RS | investments

Second Quarter 2010 Mutual Fund Commentary
RS Technology Fund

Performance

As economic concerns and uncertainty over the outcome of the Gulf oil spill and the sovereign debt crisis in Europe weighed on investor confidence, the S&P 500 Index and the Nasdaq Composite delivered their worst quarterly performance since December 2008. On the economic front, monthly payroll employment declined once again in June, as the hiring of Census workers ended, while new homes sales dropped sharply in May after the tax credit for first-time home buyers expired. As confidence in the strength of the economic recovery weakened, many investors lost their appetites for risk and sought haven in the Treasury market, sending long-term yields falling to their lowest levels in more than a year. On a positive note, spending on technology continued to rebound at a solid pace, as enterprises rushed to update their networks to accommodate the exploding volumes of data traffic, as well as demand for seamless, virtual networking experiences. Technology shares, as measured by the S&P North American Technology Index™[1], declined during the period, but nonetheless outperformed the broader S&P 500® Index.

For the three-month period ending June 30, 2010, RS Technology Fund (Class A Shares) declined 8.64%, but outperformed a 12.68% decline by the S&P North American Technology Sector Index™[1]. The S&P 500® Index[5] declined 11.43% during the quarter. The Fund's relative performance was aided by overall stock selection, notably in the computer services software, semiconductors, and communications technology areas of the technology market. On a negative note, the Fund's stock selection and an overweighting in the consumer discretionary sector held back relative performance.

Portfolio Strategy

RS Technology Fund relies on a team-based, fundamentally driven investment approach that seeks to identify the most promising companies using technological innovation to meet evolving consumer and commercial needs. In identifying investments for the Fund, we leverage the deep technology expertise and extensive industry contacts of our research analysts, who work from the ground up to understand companies and the challenges and opportunities that they face.

Portfolio Review

Despite the slow pace of the economic recovery, we have continued to see healthy trends in the networking space, as companies that delayed technology investment during last year's economic downturn are now rushing to upgrade their systems. One company capitalizing on this enterprise upgrade cycle is F5 Networks (2.2% as of 6/30/2010), one of our top contributing holdings for the period. F5 Networks provides networking systems that help to balance and manage data server processing loads. The company continues to gain market share as it introduces new products with greater security, load capabilities, efficiency, and usability features to improve the experiences of the mobile worker.

We also benefited from our investments in several smaller cap, emerging technology companies that are gaining investor recognition. Isilon Systems (1.0%) is capitalizing on the popularity of video streaming over the internet by furnishing data storage systems that efficiently and inexpensively accommodate large files, notably video files. LogMeIn (1.2%), meanwhile, is a small cap software-as-services company that enables users to tunnel into their work-based computers using their iPhone, iPad, or other mobile device. The company's Ignition application has become the top grossing title in the new iPad store, due to its popularity with consumers who want access to many of the applications on their home or work PCs.

Finally, Entropic Communications (3.2%) was once again a solid contributor to the Fund's relative performance. Entropic makes chipsets that enable consumers to network their digital video recorder (DVR) functionality across multiple televisions. This technology is now being rolled out by a number of different cable providers, including Comcast (0.0%).

On a negative note, our relative performance was hurt by our investment in TiVo (1.1%), the original developer of DVR technology. The company suffered a setback in the second quarter after an appeals court agreed to review a recent decision that went in TiVo's favor. Despite this development, the company has won the majority of the legal battles surrounding its patent, and we continue to believe that competing companies will eventually have to pay TiVo a royalty fee, benefiting its bottom line.

The second quarter was also difficult for many large cap, high profile franchise technology stocks that struggled amid concerns over weakening global economic growth and competitive pressures in some more mature, cyclically sensitive areas of the technology sector. Detractors among our large cap stocks included computer disk drive manufacturer Seagate Technology (0.0%), which has faced concerns over pricing pressures and its ability to meet relatively high investor expectations for the second half of 2010.

We have also been disappointed with the recent performance of Emulex (0.8%), a leading provider of converged networking storage and connectivity solutions for data centers. The company has faced concerns over the debt it assumed with its recent acquisition of ServerEngines, as well as over its slower-than-expected transition to 8 Gb technology. We reduced our position in the stock. We also trimmed our investment in Commscope (1.3%), a smaller cap holding that faced investor concerns over its significant revenue exposure in Europe.

Outlook

Despite uncertainty over the near-term economic outlook, we remain constructive on the long-term opportunities for companies capitalizing on emerging technology and evolving consumer and business needs. The members of our investment team continue to travel frequently, monitoring the performance of our investments while they remain on the lookout for new opportunities. In building our portfolio, we will continue to balance exposure to large cap industry leaders with investments in innovative, small and mid cap companies that are capitalizing on emerging trends in the technology space. We may also at times take smaller positions in distressed technology stocks that we believe offer long-term potential that is not fully understood by the broader market. We continue to focus on our goal of achieving solid long-term performance via a risk-managed approach, regardless of the underlying economic environment.

Thank you for your investment.

Sincerely,

Steve Bishop
Co-Portfolio Manager

Allison Thacker
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 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 high-technology and Internet-related sectors may be highly volatile. Companies in these sectors operate in markets that are characterized by rapid change, evolving industry standards, frequent new service and product announcements, introductions, enhancements and changing customer demands. 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.

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.

Sector Allocation[2]
(As of 6/30/10)

Technology	80.52%
Consumer Discretionary	8.68%
Utilities	1.18%
Energy	1.03%
Materials & Processing	0.19%
Cash	8.41%

Top Ten Holdings[3]
(As of 6/30/10)

Apple, Inc.	5.47%
EMC Corp.	3.46%
Google, Inc., Class A	3.30%
Entropic Communications, Inc.	3.18%
Microsoft Corp.	3.14%
Advanced Energy Industries, Inc.	2.62%
Synopsys, Inc.	2.53%
Super Micro Computer, Inc.	2.47%
O2Micro International Ltd., ADR	2.27%
F5 Networks, Inc.	2.22%

Performance

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

	Second Quarter 2010	1-Year	3-Year	5-Year	10-Year	Since Inception[4]
RS Technology Fund, Class A						
without sales charge	-8.64%	24.98%	-2.76%	4.30%	-5.21%	7.22%
with maximum sales charge	-12.98%	19.05%	-4.32%	3.28%	-5.67%	6.86%
S&P North American Technology Sector Index™[1]	-12.68%	14.86%	-5.04%	2.33%	-8.56%	5.52%
S&P 500® Index[5]	-11.43%	14.43%	-9.81%	-0.79%	-1.59%	5.70%

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 1.60%. Please refer to the most current Fund prospectus for complete details on expenses including fees. The performance quoted, "with maximum sales charge" reflects the current maximum sales charge of 4.75% that became effective on October 9, 2006. 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 S&P North American Technology Sector Index™ is a modified capitalization-weighted index based on a universe of technology-related stocks. Index results do not 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 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.
3 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.
4 Class A shares inception date November 15, 1995.
5 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.

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