

## Second Quarter 2010 Mutual Fund Commentary RS Small Cap Growth Fund

### Performance

Equity markets sold off in the second quarter as concerns over the strength of the global economic recovery and the impact of the European debt crisis dampened investors' appetites for risk. Economic concerns took center stage for much of the period, as domestic growth remained too slow to fuel sustained job creation. The housing market also showed signs of renewed deterioration as new home sales plunged 30% in May, following the expiration the first-time homebuyer tax credit. Adding to investor unease was the ongoing oil spill in the Gulf of Mexico, which triggered a moratorium on deep water drilling and cast a cloud of uncertainty over energy-related stocks. Against this backdrop, investors sought safety in Treasury securities and sold shares across most sectors of the equity market.

For the three-month period ended June 30, 2010, RS Small Cap Growth Fund (Class A Shares) declined 9.51%, slightly underperforming the decline of 9.22% by the benchmark Russell 2000® Growth Index<sup>1</sup>. Stock selection in the producer durables sector detracted from relative returns, as did the Fund's stock selection and in the materials and processing sector. The Fund's performance relative to the benchmark was aided by stock selection in the financial services, energy, and technology sectors.

### Portfolio Strategy

RS Small Cap Growth Fund invests in a carefully selected portfolio of small cap stocks that we believe offer the potential for strong organic revenue growth, superior profit margins, and sustainable competitive advantages. Our fundamentally driven stock selection process relies on the intensive research conducted by our team of highly experienced analysts, who travel extensively to visit companies on site and see how they operate from the ground up. What we learn is then confirmed through interviews with industry analysts, as well as through rigorous financial modeling and scenario testing.

We recently added a new member to the Growth Team, with the hiring of Lesley Bunim. Lesley brings over ten years of industry experience and will focus on the consumer sector, further enhancing our deep and experienced team.

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 1.53%. Please refer to the most current Fund prospectus for complete details on expenses including fees. The performance quoted, unless otherwise indicated, does not reflect the current maximum sales charge of 4.75% that became effective on October 9, 2006. If the maximum sales charge were included, the performance stated above would be lower. 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 and is available by contacting RS Investments at 800-766-3863 or visiting [www.RSinvestments.com](http://www.RSinvestments.com).

## **Portfolio Review**

Our investment in consumer electronics company TiVo (0.6% as of 6/30/2010), the pioneer developer of digital video recorder (DVR) technology detracted from returns during the quarter. TiVo's stock lost ground following a legal setback in the company's quest to protect the patent on its DVR technology. Despite this ruling, TiVo has won the majority of the legal battles surrounding its patent. We believe that competing companies will eventually have to pay TiVo a royalty fee, which will bolster its bottom line.

Relative performance was also dampened by our investments in companies with significant international exposure. These included apparel retailer Guess (1.1%), which derives roughly 40% of its revenues from Europe, as well as auto parts manufacturer Wonder Auto Technology (0.0%) and household appliances manufacturer Deer Consumer Products (0.0%), which are trying to tap into the vast Chinese consumer market. While we remain relatively constructive on Guess's overall product and geographic diversification, we were less confident in prospects for these early stage companies if Chinese economic growth continues to slow. For this reason, we liquidated our investments in Wonder Auto and Deer Consumer Products. We also remain conservatively positioned with regard to the consumer sector overall, maintaining an underweight allocation to this area given the continued constraints on consumer finances.

Other detractors included platform biotechnology company InterMune (0.0%), which sold off sharply after the Food and Drug Administration failed to approve its much awaited drug for the deadly lung condition idiopathic pulmonary fibrosis (IPF). While we had taken profits on the stock ahead of the FDA decision, the subsequent sell-off nonetheless hurt our results for the quarter. We subsequently liquidated the remainder of our position in the company.

During a quarter when investors' avoidance of risk impacted most sectors of the stock market, a number of our individual holdings nonetheless delivered solid gains. These included payments processing firm Cybersource (0.0%), a company that has benefited from the growth in ecommerce and online payments. In the second quarter, Visa (0.0%) announced its purchase of Cybersource for \$2 billion in cash, a 34% premium over the company's market value. This news sent the stock sharply higher.

The Fund's relative performance was also aided by stock selection in the energy sector, where our investment in Core Laboratories (1.5%) resisted the downward pressure on energy-related shares. Core Laboratories provides advanced geology and technical services that help exploration companies better assess the characteristic of oil and gas reservoirs and subsequently plan for efficient and safe recovery of these resources.

The Fund's relative performance also benefited from investments in several early stage technology companies, notably Isilon Systems (0.9%) and LogMeIn (1.3%). Isilon Systems supplies systems that efficiently store large data files, including video files. LogMeIn markets software that allows users to tunnel into work-based computers using an iPhone, iPad, or other mobile device. LogMeIn's Ignition application has proven very popular with iPad users seeking to access data and applications remotely.

## **Outlook**

Going forward, global economic uncertainty could keep equity market performance volatile in the near-term. Nonetheless, we continue to focus on individual company fundamentals and risk management while seeking out high quality, well-capitalized growth companies that we believe can deliver strong returns regardless of the underlying economic environment.

Thank you for your continued investment.

Sincerely,



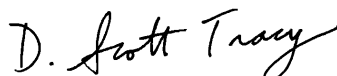
Steve Bishop  
Co-Portfolio Manager



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 smaller 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 June 30, 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](http://www.RSinvestments.com).***

**Sector Allocation<sup>2</sup>**  
(As of 6/30/10)

Health Care	25.77%
Technology	19.02%
Consumer Discretionary	18.03%
Producer Durables	15.97%
Financial Services	7.29%
Energy	6.01%
Consumer Staples	3.52%
Materials & Processing	2.29%
Utilities	1.27%
Cash	0.83%

**Top Ten Holdings<sup>3</sup>**  
(As of 6/30/10)

Advanced Energy Industries, Inc.	2.02%
GSI Commerce, Inc.	1.90%
Medidata Solutions, Inc.	1.83%
HEICO Corp., Class A	1.64%
P.F. Chang's China Bistro, Inc.	1.60%
Align Technology, Inc.	1.59%
Dril-Quip, Inc.	1.55%
Super Micro Computer, Inc.	1.53%
The Scotts Miracle-Gro Co., Class A	1.51%
MDC Partners, Inc., Class A	1.50%

## Performance

(Average Annual Total Returns as of 6/30/10)

	Second Quarter 2010	1-Year	3-Year	5-Year	10-Year	Since Inception <sup>4</sup>
RS Small Cap Growth Fund, Class A						
without sales charge	-9.51%	23.82%	-7.33%	0.76%	-6.47%	12.37%
with maximum sales charge	-13.80%	17.93%	-8.82%	-0.21%	-6.92%	12.12%
Russell 2000 <sup>®</sup> Growth Index <sup>1</sup>	-9.22%	17.96%	-7.54%	1.14%	-1.72%	7.21%

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

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<sup>1</sup> The Russell 2000<sup>®</sup> Growth Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 2000<sup>®</sup> Index with higher price-to-book ratios and higher forecasted growth values. (The Russell 2000<sup>®</sup> Index measures the performance of the 2,000 smallest companies in the Russell 3000<sup>®</sup> Index, which consists of the 3,000 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.

<sup>2</sup> 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.

<sup>3</sup> Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

<sup>4</sup> Class A shares inception date November 30, 1987.

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