

**Third Quarter 2009 Mutual Fund Commentary**  
**RS Technology Fund**

**Performance**

The stock market extended its second quarter rally into the third quarter as investors sought to position themselves for an anticipated economic rebound. In particular, share performance benefited from signs of stabilization in consumer demand and corporate investment, as well from a number of high profile corporate earnings reports that exceeded scaled-back expectations. Nonetheless, bargain hunters continued to dominate the market in many cases, as value shares outperformed growth stocks over the period. While Federal Reserve policymakers continued to forecast a recovery for the second half of 2009, they also warned that economic conditions could remain challenging, and that they would likely keep their target interest rates low for some time. Of particular concern to consumers and policymakers alike was the continued rise in the unemployment rate, which reached 9.8% in September.

For the three-month period ended September 30, 2009, RS Technology Fund returned 16.12%, underperforming the S&P North American Technology Sector Index™<sup>1</sup>, which returned 16.62%. Although overall stock selection added to the Fund's relative performance in the third quarter, a number of our high-quality, more conservatively financed holdings had a difficult time attracting investors focused on more economically sensitive, often speculative investments. Nonetheless, stock selection helped the portfolio to well outperform the benchmark index year-to-date, with RS Technology Fund returning 61.88% for the nine-month period ended September 30, 2009, compared to a 46.45% return for the S&P North American Technology Sector Index.

**Investment Strategy**

RS Technology Fund seeks long-term capital appreciation by investing in growth-oriented technology companies. The Fund's team-based investment approach continues to leverage the insights of our experienced research analysts, who benefit from extensive industry contacts and a deep understanding of the technological and market dynamics of their specific areas. Through disciplined bottom-up investment, we seek to identify companies we believe may deliver significant revenue growth by capitalizing on emerging technologies or market segments. Our goal is to create a portfolio of large cap industry leaders and innovative smaller cap companies that are capitalizing on emerging trends in the technology space. We may also hold a handful of distressed technology

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 1.69%. 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](http://www.RSinvestments.com).

stocks trading at very low valuations, if we believe that these companies have long-term potential that has yet to be appreciated by the broader market.

### **Portfolio Review**

As investors sought to position themselves for the anticipated economic recovery, their focus in many cases shifted to more cyclically sensitive, short-term technology plays that investors hoped would benefit more dramatically from improving corporate or consumer spending trends. In this environment, some of the fundamentally strong, conservatively financed secular growth companies represented in the Fund failed to keep pace with the third quarter market advance. Laggards included McAfee (1.06% of holdings as of 9/30/09), which continues to capitalize on fast-growing and largely recession-proof demand for Internet security software. Nonetheless, because the stock was viewed as a defensive play, it had a difficult time catching the attention of investors trying to position themselves for an economic recovery.

TiVo (1.72%) was another detractor for the period. The original developer of digital video recorders (DVRs), TiVo has been engaged in litigation to enforce the patent on its technology against less expensive, copycat DVR formats marketed by Dish Network (0.00%) and other providers. Recently, the company's stock price has been buffeted by the ebb and flow of the litigation process. Nonetheless, most of the legal settlements have gone TiVo's way, and it appears likely that any company using DVR technology will eventually have to pay royalty fees, which will help to boost TiVo's bottom line.

Telecommunications services provider Leap Wireless International (0.00%) was another detractor. Leap Wireless has reached out to more price-sensitive customers with its inexpensive, prepaid wireless services plans. As competition in this space has heated up, the company has resorted to even lower priced, no contract options that have left its business sensitive to turnover, as price-sensitive consumers shop for the cheapest plans. In the third quarter, Leap Wireless lowered its earning guidance. We sold the stock.

On a positive note, one of our strongest positive contributors for the quarter was Sanmina-SCI (1.48%), a provider of contract electronic manufacturing services that we invested in as a turnaround story. The company is now at the tail-end of its restructuring process, and has shed some of its underperforming businesses while it continues to whittle away at its cost structure. The company is poised for significant Earnings Per Share (EPS) leverage as technology spending improves. The market has recognized these efforts and the stock has rebounded from earlier weakness, aiding our performance.

Another standout contributor, Ciena (1.38%) manufactures optical switches and other products that help direct Internet traffic. Over the past year, network equipment makers such as Ciena have faced a challenging business environment as tier-1 telecommunications companies have scaled back their equipment spending. More recently, however, Ciena has seen its business start to improve as exploding data traffic has forced companies such as AT&T (0.00%) to launch new investments in advanced optical and metro Ethernet technologies.

The growth in data traffic has also continued to fuel demand for data storage solutions. One of the Fund's top-performing investments year-to-date has been STEC (0.00%), a manufacturer of flash memory devices that are being widely deployed as replacements for traditional disk drives. While the stock continued to perform well for us in the third quarter, we opted to sell our position and take our profits after shares reached the target price that we believe fully reflects the company's underlying value. Finally, the Fund also benefited from its stake in Omniture (1.90%), after the maker of website monitoring software received a \$1.8 billion takeover bid from Adobe Systems Inc.

## Outlook

We remain cautiously optimistic on prospects for a modest economic recovery. At the same time, we recognize that the environment may remain challenging for businesses and consumers alike. As investors adjust their expectations to what is likely to be a slow growth environment, we believe they will become more selective in their investments, once again favoring the kind of well-managed, well-capitalized technology companies we invest in. Above all, we remain committed to our disciplined investment approach, as we capitalize on the deep expertise and insights of our entire investment team. We remain diligent in our fundamental research efforts, visiting companies in person, interviewing industry experts as well as company officials, vendors, and customers. We continue to test our assumptions and projections through exacting financial modeling as we seek out companies we believe can deliver exceptional long-term revenue growth, regardless of the economic backdrop.

Thank you for your ongoing confidence.

Sincerely,



Steve Bishop  
Co-Portfolio Manager



Allison Thacker  
Co-Portfolio Manager

As with all mutual funds, the value of an investment in the Fund could decline, so you could lose money. Investing in 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 high-technology and Internet-related sectors may be highly volatile. Companies in these sectors operate in markets that are characterized by rapid change, evolving industry standards, frequent new service and product announcements, introductions, enhancements and changing customer demands. 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, 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](http://www.RSinvestments.com).***

**Sector Allocation<sup>3</sup>**

(As of 9/30/09)

Technology	78.97%
Consumer Discretionary	14.43%
Utilities	3.34%
Producer Durables	1.24%
Energy	0.93%
Financial Services	0.42%
Cash	0.67%

**Top Ten Holdings<sup>4</sup>**

(As of 9/30/09)

Apple, Inc.	4.61%
Google, Inc.	4.22%
Microsoft Corp.	4.04%
Amazon.com, Inc.	3.27%
F5 Networks, Inc.	3.26%
Cisco Systems, Inc.	3.05%
Digital River, Inc.	2.50%
GSI Commerce, Inc.	2.39%
QUALCOMM, Inc.	2.22%
Brocade Communications Systems, Inc.	1.97%

**Performance**

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

	Third Quarter 2009	1-Year	3-Year	5-Year	10-Year	Since Inception <sup>5</sup>
RS Technology Fund, Class A without sales charge	16.12%	18.07%	2.46%	4.92%	-0.45%	7.06%
with maximum sales charge	10.61%	12.45%	0.80%	3.91%	-0.94%	6.68%
S&P North American Technology Sector Index <sup>TM1</sup>	16.62%	7.68%	0.78%	3.85%	-4.64%	5.94%
S&P 500 <sup>®</sup> Index <sup>2</sup>	15.61%	-6.91%	-5.43%	1.02%	-0.15%	6.10%

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

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**1** The S&P North American Technology Sector Index™ is a modified capitalization-weighted index based on a universe of technology-related stocks. Index results do not 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 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.

**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.

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