RS | investments

Third Quarter 2009 Mutual Fund Commentary
RS Growth Fund

Performance Review

The equity market extended its rally in the third quarter as investors sought to position themselves for a potential economic recovery. While most economists were calling for a resurgence in economic growth in the second half of 2009, actual economic data remained uneven. Factory orders rose in July for the fourth consecutive month, only to unexpectedly decline by 0.7% in August. Meanwhile, the unemployment rate continued to climb, reaching 9.8% in September, while consumer confidence dipped down to 53.1 in September after rising to 54.5 in August. Given the continued risks to the economic recovery, Federal Reserve policymakers indicated that they foresaw no near-term change to short-term lending rates, which continued to hover near zero. Nonetheless, value shares outperformed growth stocks during the period, as bargain-hunting investors continued to dominate the market, while mid- and small-cap shares outperformed large-cap investments.

For the three-month period ended September 30, 2009, RS Growth Fund returned 14.08%, slightly outperforming a 13.97% return by the benchmark Russell 1000® Growth Index1. The Fund's relative performance was aided in particular by stock selection in the energy and consumer discretionary sectors. By contrast, stock selection in the health care sector weighed on relative performance.

Portfolio Strategy

In managing RS Growth Fund, we continue to focus on large-cap growth companies with strong management teams, sustainable competitive advantages, and solid long-term revenue growth potential. The Fund is managed with a team-based approach that calls upon the deep industry expertise and extensive investment experience of our managers and analysts. Our bottom-up investment process combines hands-on fundamental research with intensive financial analysis and scenario-based analysis. In selecting holdings, we continue to emphasize stocks we believe offer at least 2 to 1 upside-return potential to downside-risk ratio.

Portfolio Review

During the period, a number of our growth-oriented energy holdings delivered solid performance. In particular, we benefited from our focus on oil equipment and services companies, such as Cameron

International Corp., a provider of flow and pressure management equipment and services. At the same time, we avoided exposure to integrated oil exploration and development companies that have been more sensitive to the downturn in energy prices.

While the Fund remained underweight in the consumer discretionary sector, our relative performance was nonetheless assisted by our stock selection in that area, especially in the restaurant industry where we focused on companies that have adapted to the weaker consumer spending environment by trimming their expenses, rationalizing their store bases, and improving their operating efficiencies. One of our top contributors for the quarter was Starbucks (2.14% of holdings as of 9/30/09), which recently reported better-than-expected earnings growth that reflected its ongoing cost-cutting efforts. The gourmet coffee chain has been studying the just-in-time inventory techniques of Japanese automakers, while trying to improve the speed at which its baristas can prepare its signature drinks.

Other positive contributors included Flowserve (1.19%), a manufacturer of industrial pumps, valves, and seals, which has benefited from prospects for infrastructure building under global economic stimulus programs. The company continues to cut costs, which helped it to report better-than-expected quarterly profits while raising its 2009 earnings guidance.

On a negative note, a number of the Fund's health care holdings weighed on relative performance. While health care has traditionally been viewed as a cyclically defensive sector, industry revenues have appeared more sensitive to economic pressures this year as cash-strapped consumers have delayed office visits and prescription refills to avoid copayments. Additionally, real or perceived questions over insurance company reimbursement rates have also weighed on health care valuations. Detractors among our health care holdings included biotechnology powerhouse Gilead Sciences (2.15%). While the company reported very strong quarterly profit numbers, investors were disappointed with management's conservative guidance and there was some concern around inventory buildup at drug wholesalers. The company's growth potential remains impressive, given a product line-up that ranges the leading HIV cocktail therapies, a potential cardiovascular drug, and a 15% royalty on Tamiflu.

In the financial services sector, our relative performance was dampened by our investments in IntercontinentalExchange (1.53%), an operator of regulated global futures exchanges, and CME Group (1.54%) (formerly Chicago Mercantile Exchange Holdings), which operates electronic trading platforms and trading floors in Chicago and New York City. Shares of both companies have been buffeted by uncertainty over potential changes in the financial and market regulatory environment.

Finally, shares of video game publisher Activision Blizzard (1.47%) gave up some ground in the third quarter after performing well in the first half of the year. Expectations are very high for the November launch of Activision Blizzard's new Call of Duty: Modern Warcraft 2 video game, which some expect to be the top-selling gaming title ever. Nonetheless, the stock price has recently stalled amid uncertainty over the ultimate success of the game, which will test a new pricing high for the video game market. Nonetheless, we remain constructive on the outlook for the company, particularly for the line-up of promising product launches it has slated for 2010.

Outlook

While we remain moderately optimistic on prospects for a recovery by year-end, we caution that economic improvement could remain uneven. On a positive note, interest rates are expected to remain low in the near-term, which bodes well for growth stock multiples. In this environment, we will remain steadfast in our disciplined growth investment approach, utilizing hands-on, bottom-up research to identify well-managed, well-capitalized companies that benefit from sustainable competitive positions, solid market positioning, healthy profit margins, and promising long-term revenue growth potential.

Thank you for your continued confidence.

Sincerely,

Steve Bishop
Co-Portfolio Manager

Melissa Chadwick-Dunn
Co-Portfolio Manager

Allison Thacker
Co-Portfolio Manager

D. Scott Tracy, CFA
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 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. Overweighting investments in certain sectors or industries increases the risk of loss due to general declines in the prices of stocks in those sectors or industries. Investments in technology companies may be highly volatile.

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 September 30, 2009.

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 9/30/09)

Technology	33.34%
Health Care	11.62%
Consumer Discretionary	11.53%
Energy	11.03%
Producer Durables	9.25%
Financial Services	8.25%
Consumer Staples	7.97%
Materials & Processing	3.41%
Cash	0.93%

Top Ten Holdings[3]
(As of 9/30/09)

Apple, Inc.	4.78%
Hewlett-Packard Co.	3.31%
Google, Inc., Class A	3.30%
Amazon.com, Inc.	3.02%
Cisco Systems, Inc.	2.83%
Target Corp.	2.51%
Philip Morris International, Inc.	2.22%
Gilead Sciences, Inc.	2.15%
Starbucks Corp.	2.14%
Microsoft Corp.	2.13%

Performance
(Average Annual Total Returns as of 9/30/09)

	Third Quarter 2009	1-Year	3-Year	5-Year	10-Year	Since Inception[4]
RS Growth Fund, Class A						
without sales charge	14.08%	-6.72%	-6.19%	1.18%	-0.31%	8.24%
with maximum sales charge	8.72%	-11.15%	-7.69%	0.20%	-0.80%	7.94%
Russell 1000® Growth Index[1]	13.97%	-1.85%	-2.50%	1.86%	-2.56%	6.29%

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 1.34%. 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 our Web site: www.RSinvestments.com.

1 The Russell 1000® Growth Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 1000® Index (which consists of the 1,000 largest U.S. companies based on total market capitalization) with higher price-to-book ratios and higher forecasted growth values. 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.
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 May 12, 1992.