fee paid quarterly or an annual fee paid quarterly based on a percentage of the assets subject to the consulting agreement. Fees are negotiated in advance and are payable as negotiated and agreed to by the client and Stephens.

Either party may terminate consulting contracts upon written notice. In the course of providing these services, Stephens may develop and present periodic reports regarding the client's investments.

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## **Financial Planning Services**

Stephens offers comprehensive financial planning services to its clients in order to assist clients in identifying and striving to achieve their long-term financial goals. The financial plans are prepared in a centralized location by a Little Rock based financial planning team. Stephens doesn't currently charge for financial planning services.

The client and Stephens jointly review many of the of the client's applicable financial considerations including, but not limited to: time horizon, liquidity needs, risk tolerance, net worth, cash flows, education goals, retirement goals, wealth transfer goals and life & long term care insurance needs.

Stephens provides the client with personalized financial planning and investment recommendations based upon the information provided by the client and the results of the financial plan. The client is under no obligation to act upon the recommendations of Stephens. If the client does elect to act on any of the recommendations, the client is under no obligation to effect the transactions through Stephens.

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## **Retirement Advisory Platforms**

### **Stephens Retirement Solutions Program – Non Discretionary**

In the Stephens Retirement Solutions ("RSP"), program clients receive advice and recommendations from their FC with individual attention to the client's retirement investment needs and objectives. FCs provide advice and make recommendations to Clients, at the client's request or as the FC deems appropriate, utilizing equity, fixed income, balanced or other strategies, or utilizing a combination of strategies. This program is designed for clients with limited trading requirements. FCs in the RSP program do not have discretionary authority over client retirement assets, and all transactions in client assets are directed by the client or by the client's designee.

### ***Investment Services***

Stephens shall periodically provide you with investment advice and recommendations about investing available retirement assets in a manner consistent with your investment objectives. Your consent will be obtained prior to each transaction in your RSP account. Stephens will not provide you with advice on any securities or other asset positions classified as unsupervised assets in your RSP account.

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### **Stephens Retirement Access – Non Discretionary**

**The Stephens Retirement Access ("SRA") program is now closed to new investors.**

In the Stephens Retirement Access ("SRA") Program, Clients receive advice from the FC with individual attention to the client's retirement investment needs and objectives. FCs provide advice and make recommendations to Clients, at the client's request or as the FC

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deems appropriate, utilizing equity, fixed income, balanced or other strategies, or utilizing a combination of strategies. The program is designed for clients with minimal trading requirements. FCs in the SRA program do not have discretionary authority over client retirement assets, and all transactions in client assets are directed by client or client's designee.

### ***Investment Services***

Stephens shall periodically provide you with investment advice and recommendations about investing available retirement assets in a manner consistent with your investment objectives. Your consent will be obtained prior to each transaction in your SRA account. Stephens will not provide you with advice on any securities or other asset positions classified as unsupervised assets in your SRA account.

### **Termination of Contract**

Either Stephens or the client may terminate the Advisory Contract or may terminate an account managed pursuant to the Advisory Contract. Upon termination, Stephens may convert your mutual funds to a non-advisory share class. Please see the discussion of "Funds in Advisory Programs" in Section 5.C. below.

### **Termination of Retirement Account Contracts**

Either Stephens or the client may terminate the Advisory Contract or may terminate an account managed pursuant to the Advisory Contract. Retirement accounts can be terminated by the Client by (1) providing written notice of termination to Stephens and (2) providing Stephens with transfer instructions for the account to another custodian or instructions to distribute the account assets. Distribution of account assets can create tax consequences.

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## **Research Advisory Services**

### **Equity Research Services**

In the Stephens Equity Research Services Program we offer research reports, other products and services ("Research Services") provided by Stephens Inc.'s Research Department to a wide variety of Stephens clients. Under certain circumstances, we provide these Research Services for a fee to certain institutions upon their request. We do not offer Research Services for a fee to clients who are individuals.

Research Services includes but is not limited to any and all of the following types of research products and services:

- Research reports produced by research analysts;
- Other research-related correspondence and communications from research analysts relating to research reports produced by research analysts; and
- Access to research analysts in connection with research conferences, calls with clients and client meetings.

Our Research Analysts cover roughly 500 stocks focusing on more than 30 sub-sectors within six broad industries:

- Consumer

- Energy
- Financial Services
- Healthcare
- Industrials
- Technology

Beyond essential company research and analysis, we strive to outperform our peers in client services, channel checking and management access. This can take the form of a field trip on a private jet or talking directly to an industry’s customer base to acquire unique insights. We are committed to introducing our best investor clients to the best companies, and to bring the first voice with a non-consensus opinion.

The core of our investment philosophy draws upon our heritage as an investor as well as an intermediary, backed by strong ethical standards. As an independent, privately-owned financial services firm, we are able to take an intermediated- to long-term approach to growth, freeing us to offer advice based solely on the best interests of our clients.

Research Services do not include any services or communications provided by Institutional equity sales personnel (including any services or communications that may refer to or be based on Research Services).

The delivery of Research Services does not include trade execution, trading or brokerage services provided to clients. Our advisory relationship with our clients is strictly limited to the provision of Research Services, and any trades, transactions or orders that may be executed, routed, or otherwise processed through us on behalf of clients will be handled by us solely in our capacity as a broker-dealer. Your relationship with us in connection with Research Services commences only after we have sent you a Memorandum of Understanding regarding the Research Services we are providing, and Research Services are limited only to the Research Services described above.

## **E. Assets Under Management**

As of December 31, 2018 we managed the following amount of client assets as follows:

\$ 6,591,233,799.00	Discretionary
\$ 2,586,406,240.00	Non-Discretionary
<u>\$ 4,257,595,093.00</u>	Consulting
\$ 13,795,235,132.00	Total Assets Under Advisement

## **Item 5 Fees and Compensation**

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

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

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Services similar or comparable to those provided to a wrap program client may be available to the client at a higher or lower aggregate cost elsewhere on an unbundled basis. We encourage you to carefully consider other investment structures and programs which are available in considering whether to establish or maintain an advisory fee-based account. As a general matter, a fee-based advisory account approach may be considered appropriate for customers who rely on investment advice or investment management services or who engage in moderate to high levels of trading activity. A fee-based approach may be more economical for customers who engage in active trading, since the price per trade is reduced as the number of trades increases under a fee-based approach. However, fee-based advisory account arrangements may not be appropriate for customers who rely primarily on their own independent resources and judgments for making their investment selections and decisions and do not wish to purchase advisory services. Excluding the Stephens Retirement Access (“SRA”), Stephens Retirement Solution Program (“RSP”) and the Stephens Capital Management Non-Discretionary Program (“SND”) customers who engage in a lower level of trading activity might prefer a traditional brokerage account with a commission payable on each transaction, particularly if the customer typically does not utilize advisory services for trading decisions, as transaction cost savings might be realized in the context of a traditional pay-per-trade commission structure. However, the SRA, RSP and the SND advisory programs are not available through Stephens as brokerage accounts.

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

### **Performance Fees**

In addition to asset based fees, in certain situations and in the SEFS program discussed above, clients can enter into performance fee arrangements with Stephens. These fee arrangements compensate Stephens based on the performance of the client’s account. Clients entering into this type of fee arrangement must be qualified clients as defined in Advisers Act Rule 205-3. The terms of the performance fee are set forth in each client’s investment management agreement.. Performance fee arrangements are approved on a case by case basis by Stephens. As specified in each Client’s Investment Advisory Agreement, the amount of the Stephens Advisory Fee Client pays is not considered in the computation of the performance fee.

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

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

### **Collection of Fees**

Stephens is authorized to deduct from your account depending on which advisory platform, each quarter in advance or arrears the amount of the total quarterly wrap fee as described in the Investment Advisory Agreement, and the other fees, if any, applicable to your account for such calendar quarter. Stephens will issue quarterly reports to you reflecting

the transactions in your account and the performance of the investments. Service fees and other transactions changes, if any, will be applied to the account as incurred.

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

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

#### ***Funds in Advisory Programs***

Investing in Funds is more expensive than other investment options offered in your advisory account. In addition to our investment advisory fee, you pay the fees and expenses charged by the Funds in which your account is invested. Fund fees and expenses are charged directly to the pool of assets the Fund invests in and are reflected in each of the Fund's share price. These fees and expenses are an additional cost to you and are not included in the fee amount in your account statement. Each Mutual Fund and ETF expense ratio (the total amount of fees and expenses charged by the Fund) is disclosed in the prospectus.

You do not pay a sales charge for purchases of mutual funds in your advisory account. However, some mutual funds charge, and do not waive, a redemption fee on certain transaction activity in accordance with its prospectus.

In many instances, Client account assets are invested in money market funds, mutual funds, other investment companies, privately offered investment funds and other collective vehicles (collectively, "Funds"), and these investments have their own fees and expenses which are borne directly or indirectly by their shareholders. Where Stephens or its affiliates act as investment advisor, sponsor, administrator, distributor, selling agent, or in other capacities to such Funds, these Funds are deemed to be "Affiliated Funds." Stephens or a Stephens affiliate receives the fees paid pro rata by all shareholders or partners of Affiliated Funds as described in the Fund's prospectus. Client account assets can also be invested in Funds which are unaffiliated with Stephens or a Stephens' affiliate ("Unaffiliated Funds").

For both Affiliated Funds and Unaffiliated Funds in which Stephens client assets are invested, Stephens receives distribution and shareholder servicing fees ("12b-1 fees") from Funds on an ongoing basis as compensation for the administrative, distribution and shareholder services provided by Stephens. These services include such things as record maintenance, shareholder communications, transactional services, client tax information, reports filings and similar such services. These fees are paid under a plan adopted by the Funds pursuant to Rule 12b-1 under the Investment Company Act of 1940, as amended. If Stephens receives 12b-1 fees from a Fund with respect to a client's mutual fund investment

in the client's account and the client is paying Stephens an advisory fee on such investment, Stephens rebates the 12b-1 fees to the Client's account.

Stephens will periodically review client portfolio holdings to determine whether advisory clients who hold mutual fund positions are invested in appropriate share classes for the mutual fund positions in their accounts.. In the event 12b-1 fees are received on client holdings, these will be rebated to the advisory client.

Stephens has entered into a clearing arrangement ("Clearing Agreement") with Charles Schwab & Co., Inc. ("Schwab") whereby Schwab serves as clearing intermediary for Stephens on behalf of Stephens clients who hold mutual fund positions in their accounts. Under terms of this clearing arrangement, Schwab maintains an omnibus account with certain mutual fund families, and Schwab provides clearing services for the mutual funds held by Stephens clients. Schwab has also entered into contractual arrangements with various mutual fund families which provide that Schwab will provide certain services to the funds and in return, Schwab receives revenue sharing, shareholder servicing and other fees from these mutual funds. Schwab passes a portion of the compensation it receives from the mutual funds through to Stephens (including 12b-1 fees, shareholder servicing fees, administrative fees and revenue sharing payments) for services that Stephens provides to Schwab and to Stephens clients who invest in those mutual funds. Stephens passes a portion of the fees it receives from Schwab along to its FCs, and accordingly, the receipt of these fees provides an incentive for Stephens to favor fund share classes that provide higher compensation to Stephens. Mutual funds are available to investors in a variety of different share classes all of which carry different expense ratios. Fund share classes that pay higher compensation carry higher expense ratios than share classes of the same mutual fund with lower expense ratios. Investing in a mutual fund share class with a higher expense ratio will negatively impact an investor's return.

Consistent with our fiduciary duty to clients, Stephens will take reasonable steps to ensure advisory clients are invested in share classes of mutual funds with the most appropriate expense ratio for their advisory account. Not all share classes are available to advisory clients of Stephens, and it is possible that cheaper share classes of a fund may be available directly with the fund or away from Stephens. Additionally, because of the large number of mutual funds which are offered in an ever changing variety of different share classes, it is possible that investors may not receive cheaper share classes which come available after their initial investment in a fund.

Additional terms of the Clearing Agreement between Stephens and Schwab provide that:

- Stephens pays to Schwab an annual per position clearing fee for mutual fund holdings by Stephens clients for Non-Revenue Load Funds (which are funds that do not pay Schwab any compensation for the services Schwab provides to the Funds) and for Transaction Fee ("TF") Funds (which are funds which do not charge a front-end or back end sales load or that waive the sales load) and where such total positions with Schwab for Stephens clients exceed a certain size.

- For No Transaction Fee Funds (“NTF Funds”) (which are funds that do not charge a front-end or back-end sales loads or that waive such sales loads) this fee is based on assets invested. For Load Funds (which are those funds that charge a front-end or back-end sales load that are made available through Schwab and held in an omnibus account under a Load Fund Operating or similar Agreement), this fee is based on then number of fund positions per year.

### ***UITs Sales Charge***

There are characteristically two components of the UIT sales charge: the transactional sales fee and the creation and development ("C&D") fee. The transactional sales fee does not apply to advisory accounts. The C&D fee is paid to the sponsor of the trust for creating and developing the trust, which includes determining the trust objective, policies, composition and size, selecting service providers and information services as well as providing other similar administrative and ministerial functions. Your trust pays the creation and development fee as a fixed dollar amount at the close of the initial offering period. The sponsor does not use the fee to pay distribution expenses or as compensation for sales efforts.

### ***Money Market Mutual Funds***

In the Stephens’ advisory programs, assets not otherwise invested would typically be invested in money market mutual funds, or comparable investments, in which to hold cash reserves. The selections are limited to investments authorized by Stephens in its capacity as custodian, if Stephens is serving as custodian of the account. Money market mutual funds often pay Stephens a distribution fee on assets invested in the fund through Stephens. In most accounts, cash balances arising from the sales of securities, redemption of debt securities, dividend and interest payments and funds received from clients not otherwise invested are automatically invested on a daily basis in a money market mutual fund designated by client or selected on a discretionary basis by Stephens.

Funds placed in a client’s account by personal check usually will be invested in a money market mutual fund within two business days after deposited with Stephens. Due to the foregoing practices, Stephens earns interest on such funds prior to the date that deposits are credited to client accounts and thus realizes some economic benefit because of the timing of the investment of these funds.

### ***Additional Fees***

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

### ***Custodial Services***

Stephens will provide custodial services to advisory accounts. Custodial services provided by Stephens include custody of securities in your account, periodic statements, certain tax

reporting and other similar services. Your account will be subject to the terms and conditions described in the Investment Advisory Agreement/Contract, Stephens' standard New Account Form and any separate agreement or agreements executed in connection with the account.

Stephens includes custodial fees for custody services and securities services provided by Stephens within the wrap fee charge. If a client's account is under a wrap fee program, commission charges are included as part of the Stephens advisory fee. Clients may engage an independent custodian. The fees of any custodian other than Stephens are not covered by the wrap fee and are the separate responsibility of the client. Clients may direct trading through another broker or other execution venue, and, in such a situation, the client will be responsible for all costs and commissions incurred in connection with such trading.

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

### ***ERISA***

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

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

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

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

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

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

### ***Principal Transactions***

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

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

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

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

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

### ***IPO Retail Customer Allocations***

Although underwriting initial public offerings (“IPOs”) on behalf of corporate and other types of issuer clients is a regular part of Stephens’ investment banking business, the frequency, share price, number of shares available, and other characteristics of such offerings vary widely over time. For example, in some years Stephens may participate as an underwriter in no, or only a few, IPOs. Factors that limit IPO product availability to customers through Stephens include:

- Market conditions that make raising capital through IPOs less favorable or unfavorable for issuers, such as periods of high market volatility or depressed share prices.
- Alternative investment options for institutional and retail investors that impact overall demand for IPO investments.
- Lack of or diminished investor interest in market sectors in which Stephens’ issuer clients operate.
- The availability of capital through other sources such as the private equity marketplace or attractive debt financing alternatives.
- Diminished financial strength and business prospects of particular issuer clients that make them poor candidates for IPOs.
- Lack of specific business needs of particular issuer clients for capital infusions.

In addition, in many instances Stephens will only be a small participant in an IPO underwriting syndicate that is led by another firm or firms and, consequently, will have little or no control or influence over whether, or to what extent, shares in the IPO are allocated to retail accounts and, instead, are directed to institutional customers.

The combination of these factors makes it impractical, if not impossible, for Stephens to determine how much and what types of IPO product will be available for allocation to its thousands of retail customer accounts over any extended time period. That, in turn, effectively precludes Stephens from utilizing any type of rotational allocation system designed to ensure that all of its retail customer accounts are treated equitably.

Instead of attempting to allocate shares equitably across all retail customer accounts, Stephens bases its share allocation decisions on an account-by-account methodology taking into consideration multiple factors, including the following:

- The number of shares available in the IPO for allocation to Stephens' retail customers.
- The customary desire of Stephens' issuer clients to avoid small retail allocations to numerous accounts, which would increase the cost and administrative burden of communicating and dealing with unnecessarily large numbers of investors.
- Share allocation requests received by the Stephens syndicate department from the brokers ("RRs") and investment advisory representatives ("IARs") who manage the firm's retail customer accounts.
- The level of sophistication of the RR or IAR submitting those allocation requests in evaluating and dealing with IPO investments.
- The stated interest of a particular retail customer in participating in IPOs, in general, or in a particular IPO, including the number of shares requested.
- The suitability of the investment for the customer, particularly if it is speculative in nature, as is sometimes the case in IPOs.
- Whether the requested IPO allocation would result in an overconcentration of the security in the customer's account, resulting in lack of appropriate diversification.
- Whether the IPO investment would be consistent with the investment strategy and objectives agreed to by the customer and the RR or IAR.
- Any applicable tax considerations.
- Whether the customer has adequate liquidity in the account, or otherwise, to fund the IPO investment.
- Whether the RR or IAR is able to contact the customer on a timely basis and obtain any documentation necessary to participate in the offering.
- Whether based on the customer's prior investment practices or discussions with the RR or IAR, it appears likely that the customer intends to quickly resell the shares in order to obtain short term trading profits as opposed to holding them in order to gain long term appreciation, sometimes referred to as "flipping."

Given the complexity and sometimes subjective nature of this analysis, and the fact that the applicability these considerations may vary with respect to a particular retail customer at any given time, Stephens does not attempt to ensure that the allocation of IPO shares across all of its retail customer accounts is equitable and does not analyze the fairness of its allocation decisions over time. In practice, some retail customer accounts will have far greater access to IPO allocations than others. In fact, based on past experience, only a very small percentage of Stephens' retail customers will participate in IPOs. Nevertheless, customers who are interested in participating in IPOs or a particular IPO are encouraged to advise their IAR of such fact.

### ***IPO Related Conflicts of Interest***

**Flipping.** Stephens has a long-standing policy of discouraging its RRs and IARs from allocating IPO securities to retail customer accounts that appear likely to quickly resell the securities in order to obtain short term trading profits as opposed to holding them in order to gain long term appreciation. Excessive short term trading in the secondary market

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following an IPO has the potential of causing market disruption and depressing the price of the issuer's securities, both of which would operate to the disadvantage of Stephens' issuer clients. Accordingly, Stephens reserves the right to withhold IPO allocations to retail customer accounts that have a history of flipping their IPO securities positions or advise their RR or IAR of their intent to flip the IPO securities they wish to purchase in a pending IPO. This policy creates a conflict of interest because, while it favors Stephens' IPO issuer clients and Stephens' long term interests as an underwriter, it may not be in the best interest of a retail customer seeking to realize short term trading profits on the customer's IPO positions. In addition, Stephens may penalize customers who flip their IPO securities by reducing or eliminating IPO allocations to them in the future.

**Favoring Larger Allocations.** Stephens' issuer clients generally prefer that the underwriting syndicate avoid small retail allocations to numerous accounts, which would increase the cost and administrative burden of communicating and dealing with unnecessarily large numbers of investors. Major items of expense in that regard include the printing and mailing of large numbers of investor communications such as proxy statements and annual reports. Further, Stephens, itself, incurs higher transaction and administrative costs if smaller IPO allocations are spread over a larger number of accounts. This overall situation creates a conflict of interest with respect to Stephens' handling of smaller accounts because larger allocations mean that they will have less opportunity to participate in IPOs and gain the IPO experience that would potentially qualify them for participation in more IPOs.

This methodology also has the potential of increasing risk for IPO investors to the extent that larger allocations would be expected to result in more concentration with respect to these types of typically more speculative securities.

**Advisory vs. Brokerage Accounts.** If a retail customer has both an advisory and a brokerage account, it may be in the best interest of the customer to purchase IPO securities in the brokerage account. The customer would pay the same offering price for the securities irrespective of which type of account is selected for the purchase. However, in a brokerage account no additional charges (in the form of commissions) would be incurred until the time the securities are sold, while in an advisory account the customer would incur assets under management fees that could exceed the amount of such commissions depending on the length of the holding period. The risk of this disadvantage occurring is increased by Stephens' policy against flipping, which is designed to encourage longer holding periods.

**Offerings with Less Demand.** Based on Stephens' previously described allocation process, there is a potential that a retail account that does not frequently participate in IPOs may have a greater opportunity to participate in IPOs that prove to be in less demand, particularly if Stephens receives a relatively large allocation for placement with its retail customers. Although Stephens, and its RRs and IARs, have limited ability to predict customer demand for an IPO in advance of the pricing and effectiveness of the offering, certain of the criteria utilized in allocating shares, such as previous IPO experience and favoring larger allocations, may result in more favorable allocations to larger, more experienced retail accounts in connection with high demand offerings. On the other hand, these factors would be expected to have less of an impact with respect to offerings where there is less demand from retail customers relative to the size of the retail allocation Stephens receives. It is likely, although certainly not guaranteed, that IPOs for which there

is high demand relative to supply will perform better in the post-offering market place for at least some period of time.

**Customers That Do Not Have Access.** Stephens relies primarily on its IARs to determine whether, and to what extent, their retail advisory clients are interested in participating in IPOs. Many accounts are simply too small to participate in IPOs when concentration and suitability factors are taken into consideration. And, in practice, only a small percentage of Stephens IARs regularly submit IPO allocation requests on behalf of their customers. In many instances, retail customers are participating in one or more of the Stephens Private Client Group's advisory platforms providing for fee based, discretionary management by the IAR, a firm investment committee or a 3<sup>rd</sup> party money manager. The vast majority of IARs rely on these platforms to achieve appropriate asset allocation for their customers and typically do not offer their customers the opportunity to participate in IPOs. The same is also generally true with respect to the retail customer accounts managed by Stephens Capital Management. Finally, Stephens IARs, in their discretion, may elect to offer IPO allocations to some customers but not others, and such decisions are unlikely to be reviewed by Private Client Group supervisors or Compliance Department personnel. Given these circumstances, retail customers interested in participating in IPOs should advise their IAR of such fact.

In addition to existing programs, Stephens added platforms structured to comply with the Department of Labor's fiduciary rule, which is applicable to IRA and ERISA accounts. These platforms provide for low cost, level fee charges to customers, and Stephens is not allowed to accept any other compensation with respect to the handling of the account, including the compensation it would receive in connection with the sale of IPO securities. Accordingly, Stephens does not allow these types of accounts to participate in IPOs.

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

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

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

- Professional Wealth Management ("PWM")
- Stephens Advisor ("SA")
- Stephens Allocation Strategies ("SAS")
- Stephens Managed Assets Program ("MAP")
- Stephens Retirement Solutions ("RSP")
- Stephens Retirement Access ("SRA")
- Stephens Equity Focused Strategy ("SEFS") – for PCG

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

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

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

Generally outside managers in the MAP platform either provide Stephens with their model portfolio or direct their trading to Stephens. In both of these situations, Stephens executes these trades at no additional charge to the clients because execution charges are included in the WRAP fee the client pays Stephens. The number of managers in the MAP platform that direct trades to other broker dealers can change as managers are added or removed from the MAP platform. Currently, only one manager in the MAP platform, Legg Mason, has the ability to send trades for execution to broker-dealers other than Stephens, and trades executed away from Stephens will result in commission charges to Stephens' clients in addition to the WRAP fee the client paid to Stephens. These additional charges affected the net performance for the clients' accounts. For the time period January 1, 2018 through December 31, 2018, Legg Mason executed transactions away from Stephens with other broker-dealers at an average commission charge of \$0.0054 cents per share and an average commission of \$1.01 per trade. In the aggregate for calendar year 2018 for all Stephens clients whose accounts in the MAP platform were sub-advised by Legg Mason, a total of 1,239 trades were executed away from Stephens with total commission charges of \$1,249.39 during 2018.

Beginning February 21, 2017, for those MAP clients who have selected Legg Mason as their adviser in an equity only strategy, Legg Mason will furnish Stephens with their model portfolio(s) and Stephens will execute trades for equity only strategy clients with no additional commission charges. This means that Legg Mason's relationship with the client will change from discretionary to non-discretionary, and Stephens' relationship with the client will remain discretionary. For clients who have selected Legg Mason as their adviser in a balanced strategy, Legg Mason will continue to execute trades for balanced strategy client portfolios. Trades which are executed away from Stephens by Legg Mason will incur commission charges not included in the wrap fee that clients will pay which will affect net performance. Legg Mason and Stephens will remain as discretionary investment advisers to balanced strategy clients.

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

Stephens typically charges clients an investment advisory fee based on the value of the assets in the client's account. On occasion, Stephens enters into performance fee arrangements with appropriate clients as discussed below. Only certain clients qualify for performance fee arrangements which compensate Stephens based, in part, on the performance of the client's account.

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

A performance fee arrangement could create an incentive for Stephens to seek to maximize the investment return by making investments that are subject to greater risk, or are more speculative, than would be the case if Stephens' compensation were not based upon the investment return or could create an incentive for Stephens to seek to limit investment returns by pursuing investments with reduced risk. With a performance fee arrangement

Stephens' fee is, in part, contingent upon the returns on the Client's Assets, which is computed based upon unrealized and realized appreciation or depreciation of Client's Assets. This gives Stephens an incentive to favor performance fee accounts with investment opportunities and therefore creates a conflict of interest for Stephens.

Accounts participating in a performance fee arrangement may pay Stephens more compensation, or less compensation, when compared to standard fee rates. Performance fee arrangements may not be available for all investment accounts and must be approved by Stephens on a case-by-case basis. Performance fee rates are negotiable. A client may negotiate a base fee rate, performance fee rates, an index to be used to calculate the performance fee, or the use of no index in calculating the performance fee.

Any performance fee that Stephens charges is intended to comply with Rule 205-3 and other applicable requirements under the Investment Advisers Act of 1940 (the "Adviser's Act"). Stephens has an incentive to favor accounts which it charges a performance fee over other types of client accounts by allocating more profitable investments to performance fee accounts or by devoting more resources toward the accounts' management. Stephens seeks to mitigate the potential conflicts of interest which arise from managing accounts that bear a performance fee through its policies and procedures, including those related to investment allocation, and by complying with the provisions of Rule 205-3 as stated above. Stephens has discretion not to accept these arrangements.

## **Item 7 Types of Clients**

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

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

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

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

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

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

Stephens utilizes street and independent sources for our research, but it is not the sole basis of our investment decision-making process. Other sources of information we utilize can include industry data obtained from subscription services, company filings, street research and models. We utilize these services for real-time news and pricing. We also utilize other independent research sources for quantitative reports that measure such things as price

changes, growth rates, profitability, valuation, earnings surprises and earnings revisions. These quantitative reports are used to help identify new securities that meet our investment criteria and to monitor existing holdings.

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

## **B. Investment Strategies**

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

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

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

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

***Stephens Private Client Group (“PCG”)*** currently provides investment advisory services for discretionary portfolios or non-discretionary portfolios. Stephens has the flexibility to adapt strategies to a changing financial environment while keeping your goals and objective in mind.

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

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

These investment solutions can include:

- Investment management and advisory services
- Wealth management

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

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

The material risks associated with our strategies are:

**Alternative Investments --.** Investing in alternative investments can be highly illiquid, is speculative and not suitable for all investors. Certain alternative investment products place substantial limits on liquidity and the redemption rights of investors, including only permitting withdrawals on a limited periodic basis and with a significant period of notice and may impose early withdrawal fees. Investing in alternative investments is intended for experienced and sophisticated investors only who are willing to bear the high economic risks of the investment. Investors should carefully review and consider potential risks before investing. Certain of these risks include: loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; lack of liquidity, in that there may be no secondary market for the fund and none expected to develop; volatility of returns; restrictions on transferring interests; potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; absence of information regarding valuations and pricing; complex tax structures and delays in tax reporting; less regulation and higher fees than mutual funds; and advisor risk. Alternative investment products typically have higher fees (including multiple layers of fees) compared to other types of investments. Individual funds will have specific risks related to their investment programs that will vary from fund to fund.

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

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

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

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

**Money Market Risk** - An investment in a Money Market Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. Yields will vary. Yield quotations more closely reflect the current earnings of the fund than the total return.

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

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

**Small Cap and Mid Cap Company Risk** -- Investing in small cap and mid cap issuers involves a significantly greater risk than investing in larger, more established companies. The daily trading volume for Small Cap and Mid Cap issuers can be much lower than for more widely held, established companies. There may be periods when it is difficult to invest in or liquidate portfolio investments for our various investment strategies. This is particularly the case when breaking news on a company occurs or when significant market forces and events occur. In addition, small and mid-cap companies are more vulnerable to economic, market and industry changes. Because smaller companies often 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.**

**Certain Risks Associated with Cybersecurity.** --

With the increased use of technologies such as the Internet to conduct business, investment advisers, including Stephens rely in part on digital and network technologies (collectively, “cyber networks”). These cyber networks are susceptible to operational, information security and related risks and can be at risk of cyber-attacks. Cyber-attacks could seek unauthorized access to cyber networks for the purpose of misappropriating sensitive information, corrupting data, or causing operational disruptions.

Cyber-attacks can potentially be carried out against the issuers of securities you have invested in, against third party service providers, or against Stephens itself by persons using techniques that range from efforts to circumvent network security, overwhelm websites, and gather intelligence through the use of social media in order to obtain information necessary to gain access to cyber networks. Although cyber-attacks potentially could occur, Stephens maintains an information technology security policy and technical and physical safeguards intended to protect the confidentiality of internal data.

## **Item 9 Disciplinary Information**

Stephens Inc. voluntarily participated in the Securities and Exchange Commission’s Share Class Selection Disclosure Initiative, and on March 11, 2019 the SEC entered a Cease and

ADV Part 2A  
March 20, 2019

Desist Order against Stephens in which Stephens neither admitted nor denied the allegations of the SEC's Order. The Order alleged that Stephens did not fully disclose conflicts of interest related to the selection of mutual fund share classes for its advisory clients, and that Stephens purchased, recommended or held mutual fund share classes for client accounts which paid Stephens 12b-1 fees when less expensive share classes of the same funds were available which did not pay Stephens these 12b-1 fees. The Order directed Stephens to Cease and Desist from committing or causing any violations and any future violations of Sections 206(2) and 207 of the Investment Advisers Act of 1940 and ordered that Stephens be censured and pay disgorgement and prejudgment interest to advisory clients who held these more expensive mutual funds share classes in their advisory accounts. (IA Release No. 40-5196)

In its capacity as a broker/dealer, Stephens has been subject to legal or disciplinary events in the ordinary course of its business, such as regulatory sanctions relating to compliance with broker/dealer trade reporting requirements and other regulatory actions.

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

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

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

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

Stephens is a full service broker/dealer and investment bank. In addition to being registered with the SEC, Stephens is a member of the Financial Industry Regulatory Authority ("FINRA"), the New York Stock Exchange, Inc. ("NYSE"), the NYSE American LLC ("NYSE-AMEX"), the Municipal Securities Rulemaking Board ("MSRB"), the Investors' Exchange LLC ("IEX"), the Securities Investor Protection Corporation ("SIPC") and the National Futures Association ("NFA"). Stephens derives greater revenues from its broker/dealer and investment banking activities than it derives from its investment advisor activities. Affiliates of Stephens are also separately engaged in financial services businesses, including merchant banking, insurance and investment advisory businesses.

### **C. Affiliations**

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

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

for mutual funds known as the American Beacon Stephens Funds® or other funds which may be added from time to time.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Additionally, SIMG serves 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

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

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

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

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

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

## **Item 12 Brokerage Practices**

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

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

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

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

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

Stephens typically does not recommend other broker-dealers to our clients. Stephens's client accounts typically trade through Stephens. In most of Stephens' investment advisory programs, brokerage commissions for trades executed by Stephens for investment advisory accounts are included in the investment advisory

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

### **3. Directed Brokerage**

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

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

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

A client that directs us to use a particular broker-dealer may also be subject to certain disadvantages regarding allocation of new issues and aggregation of orders. See below. Accounts custodied at brokerage firms that do not permit Stephens to place transactions with other brokerage firms may not be able to participate in the initial transaction and may not be able to participate in the same gains or losses as other clients whose accounts are not so restricted. In determining whether to direct Stephens to use a particular broker-dealer, the client may wish to compare the possible costs or disadvantages of such an arrangement.

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

clients of other representatives of Stephens available to Stephens or to clients of the representative assigned to client's account, including client.

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

## **Item 13 Review of Accounts**

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

Primary responsibility for the supervision of these accounts lies with the applicable Stephens' Supervisory Principal. The Supervisory Principal's monthly reviews consist of analysis of activity in advisory accounts, considering suitability and general performance. Further considerations are levels of activity, timing of transactions in relationship to research recommendations, transactions in restricted securities, unprofitability, concentration in one security and individual objectives and needs of the client based on information provided by the client. In addition to the monthly reviews, regular quarterly reviews of the total value of the account and assets in each security and category are completed by the advisory staff. The reviewers may refer accounts to the Compliance Department for further analysis if necessary. Stephens will periodically review client portfolio holdings to determine whether advisory clients who hold mutual fund positions are invested in appropriate share classes for the mutual fund positions in their accounts. In the event 12b-1 fees are received on client holdings, these will be rebated to the advisory client.

When Stephens executes a transaction for you through a Stephens' order execution system, you will receive a written or electronic confirmation of the transaction which provides information regarding the transaction. You will also receive a written monthly account statement if you had activity in your account that is custodied by Stephens during the month which will detail the activity and the positions in your account. If you have not had any activity during the month and you have positions in your account, you will receive a written quarterly account statement which details the positions in your account.

You may waive the receipt of account statements or confirmations after each trade in favor of e-delivery via [www.StephensAccess.com](http://www.StephensAccess.com). You may also receive mutual fund prospectuses, where appropriate.

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

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

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

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

## **Item 15 Custody**

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

## **Item 16 Investment Discretion**

### **Investment or Brokerage Discretion**

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

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

## **Item 17 Voting Client Securities**

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

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

For proxy voting directed by Stephens, it is Stephens' policy to vote proxies on securities that are owned in an account and held in custody for the account by Stephens and to utilize Investment Advisory policies and procedures, which are reasonably designed to vote client

securities in the best interests of the client and to address how potential conflicts of interest are handled.

Stephens' proxy voting policy is to vote in favor of actions recommended by the insurer's Board of Directors of the issuer, unless the FC disagrees with the proposed action and elects to vote the shares against the recommendation of the Board of Directors.

If there is not a Board of Directors recommendation on a proposed action, then the FC will determine whether to vote for, against or abstain.

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

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

### **Procedures**

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

#### **a. Voting Procedures**

- Proxy materials are received on behalf of clients in Stephens' Reorganization Department ("Reorg. Department");
- A Proxy Voting Notice which includes a link to the proxy voting materials is sent by the Reorg Department via e-mail to the respective advisory area. This proxy Voting Notice will be used to instruct the Reorg Department as to how to vote the shares;
- Stephens will vote the proxy through the Reorg Department in accordance with applicable voting guidelines, either by electronically voting or by mailing the proxy in a timely and appropriate manner.
- Unless the responsible advisor or advisory committee loses confidence in management of the issuer or the client directs the vote, Stephens will vote the shares as recommended by the Board of Directors of the issuer
- If there is not a Board of Directors recommendation on a proposed action, then the FC will determine whether to vote for, against or abstain.

#### **b. Proxy Voting Guidelines**

- Stephens, if custodied here is responsible for voting proxies.
- If securities are custody elsewhere the client or custodian is responsible for voting.
- In a Sub-Advisory relationship the Sub-Advisor is responsible to vote the client's proxies.

#### **c. Conflicts of Interest**

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

the client, and (3) will give affected clients the opportunity to vote the proxy themselves.

- Stephens will maintain a record of the voting resolution of any conflict of interest.

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

**Stephens Advisor, Stephens Retirement Access, Stephens Retirement Solutions and the Stephens Capital Management Non-Discretionary Program Proxy Procedures**

Stephens will not take any action with respect to the voting of proxies solicited by or with respect to the issuers of securities in which assets of the Client may be invested from time to time, except to provide proxy materials to Client.

Stephens will have no power, authority, responsibility or obligation to take any action with regard to any claim or potential claim in any bankruptcy proceeding, class action securities litigation or other litigation or proceeding relating to securities held at any time in the client account, including, without limitation, to file proofs of claim or other documents related to such proceeding, or to investigate, initiate, supervise or monitor class action or other litigation involving client assets.

## **Item 18 Financial Information**

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

### **Other Potential Conflicts of Interest**

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

a) Client account assets can be invested in interests of money market funds, mutual funds, other investment companies, privately offered investment funds and other collective vehicles (collectively, “Funds”) for which Stephens or its affiliates acts as investment advisor, sponsor, administrator, distributor, selling agent, or in other capacities (“Affiliated Funds”). In addition, client account assets can be invested in interests of Funds for which Stephens or its affiliates do not act as investment adviser, sponsor, administrator or in other capacities. Stephens or its affiliates receive fees for services provided to such Funds, which

often include (but are not limited to) fees payable under a plan adopted pursuant to Rule 12b-1 under the Investment Company Act of 1940, as amended (“12b-1 fees”) and fees paid to compensate Stephens for providing administrative services, distribution services, shareholder services, investment advisory services or other services to or for the benefit of such Funds, excluding retirement programs. Where 12b-1 fees are received in advisory, IRA and ERISA accounts, these fees are rebated to the client account.

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

Although underwriting initial public offerings (“IPOs”) on behalf of corporate and other types of issuer clients is a regular part of Stephens’ investment banking business, the frequency, share price, number of shares available, and other characteristics of such offerings vary widely over time. For example, in some years Stephens may not participate as an underwriter, or in only a few, IPOs. For factors that limit IPO product availability to customers through Stephens see Item 5(C) Fees and Compensation/IPO Retail Customer Allocations/IPO Related Conflicts of Interest for more detail information.

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

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

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

f) Clients of other divisions of Stephens or clients of other advisory representatives of Stephens or Stephens, its principals, employees, affiliates and their family members, sometimes hold, and sometimes engage in transactions in, securities purchased or sold for client or about which Stephens gives or has given client advice. The client’s account may

purchase as investments securities of companies with which Stephens or its affiliates maintain investment banking relationships or other relationships or securities of companies in which Stephens or its affiliates have an ownership or other investment interest.

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

i) Stephens, or its affiliates, may provide more than one type of service to client (or a related organization), including (but not limited to), investment management services, investment advisory services, financial advisory services, underwriting services, placement agency services, investment banking services, securities brokerage services, securities custodial services, insurance agency services, insurance brokerage services, administrative services or other services, or any combination of services, all on such terms as may be agreed between Stephens (or its affiliate) and client (or its related organization).

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

k) Both advisory and brokerage clients of Stephens have the ability to borrow money against the collateral value of their accounts with non-purpose loans arranged through Stephens with a third party bank. Stephens receives an administrative fee which is paid by the third party bank in an amount which varies but can be up to 1.35% of the monthly outstanding balance of the client's loan. Part of the administrative fee is passed along to Stephens Financial Consultants, and this can create a conflict of interest. Since Stephens has not compared rates available elsewhere, clients may be able to obtain lower interest rates on their loans through other banks.

***For more detailed information regarding Private Client Group Programs, SCMD, SND, SCM-FIS, SMID, AAA, PMT, HMT, SC, SSK, SEFS and the SFIM Programs, please see the ADV Part 2A Appendix 1 for each program. The Part 2A for the Equity Reach Advisory Program is also available.***

## **Who to Contact**

We are pleased to have an opportunity to serve as your investment adviser. If you have any questions about the information contained in this brochure or about any aspect of the services we provide, please do not hesitate to call Stephens at (877-891-0095). Clients often receive this information by electronic delivery. **To access your FC's SEC Advisor Biography, go to <https://www.stephens.com/> home page. Use the search bar, in the top right corner of the home page. Search by your FC's name. SEC Advisor Biographies are available in the Our Team section. Please review them.**