

Second Quarter 2011 Mutual Fund Commentary
RS Global Growth Fund

Investment Environment

After a warm spring, early summer has become rather chilly. Almost all indicators of economic activity and confidence have flattened or turned down, especially in the developed countries. The sharpest downturn has been in the industrial sector. Japan's earthquake seems to be the main problem. Its effects are hard to quantify, because a complex supply chain can be broken by the snapping of the smallest link, but Japanese output fell by 15.5% in March and this is likely to have had a major effect around the globe - particularly in the car industry. Global auto output will be close to 3 million in the second quarter, rather than the expected 3.5 million.

In some perverse way this is rather reassuring. The sharpness of the downturn implies that there has been an abrupt inventory correction, which will be reversed in coming months as Japanese output recovers (as it now seems to be doing). Unfortunately, Japan's problems cannot explain all of the cold front which has been moving in. Consumer confidence, retail sales and house prices have all been weaker than expected, especially in America and the UK. The most obvious culprits are the costs of oil and food, which are 30% and 40% higher than they were a year ago, in dollar terms.

Consumers are being squeezed, which means that the austerity policies which the Western governments are starting to implement are becoming even more controversial. This is pitting Republicans against Democrats in the US, where austerity has not yet begun; and Germans against Greeks in Europe, where its practical implications are now becoming clear. At the moment, there is a stand off between those who will be at the sharp end of austerity, and those (usually the creditors) who think that enough is enough and the debt has to be addressed.

In the meantime, the emergency stimulus, which was rushed into action so successfully in the financial crisis, is starting to be withdrawn. This is most obviously the case in the US, where quantitative easing wound up in June; but rates have been raised in the Euro zone already. In the developing world, where inflation is more of a problem, and the crisis was much milder, rates have been rising much more steeply and for longer. A long list of emerging countries has tightened policy in recent weeks.

So, there has been plenty for investors to worry about: Japanese disruption, the cost of living, looming austerity and the end of emergency stimulus. There has not been a lot of obvious good news to set against this; it has mainly been a case of 'more of the same'. China is powering ahead; the corporate sector has continued to report good profits (but is still not spending them); and those who sell to the beneficiaries of higher oil and food prices have been quietly smug. In an age of austerity, it is, at the very least, tactless to make too much fuss if you are doing well; but it remains a fact of life that one man's cost increase is another man's windfall. The commodity windfall is being spent - try queuing for a hand bag in Mayfair. Saudi Arabia is embarking on a stimulus programme that is said to be worth \$166 billion. The emerging economies are still on track to expand by at least 6% this year.

Financial markets have been taking the more tactful and gloomy view. Equities have been weak, especially where rates have been rising fastest, Brazil for example; and the most economically insensitive sectors, healthcare and staples, have been the most resilient. Industrial metals prices have also been weak, and the sharp rise in oil and food prices seems to have petered out.

For some reason, US Treasuries and Gilts (Risk-free bonds issued by the British government. They are the equivalent of U.S. Treasury securities) have ignored their issuers' debts and have done quite well. American and British real yields are now negative out to at least 10 years which represents a flight to "Quality".

Portfolio review

The benefit of managing a global equity portfolio in our view is that we have the freedom to invest in companies that are able to avoid the contagion of rising inflation and peripheral Eurozone default. We have continued to make modest changes to the portfolio and turnover remains at a level which implies an average holding period of around 5 years.

As part of our investment process we question what a stock adds to the Fund. This challenges us to look for investment ideas that should have less correlation to our existing holdings. As a result we have taken positions in Mastercard (payment processing, 1.09% position as of 6/30/11) and Shandong Weigao (0.53%, Chinese medical consumables) that demonstrate clear differentiated growth themes. We have also added to Vistaprint (an online printing service, 0.96%) and Mindray (Chinese medical equipment manufacturer, 0.73%). These stocks illustrate why we remain optimistic about the investment environment: they are businesses with attractive prospects operating across a range of industries and economies. Their success does not depend on only one economic outcome.

Concerns over steep valuations have prompted us to reduce the Fund's holdings that are exposed to the Chinese internet. In particular we reduced the Fund's holding in Sina (0.42%). Whilst the long term prospects remain bright, we do think that much of this has been priced in by the market.

Performance Review

The top contributing stocks to performance since the Fund's inception on May 16, 2011 included Inpex (Japanese gas producer) (1.67%), Coca-Cola Hellenic Bottling (Coke bottler and distributor) (1.43%), National Oilwell Varco (oil rig manufacturer) (0.80%) and Namco Bandai (Japanese toy and games software producer) (0.93%). Also among the top performers was Richemont (1.96%). This is a Swiss listed luxury goods producer, specializing in extremely high end mechanical watches and jewelry. Top brands include Cartier (0.00%), IWC (0.00%) and Piaget (0.00%) amongst others. The firm is benefiting from a significant surge in demand for luxury goods from Chinese high net worth individuals. Sales in the Greater China region now account for more than 25% of Group sales. It also recently completed its acquisition of the online retailer Net-a-Porter — a core step in harnessing the corporate knowledge required to transition luxury goods sales to the medium of the internet.

The largest detractors from performance were Svenska Handelsbanken (Swedish bank) (2.16%), Flir Systems (infrared and thermography producer) (1.61%) and Jyske Bank (Denmark's 2nd largest bank) (0.47%). The investment case for our Scandinavian bank holdings is premised upon the fact that they're well capitalized and have gained market share as their competitors (since 2008) have suffered. However, the degree to which governments have propped up failing banks has surprised us, resulting in market share gains being more modest than expected.

Outlook

It is only worth trying to predict the prospects for investment over fairly long time frames. Over shorter periods, 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. There are fortunes to be made in, for example, Chinese medical companies, luxury goods, a renascent Germany, healthcare technology and many other areas.

There is a danger that this approach can seem a bit Panglossian; that all is for the best in the best of all possible worlds. We do examine less favorable scenarios. There is no shortage of gloomy prognoses; we are aware that circumstances change and that there are some things we just cannot know. One of our main puzzles is the question of how a policy of austerity can actually work in economies, such as those of the US and UK, which are driven by consumption and where belt tightening is self defeating.

There is a sharp divergence in these countries between official policy, which is to reduce the deficit at some point in the future, and real policy, which is to devalue and ignore inflation. The central bankers are willing to risk their reputations for patriotic reasons and it is in few people's interests (and they mostly don't vote) for the big debtors to get what they deserve; but it is a risky policy. Greece, of course, is not getting away with it, but this is surely the exception which proves the rule: Greece's political economy is so thoroughly corrupt that it could not possibly be ignored and, in any case, the cost of keeping it afloat is not very large.

For the US and UK, the difference between 'getting away with it' or not really comes down to the speed with which they devalue their currencies. Sterling and the dollar are going to fall in value compared to those of the creditor countries whether there is another crisis or not. This is what default means; but it is wrong to assume that this will be a disaster. If history is any guide, once the default is over the unrepentant sinner goes forth to sin again with renewed vigor.

The travails of the debtor countries enthrall us because many of us live in them. In fact, from an investment point of view, their problems can be largely avoided; much of the excitement lies elsewhere. This may lead to an unprecedented divergence between the fortunes of investors and their portfolios, but it provides plenty of opportunities. Our enthusiasm about the fast growing third of the world economy is undiminished. In the long run, its citizens will provide the rest of us with enough demand and growth opportunities to replace our old dependence on debt. As investors we must focus on those future opportunities, and not become too obsessed by the messy end of a disreputable era.

We thank you for your continued support.

Sincerely,

Spencer Adair
Co-Portfolio Manager

Malcolm MacColl
Co-Portfolio Manager

Charles Plowden
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)

American	33.0%
Emerging Markets	20.4%
European	20.2%
Developed Asia	12.0%
UK Equity	11.5%
Cash	2.8%

Top Ten Holdings²

(As of 6/30/11)

Company	Country	Percentage of Total Net Assets
Nestle	Switzerland	2.42%
Prudential	United Kingdom	2.31%
Svenska Handbkn.	Sweden	2.16%
Wolseley	United Kingdom	2.09%
Schindler	Switzerland	2.09%
Atlas Copco	Sweden	2.04%
Yamaha Motor	Japan	2.02%
Pepsico	United States	1.98%
Richemont	Switzerland	1.96%
Walgreen	United States	1.93%

Performance

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

	1 Month	Since Inception ³
RS Global Growth Fund, Class A		
without sales charge	-2.16%	-0.30%
with maximum sales charge	-6.82%	-5.05%
MSCI All Country World Index ¹	-1.54%	0.14%

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 1.64%. 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 ACWI (All Country World Index) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. 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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