

Third Quarter 2011 Mutual Fund Commentary RS Global Growth Fund

Investment Environment

The third quarter was a very nervous time for financial markets. Economic statistics had been deteriorating for some time, partly as result of the short term effects of Japan's earthquake, but mainly because financial crises tend to cast a long shadow. A culture of repaying debt seems to be entrenched in several large economies. If both government and people are trying to cut back there are bound to be problems.

What has changed recently is investors' confidence in the authorities' ability to cope. Protracted and highly politicised negotiations in the US culminated in the country's debt being downgraded. In Europe, there remain deep disagreements about how to address the Greek crisis, and mounting scepticism that the Greeks can deliver on their promises. The EU's prevarication has drawn Italy into the crisis and weakened the euro. What began as an economic crisis is becoming a political one.

It is hardly surprising, against this background, that markets have shifted to 'Risk Off' mode. Creditor currencies in Japan and the emerging markets have been strong, as have government bond markets. Credit spreads have widened; gold and silver have risen. Equities have been weak, especially the economically sensitive sectors such as retailing and industrial equipment. Financial stocks were especially hard hit, particularly in Europe where CDS markets implied that access to dollar funds for many large banks was in peril. Defensive sectors, such as staples and healthcare, declined less, but were nonetheless weak.

There are plenty of happier, and possibly more important, events taking place in other parts of the world however. Interest rates seem to be on the turn in the developing world. Brazil and Turkey announced cuts. Others are likely to follow (India raised her rates, but is lagging the trends of other economies). Emerging market current account surpluses are now clearly declining, rebalancing the world economy. America is exporting more than ever before, while net exports are now a significant drag on the Chinese economy. Despite this, China is still growing at 9.5% - slightly embarrassing for those who claim that China cannot prosper without selling ever larger amounts to the rest of us.

The corporate sector is embarrassingly healthy. The amount of cash on company balance sheets is well into unprecedented territory. It tends to be the winners in each sector who have disproportionate amounts of liquidity, so the prospect of increased mergers & acquisitions activity (M&A) is looming. Google (1.55% position as of 9/30/2011) has started; will Apple (0.00%) or Nestle (2.60%) be next? Does Europe need so many airlines? Meanwhile, UBS (0.00%) has proved once again that proprietary trading is a zero sum game. It may be that a combination of regulatory break ups, transaction taxes and shareholders running out of patience will finally bring high finance to heel.

Portfolio review

We have not made any significant changes to the Fund over the quarter and turnover remains low at around 20%.

As long term investors we keep our eye firmly on the long-term opportunity and view short term volatility in a positive light. In periods of crisis the market seldom discriminates and both good and bad stocks are sold as investors rush to de-risk. Rather than retreat we seek opportunity in the "eye of the storm" and look to buy as others are selling.

Some of the companies that have been hardest hit are those at the edge of the financial sector. We have made some additions in this area including BM&F Bovespa (0.98%), the Brazilian stock and derivatives exchange, which continues to benefit from the rapid growth of the Brazilian capital markets and New York Community Bank (1.25%), the specialist lender to owners of rent-stabilised apartment buildings in the city of New York whose asset quality throughout the cycle has been exceptional. We also increased the position in Coca-Cola Hellenic (1.58%), the Greek company that owns the rights to bottle and distribute Coca-Cola in 28 countries. Despite less than 10% of its sales coming from Greece, its listing in Athens has resulted in it being severely sold off and we have been able to add at a deeply discounted level.

We are also keen to target companies whose prospects are not driven by the macro-economic environment but by secular growth trends. Healthcare innovation has proved a productive area where profit generation amongst certain firms has proved largely immune to the vagaries of the economic cycle. During the quarter we bought Cochlear (0.32%), an Australian manufacturer of implants to treat profound deafness. We expect strong demand for such devices over the next decade driven in part by demographic changes. The company also enjoys dominant market share and its competitive position is entrenched through significant investment in R&D.

We continue to test the investment case of all our individual holdings, selling those where we no longer believe in the long-term growth opportunity. Consequently this quarter we've sold Patterson Companies (0.00%) and reduced our exposure to China National Building Materials (0.23%), Development Bank of Singapore (0.92%) and Japan Tobacco (1.12%), all stocks where the market valuation has caught up with our expectations.

Performance Review

For the three-month period ended September 30, 2011, RS Global Growth Fund (Class A Shares) declined 17.95%, underperforming a 17.33% decline by the benchmark MSCI All Country World Index¹.

Japan Tobacco, the world's third largest cigarette manufacturer, has been the strongest contributor to performance over the quarter. Its share price strengthened on the back of news that the government was considering selling down its stake to finance post-quake reconstruction, a move that would end constraints on management. Discussion about the raising of the tobacco tax by a further ¥50/packet has also been positive as it would augment the domestic business' ability to

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%. 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. Current performance may be lower or higher than performance data quoted. Performance current to the most recent month-end is available by contacting RS Investments at 800-766-3863 and is frequently updated on our Web site: www.RSinvestments.com.

Please refer to the most current Fund prospectus for complete details on expenses including fees and also 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.

generate cash flow whilst it is small enough that it minimizes the risk of any sharp drop off in volumes.

Amazon (1.75%) continues to experience strong revenue growth and demonstrates an ability to grow at around 30% organically, even in low or no-growth environments. During the quarter it launched the Kindle “Fire,” a sub \$200 tablet that uses an adapted version of the Android operating system. Whilst dilutive on a per unit basis, it should help Amazon catch up existing distributors of digital media and also reinforce the advantage the corporation enjoys with Amazon prime. The power of the internet

continues with eBay (1.61%) contributing strongly to the Fund. Revenues were significantly ahead of expectations. The US marketplace business has grown in line with the broader e-commerce market for the first time in recent quarters and PayPal (0.00%) continues to surge – it now accounts for 35% of the value of the business and has always been core to our investment case.

Two of the largest detractors from performance are tied in to the soft landing of the Chinese economy and its slowing rate of growth. Richemont (1.64%) manufacturers luxury jewellery (over 25% of sales are to Greater China) and has experienced extraordinary expansion over the last 18 months. But the share price over the quarter has fallen on the back of expectations that sales growth in 2012 will halve to 8%. The fear is that valuations will start to unravel based on a moderate retrenchment of Asian demand. Likewise China National Building Materials (0.23%) performance failed to impress following a couple of disappointing data points. New building starts have been lower than expected and supply loosened as new capacity came onto the market. Despite the existing ban on new cement plant licences, the recycling of limestone has allowed cement production to ramp up which has marginally affected China National’s competitive moat.

On a purely stock level basis, Vistaprint (0.65%) suffered a sharp sell off following a significant strategy announcement in July. Robert Keane, the CEO, stated that he wanted the corporation to be more “customer-centric”, with the dual focus of scaling back of cross-selling and a reduction in shipping and hidden fees. The aim is to increase the customer retention rate which currently languishes at < 50%. The share price dropped because the change will impact heavily on profits through 2012-2014. But given a long-term perspective our response was positive. In one fell swoop the corporation has addressed our primary concern; short-term earnings focus.

Outlook

The global investment outlook seems to be dominated in most people’s minds by the outlook for Greece. Financial historians of the future will find this puzzling. Even if the Greek economy halves in size, this is still less than 1% of Europe’s output. Greece’s problems are unique: the Greek state cannot finance its activities, and tried to conceal the consequent rise in debt. It has become clear that it will never be able either to cut or tax its way to solvency. Italy’s debt, by contrast, peaked in 1994 and the country should have a primary surplus next year. Contagion is unlikely.

The current situation raises, in an acute form, an important issue which has bedevilled investors in markets throughout history. It is one that Keynes, for example, wrestled with for years before coming down decisively on one side. It is this: Should an investor try to predict and anticipate developments in the economy as a whole, and make that the determining factor in his approach (‘Credit Cycling’ as Keynes called it); or should he make long term commitments to strong companies with good prospects, and regard price declines caused by other investors’ attitudes to the overall situation as opportunities to buy favoured businesses at low valuations?

Clearly, we favour the latter approach, as did Keynes – eventually. But this method cannot be employed uncritically. We need to be reasonably sure that the economic storm will not persist indefinitely and envelop the entire world, and we need to be confident that our favourites can remain afloat.

As far as the first issue is concerned, we are reasonably sure that the world is not coming to an end. Half of it is unaffected and growing tolerably quickly. The problems mainly lie in countries with debts in their own fiat currencies. They are not going to run out of money. There are many possible combinations of default, monetisation, devaluation, inflation and even austerity, which will resolve their problems. It is impossible to say how all this will pan out, but politicians are beginning to realise that there is too much saving going on and that a significant stimulus is required. Companies will be the main beneficiaries.

Will our companies weather the storm? We cannot be sure in every case, but the Fund is dominated by well-financed businesses, whose growth prospects depend largely on demand from the robust half of the global economy. We have tended to avoid western banks, and other businesses which depend on a revival by the indebted western consumer. We believe that the current crisis, and the indiscriminate 'risk on – risk off' flip flopping that it has produced, has led good companies to become undervalued. Of course, they may become even cheaper.

This is a period of accelerated change. Many old industries and companies are being replaced by new ones. The internet is undermining older business models, and technological progress is speeding up in many fields. The gap between winners and losers is widening, but the stock market is being even more inefficient and indiscriminate than usual. Now is a good time to be a long-term equity investor.

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 September 30, 2011.

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Regional Allocation

(As of 9/30/11)

American	35.0%
European	19.5%
Emerging Markets	19.0%
Developed Asia	12.0%
UK Equity	11.4%
Cash	3.1%

Top Ten Holdings²

(As of 9/30/11)

<u>Company</u>	<u>Country</u>	<u>Percentage of Total Net Assets</u>
Nestle	Switzerland	2.60%
Schindler	Switzerland	2.22%
Svenska Handbkn	Sweden	2.17%
Pepsico	United States	2.11%
Prudential	United Kingdom	2.10%
Wolseley	United Kingdom	1.94%
Wellpoint	United States	1.91%
Walgreen	United States	1.80%
Naspers	South Africa	1.80%
Yamaha Motor	Japan	1.80%

Performance

(Average Annual Total Returns as of 9/30/11)

	Third Quarter 2011	Since Inception ³
RS Global Growth Fund, Class A		
without sales charge	-17.95%	-18.20%
with maximum sales charge	-21.87%	-22.10%
MSCI All Country World Index ¹	-17.33%	-17.21%

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%. 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. Current performance may be lower or higher than performance data quoted. Performance current to the most recent month-end is available by contacting RS Investments at 800-766-3863 and is frequently updated on our Web site: www.RSinvestments.com.

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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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