RS investments

Third 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 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 a price which affords us with a margin of safety based on 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 superior risk-adjusted returns for our clients.

Performance Update

In the third quarter of 2011, the Fund declined 20.71%. The S&P North American Natural Resource Index™[1] declined 23.22% and the MSCI World Commodities Producer Index[2] declined 21.45%. Positive absolute contributors included Range Resources (4.77% position as of 9/30/2011) and EQT Corp. (3.34%), domestic natural gas companies focused on the Marcellus Shale, New Gold (3.56%) and Barrick Gold Corp. (2.41%), Canadian-based gold companies, and Tullow Oil (3.95%), an international oil and gas company. Negative absolute returns were generated by Talisman Energy (4.16%), an international oil and gas producer, Peabody Energy Corp (2.88%), a global thermal and metallurgical coal miner, Taseko Mines Ltd (2.36%), a Canadian copper company, and Denbury Resources (4.76%), a domestic oil company.

Year to date, the Fund declined 17.19%. The index The S&P North American Natural Resource Index™ declined 18.90% and the MSCI World Commodities Producer Index declined 18.26%. Notable positive absolute returns were generated by Consolidated Thompson Mines (0.00%), Range Resources (4.77%), Tullow Oil (3.95%), New Gold (3.56%), Calpine Corp (3.89%) and EQT Corp (3.34%). Notable negative returns were generated by Talisman Energy (4.16%), Taseko Mines (2.36%), Peabody Energy (2.88%), Antofagasta (4.57%), and Denbury Resources (4.76%).

A critical element of generating positive through cycle returns is losing less in down markets. We attempt to accomplish this objective first by owning low cost producers, whose economics are less impacted by declining commodity prices than their higher cost peers. 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. Finally, we purchase businesses when we believe stock prices allow us to establish ownership positions at or below the value of the current proved reserves, thereby limiting the probability of permanent capital impairment over our investment horizon. The result is a highly concentrated portfolio, with broad diversification across commodities. We do not believe that the benefits of diversification can be adequately generated by owning numerous high cost, politically risky assets. In fact, we contend that such an approach increases portfolio and commodity price risk, rather than reduces it. Thus, our weightings to a given sector are a function of valuation and an assessment of downside risk, as opposed to a view regarding the short-term direction of commodity prices. In the third quarter, relative performance was enhanced by our focus on asset quality, as illustrated by the fact that many of our investments in the producers of commodities like oil and natural gas went down less than many of their respective competitors, by the fact that we had very limited exposure to businesses with flat supply cost curves, such as oil services, by our diversification, as seen in the relative returns generated by investments outside of the more conventional commodities such as oil and gas, and by our focus on managing political risk.

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, as evidenced more recently.

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 third 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 9/30/11)

	Third 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	-20.74%	-2.35%	3.07%	3.14%	9.07%	15.20%	9.96%
with maximum sales charge	-24.51%	-7.00%	1.40%	2.14%	8.31%	14.63%	9.62%
S&P North American Natural Resources Sector Index™[1]	-23.22%	-1.63%	-0.65%	3.18%	8.64%	10.10%	N/A
S&P Goldman Sachs Commodity Index[6]	-11.69%	2.87%	-15.90%	-5.32%	-3.89%	3.48%	4.11%
MSCI World Commodity Producers Index™[2]	-21.45%	-4.42%	0.25%	2.66%	8.27%	10.32%	N/A
S&P 500® Index[7]	-13.87%	1.14%	1.23%	-1.18%	2.29%	2.82%	6.03%

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%. 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.

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. 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 visit trona, salt and potash projects in the Western part of the U.S. These non exchange-traded and less conventional commodities are characterized by reasonably steep cost curves and, importantly, the demand for these commodities can be driven by variables other than just economic activity. Demand for salt, for instance, is driven more by the weather than by economic activity since it is used primarily to de-ice roads during the winter. When the producers of more economically-sensitive commodities look expensive, our work across a broader array of commodities affords us the opportunity to reallocate capital to the producers of less conventional commodities that may have less commodity price-related downside risk and thus more attractive valuations. Furthermore, because the supply cost curves for these commodities are steep and because the mechanics that allow a low-cost salt company to create value are the same as those that allow the low-cost producers of oil or gold to create value, our commodity diversification does not come at the expense of future expected returns. We continue to perform due diligence on a number of opportunities in non exchange-traded commodities.

In addition, we visited with a number of oil and gas companies operating in Africa during the quarter. Given our focus on global supply cost curves and returns, we invest in low-cost projects around the world, so long as the political risk is both acceptable and manageable. In Africa, our research has been aimed at identifying:1) the projects that have the most attractive cost positions and returns, 2) the countries that we are comfortable allocating capital toward, given our aversion to political risk, and 3) the companies that we believe are best at managing above-ground risks. In short, we attempt to reduce the political risk in the portfolio through our research and by partnering with companies that have a proven ability to manage country risk. We do not justify investments in politically risky countries by assigning higher discount rates to our cash flow models; we simply avoid investments in those countries. While we have identified what we believe to be the few attractive and lower-risk investment opportunities in Africa, the political risk in many countries keeps us from having much exposure to the region despite the favorable geology in some parts of the continent.

Despite the recent weakness in commodity prices, our field-level work continues to confirm the fact that the marginal cost of supply is 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

Commodity prices and natural resource equities were very weak during the third quarter due to concerns about the outlook for economic activity and commodity demand. Interestingly, exchange-traded commodities declined much more than non exchange-traded commodities, possibly suggesting that current demand is better than expectations for future demand. We are not economists and, even if we were, our guess regarding near-term demand trends is likely no better than anyone else's. However, we remain confident in our belief that the longer-term outlook for commodities is intact, driven primarily by limited spare capacity and rising marginal costs of supply. Thus, while commodity prices may continue to decline, we believe that these short-term price movements provide patient, long-term investors with opportunities to deploy capital at very attractive prices relative to asset values.

Despite the increased nearer-term uncertainty, we believe that the longer-term outlook for returns has become more attractive given the recent weakness in commodity prices and the even greater decline in natural resource equities. To better understand the outlook for returns, we examine the three potential sources of returns for natural resource equity investors. The first, and most important long-term source of returns, is the ability of a select group of companies to create value by generating returns on future projects that exceed their cost of capital. This is the same source of returns that private equity seeks to capture. We believe that low-cost advantaged commodity producers in the public equity market have the ability to grow net asset value by 10-20% per year in a flat commodity price environment. This unique return stream, which has nothing to do with commodity prices or the equity market, is a function of the steepness of supply cost curves and the ability of cost-advantaged producers to create value by reinvesting in high-return projects. Importantly, the outlook for this source of returns has not changed. In fact, it has continued to improve as cost curves have continued to steepen.

The second, and probably next most important longer-term source of returns, is the rate at which commodity prices increase in the future and impact asset values. Over the last decade, commodity prices have increased by roughly 10% per annum, driven by the increased cost of supply. Given our less optimistic view of future demand growth when compared with the previous decade, we expect the incentive price to increase at a rate closer to 3-5% per annum over the next several years, although we acknowledge that it is possible that the rate of increase in longer-term commodity prices could be greater in some areas if demand growth accelerates more than we anticipate. . By focusing on the source of returns related to company-specific value creation, we intend to offer this potential source of return to our investors for "free" – meaning that it is not required in order for us to generate an attractive rate of return.

The last, and most important short-term source of returns, is the outlook for beta. To us, beta reflects the difference between share prices and asset values using reasonable long-term commodity price expectations as determined by the marginal cost of supply. The relationship between share prices and asset values tends to be determined by short-term changes in commodity prices. Given the liquidity in the public equity markets, as well as the demand for short-term returns, this is the source of returns that many public equity investors focus on capturing, almost exclusively, even though it is the most difficult to consistently capture/forecast and the least meaningful over longer periods of time. At the end of the quarter, we estimate that natural resource equities traded on average at a 10-15% discount to net asset value, with significant differences across the commodity complex. Prior to the downturn, we estimate that natural resource equities were trading on average at a 10-15% premium to net asset value. So, while commodity prices and natural resource equities may continue to decline if the demand environment deteriorates further, the longer-term outlook for beta has improved considerably, in our view. Markets such as these, characterized by volatility and frequent discrepancies between asset value and stock prices, are attractive environments to deploy capital, particularly given the favorable outlook for growth in net asset value at the company level.

Of course, volatility is helpful only for those that have the cash to take advantage of the discrepancies between share prices and asset values. As long-time investors in our strategy know, we manage this portfolio for risk, not for cash. Cash is a residual of our process. When share prices are trading well above our assessment of net asset value, cash levels often increase. Even though cash may be a drag on returns when commodity prices are rising, our cash provides us with the ability to deploy that capital at times such as these when valuations become more attractive and our investors are being compensated to take risk. Coming into the correction, our cash levels had increased as we both exited and reduced positions. Given the recent weakness in natural resource equities, and the resulting improvement in the outlook for beta (i.e. – the reduction in commodity price-related risk), we have been using cash to increase positions in the advantaged producers that we believe have the most attractive valuations.

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 September 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 9/30/11)

Energy	52.62%
Materials & Processing	39.87%
Utilities	3.70%
Financial Services	1.19%
Consumer Discretionary	0.00%
Consumer Staples	0.00%
Health Care	0.00%
Producer Durables	0.00%
Technology	0.00%
Cash	2.61%

Top Ten Holdings[4]
(As of 9/30/11)

Occidental Petroleum Corp.	5.22%
Southwestern Energy Co.	5.18%
Range Resources Corp.	4.77%
Denbury Resources, Inc.	4.76%
Martin Marietta Materials, Inc	4.75%
Compass Minerals International	4.62%
Goldcorp, Inc.	4.61%
Antofagasta PLC	4.57%
Talisman Energy, Inc.	4.16%
Oil Search Ltd.	4.02%

Performance

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

	Third Quarter 2011	1-Year	3-Year	5-Year	7-Year	10-Year	Since Inception 11/15/1995[5]
RS Global Natural Resources Fund, Class A							
without sales charge	-20.74%	-2.35%	3.07%	3.14%	9.07%	15.20%	9.96%
with maximum sales charge	-24.51%	-7.00%	1.40%	2.14%	8.31%	14.63%	9.62%
S&P North American Natural Resources Sector Index™[1]	-23.22%	-1.63%	-0.65%	3.18%	8.64%	10.10%	N/A
S&P Goldman Sachs Commodity Index[6]	-11.69%	2.87%	-15.90%	-5.32%	-3.89%	3.48%	4.11%
MSCI World Commodity Producers Index™[2]	-21.45%	-4.42%	0.25%	2.66%	8.27%	10.32%	N/A
S&P 500® Index[7]	-13.87%	1.14%	1.23%	-1.18%	2.29%	2.82%	6.03%

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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.

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