

Second Quarter 2011 Mutual Fund Commentary
RS Greater China Fund

Market Review

No subject divides opinion quite like the investment prospects for China. In little more than a month investor sentiment has swung wildly from concerns of overheating to concerns of a hard landing. It is amazing how far perceptions can move in such a short space of time. Indeed the Financial Times' recent criticism of all things Chinese is perhaps as good a contrarian signal as one could hope to receive. Clearly there are areas of concern, however there are also fantastic reasons to be optimistic and it is these areas upon which we focus and take great comfort that the Chinese investment story remains one of the most exciting ones available to investors globally today.

The Chinese economy continues to deliver and government actions aim to sap liquidity and reduce speculative excesses. Concerns of an over-tightening of policy, and a subsequent hard landing, are currently doing the rounds. Rather than worry about this, surely this is exactly the sort of policy that will put the country on a more sustainable growth path for the many years to come. Lessons from our own economic struggles seem to have been well learnt, and overall we would applaud the economic management to date. Even if over-tightening has occurred – as some stress in the financing market for smaller businesses may suggest – China is firmly in control with plenty of gas left in the tank should the accelerator be required. Indeed with full control over her financial system it is hard to imagine an economic collapse due to a real liquidity squeeze.

At the same time that these concerns are being aired, other unhelpful factors are contributing to the lackluster performance of markets. First, an area best summed up by a quote from Warren Buffett: "Only when the tide goes out do you discover who's been swimming naked". Certainly there seems to be a rapidly growing number of skinny dippers emerging with a whole host of US listed Chinese companies unwinding or being suspended as a result of question marks raised over their financial reporting. These problems have focused scrutiny on the convoluted ownership contracts that back a number of overseas (including HK) listed Chinese companies. We have avoided these companies to date, and as ever, due diligence and a healthy skepticism towards anything which looks "too good to be true" is the best defense against such problems.

Second, there has also been a public re-hash of an old story regarding the potential for the central government to take more of the local government financing vehicle (LGFV) debt off the bank's balance sheets, which has led to the issue of government finances being raised again. Following on from this has been the release of a report from the National Audit Office putting an 'official number' on the exposure — RMB10.7tr (US\$1.65tr). Of this about RMB8.5tr (US\$1.3tr) is bank lending, representing about 18% of the total bank loans. This just confirms recent market speculation, although has brought renewed focus on the strength or otherwise of the banking system – an area we are underweight. The Wall Street Journal has also written on the subject highlighting the large level of debt held at the local government level. Clearly the economy will have a cycle, but looking beyond this is imperative for long term investors.

In Hong Kong, there have been some interesting debates unfolding on the future of both the HK Dollar and the property market. The HK Dollar peg has proven to be a successful system over a long period of time; however with the recent divergences in the economic performance of the HK economy (driven by the mainland) and that of the US, the monetary policy has been somewhat out of place. In addition, China's move to internationalize their currency has seen massive growth in the

scale of RMB deposits in the HK banking system – now 6% of the deposit base in HK and growing at rates over 500% YoY. As a result marginal funding costs are rising sharply — not a pleasant backdrop for the banks or the property market. In time does the RMB simply replace the increasingly defunct HK\$? Most interestingly the HKMA felt it necessary to release a statement underlining their commitment to the HK\$.

Turning to the HK property market, prices have recovered very strongly since the Global Financial Crisis, driven by swathes of mainland buyers and cheap financing. We have been concerned by not only recent increases in borrowing costs (partly due to the aforementioned RMB phenomenon) but also by actions of the companies themselves. Several of the large (and highly respected) developers have been raising capital, which has historically been a sign that things are about as good as they get, and Walter Kwok (former Chairman of Sun Hung Kai Properties) has been quoted saying that we are past the peak for HK property prices. This has been a large underweight for the Fund, and indeed the main driver behind the low HK relative weighting.

Performance and Portfolio Review

Since the inception of the Fund on May 16, 2011, areas that have performed well have included Taiwanese property exposure (Sinyi Realty and Huaku Development, 0.00% and 1.09% position as of 6/30/2011), Chinese consumer holdings (Hengan and Want Want China, 1.43% and 1.97%) and most of our insurance holdings. The former two have been bouncing back from a fairly weak period, as market interest has returned driven by the prospect of closer mainland ties and easing cost pressures respectively. The exposure to insurance companies remains a strong theme in the Fund. They easily remain one of the most attractive investments in the market today. Not only are valuations very reasonable but the industry benefits from a number of secular growth drivers such as the demographic trends, increasing financial sophistication and rising wealth. Strong performances have been seen recently from China Life Insurance (Taiwan) (1.58%) and AIA Group (1.27%) — the recently listed Asian operations of AIG. The exposure to some of the mainland insurers has been less helpful, although much of this appears due to market myopia surrounding China Taiping — a business we remain very comfortable with following a particularly impressive meeting with management.

Detractors in absolute terms have been focused on the US-listed Chinese businesses we own such as DangDang (0.55%), and our (underweight) exposure to the Chinese banks and property stocks. The former is a by-product of the ‘naked swimmers’ issue discussed above — the market is assuming one bad apple means the lot should be thrown out. We beg to differ. Investment cases remain intact and prices are cheaper. Much of the exposure is to online businesses which benefit from China’s rapidly growing affinity with the internet. The internet population in China is just less than 460m, of which online shopping penetration is 32%. This is low compared to many countries, however it is catching up rapidly — for instance, e-commerce was up 5-fold between 2008 and 2010. Backing the winner in these open ended growth opportunities remains one of the best ways of making significant returns for investors. Baidu has returned over ten times our initial investment, for instance. On the Chinese banks and property stocks, many of the market concerns have already been touched on, particularly for the banks. In property we continue to be concerned by the listed developer segment. These companies form a small part of the overall Chinese property market, and even if they do suffer significant difficulties, these would be unlikely to be of sufficient scale to derail the broader economy given the low leverage amongst home owners. However, it remains a concern, and happily one we can afford to have minimal exposure to at the current time.

Whilst we remain bottom up stock pickers, there are a couple of themes worth highlighting. We have a large position in communications — reflected in being overweight the internet and underweight telecommunications. Whilst the latter appear cheap in our view, we feel recent data emerging from markets as diverse as the Netherlands and Korea suggests that internet businesses are rapidly eating into their safe haven of ‘voice’ revenues. Surely the real risk is that this source of comfort

evaporates almost overnight — we wonder how dividends will look if well over 50% of the business has gone to zero. Another position is overweight insurers — for the many previously cited attractions — and underweight banks. Again, the banks look cheap but in a world where banks have to hold more and more capital against their books surely the headwind is clear? And, further, is it really sensible to be paying out a dividend (and this is one of the reasons the market likes them) when you are struggling for capital? We think not.

Outlook

It is only worth trying to predict the prospects for investment over fairly long time frames. Over shorter periods, we believe unpredictable events are what matter. At the moment, these events are almost entirely unfavorable, but are unlikely to be persistent. Japanese disruption, for example, will not go on for ever. Oil and food prices at current levels will excite a supply response, in due course; and the rate rises in the developing world, which have so upset the markets, are nearer the end than the beginning. In Brazil, for example, short term interest rates are around 12%, while inflation is less than 7%; and in China, tighter controls on credit are finally gaining traction in the property market. So, even bad things come to an end.

Our inclination is not to be blown off course by events, but to try to take advantage when other people panic. We think that strong growth in the developing world, and loose money elsewhere will support global growth, business profits and real asset prices.

We remain convinced by the long term attractions of the Greater China region. Beneficial structural themes are firmly in place, the government appears to be doing the right things and there are plenty of quality companies in which to invest.

We thank you for your continued support.

Sincerely,

Michael Gush
Co-Portfolio Manager

Richard Sneller
Co-Portfolio Manager

As with all mutual funds, the value of an investment in the Fund could decline, so you could lose money. 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. These risks are even greater when investing in emerging markets.

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, 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.

Regional Allocation

(As of 6/30/11)

China	56.0%
Taiwan	29.7%
Hong Kong	13.3%
Cash	1.0%

Top Ten Holdings²

(As of 6/30/11)

Company	Country	Percentage of Total Net Assets
China Life Insurance (Taiwan)	Taiwan	2.42%
Baidu	China	2.31%
Cnooc	China	2.16%
China Con.Bank	China	2.09%
Ping An Insurance	China	2.09%
Taiwan Semicon.Mnfg.	Taiwan	2.04%
Hon Hai Precision Industry Co.	Taiwan	2.02%
Bank Of China	China	1.98%
China Shenhua Energy Company Ltd.	China	1.96%
Mediatek	Taiwan	1.93%

Performance

(Average Annual Total Returns as of 6/30/11)

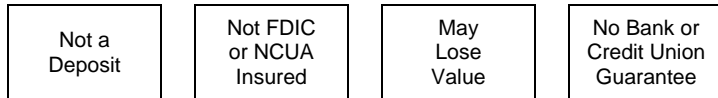
	1 Month	Since Inception ³
RS Greater China Fund, Class A		
without sales charge	-3.45%	-2.10%
with maximum sales charge	-8.08%	-6.76%
MSCI Golden Dragon Index ¹	-3.88%	-1.37%

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 1.96%. 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, is available by contacting RS Investments at 800-766-3863 or visiting www.RSinvestments.com.

1 The MSCI Golden Dragon Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the China region. The MSCI Golden Dragon Index consists of the following country indices: China, Hong Kong and Taiwan. Index results assume the reinvestment of dividends paid on the stocks constituting the index.
2 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.
3 Class A shares inception date May 16, 2011.

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