RS | investments

First Quarter 2011 Mutual Fund Commentary
RS Technology Fund

Market Commentary

The first quarter of 2011 saw continued gains by technology shares, as measured by the S&P North American Technology Sector Index on the heels of an improved economic backdrop and a more favorable financing environment that have helped to support continued gains in technology spending. Record profits among technology companies have also given corporations and other enterprises money to spend on much needed, and often delayed, system upgrades, especially in areas such as data networking, storage, and security. At the same time, we have seen order of magnitude improvements in enterprise efficiency, as well as new products and applications that have supported strong top-line revenue growth, earnings performance, and market share gains for many technology companies.

Performance Summary

RS Technology Fund (Class A Shares) returned 9.34% for the three-month period ended March 31, 2011, outperforming a 4.05% return by the S&P North American Technology Sector Index™[1], as well as a 5.92% return by the S&P 500® Index[2].

Portfolio Strategy

In managing the RS Technology Fund, we believe that innovation drives market share gains in technology, leading to sustainable earnings growth and long-term stock price appreciation. For this reason, we remain committed to an intensive fundamental research approach that focuses on understanding the emerging trends in technology, as well as the underlying financial and company-specific fundamentals of the companies we own. Our goal in managing the RS Technology Fund is to focus on companies that in our view provide durable revenue growth, expanding profit margins, and long-term competitive advantages. We also seek to invest in companies that present two-to-one upside potential to downside risk over a two- to three-year time horizon, as calculated through our proprietary financial analysis. Through this process, we also focus on identifying anchor points, or quantifiable metrics that help us evaluate a company's long-term growth trajectory.

Portfolio Strategy
RS Technology Fund seeks to invest in the most promising growth-oriented companies that are using technological innovation to address evolving consumer and commercial needs. The Fund is managed with a team-based approach that leverages the deep sector expertise, insights, and industry contacts of our research analysts. Our analysts spend considerable time on the road, visiting companies in person and seeing their operations first-hand. We then confirm these findings through extensive interviews with industry and technology experts, as well as through proprietary modeling and scenario testing. Through this process, we develop anchor points and performance metrics to help us measure the progress and execution of the companies in which we invest.

Portfolio Review
In managing RS Technology Fund, we continue to find investment opportunities across the range of market capitalizations, as we seek to combine exposure to emerging, smaller cap technology companies with positions in established market leaders with more established technologies, demonstrated market leadership, and a solid track record of revenue and earnings growth.

We have found a number of compelling small cap investments that are capitalizing on the convergence of wireless and Internet technologies. More and more, consumers and enterprises alike are demanding wireless access to data, remote applications, streaming media, and other network-based features using smart phones and tablet computers such as Apple's (5.27% position as of 3/31/11) iPad. One company capitalizing on the growing popularity of these devices is Aruba Networks (1.63%), the technology leader in the multi-billion dollar wireless enterprise networking space. Aruba Networks manufactures equipment used in wireless local-area networks (WANs) that enable corporate IT managers to protect and monitor communications and data delivery routed over wireless devices. The stock delivered very strong performance for the Fund in the first quarter, and we remain optimistic on its long-term revenue and earnings growth potential.

The trend toward mobile convergence also continues to create opportunities for long-time holding Atheros Communications (0.00%), a leading provider of chips and technology that help smart phones and other devices access the Internet over wi-fi networks or "hot spots." After very strong performance in the fourth quarter, the stock appreciated on news that Atheros is being acquired by Qualcomm (2.27%) for a 22% premium.

Another fast-growing area in the technology space is videoconferencing, a market that expanded by nearly 20% in 2010 to reach more than $2 billion in sales, and which industry analysts believe could double in size by 2015.[3] As enterprises try to enhance communication with their customers and remote workers, they are increasingly turning to HD quality video as a substitute to costly air travel. Polycom (3.85%) is an innovative and developing supplier of videoconferencing hardware, and continues to take market share away from industry leader Cisco Systems (0.00%) with its competitively-priced products and recent strategic acquisitions. It was a strong performer for the Fund in the first quarter and we remain upbeat on its long-term prospects.

Another trend we are following is the tremendous infrastructure investment in the networking space, as carriers upgrade their networks and add additional bandwidth to accommodate ever-rising volumes of high speed, high bandwidth traffic, including streaming video. We liken this trend to the updating of a country's highway system from two-lane roads to five-lane superhighways capable of handling increased capacity at greater speeds. One company capitalizing on this build-out is Alcatel-Lucent (3.06%), a leading equipment provider in the ethernet carrier, optical networking, and 3G/4G wireless network areas. We invested in Alcatel as a turnaround story, and have been encouraged by its management team's efforts to improve its operating performance, expand its profit margins, and target additional revenue growth prospects. The company's improving performance has been recognized by investors, and the stock was one our strongest performing holdings in the first quarter.

Furthermore, we believe that Alcatel's stock has room for additional improvement, given its still attractive valuation and solid long-term growth potential in our view.

Not all of our networking investments worked in our favor in the first quarter. F5 Networks (1.47%) supplies equipment that helps data centers manage their processing loads. After delivering very strong performance for the Fund in 2010, the stock recently lost ground after the company's revenue growth failed to meet the market's elevated expectations. From our discussions with company management, significant customers, and various third party contacts, we learned that some data centers may have taken on too much equipment-related expense last year, and may be pausing to reassess their needs going forward. While we continue to believe in the long-term potential in F5 Networks' market space, the stock is no longer as attractively valued relative to its growth prospects as it was when we first purchased it. In line with our risk management discipline, we decided to significantly reduce our investment in the stock while we carefully monitor developments affecting its future revenue growth.

Another technology trend we've been following closely is the growing consumer and industrial adoption of energy efficient LED lighting units, which last as much as ten times longer than traditional incandescent bulbs while using a fraction of the energy. Our interest in this area led us to lighting technology company Cree Research (2.07%), a leading supplier and low-cost producer of high-end LED technology for computer screens as well as for more traditional overhead lighting uses. Unfortunately, its recent share price performance reflects a misstep as Cree shipped more of its LED lighting units than the market could support, resulting in some inventory building in its customer chain. On a positive note, we believe that this inventory overrun might help to drive down the price of LED bulbs and speed adoption on this superior technology in the end-user market. LED lighting currently accounts for only about 1% of the more than $20 billion overall lighting market, but we believe this share could grow to significantly over the next three years as consumers and business users discover the ultimate cost savings associated with this technology.

Outlook

In our view, many of the most innovative technology companies across the market cap spectrum continue to trade at historically low valuations despite their strong growth potential in an environment where technology is an essential spend for corporations and a larger portion of consumer discretionary spending. As a result, we believe that we are in store for what could be an extended period of favorable technology sector performance. As we look ahead, we remain committed to disciplined, hands-on fundamental research as we explore emerging technology themes such as mobile convergence, IT efficiency, cybersecurity, social networking, ecommerce, and network upgrades.

Thank you for your investment.

Sincerely,

Steve Bishop
Co-Portfolio Manager

Allison Thacker
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 small- and 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. Funds that concentrate investments in a certain sector may be subject to greater risk than funds that invest more broadly, as companies in that sector may share common characteristics and may react similarly to market developments or other factors affecting their values. Investments in high-technology and Internet-related sectors may be highly volatile. Companies in these sectors operate in markets that are characterized by rapid change, evolving industry standards, frequent new service and product announcements, introductions, enhancements and changing customer demands. International investing involves special risks, which include changes in currency rates, foreign taxation and differences in auditing standards and securities regulations, political uncertainty and greater volatility.

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, 2011.

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[4]
(As of 3/31/11)

Technology	84.62%
Consumer Discretionary	9.61%
Utilities	1.08%
Health Care	0.92%
Producer Durables	0.86%
Consumer Staples	0.00%
Energy	0.00%
Financial Services	0.00%
Materials and Processing	0.00%
Cash	2.91%

Top Ten Holdings[5]
(As of 3/31/11)

Apple, Inc.	5.27%
Polycom, Inc.	3.85%
Google, Inc., Class A	3.25%
Alcatel-Lucent, ADR	3.06%
Oracle Corp.	2.82%
EMC Corp.	2.75%
QUALCOMM, Inc.	2.27%
Fortinet Inc.	2.15%
Cree, Inc.	2.07%
RealD, Inc.	1.91%

Performance
(Average Annual Total Returns as of 3/31/11)

	First Quarter 2011	1-Year	3-Year	5-Year	10-Year	Since Inception[6]
RS Technology Fund, Class A						
without sales charge	9.34%	36.74%	17.27%	8.95%	6.23%	9.70%
with maximum sales charge	4.13%	30.23%	15.40%	7.89%	5.71%	9.35%
S&P North American Technology Sector Index™[1]	4.05%	13.71%	7.51%	4.99%	2.25%	7.06%
S&P 500® Index[2]	5.92%	15.65%	2.35%	2.62%	3.29%	7.26%

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 1.60%. 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 S&P North American Technology Sector Index™ is a modified capitalization-weighted index based on a universe of technology-related stocks. Index results do not assume the reinvestment of dividends paid on the stocks constituting the index. Unlike the Fund, the index does not incur fees or expenses.
2 The S&P 500® Index is an unmanaged market capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. 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, the index does not incur fees and expenses.
3 5 "Videoconferencing, Telepresence Spending To Double By 2015," Information Week, March 28, 2011.
URL: http://www.informationweek.com/news/showArticle.jhtml?articleID=229400432&queryText=polycom
4 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.
5 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.
6 Class A shares inception date November 15, 1995.

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