

Third Quarter 2011 Mutual Fund Commentary RS Large Cap Alpha Fund

Philosophy and Process

We believe that company-specific value creation is often mispriced in the public markets and, as such, we have built a team of investment professionals who employ a research process that is private equity-like in nature. As business analysts, we are interested in understanding how companies create value over time. We work in teams, dissecting businesses into their component parts to gain insights into how and where capital is being allocated, and the cash flows and returns associated with those capital decisions. As value investors, we believe that capital preservation is the key to long-term wealth creation, and only deploy our shareholders' capital when we feel that the purchase price available in the market provides us with what we view as a reasonable risk profile. We acknowledge that investment returns are a function of entry price and, as such, we define risk as the permanent impairment of our clients' wealth, as opposed to stock price volatility. We acknowledge that over short periods of time we may under perform a benchmark, but believe that our differentiated team structure, philosophy and process will continue to provide us with the opportunity to generate superior risk-adjusted returns over a reasonable investment timeframe.

Performance Commentary

We run a concentrated, high-conviction, low-turnover portfolio. As such, there will be periods of time when our companies are out of favor, and 2011 has been such a period. The highly correlated, macro-driven market has made stock picking difficult, as evidenced by the fact that this has been the worst year since 1998 for active managers (JP Morgan US Equity Strategy Flash, 9/2/2011). And while 2011 has been a difficult year for active managers, we have fared worse. The Fund's underperformance this year has been primarily driven by two things:

1. *The Fund has had limited exposure to those sectors and subsectors that have performed best in 2011.* For example, the Fund is significantly underweight two of the best performing Russell Sectors this year; utilities (+4.8%) and consumer staples (+2.8%). The Fund's long-standing underweight to utilities is predicated on the fact that most companies in the investable universe are poorly-run (in our opinion), capital intensive, regulated utilities where cash flow potential is capped by the local public utilities commissions. Moreover, the very high capital costs of most of these businesses make them uninvestible for a strategy like ours that is keenly focused on cash flows, after netting out ongoing maintenance cap ex requirements. In addition, the Fund's underweight to staples has been driven by high valuations and a dearth of companies going through some form of structural change. These underweighted sectors, as well as select underweighted subsectors (e.g., REITs and HMOs), collectively explain over a third of the YTD underperformance.
2. *The market's short-term time horizon has led to poor performance in some of our highest-conviction investments.* An increasingly myopic market has shown little patience, and this has manifested itself in poor performance among some very good businesses that are in the midst of significant structural change. No where is this more evident than in Financial Services, a sector shunned by investors. Our more constructive view of financials has clearly hurt our performance this year. In our view, the market is overlooking some very exciting investment opportunities in financials, and we have used recent weakness to add

incremental capital to our highest conviction ideas. (Please see Portfolio Positioning section below for additional commentary regarding financials.)

While we are frustrated with the Fund's performance during the first three quarters of the year, we remain highly encouraged. Our high confidence stems from the fact that the Fund's portfolio currently trades at levels below our downside valuations. We run both a conservative base case and a draconian downside case, in the form of three-year DCFs (discounted cash flow models), on every investment in the portfolio. Our downside case, assumes that a worst case scenario plays out for each business. Today, the Fund is trading below our downside valuations, on a weighted-average basis. Moreover, our portfolio companies generally continue to strengthen their competitive positions, invest capital wisely and improve their returns, in spite of the fact that these actions are not currently being rewarded in the market place.

We remain committed to our core philosophy and are using the current market environment to selectively deploy capital. Our process has proven itself over time, and has worked successfully over the long-term. Importantly, the team remains confident that the decisions that we are making today and concentrating capital in our highest conviction ideas will ultimately be rewarded.

Performance Detail

For the third quarter of 2011, RS Large Cap Alpha Fund (Class A Shares) declined 20.75% versus a 16.20% decline for the benchmark Russell 1000[®] Value Index¹. Technology and producer durables were the Fund's two best performing sectors during the third quarter, led by Activision Blizzard (an electronic gaming and entertainment company, 4.75% position as of 9/30/11) and Synopsys (a provider of electronic design automation technologies to creators of advanced integrated circuits, 3.37%), respectively. Financial services and health care were the sectors primarily responsible for the Fund's relative underperformance during the quarter, led by Regions Financial Corp. (2.55%, Diversified Bank) and Warner Chilcott (2.88%, a global pharmaceutical company), respectively.

Year-to-date, the Fund declined 19.34% versus a decline of 11.24% for the benchmark. Like the quarter, technology and producer durables were the Fund's two best performing sectors during the first nine months of 2011. Conversely, financial services and health care were the two sectors that most negatively impacted the Fund's relative performance for the year-to-date period. Within financials, Regions Financial Corp. and AFLAC Inc. (3.24%, a supplemental insurance provider to individuals in the U.S. and Japan) were the two biggest laggards. Like the third quarter, Warner Chilcott weighed on the Fund's year-to-date performance within the health care sector.

Portfolio Positioning

Financials

During the third quarter we saw a significant decline in the value of many of our financial

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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.

investments. This decline largely resulted from the growing European sovereign debt crisis and concerns that knock on effects to the US economy would prompt a double dip recession. In addition, dramatic declines in US Treasury yields (the 10 year note fell from 3.2% at June 30th to 1.9% by quarter end) are impacting asset reinvestment opportunities for most financial services businesses. Furthermore, the government's stated objective to keep rates at historically low levels for the foreseeable future and intentionally flattening the yield curve through "Operation Twist," is pressuring spreads. Despite these macro economic concerns, we believe that valuations more than reflect our downside assumptions and we have been adding to our highest conviction names.

As mentioned in previous quarterly letters, after a relatively long period with minimal exposure to banks, we repositioned our financials portfolio in late 2009/early 2010 in order to focus on relationship lenders with strong core deposit franchises. With capital and liquidity issues more than adequately addressed, we believe that these low cost core deposit franchises are well positioned to generate improving risk adjusted returns. Within the insurance space, we continue to focus on businesses with advantaged distribution models and niche product offerings that provide a significant competitive advantage. Our approach to creating shareholder value in the insurance space is to focus on companies with a strong market presence in specialty lines of business that can leverage a structurally advantaged distribution model. We continue to believe that these business models will generate superior risk-adjusted returns over our longer-term investment time horizon.

Unlike 2008, the market's concerns related to financials have more to do with profitability than to capital and liquidity. Industry balance sheets are significantly more conservative than they were three years ago, with capital ratios having improved 35% from pre-crisis levels and nearly 1/3 of bank assets in liquid assets. In general, valuations within financials are attractive. We remain interested in those companies that possess sustainable longer term business models, while also seeking to purchase our stakes at levels that we believe provide an extremely favorable entry point.

Consumer, Business Services, Health Care, and Technology

Our cautious stance related to the consumer economy remains. However, we believe the market has become consumed with fears related to the recent S&P downgrade of U.S. government backed securities and the precarious situation in Europe. As such, although we remain cautious regarding underlying fundamentals, we believe more businesses are becoming mispriced, even in the face of a potentially deteriorating economic environment. As the market discounts macro- and company-specific concerns, we believe we will be presented with compelling opportunities to both add to existing positions as well as initiate select new positions. As always, we seek to invest in companies undergoing company-specific structural change that can lead to an improvement in the Return on Invested Capital (ROIC) profile of the enterprise, irrespective of broader trends in general economic activity.

In addition, healthcare continues to be an area where we have been actively searching for new opportunities. As the impact of healthcare reform becomes clarified, we believe winners and losers will emerge. As such, we continue to allocate capital to those companies that we believe should thrive under different health care reform scenarios. Within business services and technology, we continue to allocate capital to businesses that have understandable and predictable revenue streams with high customer retention rates and recurring cash flow characteristics. As such, we believe that the Fund is appropriately positioned for whatever unfolds within the broader economy.

Hard Assets

The hard asset pod (sector grouping) is divided between businesses that we generically label "industrials" and those falling under the natural resource heading. The primary difference between the two groups relates to the laws of mean reversion. In industrials, processing and service oriented businesses, excess returns are typically competed away over time, which is why we focus on *improvements* in returns on invested capital when assessing investment opportunities. In contrast,

returns on capital in the natural resource space are a function of where a company's producing assets sit on a supply cost curve. Effectively, returns are driven by the "quality of the rock" and, because geology doesn't change over our 3-5 year investment time horizon, returns on capital in the natural resource space tend not to mean revert over time. As a result, in the natural resource space we use short-term volatility, often driven by changing expectations regarding near term commodity price movements, to establish positions in businesses that we believe are structurally advantaged, both in-terms of asset quality and management's capital allocation acumen. Due to this fundamental difference, each segment deserves its own separate commentary.

Industrials

As we have stated in past commentaries, we remain concerned about most industrial companies' ability to generate positive pricing in a world where significant excess labor and manufacturing capacity persists. As a result, we have slanted our exposure towards what we view as the higher quality, more durable franchises within the industrial landscape. When we can buy these businesses at what we view as reasonable prices relative to our downside calculation, and estimate equity returns based on company specific initiatives, we deploy our clients' capital.

Natural Resources

Our objective in managing investments within natural resources is to optimize risk-adjusted returns across a full commodity price cycle. An important part of our process involves visiting 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 what we believe are 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 we own. 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 ("advantaged" in the sense that the companies own assets that sit at the bottom of a steeply sloped supply cost curve and can earn excess returns on capital, independent of the commodity cycle);
2. investing in advantaged companies that 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 these few advantaged producers only when we believe that their share prices are trading below current net asset value.

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 our guess regarding near-term demand trends is likely no better than anyone else's. However, we remain confident 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.

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 attempt to use short-term dislocations between price and underlying economic value to establish positions in what we believe to be 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 objective is to continue to expose our shareholders to the most advantaged natural resource companies across the commodities spectrum when 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.

Team

Over the past several years, we have followed the advice we give our management teams, reinvesting heavily in hiring and developing our most precious resource – our people. To that end, we are pleased to announce that during the third quarter we further strengthened our team with two terrific new hires:

Paul Hamilos joins our Financials Team after serving as a Vice President of the Principal Transaction Group at Macquarie Group, where he focused on the specialty finance industry. Previously, he was an Associate at American Capital Strategies focusing on mezzanine debt financing within the financial sponsors group. Paul holds a B.S in business administration, with a concentration in finance and banking, from the University of Missouri and an M.B.A from The University of Chicago Booth School of Business. Paul is a CFA Charterholder.

Andy Walker joins our Hard Assets Team after serving as a research analyst at Janus Capital Group for twelve years, covering the power and industrial sectors. Previously, he was a financial analyst in the corporate finance and investment banking divisions of Goldman, Sachs & Co. Andy holds a B.A. in economics and history from Yale University and an M.B.A. from Harvard Business School. Andy is also CFA Charterholder.

These personnel additions were made to strengthen our team so that we can further increase our knowledge and understanding of our portfolio companies. We are firm believers that, in the final analysis, knowledge is the best risk mitigant. Moreover, our business model requires that each investment professional be responsible for just one new investment idea every three to four months. As such, we are able to encourage team members to be extraordinarily thorough in their due diligence and give them the time and resources to become the most knowledgeable investors in the market. With the addition of Paul and Andy, we believe that our team today is as deep and as strong as it has ever been.

Outlook

We believe that we are in a period of protracted volatility as the markets grapple with a variety of issues, including ongoing deleveraging, deflation/inflation risks, government budget deficits, higher taxes, and the potential for rising risk premiums. We have never attempted to maximize short-term results, as we do not believe that our investors would be adequately compensated for the level of risk that we would have to assume. As business analysts, we enjoy fundamentally-driven environments where company-specific structural change and improvements in cash flow returns on invested capital are the primary determinant of investment results. We firmly believe that the strength of our team, a consistent and repeatable process and a realistic investment horizon have put us in a position to benefit long-term investors. Moreover, we think that the Fund is very well positioned for an environment where individual company-specific cash flow fundamentals are properly rewarded.

We are, as always, thankful for your patience and support.

Sincerely,



Mackenzie Davis, CFA



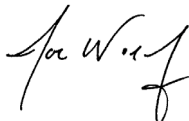
David Kelley



Andy Pilara



Ken Settles, CFA



Joe Wolf

As with all mutual funds, the value of an investment in the Fund could decline, so you could lose money. The Fund invests primarily in equity securities and therefore exposes you to the general risks of investing in stock markets. 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. Foreign securities are subject to political, regulatory, economic, and exchange-rate risks not present in domestic investments. 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. 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 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.

Appendix – Stock Examples

Allstate Corp. is the second largest underwriter of auto and homeowners insurance in the United States, with a market share of nearly 11%. The personal auto and homeowners insurance market is dominated by six players, which represent over 60% of the market. State Farm is by far the largest competitor with over 20% market share. Allstate has more than 18 million auto and over 7 million homeowner's insurance policies currently in force, while also offering life and health products through its Allstate Financial subsidiary. Products are primarily distributed through its more than 14,000 captive agents, 1,100 independent agents as well as through its Direct On-line Channel. Management is in the process of repricing both its homeowners book of business as well as its Florida and New York auto business. We believe that these pricing increases will lead to improving returns, though we concede that it will likely take several renewal cycles before the full impact of this change will be seen in Allstate's reported numbers. This is where our longer time frame conveys a competitive advantage, given that most investors lack the patience necessary to wait for such a

long-term thesis to bear fruit. In the interim, we believe our downside is adequately protected given that Allstate's shares currently trade at 65% of tangible book value and a 13% cap rate.

The Company is instituting a risk-adjusted-return pricing model, which is a material change from the historical norm of focusing on market share gains. Under previous management, Allstate was aggressive in bundled pricing (offering both auto and homeowners at a discounted price) in order to improve retention. However, the company failed to keep up with loss cost trends in its homeowner's book, which resulted in a material deterioration in returns. Conversely, management is pushing price increases and non-renewing select higher risk business. In addition, due to legislative changes regarding no fault insurance in both New York and Florida, fraud claims have risen dramatically. Allstate has reacted by non-renewing higher risk books of business and passing through rate increases. However, the company is careful not to push through too much rate at once in order to manage retentions. As such, we anticipate that returns will improve gradually over several renewal cycles. Finally, Allstate's life operations remain sub-scale, and continue to generate returns well below the company's cost of equity. We believe that the company views the life business as non-core and may be looking to divest this business.

Distribution is the key to success in the insurance space. Products are distributed through three channels; Direct; Captive Agency; and Independent Agency. The Direct auto channel (on-line or 800 number) is the most efficient channel as there are little or no commissions paid to a salesperson, but losses generally run higher. The Captive channel is less efficient, but loss ratios are typically lower than Direct. The Independent Channel is the least efficient as underwriters compete purely for shelf space. Homeowner's policies are sold almost exclusively through either captive or independent agents. We expect that Allstate will continue to take share from State Farm, its largest competitor, given its flawed expense structure (15 points higher than Allstate), higher-cost employee agency model and unwillingness to move toward a direct channel. Moreover, with an overall combined ratio of 109% (the company is barely break-even), we believe State Farm will need to begin tightening its underwriting standards, further pressuring its business.

Allstate's capital and liquidity are both very strong; the company has \$3.8 billion in cash at the holding company, of which slightly over \$3 billion is unencumbered, and its investment portfolio is currently 96% investment grade. In addition, the company has access to a \$1 billion credit facility, which remains untapped. Debt maturities are very manageable with \$350 million of debt maturing 2012, another \$250 million in 2013; and \$650 million in 2014. Based on regulatory guidelines, we estimate that the company could generate nearly \$29 billion in losses over a 12 month period before capital would come into question. To put this in perspective, Allstate would need to generate a 117% combined ratio for the full year, which would be up more than 20 points from 2010 levels. Our downside is further protected by the fact that losses in personal lines are very short-tailed in nature (i.e., typically settled in less than 12 months) and policies can be re-priced every 6-12 months. This allows Allstate underwriters to quickly re-price business if loss trends move against them. Finally, because most policies are settled in a very short period of time, the risk of being surprised by additional losses from previous accident years is limited.

Warner Chilcott is a global pharmaceutical company that markets specialty drugs in women's health, gastroenterology, dermatology and urology. Warner Chilcott focuses on the most profitable areas of the pharma industry, generating high returns on investment while maintaining low capital requirements. The company's specialty products are premium priced, promotion sensitive, require only a small commercial organization and are less vulnerable to generic competition than traditional pharmaceuticals. The company's strategy is to acquire mature products in specialized therapeutic areas, like women's health and dermatology, which require minimal incremental R&D and capex investment. As such, the company does not invest in high-risk drug discovery research. Instead, R&D investments are focused on extending the life cycles of current products, which come at a much lower cost and carry significantly less risk. Thus, Warner Chilcott's R&D as a percentage of

sales is approximately 5% vs. 15% to 20% for traditional pharmaceutical companies. This attractive business model translates into a very high EBIT (earnings before interest and taxes) margin in excess of 40% and ROIC of 25%.

Warner Chilcott enjoys an advantaged tax structure, due to its IP residing primarily in Puerto Rico, which allows the company to be extremely competitive in acquiring marketed products and selling them through its well established global distribution channels. For example, the company acquired Procter & Gamble's pharmaceutical business for \$2.9 billion in September 2009. This transaction was transformative for Warner Chilcott. The former P&G assets are generating \$2.3 billion per year in revenue, are expected to create \$3 billion in free cash flow in 5 years and provide a return of over 20%; giving no credit for any additional new products in the pipeline. Warner Chilcott's management team is highly regarded as shrewd operators who are willing to make significant cost reductions in order to create a lean but highly productive commercial organization, having achieved industry high operating margins that approach 40%.

Our differentiated view on Warner Chilcott is hinged on our belief that their assets are more durable than the Street's view. Warner Chilcott has two key products, Actonel and Asacol, which together represent approximately 50% of the company's revenue. Actonel is an osteoporosis treatment with \$1 billion of global revenue but faces the potential for generic competition in 2014 in the US. Asacol is indicated for inflammatory bowel disease and has about \$700 million in annual revenue; it too faces generic competition in 2014. Warner's strategy is to convert patients from both Actonel and Asacol to improved products called Atelia and Asacol HD, respectively, prior to the introduction of generics in 2014. Both of these new products have IP protection beyond 2020. We believe that Warner's products are highly durable and that the follow on products should retain more than 50% of the existing franchise following the introduction of generic competition in 2014. Atelia is clinically differentiated from Actonel and other competitive products and we believe it will convert 50% of the Actonel franchise before generics enter the market. In addition, the follow on product, Asacol HD, already has 23% of new prescriptions and we believe Warner Chilcott will be able to convert 70% of the Asacol franchise before generics enter the market in 2014. Our constructive view is bolstered by the fact that the FDA has set a very high bar for generic Asacol, such that there may well be no generic Asacol approved before the patents expire.

We believe that the market's concerns about generic competition are obscuring the durable nature of Warner Chilcott's core business and ignore the pipeline of new products. We estimate that the company will generate \$4 billion of free cash over the next four years, representing 45% of the company's enterprise value. In our draconian downside scenario, where we assume 90% of Actonel revenues go away and only half of Asacol revenues remain, reinvestment cash flow would still be \$700 million. This significant free cash flow generation under draconian assumptions provides our investment with considerable downside protection as management pays down debt aggressively. On 2011 metrics, the company is valued at a reinvestment cash flow yield of 17% and a levered free cash flow yield of 29%.

Sector Allocation²
(As of 9/30/11)

Financial Services	19.28%
Technology	16.40%
Energy	12.41%
Materials & Processing	12.38%
Consumer Discretionary	10.42%
Producer Durables	9.79%
Health Care	9.68%
Consumer Staples	3.82%
Utilities	0.00%
Cash	5.82%

Top Ten Holdings³
(As of 9/30/11)

Activision Blizzard, Inc.	4.75%
Symantec Corp.	4.29%
Occidental Petroleum Corp.	4.16%
eBay, Inc.	3.88%
CVS Caremark Corp.	3.82%
Martin Marietta Materials, Inc	3.74%
Motorola Solutions Inc.	3.73%
United Parcel Service, Inc., C	3.70%
Microsoft Corp.	3.63%
The Gap, Inc.	3.63%

Performance

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

	Third Quarter 2011	1-Year	3-Year	5-Year	10-Year	Since Inception ⁴
RS Large Cap Alpha Fund, Class A						
without sales charge	-20.78%	-9.05%	-0.89%	0.12%	2.35%	11.11%
with maximum sales charge	-24.54%	-13.37%	-2.49%	-0.84%	1.86%	10.97%
Russell 1000 [®] Value Index ¹	-16.20%	-1.89%	-1.52%	-3.53%	3.36%	N/A
S&P 500 [®] Index ⁵	-13.87%	1.14%	1.23%	-1.18%	2.82%	9.47%

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

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¹ The Russell 1000[®] Value 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 lower price-to-book ratios and lower forecasted growth values. 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 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 June 1, 1972.

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, the index does not incur fees and expenses.

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