RS | investments

Second Quarter 2011 Mutual Fund Commentary
RS Global Natural Resources Fund

Philosophy and Process

As value investors, we believe that capital preservation is the key to long-term wealth creation. This focus is particularly relevant in the natural resources space, which is capital intensive, deeply cyclical and where we believe that many companies destroy shareholder value across a commodity price cycle.

Investors allocate assets to commodities and natural resource equities for a number of reasons, including inflation protection, diversification benefits, exposure to emerging market growth dynamics and a favorable long-term outlook for commodity prices. However, there are also risks associated with these benefits, primarily related to commodity price volatility, the potential for company specific value destruction as a result of poor capital allocation decisions, and sovereignty issues. Our job is to provide investors with the benefits of having a long-term allocation to natural resources while, at the same time, reducing the associated risks.

Our goal, therefore, in managing the RS Global Natural Resources Fund is to optimize risk-adjusted returns across a commodity cycle. We believe that the best way to generate superior through-cycle returns for our investors is by: 1) owning only those low-cost advantaged producers of commodities with steep cost curves that can create value throughout the cycle, 2) investing in the cost-advantaged companies which have management teams focused on generating returns that exceed their cost of capital irrespective of commodity price, 3) limiting sovereign and geological risk, and 4) purchasing stakes in those advantaged producers only when their share prices are trading below current net asset value.

We consider our investment process to be private equity-like, both in-terms of our investment time frame and our research efforts. Instead of speculating on short-term moves in commodity prices, we attempt to identify the few companies that have a competitive cost position in a given commodity and thus will be able to generate attractive rates of return across a commodity price cycle. We do this by employing teams of business analysts who spend a significant amount of time in the field, disaggregating companies on a project-by-project basis and interviewing management teams and operators in an effort to better understand the capital allocation discipline within a given company. We build project specific cash flow models so that we are prepared to deploy capital when the market provides us an opportunity to purchase a business at what we view as a reasonable price relative to our assessment of net asset value. Having established an ownership position, we expect these advantaged companies to grow net asset value by 10-20% per annum in a flat commodity price environment due to their favorable position on the cost curve. Our focus on low-cost advantaged producers combined with our valuation discipline is aimed at limiting downside risk while also providing investors with an important source of returns to complement their exposure to longer-term changes in commodity prices. In short, we attempt to capture many of the same sources of return sought by private equity strategies, but with greater liquidity and with a wider range of accessible commodities.

We acknowledge that this approach does not maximize returns over short periods of time when specific commodity prices are rising. More importantly, however, we contend that across a full commodity price cycle, our focus on risk management will allow us to generate strong risk-adjusted returns for our clients.

Performance Update

In the second quarter of 2011, RS Global Natural Resources Fund generated a return of -4.15%. The S&P North American Natural Resource Index™[1] returned -6.34% and the MSCI World Commodity Producers Index[2] returned -4.26%. Positive absolute contributors included Praxair Inc (1.94% position as of 6/30/2011), an industrial gas producer, Key Energy Services (1.51%), which provides well maintenance services to domestic oil and gas companies, and EQT Corp (2.90%), a domestic natural gas company focused in the southwest portion of the Marcellus shale. Negative absolute returns were generated by Talisman Energy (4.76%), an international oil and gas producer, Peabody Energy Corp (2.56%), a global thermal and metallurgical coal miner and Taseko Mines Ltd (3.4%), a Canadian copper company.

Year to date, the Fund generated a return of 4.44%. The S&P North American Natural Resource Index™ returned 5.62% and the MSCI World Commodity Producers Index returned 4.06%. Notable positive absolute returns were generated by Eastman Chemical Company (1.85%), Range Resources (3.72%), Calpine Corp (3.24%) and Key Energy Services (1.51%). Notable negative returns were generated by Barrick Gold Corp (2.44%) and Talisman (4.76%).

A critical element of generating positive through cycle returns is losing less in down markets. We attempt to do this first by owning low cost producers, whose economics are less impacted by declining commodity prices than their higher cost peers, and by being sensitive to valuation. In addition, we attempt to reduce political risk as much as possible by investing only in areas where there is adequate financial transparency and the rule of law. The result is a portfolio which tends to be concentrated around those advantaged producers in politically-safe jurisdictions that can generate attractive returns irrespective of changes in commodity prices. Instead of owning more higher-cost or politically less stable companies in the portfolio, our diversification is derived by being broadly diversified across commodities. Thus, our weightings to a given sector are a function of valuation and assessment of downside risk, as opposed to a view regarding the short-term direction of commodity prices. In the second quarter, relative performance was enhanced by our focus on asset quality, as illustrated by the fact that our investments in producers of commodities like oil, natural gas and gold went down less than many of their respective competitors, and by our diversification, as seen in the returns generated by investments like Praxair (1.94%) and FMC Corp (3.09%), which may not fall under the more conventional definition of "commodity producers." We believe the overall result is a portfolio which may offer less leverage to rapidly rising commodity prices, but which also tends to go down less in the inevitable cyclical correction.

Given the volatility and cyclicality of commodities, we believe that the best measure of performance in the natural resources sector is trough-to-trough through-cycle returns. The following table shows our performance for the second quarter of 2011, as well as for the longer time frames which we believe to be more representative of a commodity price cycle as well as our investment process and philosophy.

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

	Second Quarter 2011	1-Year	3-Year	5-Year	7-Year	10-Year	Since Inception 11/15/1995[4]
RS Global Natural Resources Fund, Class A							
without sales charge	-4.15%	37.38%	-3.15%	6.13%	15.02%	15.98%	11.78%
with maximum sales charge	-8.70%	30.88%	-4.71%	5.10%	14.23%	15.41%	11.43%
S&P North American Natural Resources Sector Index™[1]	-6.34%	44.29%	-3.41%	7.35%	14.35%	11.42%	N/A
S&P Goldman Sachs Commodity Index[5]	-7.94%	26.11%	-21.66%	-6.16%	0.01%	3.69%	5.00%
MSCI World Commodity Producers Index™[6]	-4.26%	43.30%	-4.59%	7.27%	13.55%	12.18%	N/A
S&P 500® Index[7]	0.10%	30.69%	3.34%	2.94%	4.22%	2.72%	7.15%

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 1.47%. 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.

Our intention is to generate attractive risk-adjusted returns across a commodity price cycle by outperforming the index during periods of market decline and typically performing in-line when markets are rapidly rising. This strategy is born out in the data, which shows that over the last 10 years we have typically performed on par with the market during periods of market appreciation and outperformed the market during periods of market decline. To reiterate, it is our belief that capital preservation is the key to long-term wealth creation. As Andy Pilara, who started this strategy 16 years ago, frequently reminds us, "it's not what you make, it's what you keep."

Strategy Update
An important part of our process involves visiting the various natural resource projects around the world. We do this to gain perspective on how future projects will impact the supply cost curve for a commodity and to identify the owners of the most cost-advantaged projects in a given commodity. Importantly, we believe that this work provides us with a basis for assessing current and future incentive prices for various commodities, as well as helping us in our efforts to generate project-by-project net asset value models for the companies which we either own today or may own in the future. It is our belief that traditional valuation metrics used by many public equity investors, such as P/E ratios, price-to-cash flow ratios and other shorthand tools, are not particularly useful in the natural resources sector given the significant differences that exist between companies in terms of their reserves lives, decline rates, maintenance capital requirements and accounting practices. Thus, our project-level analysis is an integral part of our investment process in that it helps us: 1) identify

the few companies that will create value because of their positions on the cost curve (while avoiding those that will destroy value), 2) estimate long-term commodity prices and 3) more accurately value natural resource companies.

In the most recent quarter, we traveled to Canada to visit several oil and gas companies. A few years ago we reduced our positions in a number of Canadian oil and gas holdings due to our expectation that returns on capital there were set to decline. As the use of new technology has resulted in an improvement in returns in U.S. unconventional oil and gas basins, many oil and gas projects in Canada have moved up the cost curve and, as a result, returns there have, in fact, deteriorated. However, with the improvement in royalty rates in Alberta, the elimination of the royalty trust structure and the use of the same technology that has been successful in the U.S., we believe that returns will improve in some areas of Canada over the next several years. As such, we continue to focus our work in North American natural gas on identifying the basins and companies in the U.S. and Canada that we expect to generate the most attractive returns in a low price environment.

Our field-level work continues to confirm the fact that the marginal cost of supply has been rising for many commodities. Resource targets are smaller, deeper and more technically complex and as a result, the cost curves for many commodities continue to steepen. However, commodity prices remain highly cyclical, and as a result we remain focused on owning the few advantaged assets for each commodity when valuations are attractive. By employing this approach, we contend that we can offer our shareholders the potential for long-term value creation absent commodity price inflation, potential protection from commodity price cyclicality and what we view as a free call option on rising long-term commodity prices. As such, the Fund is concentrated around the lowest cost projects while being broadly diversified across commodities.

Market Update

The commodity complex has come under pressure over the last several weeks given concerns related to the outlook for demand in both developed and developing economies. We are not economists and our guess regarding near-term demand trends is likely no better than anyone else's. However, we remain confident that the longer-term outlook for commodities is intact, driven primarily by limited spare capacity and rising marginal costs of supply. Thus, while commodities like oil and silver may drop in price due to proposed reserve releases or changes to margin requirements, we believe that these short-term price movements provide patient, long-term investors with opportunities to deploy capital into those producers of commodities that are out of favor. In addition, while commodities like copper and gold continue to trade above our assessment of sustainable price levels, the related equities are discounting more attractive long-term prices. We believe that markets such as these, characterized by volatility and frequent discrepancies between asset value and stock prices, are attractive environments to deploy capital.

In the current environment, we have been adding to a select group of cost-advantaged natural gas producers. Although we do not expect to see a cyclical recovery in natural gas prices anytime soon, we believe that valuations for some natural gas producers are quite attractive using more reasonable long term commodity price expectations. Furthermore, we expect our natural gas holdings to be among the few that can continue to create value even in a lower price environment, thereby providing further downside protection in the event that gas prices remain weak for a prolonged period of time. In addition, we used the weakness in copper, gold and oil prices during the quarter to add to some of our existing holdings in those areas. Lastly, we have continued our due diligence efforts on a number of producers of non exchanged-traded commodities in anticipation of future opportunities there.

We believe that in the absence of a coordinated pick-up in global demand, commodity prices will continue to oscillate around their respective incentive prices with a high degree of volatility. We will use short-term dislocations between price and underlying economic value to establish positions in the most advantaged assets at reasonable prices, and will conversely use periods of strength to reduce exposure to businesses when valuations look stretched. As such, our turnover in the Fund may pick up slightly versus historical levels, although our turnover with respect to companies held in the Fund likely will remain quite low.

The longer-term outlook for natural resources remains positive, in our view. Supply costs for many commodities continue to rise for geological reasons, excess capacity remains relatively low, the longer-term demand trends from emerging market countries remain favorable, and the risk of inflation in basic commodities continues to rise. Our goal is to continue to provide our shareholders with exposure to the most advantaged natural resource companies across the commodities spectrum when we believe valuations are attractive. By doing so, we believe that we are best able to provide our investors with all the benefits associated with an investment in the natural resource space, while also mitigating the associated risks. As long term investors, we believe that these are the markets that establish the foundation for strong future returns, and we are excited about the prospects moving forward.

We are, as always, thankful for your patience and support.

Sincerely,

MacKenzie Davis, CFA	Andy Pilara	Ken Settles, CFA

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 companies in natural resources industries may involve risks including changes in commodities prices, changes in demand for various natural resources, changes in energy prices, and international political and economic developments. Foreign securities are subject to political, regulatory, economic, and exchange-rate risks not present in domestic investments. The value of a debt security is affected by changes in interest rates and is subject to any credit risk of the issuer or guarantor of the security.

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.

Sector Allocation[3]
(As of 6/30/11)

Energy	48.49%
Materials and Processing	37.47%
Utilities	3.24%
Financial Services	1.12%
Consumer Discretionary	0.00%
Consumer Staples	0.00%
Health Care	0.00%
Producer Durables	0.00%
Technology	0.00%
Cash	9.69%

Top Ten Holdings[4]
(As of 6/30/11)

Southwestern Energy Co.	4.87%
Talisman Energy, Inc.	4.76%
Denbury Resources, Inc.	4.61%
Goldcorp, Inc.	4.31%
Antofagasta PLC	4.15%
Occidental Petroleum Corp.	4.08%
Oil Search Ltd.	4.06%
Range Resources Corp.	3.72%
Compass Minerals Internation	3.30%
Calpine Corp.	3.24%

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1 The S&P North American Natural Resources Sector Index™ is a modified cap-weighted index designed as a benchmark for U.S.-traded securities in the natural resources sector. The index includes companies involved in the following categories: extractive industries, energy companies, owners and operators of timber tracts, forestry services, producers of pulp and paper, and owners of plantations. Index results 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 MSCI World Commodity Producers Index (MSCI-WCP) is an equity-based index designed to reflect the performance related to commodity producers stocks. The MSCI World Commodity Producers Index is a free float-adjusted market capitalization-weighted index comprised of commodity producer companies based on the Global Industry Classification Standard (GICS®).
3 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.

4 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.
5 Class A shares inception date November 15, 1995.
6 The S&P Goldman Sachs Commodity Index (S&P GSCI) is used to illustrate the risk and returns of an investment in commodities. It is a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The returns are calculated on a fully-collateralized basis with full reinvestment. The combination of these attributes provides investors with a representative and realistic picture of realizable returns attainable in the commodities markets.
7 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, it does not incur fees and expenses.