

# Stephens Inc.

## Regulation Best Interest Disclosures

This document is intended to provide an overview of our relationship with you and how our relationships with others may affect our relationship with you. It also provides you with select product-specific disclosures. Other important disclosures may be found in prospectuses, your trade confirmations, your account statements, other disclosure documents that have been or will be provided to you, and on our website at <https://stephens.com/investment-disclosures/>.

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## **OUR RELATIONSHIP WITH YOU**

### **BROKERAGE AND INVESTMENT ADVISORY RELATIONSHIPS**

Depending on your needs and your investment objectives, you may have brokerage accounts, advisory accounts or both. There are important differences between these types of accounts, and you should understand them so you choose the services that are right for you. Stephens Inc. (“Stephens”) is registered with the SEC as a broker-dealer and as an investment adviser, offering both brokerage and investment advisory services. Your relationship with your Financial Consultant, and the obligations of Stephens, will be different in different types of accounts. For more information regarding your relationship with Stephens, please visit <https://stephens.com/investment-disclosures/understanding-your-relationship-with-stephens-inc/> or contact your Financial Consultant.

### **INVESTMENT STRATEGY AND RISKS**

Your Financial Consultant will develop an individualized investment strategy based upon your needs and time horizon. You are encouraged to keep your Financial Consultant apprised of any changes to your investment needs and your financial circumstances. When a particular investment varies from the strategy you and your Financial Consultant have developed, your Financial Consultant will discuss this with you at or before the time of investment.

Stephens offers three different account investment objectives and four risk exposures. Your Financial Consultant will use your account's investment objective and risk exposure, as well as other factors such as your liquidity needs and investment time horizon, to determine which recommendations are in your best interest and suitable for your account. It is important to understand that all investments involve risk, including the risk that you may lose your entire investment. Some investments are riskier than others. High-risk investments may have the potential for higher returns but also higher losses. The higher your stated risk exposure, the more you may decide to invest in higher-risk investments to achieve your stated investment objective.

<u>INVESTMENT OBJECTIVE</u>	<u>DESCRIPTION</u>
Income	An investment approach by which an investor generally seeks current income over time.
Long-Term Growth	An investment approach by which an investor generally seeks capital appreciation through buying and holding securities over an extended period of time.
Short-Term Growth	An investment approach by which an investor generally seeks short-term capital gains through buying and selling securities over a short period of time.

<u>RISK EXPOSURE</u>	<u>DESCRIPTION</u>
Low	Client has a low tolerance for short-term market fluctuation and accepts limited capital appreciation in exchange for minimal risk to principal.
Moderate	Client has a moderate tolerance for short-term market fluctuation and expects moderate capital appreciation in exchange for additional risk to principal investment.
High	Client has a high tolerance for short-term market fluctuation and expects significant capital appreciation in exchange for increased risk to principal.
Speculative	Client has a very high tolerance for short-term market fluctuation and accepts greatly increased risk to principal in exchange for potentially significant capital appreciation.

### **CAPACITY OF RECOMMENDATIONS**

All recommendations regarding your brokerage account will be made in a broker-dealer capacity, and all recommendations regarding your advisory account will be made in an advisory capacity. When we make a recommendation to you, we will expressly tell you orally which account we are discussing.

### **ACCOUNT MONITORING**

We do not offer continuous monitoring of brokerage accounts. It is your responsibility to regularly review the investments in your brokerage account, and we encourage you to do so. As a courtesy, your Financial Consultant may periodically keep you informed about your accounts and may review your account in order to make a recommendation. Your Financial Consultant is not obligated to review your account on a periodic basis, however, and any such review should not be construed as continuous monitoring. If your account is an investment advisory account, we will continually monitor the investments in your advisory account.

### **YOUR RELATIONSHIP WITH YOUR FINANCIAL CONSULTANT**

Your Financial Consultant is paid based on a compensation grid that provides for progressive increases in compensation based on total revenue. Your Financial Consultant may be paid both a recruitment bonus and a yearend bonus in addition to his or her grid-based compensation. Your Financial Consultant may receive financial incentives from the Firm including a business development allowance based on total revenue brought into the Firm.

Your Financial Consultant could have conflicts of interest beyond those disclosed by Stephens as a broker-dealer. Where appropriate, your Financial Consultant will disclose any such conflicts of interest no later than the time an investment recommendation is made. These disclosures may be provided to you orally.

Your Financial Consultant may not be registered as an investment adviser, and this would constitute a material limitation on the services that he or she may offer.

### **REVENUE FROM YOUR TRANSACTIONS**

In brokerage accounts, in general, commissions paid to the Firm are generated by your trading activity. The more trades that are placed, the greater the commission that is generated. This includes trades in equities, debt products, annuities, and ETFs. Complex products may result in higher fees to the Firm. The Firm may make more when trading in certain illiquid products. The Firm benefits from idle cash in accounts (except in IRA and ERISA accounts) either through fees paid from bank sweep deposits or free credit balances.

The Firm generates more commissions when trading greater share volume if the Firm charges a certain number of cents per share traded. Placing a trade in a different capacity may lead to more compensation paid to the Firm. For example, the Firm receives certain “mark-ups”, “mark-downs”, and dealer spreads when acting as principal in certain transactions where permitted by law. By recommending that you go out further on a bond’s yield curve, the Firm may increase the mark-up it receives.

When we are acting as your investment adviser, transactions in securities 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 dollar amount of the securities being purchased or sold. If Stephens is acting as a principal, Stephens has the potential for profit or loss on securities it sells to or buys from a client. Additionally, the Firm may engage in agency cross trades and receive commissions on both sides unless your account is a wrap fee account, in which case commissions are generally included in your wrap fee. Whether your account is a brokerage account or an advisory account, 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.

When you are selling a product, the Firm may be buying the same, and when you are buying a product, the Firm may be selling the same.

## **FEES AND COMPENSATION**

### **COMMISSIONS**

You will pay transaction-based fees for trades you decide to enter into, such as buying and selling stocks, bonds, exchange traded products (ETPs), mutual funds, annuity contracts, exercising options and other investment purchases and sales. These transaction-based fees are generally referred to as a “commission,” “mark up,” “sales load,” or a “sales charge.” There are additional fees associated with certain products. More information can be found in the product-specific disclosure section below and other disclosure documents associated with these products.

### **ACCOUNT FEES AND COSTS**

Brokerage accounts may be charged a \$50 annual fee. This fee will be waived if any of the following criteria are met:

1. The statement household assets are greater than \$500,000;
2. The brokerage account’s annual revenue is greater than \$100; or
3. The average revenue per account in the statement household is greater than \$100.

For more information regarding fees and costs, please see the Stephens Fee Schedule, available at <https://stephens.com/investment-disclosures/stephens-fee-schedule/>.

### **ROLLOVERS AND TRANSFERS**

Rollovers and transfers bring in more assets to the Firm which typically results in more fees paid to the Firm. If your Financial Consultant recommends a rollover or transfer, he or she will provide you with a Rollover Certification and Election Form to review before a rollover or transfer is initiated.

### **CASH ASSETS**

Stephens benefits from idle cash either through fees paid from deposits or free credit balances. Pershing and Promontory (“Service Providers”) are each compensated for their services by receiving a fixed percentage fee deducted from the return paid by each bank. Stephens sets the amount of its fee in its discretion and deducts it from the fees paid by each bank. Stephens pays clients the balance of the fee received from each bank as interest. The amount of the fees paid to Stephens will affect the interest rate paid on the Deposit Accounts. The fee retained by Stephens will vary but will not exceed two hundred basis points (200 bps or 2.00%), exclusive of the fees paid to the Service Providers. The total amount of the fee Stephens charges affects the amount of interest payable to customers on their Deposit Accounts since the higher Stephens fee is, the lower the amount of interest is paid to Stephens customers.

As discussed above, Stephens offers both brokerage and advisory accounts. For advisory accounts, Stephens charges investment advisory fees as a percentage of client assets under management which includes cash assets in the Bank Sweep Program. This means that clients will pay Stephens an investment advisory fee in addition to the fees charged in the Bank Sweep Program which are described in our Stephens Insured Bank Sweep Program Rates available at <https://stephens.com/investment-disclosures/>.

### **THIRD PARTY PAYMENTS**

Financial Consultants may accept from third parties certain items of value related to travel expenses incurred related to training and education on the products offered by those third parties. Such expenses may include hotel reservations, airfare, meals, and other travel related items of value. These are paid by the third party directly to the hotel, airline,

restaurant, etc. These meetings or events are held to educate Financial Consultants on product characteristics, business building ideas, successful sales techniques, suitability, and other topics.

The Firm may accept third party fees such as placement fees from hedge funds, private equity, funds, collective trusts, or other vehicles. If the fund allows a placement fee on the product, we may include one in a brokerage account.

## **OUR RELATIONSHIPS WITH OTHERS**

### **OUR RELATIONSHIP WITH PERSHING LLC**

Pershing LLC (“Pershing”) is the clearing firm for our securities business. Due to this business relationship, Pershing shares with us a portion of the transaction costs and fees you pay to Pershing for certain transactions and services. The compensation we receive is an additional source of revenue to Stephens, and it defrays our costs associated with maintaining and servicing client accounts. Pershing pays us on a quarterly basis an Active Account Credit in support of our ongoing investment in various businesses, marketing and technology initiatives relating to the services we offer. This Active Account Credit is based on the total number of Stephens client accounts held on the Pershing platform. Pershing also pays us a Basis Point Credit each quarter which is computed based on the total value of Stephens client accounts held on the Pershing platform. Pershing pays Stephens a portion of the margin interest you pay in excess of a certain level. Pershing also provides consulting and other assistance to us from time to time. Stephens receives revenues from Pershing on any investor free credit balances. These revenues are not received by Stephens for free credit balances in ERISA or IRA accounts. Additionally, Pershing pays us a placement fee for each CD purchased through Pershing by a Stephens’ client.

Where Stephens receives compensation from Pershing, this presents a conflict of interest because Stephens and your Financial Consultant have a greater incentive to make available, recommend, or make investment decisions regarding investments and services that provide additional compensation over those investments and services that do not.

### **EXECUTION REVENUE**

Stephens can receive or pay compensation for directing order flow in equity securities. Pershing receives compensation for the direction of order flow in certain equity securities and listed options, the source and nature of the compensation, if any, received in connection with trades will be furnished upon your written request to your Financial Consultant. Additionally, the Firm may receive payment from trading or clearing facilities.

### **INVESTMENT BANKING**

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 clients. These relationships could give rise to potential conflicts of interest. Additionally, when acting as an investment banker, research provider, financier, market maker, prime broker, derivatives dealer, lender, counterparty, agent or principal with respect to other companies and accounts, those roles may create conflicts for you.

When the Firm acts as an investment banker for public companies such as initial or secondary public offerings, it may receive underwriting fees, syndicate management fees, and selling concessions. This may result in an incentive to recommend to you a transaction related to such a public offering. Conversely, the Firm may be precluded from recommending to you certain securities because of its relationship with the issuer.

Stephens’ issuer clients generally prefer that the underwriting syndicate avoid small retail allocations to numerous accounts due to increased costs and administrative burdens associated with small retail allocations. 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.

Stephens relies primarily on its Financial Consultants to determine whether, and to what extent, their retail 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. In practice, only a small percentage of Stephens Financial Consultants regularly submit IPO allocation requests on behalf of their clients. In many instances, retail clients are participating in one or more of the Stephens Private Client Group’s advisory platforms providing for fee based, discretionary management by the Financial Consultant, a firm investment committee or a 3rd party money manager. The vast majority of Financial Consultants rely on these platforms to achieve appropriate asset allocation for their clients and typically do not offer their clients the opportunity to participate in IPOs. Finally, Stephens Financial Consultants, in their discretion, may elect to offer IPO allocations to some clients but not others, and such decisions are unlikely to be reviewed by Private Client Group supervisors or Compliance Department personnel. Given these circumstances, retail clients interested in participating in

IPOs should advise their Financial Consultants of such fact.

Stephens reserves the right to withhold IPO allocations to retail client accounts that 1) have a history of quickly reselling the securities in order to obtain short term trading profits as opposed to holding them in order to gain long term appreciation their IPO securities positions or 2) advise their Financial Consultant 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 client seeking to realize short term trading profits on the client's IPO positions. In addition, Stephens may penalize clients who flip their IPO securities by reducing or eliminating IPO allocations to them in the future.

If a retail client has both an advisory and a brokerage account, it may be in the best interest of the client to purchase IPO securities in the brokerage account. The client 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 client 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, as discussed above, which is designed to encourage longer holding periods.

Client demand for IPO shares can impact allocations to all clients. Stephens and its Financial Consultants have limited ability to predict client demand for an IPO in advance of the pricing and effectiveness of the offering. Allocation of shares in an offering is determined by a number of factors including a client's previous IPO experience and a preference toward larger allocations. This may result in more favorable allocations to larger, more experienced retail accounts in connection with high demand offerings.

Conversely, when there is less demand from retail clients, these factors are typically less determinative of how allocations are made. This means that 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 clients. 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 than an IPO for which there is less relative demand. This may mean that larger, more experienced retail accounts may be at an advantage when it comes to IPO allocations over smaller retail accounts that do not frequently participate in IPOs.

## **PRODUCT-SPECIFIC DISCLOSURES**

### **INSURANCE PRODUCTS**

Annuities are held outside your Stephens account by the issuing insurance companies and are not covered by SIPC. In general, the Firm makes more from the sale of variable annuities than from fixed annuities. In some cases, indexed annuities pay less than variable annuities but more than fixed annuities. Each insurance company and product has its own compensation schedule and the compensation paid to the Firm will vary based on company and product. Depending on various factors, including how long the client lives, the Firm can make more if single commission rather than a fee trailer. In rare cases, an insurance company may annuitize by issuing a new contract. If this occurs, the insurance company may pay a trail to your Financial Consultant. This may result in an incentive for your Financial Consultant to recommend annuitizing a deferred annuity. You can find more disclosures on these types of products in the insurance company documentation provided to you.

### **UNIT INVESTMENT TRUSTS (UITs)**

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 objectives, 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.

### **MUTUAL FUNDS**

If you invest in mutual funds or other investment companies, such as exchange traded funds, you should carefully consider the investment objectives, charges, risks, fees and expenses of any investment company before investing. The prospectus and summary prospectus contain important information about the investment company which we encourage you to review prior to investing. You can obtain a current prospectus and a summary prospectus from your Financial Consultant.

Investing in mutual funds can be more expensive than other investment options due to the fees and expenses mutual funds charge. Fund fees and expenses are charged directly to the pool of the fund's assets and are reflected in the fund's share price. The fund expense ratio (the percentage of fund assets used for fund expenses) is disclosed in the prospectus.

Funds that charge a sales charge, either at the time you buy the shares or at the time you sell them, are known as "load funds." In brokerage accounts, fees from load funds are paid to the Financial Consultant and differ based on fund or fund family. Funds that do not charge sales fees ("no load funds") are not available in brokerage accounts. In advisory accounts, load funds are sold to you at net asset value (NAV), and any 12-b1 fees are rebated back to you.

Stephens receives 12b-1 fees from mutual funds on an ongoing basis as compensation for the administrative, distribution and shareholder services provided by Stephens for such things as record maintenance, shareholder communications, transactional services, client tax information, reports filings and similar such services. 12b-1 fees are an operational fund expense which varies by fund family. Other fees charged by a mutual fund vary based on the share class purchased and can include charges upon purchase, charges upon sale, and ongoing charges. The availability of certain shares and how the fees that are charged are treated depends on your account type.

American Beacon Stephens Funds® and Hotchkis & Wiley Funds are funds managed by affiliates of Stephens and/or advisors in which affiliates of Stephens have a substantial ownership interest. These affiliates receive fees, including management and sub-advisory fees, which are paid pro rata by all shareholders as described in the fund's prospectus. Additionally, SIMG serves as one of the investment advisors to the Vanguard Explorer™ Fund and the Bridge Builder Small/Mid Cap Growth Fund using our SMID Select Growth Strategy.

### **MONEY MARKET FUNDS**

Money market funds are a type of mutual fund that invests in high-quality, short-term debt instruments, cash, and cash equivalents. As with other mutual funds, the prospectus and, if available, the summary prospectus contains information about the investment company. You can obtain a current prospectus and, if available, a summary prospectus from your Financial Consultant. Please read the prospectus and, if available, a summary prospectus carefully before investing. Although money market funds seek to preserve the value of your investment at \$1.00 per share, this cannot be guaranteed. Investing in money market funds involves some element of risk, and you could lose money by investing in a money market fund. Investments in money market funds are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Money market fund sponsors have no legal obligation to provide financial support to money market funds, and you should not expect that the sponsor will provide financial support to money market funds at any time.

### **ALTERNATIVE INVESTMENTS**

Alternative Investments are available through direct contracts with hedge funds and managed futures providers. Certain Alternative Investments are available only to certain types of investors, including Accredited Investors, Qualified Clients, or Qualified Purchasers. Additional details regarding a particular Alternative Investment may be found in that Investment's offering statement or placement agreement.

### **529 PLANS**

If you invest in a 529 plan, you will be provided a plan disclosure document with important disclosures and additional information. You should carefully review this document and discuss any questions you may have with your Financial Consultant.

### **BANK SWEEP PROGRAM**

Brokerage clients whose accounts are custodied at Pershing are eligible to participate in the Stephens Insured Bank Sweep Program ("Bank Sweep Program"). Assets in this program are insured up to the applicable FDIC insurance limit. It is your obligation to monitor your funds deposited at Program Banks in the Bank Sweep Program to ensure you do not exceed the applicable FDIC insurance limit. The Bank Sweep Program should not be viewed as a long-term investment option. You can find more details about our Bank Sweep Program at <https://stephens.com/investment-disclosures/>.

### **BROKED CERTIFICATES OF DEPOSIT (CDS)**

Each CD is a deposit obligation of a depository institution domiciled in the U.S. or one of its territories (an "Issuer"), the deposits and accounts of which are insured by the Federal Deposit Insurance Corporation. The CDs are made available pursuant to an arrangement between Stephens and another broker dealer that has entered into an agreement with the

Issuer to offer the CDs. Each CD constitutes a direct obligation of the Issuer and is not, either directly or indirectly, an obligation of the Firm.

Stephens and the broker-dealer arranging for the CD to be offered will receive a placement fee from the Issuer in connection with your purchase of a CD. Except for a mark-up or mark-down in connection with secondary market transactions and a handling fee, if any, disclosed on your trade confirmation, you will not be charged any commissions in connection with your purchase of a CD.

For more information about brokered CDs, please visit <https://stephens.com/investment-disclosures/certificate-of-deposit-disclosure-statement/>.

### **CDARS**

CDARS® is a deposit placement service that enables investors to access multi-million-dollar FDIC insurance for CD investments. When funds are placed through the CDARS service, your investment is allocated to banks that are members of the Promontory Network in amounts below the standard FDIC insurance maximum, allowing both principal and interest to be eligible for FDIC insurance. For important information about CDARS, including their allocation process and early withdrawal penalties, please refer to your CDARS Deposit Placement Agreement.

### **BONDS**

We are compensated through your purchases and sales of debt instruments. We may trade the debt instruments from our own inventory or from our clearing firm's inventory and charge a mark-up (client purchasing) or mark-down (client selling). We may act as an agent and conduct the trade in the open market and charge a commission. We will make reasonable efforts to obtain a price that is fair and reasonable under prevailing market conditions. Mark-up, mark-downs and commissions are shown on your trade confirmations.

### **EQUITIES**

Equity transactions include common stock, exchange traded funds, closed-end funds traded in the secondary market, preferred stocks and American Depositary Receipts (ADRs). Clients will pay a commission based upon a number of factors, including the principal value of the trade. This commission may be discounted by your Financial Consultant.

### **OPTIONS**

Listed options are options contracts cleared by the Options Clearing Corporation that are traded on options exchanges. Clients will pay a commission based upon a number of factors, including a base fee and a per contract fee. Clients who desire to place options trades must complete an Options Agreement.

### **EXCHANGE TRADED FUNDS (ETFs)**

Leveraged and inverse ETFs carry additional risks over traditional ETFs, and your Financial Consultant may not solicit transactions in these products.