RS | investments

First Quarter 2010 Mutual Fund Commentary
RS Mid Cap Growth Fund

Performance

The equity market continued to rally through the first three months of 2010, aided by positive earnings news and signs of improving economic fundamentals. Consumer spending trends showed ongoing signs of strengthening despite the stubbornly high unemployment rate. There were also indications that corporations were again spending money on raw materials and equipment upgrades, as new orders for manufactured durable goods rose for the third consecutive month in February. Nonetheless, in an environment where investors also favored materials and industrial companies with more perceived sensitivity to an economic resurgence, many of the Fund's longer term growth investments weren't fully rewarded for their underlying fundamentals. For the three-month period ended March 31, 2010, RS Midcap Growth Fund returned 4.56%, underperforming a 7.67% return by the benchmark Russell MidCap® Growth Index[1]. The Fund's relative performance was dampened by our stock selection in the producer durables, financial services, health care, and energy sectors. By contrast, stock selection in the technology sector aided relative performance, as did a lack of exposure to the underperforming utilities sector.

Portfolio Strategy

RS Mid Cap Growth Fund is managed with a team-based approach that calls upon the deep sector expertise and hands-on research efforts of our experienced managers and analysts. In an effort to know our businesses from the ground up, we perform exacting financial analysis and build a core portfolio of mid-cap companies that we believe possess long-term secular growth potential and sustainable competitive advantages.

Portfolio Review

Our investment approach is driven by a search for long-term growth businesses, and we typically avoid exposure to heavily cyclical, low margin businesses that are vulnerable to economic cycles and pricing pressures. While we stand by our approach as the best strategy for delivering consistent, long-term performance for our investors, it did hinder our relative results in the first quarter as investors rewarded more cyclically sensitive heavy machinery and transportation-oriented businesses expected to benefit from an economic rebound.

Among the select group of industrial companies that we do own, we were disappointed with the recent performance of GrafTech International (0.00% of holdings as of 3/31/10), a manufacturer of graphite electrodes used to monitor furnace conditions during the scrap metal recycling process. The company's business fundamentals appeared to deteriorate as a shift to shorter-term sales contracts hurt its ability to pass along raw material price increases to its customers. Given our lost confidence in its long-term business model, we liquidated our investment in the company.

We also decided to exit our position in asset management firm INVESCO (0.00%), one of our financial services holdings. The stock was a strong contributor to our performance in 2009, aided by the company's strong asset inflows and optimism over its purchase of Morgan's Stanley retail asset management businesses, including Van Kampen Investments. More recently, however, the stock has lost ground on signs that the company's asset flows may be slowing. Our research has also highlighted some difficulties with the integration of new asset management businesses.

In the energy sector, our relative performance was hurt by our investment in Southwestern Energy (2.34%), a natural gas exploration and production company that we like for its self-funded business structure. While the company reported very strong fourth quarter earnings and revenue growth, the stock has been pressured recently by a decline in natural gas prices. Our investment in companies such as Southwestern is grounded in our belief that demand for natural gas will continue to rise over the long term as utilities and other users seek less polluting, more cost effective fuel sources that lower our dependence on foreign crude oil. This thesis appears to remain on track despite the recent fluctuations in natural gas prices, and we maintained our investment in Southwestern Energy.

While the biotechnology area of the health care market delivered very strong performance for the Russell MidCap Growth Index in the first quarter, our biotech holding, Human Genome Sciences (1.95%) did not participate in the rally as the market digested the stock's strong move in late 2009. Nonetheless, we did benefit from a few outperforming holdings in the health care sector. These included Brookdale Senior Living (1.99%), the largest provider of assisted living facilities in the United States. We have followed this company for some time, and remain impressed with its solid management team, low cost structure, and strong cash flows.

The Fund's relative performance was assisted by a number of our consumer discretionary holdings. These included Wynn Resorts (1.76%), which owns a number of destination casino resorts in both Las Vegas and the island of Macau. Recently, Wynn Resorts has benefited from high expectations for its new Macau property, as well as from signs that tourists and business travelers are beginning to return to Las Vegas. We also continued to capitalize on our investment in online-based movie rental and streaming video provider Netflix (0.00%). The company reported very strong fourth quarter earnings performance, aided by the addition of one million new subscribers in the last three months of 2009 alone.

Rising demand for streaming audio and visual content over the Internet also continues to drive performance for Akamai Technologies (1.00%), a company that helps improve the speed and reliability of online data delivery by facilitating the storage of large data files at locations close to the end-user.

Additionally, in the industrials sector, we continued to benefit from our investment in BE Aerospace (1.62%), the leading global manufacturer of aircraft cabin interior products. Following a strong year for its aftermarket business for spare parts, BE Aerospace is now poised for improvement in its original equipment (OEM) market now that airline manufacturers Airbus (0.00%) and Boeing (0.00%) have announced planned production increases.

Outlook

While we remain cautiously optimistic on prospects for moderate economic growth in 2010, we recognize that stock market returns may remain volatile over the coming months as investors digest their gains and await more clarity on the interest rate outlook. Regardless of what the near-term might hold, we continue to focus on our bottom up stock selection process with the goal of delivering solid relative performance to our investors. We continue to visit our companies in person, testing our investment ideas and seeing first-hand how they are adapting to changing market conditions.

We appreciate your continued confidence and support.

Sincerely,

Steve Bishop Co-Portfolio Manager	Melissa Chadwick-Dunn Co-Portfolio Manager
Allison Thacker Co-Portfolio Manager	D. Scott Tracy, CFA Co-Portfolio Manager

As with all mutual funds, the value of an investment in the Fund could decline, so you could lose money. Investing in mid-size companies can involve risks such as having less publicly available information, higher volatility, and less liquidity than in the case of larger companies. Overweighting investments in certain sectors or industries increases the risk of loss due to general declines in the prices of stocks in those sectors or industries. Investments in technology companies may be highly volatile.

Any discussions of specific securities should not be considered a recommendation to buy or sell those securities. Fund holdings will vary.

Except as otherwise specifically stated, all information and portfolio manager commentary, including portfolio security positions, is as of March 31, 2010.

RS Funds are sold by prospectus only. You should carefully consider the investment objectives, risks, charges and expenses of the RS Funds before making an investment decision. The prospectus contains this and other important information. Please read it carefully before investing or sending money. To obtain a copy, please call 800-766-3863 or visit www.RSinvestments.com.

Sector Allocation[2]
(As of 3/31/10)

Technology	20.13%
Producer Durables	15.01%
Materials and Processing	6.35%
Health Care	17.01%
Financial Services	12.07%
Energy	6.59%
Consumer Staples	3.64%
Consumer Discretionary	14.00%
Cash	5.21%

Top Ten Holdings[3]
(As of 3/31/10)

Core Laboratories	2.87%
Starbucks Corp.	2.58%
Yum! Brands, Inc.	2.48%
Southwestern Energy Co.	2.34%
Activision Blizzard, Inc.	2.15%
Dole Food Co.	2.13%
Owens-Illinois Inc.	2.12%
Brookdale Senior Living, Inc.	1.99%
Human Genome Sciences, Inc.	1.95%
Landstar System, Inc.	1.93%

Performance
(Average Annual Total Returns as of 3/31/10)

	First Quarter 2010	1-Year	3-Year	5-Year	10-Year	Since Inception[4]
RS Mid Cap Growth Fund, Class A (formerly RS MidCap Opportunities Fund)						
without sales charge	4.56%	46.57%	-8.00%	0.12%	-2.01%	7.43%
with maximum sales charge	-0.42%	39.61%	-9.48%	-0.85%	-2.49%	7.08%
Russell Midcap® Growth Index[1]	7.67%	63.00%	-2.04%	4.27%	-1.69%	7.27%

Performance returns for periods of less than one year are not annualized.

Performance quoted represents past performance and does not guarantee future results. Investment return and principal value will fluctuate, so shares, when redeemed, may be worth more or less than their original cost. The Fund’s total gross annual operating expense ratio as of the most current prospectus for the Class A Shares is 1.36%. Please refer to the most current Fund prospectus for complete details on expenses including fees. The performance quoted, “with maximum sales charge” reflects the current maximum sales charge of 4.75% that became effective on October 9, 2006. Please read the prospectus carefully for more information on sales charges as they do not apply in all cases and if applied are reduced for larger purchases. Performance results assume the reinvestment of dividends and capital gains. Current and month-end performance information, which may be lower or higher than that cited, is available by contacting RS Investments at 800-766-3863 or visiting www.RSinvestments.com.

1 The Russell Midcap® Growth Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell Midcap® Index with higher price-to-book ratios and higher forecasted growth values. (The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which consists of the 1,000 largest U.S. companies based on total market capitalization.) Index results assume the reinvestment of dividends paid on the stocks constituting the index. You may not invest in the index, and, unlike the Fund, it does not incur fees and expenses.
2 The Fund’s holdings are allocated to each sector based on their Russell classification. If a holding is not classified by Russell, it is assigned a Russell designation by RS Investments. Cash includes short-term investments and net other assets and liabilities.
3 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.
4 Class A Shares inception date July 12, 1995.

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