RS | investments

Third Quarter 2009 Mutual Fund Commentary
RS Partners Fund

Performance and Market Commentary

RS Partners Fund (Class A Shares) returned 16.82% versus 22.70% for the Russell 2000® Value Index[1] during the third quarter period ended September 30, 2009. Calendar year-to-date, the Fund outperformed its benchmark by more than 2,000 basis points, posting a 36.94% increase versus16.36% for the benchmark. A broad-based market rally drove performance during the period as prospects for recovery brightened and investors bid up shares in anticipation of improving economic results. The Fund largely kept pace with broad market improvements and all sectors contributed positively to Fund performance.

The third quarter witnessed a continuation of the “risk trade” that has been in place since the market bottomed in March of this year. Since that time, the best-performing stocks, across all capitalization ranges, have generally been the lowest return on equity companies, many with no earnings or cash flow. Long-time readers shouldn’t be surprised that we have never positioned our shareholders’ capital to maximize returns in this type of environment, as we view this as a “trade” rather than an investment. Instead, we have allocated capital to fundamentally strong businesses and management teams where we can quantify the magnitude of improvement in returns over our investment time frame. We are pleased to report that, in general, our companies are executing according to plan.

That said, despite the fact that the Fund experienced appreciation across all of its sectors during the quarter, our companies simply didn’t appreciate to the same degree as did the more speculative investments within the index. With the powerful “risk trade” propelling the market higher during the third quarter, several of the high quality franchises in our portfolio underperformed the market. Examples include Career Education Corp. (2.88% of holdings as of 9/30/09) and Calpine Corp. (1.59%), which remain among our better performing investments for the year.

It is important to note that our solid absolute and relative performance for the year is primarily a function of how our investments behaved during the challenging first quarter of the year. Investment results are a function of past decisions and we believe that our year-to-date performance is the direct result of the sound decisions our team made in the teeth of the 2008 financial crisis. These solid results underscore the merits of our long-term investment horizon, the strength of our team,

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 1.53%. Please refer to the most current Fund prospectus for complete details on expenses including fees. 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. 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 and is available by contacting RS Investments at 800-766-3863 or visiting www.RSinvestments.com.

and the benefits of our consistent and repeatable process, which is focused on downside protection. As we always remind each other, "it's not what you make, it's what you keep."

Team Update

Our most successful investments have occurred when we find a company that is able to reinvest organically into high return projects. Over the years, we have applied a similar approach/philosophy to our own business by aggressively reinvesting in our most valuable resource – our people. While many firms in our industry have been forced to retrench through the downturn, we are pleased to announce that Daniel Lang, MD, and Randy Sternke, CFA, joined the RS Value Team during the third quarter.

Daniel Lang, MD, a former cardiologist, will focus on the healthcare sector. Dan spent the past 15 years practicing medicine, building and managing healthcare businesses, and ultimately overseeing a large cap healthcare portfolio for Farallon Capital Management, one of the largest hedge fund managers in the United States. In his medical career, he was a fellow in cardiology at the University of California, San Francisco, and chief medical resident at Mount Sinai Hospital in New York. Dan received a medical degree from Cornell University Medical College after earning his bachelor's degree in chemistry from Cornell, with distinction in all subjects.

Randy Sternke, CFA, joins the RS Value Team after serving as an investment analyst specializing in financial services at Merrill Lynch in San Francisco. Prior to this he was an analyst with A.G. Edwards & Sons, covering banking and media and entertainment. Randy holds a bachelor's degree in business administration, with a concentration in finance and banking from the University of Missouri-Columbia. He is also a member of the San Francisco CFA Society.

We are delighted to welcome Dan and Randy to our team. The hiring of additional research talent reflects our commitment to reinvest in our business and strengthen our already deep investment team. These recent personnel additions were not made to fill a specific void, but rather to enhance our existing coverage universe by bringing additional expertise to our group. Our investment approach and business model are designed such that each investment professional is 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 be very knowledgable investors in the market. We are firm believers that, in the final analysis, knowledge is the best risk mitigant.

Outlook

The Fund's portfolio positioning and performance are consistent with our more balanced view regarding the current economic outlook and our comparatively muted appetite for risk. We believe that we can continue to buy high quality companies at very attractive valuations that possess the requisite asymmetric risk profile.

We are no longer in an environment where we can purchase the very best companies and management teams using our draconian downside estimate of asset value. That unique opportunity came to an end when it became apparent late in the first quarter that the binary option of "going to zero" was no longer a high probability event. Having said that, we believe that quality remains "cheap," as we continue to find companies with high recurring revenue streams, solid and defensible business models, clean balance sheets, and strong management teams available at discounts to their more highly leveraged peers. We will continue to take advantage of these opportunities as we find them.

Our core philosophy and process have withstood the test of time and we continue to adhere to the same basic tenets:

1. We are business analysts focused on returns-based investing. We seek to identify structural changes that will drive a sustainable increase in a company's return on invested capital over our three-five year investment time frame.
2. Sector allocations are driven by bottom-up, grass roots research and ultimately reflect our conviction in individual companies.
3. Our 15 investment professionals seek to know our businesses as well as anyone in the market.
4. We engage in team-oriented investing by having at least two professionals dedicated to each potential recipient of our capital. We believe this leads to more thorough analysis and a more objective identification of potential risks.
5. We believe that investment returns are a function of entry price.
6. We focus on downside protection as a means to optimize risk-adjusted returns.

The investment results are and will continue to be entirely a function of our ability to apply this process and philosophy.

As always, we thank you for your ongoing support.

Sincerely,

MacKenzie Davis, CFA Co-Portfolio Manager	David Kelley Co-Portfolio Manager	Joseph Mainelli Co-Portfolio Manager
Andrew Pilara Co-Portfolio Manager	Ken Settles, CFA Co-Portfolio Manager	Joe Wolf Co-Portfolio Manager

As with all mutual funds, the value of an investment in the Fund could decline, so you could lose money. 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. 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. Investing in a more limited number of issuers and sectors can be subject to greater market fluctuation. 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. 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, 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.

Appendix—Stock Examples

During the quarter, we initiated a new investment in Ocwen Financial ("OCN", 2.37%), one of the largest servicers of sub-prime mortgages and one of the largest special servicers in the country. Ocwen is responsible for the billing, collections, and remittance of payments to the owners of sub-prime mortgages. In most cases the owners of the mortgages are securitization trusts. This part of the business tends to be more capital intensive as Ocwen typically purchases mortgage servicing rights and is required to temporarily remit payments to the trust on behalf of delinquent borrowers. In contrast, the special servicing business is typically a fee for service business and requires little if any capital.

It is our view that Ocwen is facing an extended cycle of improving returns in its core sub-prime servicing business. Historically, this has been a 9% to 11% reutn on equity business and the shares have typically been valued at levels approximating tangible book value. We expect returns on new business to be in excess of 20%. Additionally, Ocwen should see expanding opportunities in the special servicing business, which is less capital intensive and should therefore improve overall returns. Our entry price approximated tangible book value and we believe that the assets and liabilities of Ocwen are fairly marked. Because we do not expect any book value destruction, our entry price is a very solid proxy for liquidation value and provides us with the requisite downside protection that we look for every investment that we make.

Our investment thesis is predicated on a number of structural improvements that are occurring within Ocwen's business, including:

1. The cost to purchase mortgage servicing rights (MSRs) has declined materially. Historically, sub-prime MSRs were priced at about 75 bps of unpaid mortgage balances. Opportunities to purchase MSRs are currently in the 0 to 40 bps range.
2. Funding costs have also declined. During the credit crunch, funding costs on servicer advances ballooned to London Inter Bank Offering Rate (LIBOR) +600 bps. Management expects these to decline to LIBOR +300 bps and a recent Term Asset-Backed Securities Loan Facility (TALF) deal by American Home Mortgage (now owned by Wilbur Ross) was executed at LIBOR +200 bps.
3. With the lack of available refinancing, durations on portfolios have extended, which in turn increases the IRRs on portfolios purchased by Ocwen.
4. Government efforts to increase loan modifications for distressed borrowers have provided servicers with greater flexibility in modified loans, while also providing monetary incentives for them to do so. In essence, Ocwen will get paid to do what it was previously already obligated to do. For example, through the government's Home Affordable Modification Program (HAMP) program, servicers can earn $1,000 for every modified loan that makes three timely payments following modification. Thereafter, servicers can earn an additional $1,000 annually for every modified loan that stays current for up to three years.
5. We anticipate that Ocwen will be given new sub-servicing/special servicing opportunities. Ocwen should see significant growth in its fee for service business, which has very low capital requirements. For example, the company has completed a pilot program with Freddie Mac and recently entered into an agreement to sub service $4 billion of loans for them. Every billion dollars of loans serviced adds $1 million to Ocwen's bottom line. In addition, Ocwen is eligible to earn additional HAMP fees for any loans it is able to modify under these servicing

agreements. The magnitude of this opportunity is enormous as Freddie Mac owns or guarantees $2.2 trillion of mortgage loans.

By purchasing our stake in Ocwen at approximately tangible book value, we believe that we have maintained considerable downside protection. As such, Ocwen is a good example of the asymmetric risk/reward profile that we seek in every investment that we make. Ocwen's stock price has performed very well since we initiated our investment and we continue to see additional upside potential, above and beyond current valuation.

Scientific Games (3.20%) is a Company that we have owned for several years, and it possesses the type of business fundamentals that we would hope to own for years to come. Scientific Games is a developer, designer, and manufacturer of instant lottery tickets and other gaming operations for states and foreign countries. Due to its scale and intellectual property, the Company has a near monopoly in the highly-profitable scratch-off instant ticket lottery business, generates exceptionally high ROICs, has long-term contracts with high renewal rates, and will benefit from numerous international growth initiatives that are currently underway. Despite these compelling business fundamentals, the stock price has declined this year on concerns related to the Italian government putting the renewal of its country's lottery out for bid. We think that these concerns are overblown and that it is unlikely that the Italian contract will be awarded to a competitor, especially in light of the fact that over the years Scientific Games has been instrumental in taking over the previously nascent Italian lottery and turning it into the most successful instant lottery in the world. The more likely outcome is that Scientific Games may need to give up some of its margin in order to retain the Italian contract.

More importantly, the potential margin hit (or even the outright loss) associated with the Italian contract will be overwhelmed by several other initiatives currently underway at the Company. Under the leadership and direction of new CEO Joe Wright and CFO Jeff Lipkin, tremendous opportunities exist for Scientific Games to optimize its assets and returns by expanding margins, reducing capex, repaying debt, and harnessing the company's international growth opportunities. For example, after an intense study of the Company's procurement costs, management has identified over $50 million in annual cost saves.

Moreover, the Company should be a beneficiary as states and governments look to fill budgetary gaps, while capitalizing on its huge growth opportunity as the designated developer of instant lottery tickets for the Chinese government. The Chinese lottery opportunity alone has the potential to single-handedly increase the cash flow of the Company by nearly 75% over the next three-five years. Additionally, there are a number of other significant growth drivers that we believe will materially increase the value of the Company (e.g., instant ticket launches in the German lotteries, expansion of the UK pub slot business, privatization of US lotteries, sports gaming business). We believe that the future looks extremely promising for this Company, with the potential for investors to earn multiples of capital over the next five years. As a result, we increased our position in Scientific Games during the third quarter of 2009.

Sector Allocation[2]
(As of 9/30/09)

Financial Services	39.10%
Consumer Discretionary	15.15%
Technology	8.58%
Energy	7.77%
Health Care	6.64%
Materials & Processing	6.10%
Consumer Staples	3.97%
Utilities	1.59%
Cash	10.07%

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

NBTY, Inc.	3.97%
ACI Worldwide, Inc.	3.30%
Scientific Games Corp.	3.20%
KKR Private Equity Investors	3.10%
Comverse Technology, Inc.	2.91%
Career Education Corp.	2.88%
Denbury Resources, Inc.	2.86%
Euronet Worldwide, Inc.	2.75%
Jack Henry & Associates, Inc.	2.72%
Magellan Health Services, Inc.	2.70%

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 Partners Fund, Class A						
without sales charge	16.82%	-3.09%	-4.44%	2.66%	13.08%	11.18%
with maximum sales charge	11.29%	-7.68%	-5.98%	1.67%	12.53%	10.80%
Russell 2000® Value Index[1]	22.70%	-12.61%	-6.65%	1.78%	8.05%	9.01%

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 1.53%. Please refer to the most current Fund prospectus for complete details on expenses including fees. 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. 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 and is available by contacting RS Investments at 800-766-3863 or visiting www.RSinvestments.com.

1 The Russell 2000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index with lower price-to-book ratios and lower forecasted growth values. (The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which consists of the 3,000 largest U.S. companies based on total market capitalization.) 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 July 12, 1995.

Distributed by: Guardian Investor Services LLC (GIS), 7 Hanover Square, New York, NY 10004.

CO941QL_PF