

Second Quarter 2011 Mutual Fund Commentary
RS International 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the emergency stimulus, which was rushed into action so successfully in the financial crisis, is starting to be withdrawn.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 winds 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. Presumably, this represents a flight to 'Quality'. This sort of behaviour will be familiar to fans of horror films in which people walk backwards into rooms, or decide to split up in a haunted house.

Portfolio Review

We remain focused on the longer-term prospects for the Fund's holdings. As the balance of economic power shifts ever more towards the East, the continued development of emerging nations in Asia becomes increasingly important, not only for their own domestic companies, but also for those in the West. We believe that it is now more critical than ever to consider individual investments on the basis of the economic health of their end customers rather than their place of domicile or listing. With that in mind, the Fund took a holding in the Swiss watchmaker The Swatch Group (0.48% position as of 6/30/2011), a leading manufacturer and retailer of luxury watches with a broad range of high-end brands. The company enjoys a high level of exposure to the strong demand for prestige and luxury mechanical Swiss-made watches in Asia, which is more widely driven by rising levels of wealth and the consumption of luxury brand-named goods. Additionally, The Swatch Group is self-sufficient in terms of production, which gives it a potential advantage over a number of its competitors.

We have also been adding to a number of the Fund's existing holdings on the back of share price weakness, where we see the market's short-termism throwing up real opportunities for the long-term investor. These include companies such as Fortescue (Australian miner) (1.44%), Tencent (Chinese social media) (2.46%) and Aixtron (LEDs) (0.93%).

Aixtron is part of a wider theme in our to identify potential winners from technologies which meet tomorrow's challenges — in this case, reducing energy consumption. The company makes the machines and systems used to manufacture LED chips, one use of which is in lighting. LED bulbs have so far been relatively expensive compared with traditional light bulbs. However, Samsung (an Aixtron customer) (0.69%) has managed to reduce the pricing levels of its LED bulbs far more rapidly than anticipated (from the equivalent of \$30 bulbs last year to \$10 today). We believe that this may signal a tipping point for the technology, allowing demand to grow significantly for years to come.

Performance Review

For the second quarter of 2011, RS International Growth Fund (Class A Shares) returned 1.47%. The MSCI EAFE Growth Index¹ returned 2.31%.

Performance quoted represents past performance and does not guarantee future results. The Fund is the successor to The Guardian Baillie Gifford International Growth Fund; performance shown includes performance of the predecessor fund for periods prior to October 9, 2006. 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, 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.

The luxury goods companies PPR (2.69%) and Richemont (2.51%) experienced depressed valuations following the Japanese earthquake. At this point we took the opportunity to increase the Fund's holdings in these companies. The second quarter saw upgraded guidance for these companies' future profits and as a result these stocks rebounded strongly. We believe the growth prospects created by their dominant brands and global positioning are durable competitive advantages that should not be underestimated.

The Fund's consumer discretionary holdings more widely were beneficial to returns. In particular, Adidas (1.62%), the global apparel company, also produced positive returns following upwards revisions to its earnings expectations. We find the success of Adidas's Asian and Latin American businesses highly encouraging, and think it bodes well for future growth and returns.

Elsewhere, Nintendo (0.00%) continued to detract from returns. Over the quarter it unveiled the Wii U, the Wii's successor, which will be in the shops next year. However many of its features were already anticipated by the market. We are becoming increasingly worried about the sustainability of Nintendo's culture of innovation and therefore reduced the Fund's holding over the period.

The Fund's energy stocks also detracted from returns over the quarter as oil prices reversed their upward trajectory and began to fall. These falls are a delight to us as consumers but they are not beneficial for the oil companies whose current and prospective profits fall. Petrobras (0.95%), the Brazilian oil giant, and OGX (0.68%), the smaller Brazilian E&P company, were both impacted by the falling prices. However stock specific factors also depressed returns. State intervention at Petrobras raises concerns that Dilma Rousseff, the Brazilian President, is prepared to use Petrobras for alternative economic aims. OGX was negatively impacted by the release of an independent review suggesting their reserves are lower than previously reported. We still remain positive on the long term prospects of these companies.

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 unfavourable, 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 internet 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 favourable 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 vigour.

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,

James Anderson
Co-Portfolio Manager

Timothy Campbell
Co-Portfolio Manager

John F. Carnegie
Co-Portfolio Manager

Tom Coutts
Co-Portfolio Manager

David Salter
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Sarah Whitley
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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)

European	37.7%
UK Equity	20.6%
Developed Asia	18.9%
Emerging Markets	18.8%
Cash	4.0%

Top Ten Holdings²

(As of 6/30/11)

<u>Company</u>	<u>Country</u>	<u>Percentage of Total Net Assets</u>
Baidu	China	4.80%
BHP Billiton	United Kingdom	3.36%
Atlas Copco	Sweden	3.07%
PPR	France	2.69%
Banco Santander	Spain	2.63%
Standard Chartered	United Kingdom	2.54%
Richemont	Switzerland	2.51%
Tencent Holdings	China	2.46%
Rakuten	Japan	2.43%
Inditex	Spain	2.26%

Performance

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

	Second Quarter 2011	1-Year	3-Year	5-Year	10-Year	Since Inception ³
RS International Growth Fund, Class A						
without sales charge	1.47%	32.40%	0.25%	3.64%	4.95%	6.52%
with maximum sales charge	-3.37%	26.08%	-1.36%	2.65%	4.44%	6.24%
MSCI EAFE Index ¹	1.83%	30.93%	-1.30%	1.96%	6.12%	7.12%
MSCI EAFE Growth Index ⁴	2.31%	31.65%	-1.49%	2.88%	5.63%	5.45%

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

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¹ The Morgan Stanley Capital International (MSCI) EAFE (Europe, Australasia, Far East) Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. Unlike the Fund, the index does not incur fees or expenses.

⁴ The Morgan Stanley Capital International (MSCI) Growth Index for Europe, Australasia, and Far East (EAFE) is generally considered to be representative of international stock market activity. 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 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 February 16, 1993.

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