

## Fourth Quarter 2009 Mutual Fund Commentary RS Small Cap Growth Fund (formerly RS Emerging Growth Fund)

### Performance

The U.S. equity market ended 2009 with modest gains, as shares continued to recapture some of the ground lost in late 2008 and early 2009. Helping to fuel this continued advance were glimmers of economic recovery and some improved corporate earnings performance. The economic recovery appeared relatively fragile, however, as high unemployment continued to weigh on consumer confidence. Against this backdrop, the Federal Reserve kept short-term lending rates unchanged at historically low levels, even as longer term bond yields moved higher on renewed concerns over rising commodity prices and inflation. Despite these pressures, we saw investors look beyond the bargain basement stocks they favored in the third quarter to high quality, secular growth companies that appeared best positioned to capitalize on any improvements in corporate or consumer spending.

Against this backdrop, many of the individual shares held by the Fund delivered strong performance for the three-month period, aiding relative performance. For the three-month period ended December 31, 2009, RS Small Cap Growth Fund gained 9.61%, well outperforming a 4.14% return by the benchmark Russell 2000<sup>®</sup> Growth Index<sup>1</sup>. Stock selection was particularly favorable in the consumer discretionary and health care sectors, but proved negative in the utilities and technology areas. Notably, the Fund also well outperformed its benchmark for 2009 as a whole, delivering a 47.65% return compared to a 34.47% return for the benchmark. We believe that the Fund's ability to outperform its benchmark, whether during the market correction of the first quarter or the recent fourth quarter rally, is a testament to our consistent growth investment strategy and our research-driven stock selection. We continue to focus our energies on identifying high quality growth companies that we believe can deliver healthy revenue growth regardless of underlying economic conditions.

### Portfolio Strategy

RS Small Cap Growth Fund is managed with a team-based approach that calls on the extensive experience and deep sector expertise of our managers and analysts. Our team members rely on hands-on research and extensive industry contacts to identify promising small-cap opportunities before they are recognized by the broader market. In selecting investments for the Fund, we

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 1.51%. 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).

continue to focus on well-managed companies that offer the potential for strong organic revenue growth, superior profit margins, sustainable competitive advantages and expanding market opportunities.

### **Portfolio Review**

During the fourth quarter, the Fund continued to benefit from stock selection in the consumer discretionary sector, as well as from our focus on companies capitalizing on the growth in e-commerce. As more consumers become comfortable with online shopping and financial transactions, we have seen an increasing number of traditional retailers turn to online stores as a way to reach new customers and better manage their inventory costs. One beneficiary of this trend has been GSI Commerce (2.49% of holdings as of 12/31/09), a leading contributor to Fund performance for the period. GSI Commerce develops and manages e-commerce sites for traditional retailers such as Toys 'R Us (0.00%) and Dick's Sporting Goods (0.00%), providing these retailers with a relatively low risk, low cost way of establishing an online selling presence.

A standout contributor among our health care stocks was RehabCare (1.53%), a company that provides rehabilitation and continuing care services for patients after they leave the hospital. The company recently completed a merger with Triumph HealthCare Holdings in a deal that expands its geographic reach and builds out its long-term acute care offering. We continue to focus on companies, such as RehabCare, that are improving patient outcomes by providing cost-effective treatments outside of the traditional hospital setting.

Relative performance was also aided by our investment in mining equipment manufacturer Bucyrus International (0.74%), a company that has relied on its solid aftermarket and spare parts business to help offset the recent slump in heavy equipment orders. The company recently completed its acquisition of Terex's mining operations in a deal that makes Bucyrus the world's largest manufacturer of hydraulic excavators.

On a negative note, the Fund's relative performance was hindered by an investment in Digital River (1.40%), a company that provides outsourced e-commerce platforms for retailers, software publishers, and other Internet-based businesses. In October, the company learned that its largest customer, security software firm Symantec (0.00%), had decided against renewing its contract with Digital River in 2010. Despite this setback, Digital River has worked hard to diversify its customer base in recent years, signing potentially lucrative contracts with companies such as Microsoft (0.00%). Digital River is continuing to forecast revenue growth in the low teens for 2010, even without the Symantec business. For this reason, we remain constructive on its prospects and held onto our position.

Another detractor for the period, slot machine manufacturer WMS Industries (1.60%) traded lower after reporting worse-than-expected third quarter revenue growth. While the company has seen recent business results dampened by weakness in the Las Vegas gaming market, it continues to find opportunities with smaller local gaming facilities. We believe that more and more municipal governments will look to gaming revenues as a way to offset swelling budget deficits. In fact, we saw a number of ballot initiatives for expanded gaming win approval with voters during the recent election season that could create added market opportunities for WMS Industries.

One of our biggest disappointments for the year was PrivateBancorp (0.00%), a Chicago-based banking company that went through a management change several years ago. While the bank's new management team continued to reassure investors as to the credit quality of the legacy credit portfolio it inherited, the company reported a large write-off for bad loans in October, sending shares of PrivateBancorp sharply lower. This news led us to liquidate our investment in the company.

## Outlook

As we look ahead, we caution that economic growth could remain uneven, and market performance volatile. We could even see a period of market retrenchment as investors take profits from the gains they have made in recent quarters. Regardless of the underlying market environment, we remain upbeat on prospects for the companies we own. We continue to focus on high quality, well-capitalized growth companies that we believe will deliver strong returns on equity, regardless of the underlying economic environment. We remain committed to our disciplined growth investment strategy, as well as to our research-intensive approach to identify the best small capitalization investments for your portfolio.

Thank you for your continued investment.

Sincerely,



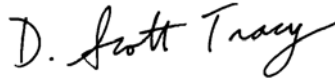
Steve Bishop  
Co-Portfolio Manager



Melissa Chadwick-Dunn  
Co-Portfolio Manager



Allison Thacker  
Co-Portfolio Manager



D. Scott Tracy, CFA  
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 smaller companies can involve risks such as having less publicly available information, higher volatility, and less liquidity than in the case of larger companies. 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. Investments in technology companies may be highly volatile.

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 December 31, 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>2</sup>

(As of 12/31/09)

Technology	22.68%
Health Care	21.58%
Consumer Discretionary	21.33%
Producer Durables	14.88%
Financial Services	6.30%
Energy	6.06%
Materials & Processing	1.68%
Utilities	1.15%
Consumer Staples	0.83%
Cash	3.49%

## Top Ten Holdings<sup>3</sup>

(As of 12/31/09)

GSI Commerce, Inc.	2.49%
United Therapeutics Corp.	1.68%
P.F. Chang's China Bistro, Inc.	1.67%
Advanced Energy Industries, Inc.	1.63%
Dril-Quip, Inc.	1.63%
WMS Industries, Inc.	1.60%
Human Genome Sciences, Inc.	1.55%
Akamai Technologies, Inc.	1.54%
Guess?, Inc.	1.53%
ICF International Inc.	1.53%

## Performance

(Average Annual Total Returns as of 12/31/09)

	Fourth Quarter 2009	1-Year	3-Year	5-Year	10-Year	Since Inception <sup>4</sup>
RS Small Cap Growth Fund, Class A (formerly RS Emerging Growth Fund)						
without sales charge	9.61%	47.65%	-2.92%	0.17%	-5.71%	12.76%
with maximum sales charge	4.42%	40.65%	-4.48%	-0.80%	-6.16%	12.51%
Russell 2000 <sup>®</sup> Growth Index <sup>1</sup>	4.14%	34.47%	-4.00%	0.87%	-1.37%	7.49%

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

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<sup>1</sup> The Russell 2000<sup>®</sup> Growth Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 2000<sup>®</sup> Index with higher price-to-book ratios and higher forecasted growth values. (The Russell 2000<sup>®</sup> Index measures the performance of the 2,000 smallest companies in the Russell 3000<sup>®</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

<sup>4</sup> Class A shares inception date November 30, 1987.

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