

Fourth Quarter 2009 Mutual Fund Commentary RS Investors Fund

Performance and Market Commentary

For the full year 2009, RS Investors Fund (Class A Shares) generated a return of 51.32%, while the benchmark Russell 3000[®] Value Index¹ posted a 19.76% return. During the fourth quarter of 2009, the Fund increased by 3.95% vs. a return of 4.17% for the Russell 3000 Value Index.

The Fund's results in 2009 were positive both in absolute terms and relative to the benchmark, which the Fund outperformed by 3,156 bps (basis points) for the year. This outperformance is even more pronounced, however, when viewed on a risk-adjusted basis. 2009 was a year of extremes, with two distinct phases creating vastly different market environments. The initial period occupied most of the first quarter of 2009 and was characterized by a dramatic decline in the equity markets, as investors shunned risk in favor of higher quality franchises. Our focus on mitigating losses remains an integral component of the RS Value investment process. While this initial phase was a very challenging time for investors, the Fund's ability to better protect shareholder capital during this period was pivotal to its superior relative and absolute performance in 2009. This experience was consistent across all of the funds managed by our RS Value Team and underscores the importance of our intense focus on downside protection.

After the meaningful leg down during the first quarter, the market then entered its second phase of the year. Massive, coordinated government stimulus efforts across the globe reduced market fears and set the stage for a reflationary trade of historic proportions. With the probability of "going to zero" eliminated, the value of companies with too much balance sheet leverage and/or challenged business models, which had been left for dead under more draconian scenarios, snapped back. This second phase ushered in a "risk rally" where the best-performing stocks, across all capitalization ranges, were generally those with lower quality businesses and/or elevated levels of leverage. According to Bernstein Research, the lowest quality stocks outperformed the highest quality stocks by over 50% (or 5,000 bps) from March to December of 2009². During the latter half of the year, the Fund's investments gave back some relative performance. 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 do not believe that our investors will be adequately compensated for the level of risk that we would be assuming on their behalf. Instead, we continued to focus on owning structurally

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 1.98%. 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.

improving businesses that possess asymmetric risk-reward profiles. As such, we are pleased that the Fund was able to deliver full year results that exceeded the benchmark return during 2009.

Portfolio Positioning

Consumer, Business Services, Health Care, and Technology

Healthcare is an area where we have been especially active in allocating new capital. Our commitment to the healthcare opportunity was bolstered by last year's hiring of Dan Lang. Dan joined us from Farallon Capital, a large, diversified San Francisco-based money management firm, where he co-led the healthcare equity effort from 2003-2009. Dan earned his medical degree at Cornell, was chief medical resident at Mt. Sinai hospital in New York and was a Fellow in Cardiology and Post-Doctoral Research at the University of California, San Francisco. Investments in the healthcare sector often come down to having a solid understanding of the underlying science and medical efficacy of both existing and potential new products. In this regard, Dan's medical background has proved invaluable and we believe that he provides the RS Value Team with a significant competitive advantage when it comes to investing in the sector.

While typically an area of relative outperformance in times of market corrections due to its defensive characteristics, the healthcare sector was not spared during recent cyclical declines in the market. In fact, many segments of healthcare experienced significant volatility due to the uncertainty surrounding the government's healthcare reform efforts. The implications of proposed reforms in turn created several contrarian investment opportunities within the healthcare sector. Since the federal government began its negotiating process, we believed that reform would ultimately take a more centrist course and that the actual implications on many companies' cash flows would be far less detrimental than the assumptions implied in equity valuations. Perhaps more importantly, the market painted the sector with a very broad brush, failing to differentiate the better businesses from those more likely to be adversely affected by proposed reforms. A tremendous amount of solid grass roots research helps our team form a differentiated view that enables us to make compelling healthcare investments.

Outside of healthcare, we continue to allocate capital toward companies with less cyclical exposures that are undergoing company-specific changes that should lead to improving returns. Generally speaking, we remain cautious regarding more discretionary consumer businesses as we feel that the US consumer may face ongoing challenges relative to employment, high levels of consumer debt and volatility surrounding home prices. To the extent that we made investments that touch the consumer, we sought businesses that served less-discretionary needs. That said, we believe that over the next few years, we will be given the opportunity to purchase some outstanding consumer franchises at very attractive valuations. We also continue to focus on processing and other niche business services companies given their highly visible and steady toll-oriented revenue models.

Financials

We are becoming increasingly more constructive on the financial services sector. Our strategy is to be incremental buyers of financial services companies on either continued stock price weakness or in connection with additional capital raises. We seek to patiently and opportunistically use market volatility to deploy capital toward those companies that we feel possess solid capital positions, stable and reliable funding sources, and strong management teams.

During 2009, the Fund's property & casualty and multi-line insurance investments were a drag on performance as our thesis regarding the potential for pricing improvements and market share gains failed to materialize (distressed competitors, such as AIG and The Hartford, were better able to retain existing clients and less capacity was removed from the market than expected). That said, the financial services sector contributed positively to the Fund's full year attribution and we are pleased with the positioning of our financial services investments as we enter 2010.

In general, valuations within financials remain relatively attractive despite last year's significant move off of the bottom. Looking forward, we would expect the portfolio to shift away from property & casualty insurance in favor of banks and life insurance. We are seeing some early signs that credit losses may be peaking, which will be the starting point for structural improvements in the return profiles of credit based financial institutions. Despite this near peak in credit losses, we are still able to make compelling banking investments, often at valuations equal to or even below book value. Our more constructive view is bolstered further by the fact that net interest margins have reached a secular low and that the better business models will ultimately benefit from the tremendous leverage associated with improving credit quality. In addition, we remain positive on the life insurance space where we expect continued improving returns that consistently exceed capital costs, better pricing on variable annuities and valuations that remain at or below tangible book value. With returns on new business improving at select banks and life insurance companies, we remain interested in those companies that possess sustainable longer-term business models.

Hard Assets

The hard asset pod is divided between businesses that we generically label as "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 are not subject to mean reversion. Because of this fundamental difference, each segment deserves its own separate commentary.

While the operating environment for many industrial companies has improved considerably over the last 12 months, so too has the market's willingness to discount a much more constructive future. We remain concerned about most companies' ability to generate positive pricing in a world where significant excess labor and manufacturing capacity persists, and believe that input cost inflation will remain a material challenge for the producers of finished goods. In addition, we are unwilling to rely on the sustainability of external stimulus efforts, particularly those that cannot be supported by underlying economics. As such, we have slanted our exposure towards the higher quality, more durable franchises within the industrial landscape. Interestingly, these businesses remain available in the market at much more attractive valuations than their more speculative peers, due in part to the "junk" rally that characterized much of 2009. We like purchasing these businesses at steep discounts to warranted value, as we believe that our downside risk remains limited. Even with the significant increase in stock prices over the last nine months, we remain convinced that the opportunity to own defensible, differentiated business models, run by outstanding management teams, will set the foundation for attractive future returns. If the market is correct, and the world is back to "normal", these companies will create significant value for shareholders. However, if it turns out that future prospects are less robust than many expect (or hope), we believe that the strong competitive positions that our companies maintain and the compelling valuations we paid upon entry will create value for shareholders over the long-term.

Our objective in managing investments within natural resources is to optimize risk adjusted returns across a full commodity price cycle. We do not believe that we have an edge in speculating on commodity price changes. Instead, we believe that we can best manage the risks inherent in natural resource investing by identifying and purchasing what we call "advantaged" assets. Advantaged assets sit at the bottom of a reasonably steep supply cost curve and generate excess returns on capital at any point in a commodity price cycle. These excess returns equate to value creation, which compounds to the benefit of long-term shareholders irrespective of increases or decreases in the commodity price. This process allows us to address the following risks:

- *Mean Reversion.* Relative cost advantages of individual assets are almost entirely due to geology and thus over time there is limited movement up and down the cost curve – low cost assets remain low cost assets. In other words, while commodity prices mean revert, the return profile of commodity producing assets do not.
- *Commodity Price Volatility.* If the cost curve is sufficiently steep, then low cost producers are protected against price volatility. This is because higher cost operators will be forced out of the market to sustain supply/demand equilibrium well before commodity prices are sufficiently depressed to undermine the low cost operator's returns on capital.
- *Value Creation.* Advantaged assets create value due to the excess returns on capital that they generate, and this value compounds over time. In addition, we employ a strict valuation discipline whereby we seek to purchase our interest at a discount to net asset value using conservative long-term commodity price assumptions. By identifying assets that grow in value over time, and purchasing them at a discount to current net asset value, we dramatically reduce the probability that our investments will sustain permanent capital impairment across our investment time horizon.

We accept that this approach may not maximize returns when commodity prices are rising rapidly, as we witnessed in 2007 and the first half of 2008. The offset is that in volatile or declining markets, and more importantly across a commodity price cycle, we believe that our focus on managing risk will allow us to generate superior returns for our investors. Thus, we continue to focus on understanding supply side economics for each commodity, and on identifying those commodities with reasonably steep cost curves. We contend that there are a finite number of advantaged assets for each commodity, and thus we tend to concentrate around the lowest cost projects while remaining broadly diversified across commodities.

Our longer-term outlook for natural resources remains positive. 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. While we believe that the near term outlook is less certain, and likely to be quite volatile as a result, we contend that this is one of the most opportune times to deploy capital into the advantaged businesses. Our objective in the current environment 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 are best able to provide our investors with all the benefits associated with investing 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.

Outlook

We are pleased with the Fund's results in 2009 given the macro, non-fundamentally driven market backdrop that persisted for much of the year. With the possibility for increasing interest rates, inflation and taxes conspiring to raise the market discount rate, we believe future performance will no longer be driven by the re-rating of expectations associated with a declining discount rate. Moreover, as we move into 2010, we think that the Fund is very well positioned for an environment where individual company-specific cashflow fundamentals are again relevant.

Our investment philosophy, which is focused on structural changes leading to improving returns, coupled with a strict valuation overlay, provides us with a repeatable investment process that is highly effective across market cycles. In addition, we strive to know our companies as well as anyone in the market and firmly believe that both our extensive bottom-up analysis and staffing

levels convey a competitive advantage. We remain committed to our disciplined investment process that focuses on growing your capital over time.

We thank you as always for your patience and support.

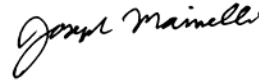
Sincerely,



Mackenzie Davis, CFA
Co-Portfolio Manager



David Kelley
Co-Portfolio Manager



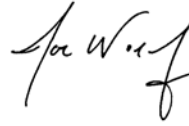
Joseph Mainelli
Co-Portfolio Manager



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. 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. 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.

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.

Appendix—Stock Examples

Southwestern Energy Company was a positive contributor to the Fund's return during the year. Southwestern Energy is an independent oil and gas company with the leading position in the low-cost Fayetteville Shale play in Arkansas. While the company's shares benefited during 2009 from an increase in natural gas prices from unsustainably low levels, our investment in Southwestern is premised more on the view that the company will be able to reinvest in high-return gas projects, even in a lower price environment, by virtue of its low-cost asset base. Indeed, our analysis shows that while commodity producer stocks are positively correlated with changes in the price of the underlying commodity over short periods of time, commodity producer stocks tend to be much more closely correlated with returns on invested capital over longer periods of time – as is the case in any industry. Furthermore, differentiated returns between commodity producers tend to be a function of the significant differences in the cost structures that exist between producers, which, importantly, are caused by geology and thus tend to last for years. A review of the historical performance of Southwestern Energy shares versus its exploration and production (E&P) peers and the price of the underlying commodity highlights this important observation. Southwestern Energy's stock price, while correlated with natural gas prices and its competitors' share prices over short periods of time, has dramatically outperformed that of its higher-cost peers and the price of natural gas over the last several years because the company has been able to reinvest at very attractive rates of return. We expect this trend to continue. After studying Southwestern Energy's reinvestment opportunities and analyzing the unit-level economics of the projects that it will be pursuing over the next 3-5 years, we believe that the company will continue to generate very strong rates of return. This should support double-digit annual growth in Southwestern Energy's net asset value (NAV), even in a much lower commodity price environment.

We recently initiated a new investment in **State Street**, one of the largest servicers and managers of financial assets in the world. The company has two principal businesses: Investment Servicing and Asset Management. In its Investment Servicing segment, State Street provides its institutional clients with services such as custody, fund accounting, fund administration, daily pricing, trading, foreign exchange and securities lending. In its Asset Management business, State Street is one of the leading providers of passive investment products (index funds) to institutional investors. These business units are driven by the level of assets under custody (AUC) and assets under management (AUM), respectively. The company exhibits many of the qualities of a cash flow driven, asset light business model. Managed optimally, State Street maintains a relatively low risk investment portfolio and requires little incremental maintenance or growth capital.

State Street enjoyed a long history as a conservatively run company. However, during the last cycle, the outgoing CEO materially increased the risk profile of the company's balance sheet in an attempt to increase earnings. A combination of increased credit risk and off balance sheet leverage resulted in the company undertaking a series of investment losses and capital raises. Despite these developments, State Street's core Investment Servicing and Asset Management businesses actually performed quite well throughout the market downturn. It is our view that the company is putting the missteps of the past behind it by lowering the risk profile of the balance sheet and refocusing its efforts on its core Asset Management and Investment Servicing businesses.

The incoming CEO, Jay Hooley, comes from the custody side of the business and has been with State Street for over 20 years. The company has done a tremendous job rationalized its cost structure over the past year, reducing staff by 10% and increasing operating margins from 30% to 35%, in spite of a decline in top line revenue. Moreover, the company plans to further reduce its workforce by an additional 5% in 2010. We believe that our investment in State Street provides us with a compelling risk/reward profile as we are purchasing a tremendous business franchise at a 2010 Reinvestment Cash Flow Yield in excess of 10%, with relatively modest risk to the downside.

Sector Allocation³

(As of 12/31/09)

Consumer Discretionary	18.32%
Financial Services	17.56%
Energy	16.42%
Technology	15.54%
Materials & Processing	12.10%
Health Care	5.35%
Producer Durables	5.28%
Utilities	4.50%
Consumer Staples	2.90%
Cash	2.00%

Top Ten Holdings⁴

(As of 12/31/09)

Coinstar, Inc.	5.65%
Denbury Resources, Inc.	5.59%
Occidental Petroleum Corp.	5.56%
Compass Minerals International, Inc.	5.38%
Agilent Technologies, Inc.	5.28%
Comverse Technology, Inc.	5.27%
Southwestern Energy Co.	5.27%
Microsoft Corp.	5.21%
ACI Worldwide, Inc.	5.06%
Scientific Games Corp.	4.71%

Performance

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

	Fourth Quarter 2009	1-Year	3-Year	Since Inception ⁵
RS Investors Fund, Class A				
without sales charge	3.95%	51.32%	-8.79%	-1.72%
with maximum sales charge	-0.94%	44.06%	-10.27%	-11.33%
Russell 3000 [®] Value Index ¹	4.17%	19.76%	-8.91%	-1.31%

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 1.98%. 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 3000[®] Value Index offers investors access to the broad value segment of U.S. equity value universe. The Russell 3000 Value Index is constructed to provide a comprehensive and unbiased barometer of the broad value market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine value probability approximates the aggregate broad market value manager's opportunity set.

² Source: FactSet and Bernstein Research analysis, Equity Portfolio Strategy Materials, January 7, 2010. Bernstein's quality model, which includes six factors including ROE, sales growth, net margin and three stability metrics, determined average annualized relative returns of -15.0% for the highest quality quintile vs. +36.0% for the lowest quality quintile for the period from March 2009 to December 2009.

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, 2005.

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