

Fourth Quarter 2011 Mutual Fund Commentary RS Technology Fund

Market Commentary

Equity markets remained volatile in the fourth quarter, but managed to regain some of the ground lost in last August's market sell-off as investors welcomed signs of modest improvement in the U.S. economy. The S&P North American Technology Sector Index™¹ returned 7.66% during the quarter, underperforming an 11.82% return by the broader S&P 500 Index². While some encouraging news on the employment and housing markets helped to ease recession fears in the fourth quarter, the overall mood among investors remained cautious. Worries over the financial and political crisis in Europe and the potential for slowing growth in China continued to hang over the market and contributed to uncertainty over corporate IT spending in 2012. Corporate earnings performance was also mixed during the quarter, especially in the technology sector where several large-cap market stalwarts such as Oracle and Amazon issued disappointing earnings reports. A number of smaller technology companies with promising long-term growth prospects received renewed attention from investors. This was due in part to anticipation of increased merger and acquisition activity, following SAP's December purchase of SuccessFactors, a smaller provider of cloud-based human resource management solutions.

Performance Summary

RS Technology Fund (Class A Shares) gained 6.58% for the three-month period ended December 31, 2011, underperforming a 7.66% return by the S&P North American Technology Sector Index and an 11.82% return by the broader S&P 500 Index. For the full year 2011, the Fund declined 11.91%, underperforming the S&P North American Technology Sector Index, which declined 0.88%. The Fund has outperformed over longer time periods, outperforming the S&P North American Technology Sector Index over the 3-and 5-year timeframes.

Portfolio Strategy

We believe that innovation drives market share gains in technology, which leads to sustainable earnings growth and long-term stock price appreciation. For this reason, we remain committed to an intensive fundamental research approach that focuses on understanding the long-term secular

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movements within technology in tandem with the underlying financial and company- specific fundamentals of the companies we own.

The Fund is focused on finding innovative companies across the market cap spectrum that possess strong management teams, high revenue growth and proprietary technology. Portfolio manager Steve Bishop, who has over 19 years of investment experience, follows an investment process that centers on conservative management, self-funding business models, low debt/equity, and a path to sustainable earnings growth. Bishop and a team of research analysts leverage detailed fundamental research and industry contacts to identify the earnings potential of each company, focusing on “anchor points” or quantifiable metrics of a company’s long-term growth trajectory as it executes its business, rather than on short-term valuations or stock movements.

With respect to risk, we seek a minimum two-to-one ratio of upside potential to downside risk for each investment. We measure these scenarios using proprietary financial models that look three to five years out, focusing on our anchor points. At the portfolio level, we perform weekly, formal risk-management meetings.

Portfolio Review

In managing RS Technology Fund, we look for investment opportunities across the range of market capitalizations. We seek to combine exposure to emerging, smaller cap technology companies with positions in proven market leaders with more established technologies, demonstrated market leadership, and a solid track record of revenue and earnings growth. We continue to seek out companies that are at the forefront of innovation and that benefit from growing market share and sustainable competitive and technological advantages that will enable them to grow their earnings over the next three to five years. Often, we find such investments in the small- and mid-cap market segments, with companies that may be early in their growth cycle but that we believe can emerge as market leaders of tomorrow. The strategy of own technology shares across the market capitalization spectrum has hurt our relative performance in the recent risk-averse investment climate. The Fund holds significant investments in a number of smaller capitalization, growth oriented technology stocks that have struggled as investors have become more risk-averse. However, our emphasis remains on long-term fundamentals. We are less focused on short-term earnings and share price fluctuations than on a company’s performance relative to our anchor points, which track progress relative to our long-term investment thesis.

Many of the Fund’s detractors for the quarter were in the semiconductor area, where near-term business uncertainty and some inventory issues have recently weighed on share price performance. Individual detractors included Avago Technologies (1.87%), a supplier of components used in wireless communications, and Broadcom Corp. (2.27%), a maker of telecommunications chips used in television set-top boxes. These are companies we have purchased for their proprietary technology and competitive advantages, as well as for their potential to capitalize on mobile convergence. Mobile convergence is one of the promising growth stories we continue to follow, as consumers and enterprises migrate to a single device, such as a smart phone, tablet computer, or television set-top box, that enables users to access the Internet, remote applications, social networking and other features. These companies make components integral to elements of this evolving technology, and we remain positive on their long-term prospects.

Another technology trend we have been following closely is the growing consumer and industrial adoption of energy efficient LED lighting units, which last as much as ten times longer than traditional incandescent bulbs while using a fraction of the energy. Our interest in this area led us to lighting technology company Cree, Inc. (2.77%), a leading supplier and low-cost producer of high-end LED technology for computer screens as well as for more traditional overhead lighting uses. Earlier this year Cree shipped more LED lighting units to its distributors than the market could absorb, resulting in some inventory building and price cutting. In our view, this price cutting may help

speed adoption of this superior technology in the end-user market. The stock has suffered throughout the year as it has taken longer than we expected for these higher inventories to resolve themselves, yet we continue to believe in its long-term growth potential. LED lighting currently accounts for only about 1% of the more than \$20 billion overall lighting market and we believe this share could grow significantly over the next three years.

Online retailing powerhouse Amazon.com, Inc. (2.09%) was a detractor in the fourth quarter. While Amazon continues to take market share away from Internet and brick-and-mortar incumbents in a variety of consumer categories, this growth campaign has not come cheaply. The company has invested heavily in distribution platforms, technology infrastructure, and marketing initiatives, and these higher expenses have weighed on the company's recent earnings performance. Despite this development, we remain reassured by Amazon's execution. The company continues to spend money in ways that are designed to drive revenue growth and market share gains, even as it invests in new product areas. Given Amazon's strong financial position and broad-based market leadership in the Internet retailing space, as well as its growing forays into online content delivery, we remain constructive on its long-term prospects.

A number of the Fund's individual holdings are benefiting from continued interest in the area of cloud computing, and the proliferation of cloud computing is a trend we are following closely. Using virtualization software, a company can create a "private cloud" to manage its workforce's computing requirements. One server can handle the workload that previously required ten servers, with significantly shorter set-up times. One such company is SuccessFactors (0.00%), a market leader in providing cloud-based human resource solutions. In December, the company announced it will be acquired by the U.S. subsidiary of software-as-services innovator SAP (0.00%) for a significant price premium. This acquisition underscores the growing interest in cloud computing. As cash-rich technology companies seek to build capabilities in innovative technologies such as cloud computing and software as a service, we believe an accelerated consolidation among small vendors is likely to continue. Interest in the cloud computing area has also helped to boost performance in a number of the Fund's other investments in this space, including Taleo Corporation (1.94%), a provider of cloud-based talent and workforce management solutions, and Ultimate Software Group (0.93%), a provider of web-based payroll processing and workforce management solutions.

With the proliferation in cloud computing, mobile applications, and data flow, we have also seen tremendous demand for flexible, scalable, and high-performing data storage solutions. Data storage and data securing is an area where enterprises continue to spend money, even in a less certain business climate. One company that in our view is well positioned to benefit from this spending is OCZ Technology Group (3.43%), a supplier of high performance, customizable solid state drives and memory modules used to store data. The company continues to report strong earnings and guidance as it capitalizes on the continued explosion in data storage needs as well as on a recent shortage of hard disk drives. The stock proved a strong performer for the Fund in the fourth quarter, and we remain positive on its prospects.

Data security is another area where we continue to see long-term growth potential. With the proliferation of cloud computing and the growing use of mobile devices, IT security threats are growing more complex, as evidenced by the past year's headlines highlighting cyber attacks and security breaches. Such high-profile cybersecurity incidents are likely to continue, in our view, causing increased focus on protecting sensitive public and private sector data. Our interest in this area led us to Fortinet, Inc. (2.40%), the maker of an advanced unified threat management appliance that operates like a very fast and nimble firewall, processing huge amounts of information at a very rapid rate to identify potential threats. The company delivered strong performance for the Portfolio in the fourth quarter and for the year. We believe the company is well positioned to expand its share in this multi-billion dollar market.

Annual Performance Review

RS Technology Fund returned negative absolute performance for the twelve-month period, while also underperforming the benchmark S&P[®] North American Technology Sector Index[™] and the broader S&P 500[®] Index. The Fund's relative performance was hurt by its underweighting in the more defensive technology market bellwethers that were favored by investors in this uncertain environment and by weakness in the semiconductor and components space.

Significant detractors from the Fund's relative performance were Cree and 3D movie theater technology company RealD (0.00%), which we sold on concerns over a slower-than-expected roll-out of 3D technology in cinemas nationwide. Positive contributors to the Fund's relative performance included Apple (7.55%) and communications semiconductor maker NetLogic Microsystems Inc.(0.00%), which was acquired earlier in the year by Broadcom (2.27%).

Outlook

Despite recent volatility in the technology sector, we remain optimistic on long-term prospects for technology investment and for the full spectrum of technology companies that we own. We continue to position the Fund to capitalize on what we view as promising trends such as industry consolidation, growth in data traffic, cloud computing, social networking, demand for IT efficiency, and state-of-the-art cybersecurity. The fundamentals of technology companies as a group also remain very compelling in our view, backed by stronger balance sheet and cash positions. We believe that this cash will not only help technology companies thrive in a less certain economic environment, but it will also likely drive more merger and acquisition activity, creating opportunities for technology companies.

Thank you for your investment.

Sincerely,



Steve Bishop
Co-Portfolio Manager

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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 December 31, 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.

Sector Allocation³
(As of 12/31/11)

Technology	91.42%
Consumer Discretionary	5.06%
Utilities	1.72%
Health Care	0.66%
Consumer Staples	0.00%
Energy	0.00%
Financial Services	0.00%
Materials and Processing	0.00%
Producer Durables	0.00%
Cash	1.14%

Top Ten Holdings⁴
(As of 12/31/11)

Apple, Inc.	7.55%
QUALCOMM, Inc.	4.57%
Google, Inc.	4.52%
Oracle Corp.	3.83%
Ocz Technology Group, Inc.	3.43%
EMC Corp.	3.16%
Silicon Graphics International	2.80%
Cree, Inc.	2.77%
Cisco Systems, Inc.	2.75%
Cognizant Technology Solutions Corp.	2.58%

Performance

(Average Annual Total Returns as of 12/31/11)

	Fourth Quarter 2011	1-Year	3-Year	5-Year	10-Year	Since Inception ⁵
RS Technology Fund, Class A without sales charge	6.58%	-11.91%	28.10%	4.75%	4.38%	7.77%
with maximum sales charge	1.50%	-16.10%	26.06%	3.74%	3.88%	7.45%
S&P North American Technology Sector Index™ ¹	7.66%	-0.88%	22.14%	3.84%	2.44%	6.81%
S&P 500® Index ²	11.82%	2.11%	14.11%	-0.25%	2.92%	6.67%

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, the index 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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