

RS Large Cap Alpha A GPAFX

Morningstar's Take | 04-07-10 | by Ryan Leggio

This fund's new makeup has appeal.

So far so good for RS Large Cap Alpha.

This fund focuses on good businesses that it has forecasted to generate even better returns on invested capital, so it would be understandable if it had failed to keep pace during a strong bull market led by much different companies, but it has defied the odds. Since new management took over here in March 2009, the fund is up 46%, just a hair behind the S&P 500. This is a short-term result, but it's definitely a good start.

These results didn't just happen by chance. Management has been busy remaking the portfolio. Since mid-2009, it sold many of the previous manager's holdings and replaced them with its own. Companies that likely won't be able to substantially increase their ROIC such as Coca-Cola KO and Johnson & Johnson JNJ have been replaced by turnarounds such as Citigroup C and KeyCorp KEY, which offer better downside protection and more favorable valuations, in management's opinion.

A move into financials was the manager's biggest by far. The team now has 28% of assets in the sector compared with just 17% a year ago. Its thesis for Citigroup carries over to its other bank holdings, too. It says it bought the company at or below its tangible book value. And with the balance sheet providing downside protection, a turn in credit and modest stock price were the only other elements it needed to make an investment. Comanager Joe Wolf says the team expects mid- to high returns on equity for most of these holdings. And the only reason the team didn't buy long-term call options, which looked even better on a risk/reward basis a few months ago, is because the fund will never own derivatives or options.

There's a lot to like here. With a sector-agnostic portfolio of 35-40 stocks, the fund can easily differentiate itself from peers. A repeatable and sensible process coupled with low fees make recommending this fund easy.

Kudos

- Comparatively low expense ratio.
- New management team has a history of low turnover.
- Experienced supporting analyst team.
- Conservative investment strategy.

Risks

- This fund has exhibited a significant amount of manager turnover in recent years.
- The fund will lag when lower-quality fare is in favor.

Strategy

The new management team focuses on improving returns on invested capital. It also tries to purchase companies that exhibit asymmetric risk/reward profiles (for example, \$3-\$5 upside for every \$1 of downside).

Management

Manind Govil, who had taken the helm here Aug. 1, 2005—replacing interim managers Matthew Ziehl and the firm's chief investment officer, Tom Sorell—left RS March 27, 2009. The management team at RS Value RSVAX is now in charge. This team includes 15 investment professionals who, on average, have more than 15 years of investment experience.

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Year	Total Return (%)	+/-Category
2009	24.89	-3.28
2008	-29.29	8.50
2007	14.78	8.62

Data through 12-31-09

May 2010

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The following are mentioned in the article, portfolio weighting of RS Large Cap Alpha Fund listed in parentheses as of 3/31/10: Coca-Cola (0.00%), Johnson & Johnson (0.00%), Citigroup (3.73%), and KeyCorp (2.40%).

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RS Large Cap Alpha Fund (GPAFX) Performance[†] (Average Annual Total Returns as of 3/31/10)						
	First Quarter 2010	1 Year	3 Year	5 Year	10 Year	Since Inception (6/1/72)
RS Large Cap Alpha Fund, Class A						
without sales charge	6.83%	45.42%	1.47%	6.32%	-2.69%	11.95%
with maximum sales charge	1.75%	38.51%	-0.16%	5.29%	-3.17%	11.80%
Russell 1000 [®] Value Index ¹	6.78%	53.56%	-7.33%	1.05%	3.10%	N/A
S&P 500 [®] Index ²	5.39%	49.77%	-4.17%	1.92%	-0.65%	9.87%

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

Sector Allocation³ (As of 3/31/10)	
Financial Services	31.9%
Health Care	14.1%
Energy	13.5%
Materials and Processing	10.6%
Consumer Discretionary	8.9%
Technology	7.4%
Producer Durables	5.4%
Consumer Staples	2.9%
Cash	5.3%

Top Ten Holdings⁴ (As of 3/31/10)	
Agilent Technologies, Inc.	4.07%
Hasbro, Inc.	3.99%
Genworth Financial, Inc.	3.73%
Citigroup, Inc.	3.73%
Pfizer, Inc.	3.46%
Occidental Petroleum Corp.	3.44%
Martin Marietta Materials, Inc.	3.37%
Fidelity National Information Services, Inc.	3.28%
Praxair, Inc.	3.16%
BHP Billiton Ltd.	3.09%

† 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 1.04% for the Class A shares. Class A performance quoted "with maximum sales charge" reflects the current maximum sales charge of 4.75%. 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. Certain share classes are subject to lower maximum sales charges whether paid at the time of purchase or deferred. Any sales charges are in addition to the Fund's fees and expenses as detailed in the Fund's most current prospectus. Fees and expenses are factored into the net asset value of your shares and any performance numbers we release. Total return figures reflect an expense limitation in effect during the periods shown; without such limitation, the performance shown would have been lower. Performance results assume the reinvestment of dividends and capital gains. The return figures shown do not reflect the deduction of taxes that a shareholder may pay on Fund distributions or the redemption of Fund shares. Current and month-end performance information, which may be lower or higher than that cited, is available by contacting RS Investments at 800-766-3863 and is frequently updated on our Web site: www.RSinvestments.com.

1 The Russell 1000[®] Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 1000[®] Index (which consists of the 1,000 largest U.S. companies based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values. Index results 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.

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