

## First Quarter 2010 Mutual Fund Commentary RS Global Natural Resources Fund

### Philosophy

Our investment philosophy can be best summed up by our mantra that “it is not what you make for investors, but rather what you keep for investors.” This is particularly relevant in the natural resources space, which is characterized by tremendous volatility and cyclical nature and where we believe many companies destroy shareholder value over long periods of time. Investors generally allocate to commodities and natural resource equities for a number of reasons, including inflation protection, diversification benefits, exposure to emerging market growth dynamics, and on a belief that supply/demand trends will push commodity prices higher over time. However, there are also risks associated with these benefits, primarily related to commodity price volatility and value creation (or lack thereof). We believe that our job is to provide investors with these potential benefits while employing an investment framework that minimizes the various risks associated with allocating to the asset class.

RS Global Natural Resources Fund seeks long-term capital appreciation. Our objective in managing the RS Global Natural Resource Fund is to optimize the risk-adjusted returns across a commodity price cycle. We believe that the best way to generate superior through-cycle returns for our investors is by:

1. owning only those low-cost advantaged producers of commodities (i.e. “advantaged” in that these companies that own geological assets of which they are the lower cost producer and can potentially create value independent of changes in the commodity cycle),
2. investing in advantaged companies which have management teams focused on generating returns that exceed their cost of capital irrespective of commodity price,
3. limiting sovereign and geological risk, and
4. purchasing stakes in the few advantaged producers only when we believe their share prices are trading below net asset value.

Our approach to investing in the natural resources sector is private equity-like, both in terms of our investment horizon and our investment process. We use a team of business analysts to identify what we believe to be the few advantaged companies in each commodity space that will create the most value over a 3-5 year horizon, and wait for the market to provide us with attractive opportunities to

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 1.50%. 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).

purchase interests in them. We expect the advantaged companies to grow net asset value by at least 10-20% per annum in a flat price environment due to their positions on the cost curve. In essence, we are looking for the same return stream that private equity investors seek, only with greater liquidity and commodity diversification. Further, we believe that the increasingly shorter-term focus of the public equity investors will continue to provide longer-term investors with attractive opportunities to buy some of the best natural resource companies in the world.

We acknowledge that our investment approach may not maximize returns over short periods of time when commodity prices are rising. 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 better benefit our shareholders over the long-term. Our studies show that while advantaged companies have underperformed higher cost companies during cyclical upturns, these companies have materially outperformed commodities and natural resource equity indices in downturns and, most importantly, across the commodity price cycle.

### **Performance Update**

For the first quarter of 2010, the RS Global Natural Resources Fund was up 2.14% while the S&P North American Natural Resource Index™<sup>1</sup> was up 0.49% for the same period. The S&P 500 Index<sup>2</sup> was up 5.39%. Investments in advantaged iron ore, metallurgical coal, salt, and power producers were positive contributors to returns in the quarter. Examples include Vale S.A. (4.19% position as of 3/31/10), Compass Minerals (3.12%), and Calpine (3.03%). Negative returns were generated largely by our natural gas investments, as gas prices declined due to concerns about short-term excess capacity. We remain confident that our companies are earning economic returns even at current depressed gas prices and that gas prices will eventually move back toward the marginal cost of supply (the price at which the marginal producer earns a reasonable return on invested capital) as higher cost producers are forced to reduce production. As longer-term value investors, we continue to look for opportunities to purchase the few advantaged producers of those commodities that are temporarily out of favor, such as natural gas.

### **Strategy Update**

An important part of our process involves visiting various natural resource projects around the world. We do this to gain perspective on how future projects will impact the supply cost curve for a commodity and to identify the owners of what we believe are the most cost advantaged projects in a given commodity. Importantly, we believe that this work provides us with a basis for assessing current and future incentive prices for various commodities, as well as helping us in our efforts to generate project-by-project net asset value models for the companies we own.

In the most recent quarter, we went to Chile to visit various copper mines, as well as to meet with company executives and mine operators. We spent time with Antofagasta (3.78%) at Los Pelambres, El Tesoro and Esperanza, as well as with Quadra (0.00%) visiting their Sierra Gorda project. We came away impressed with the vast resource and potential for continued project development, particularly in the Atacama region, but also a better appreciation of the price sensitivity for these multi-decade, multi-billion dollar endeavors. We believe that these are some of the most attractive copper assets in the world, yet many require long-term copper prices closer to \$2.00/lb to earn attractive rates of return, well above the 20 year average of \$1.50. In our view, for many copper projects outside the region, however, even \$2.00/lb would be sub-economic and in fact there are several projects under development whose cash costs (the breakeven point for a producer at current levels of production) approach those levels. We believe that the current state of the commodity market revolves around rising marginal costs of supply, increasingly steep supply cost curves, and that the benefits of owning low cost, advantaged assets in such an environment can provide long-term value creation independent of commodity prices. We contend that this dynamic exists for many commodities today, and that there are a finite number of advantaged assets for each commodity. As

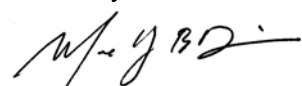
such, the Fund is concentrated around the lowest cost projects while being broadly diversified across commodities.

We believe that the current environment for natural resources is mixed, with the variance largely driven by each commodity's relative exposure to China. Commodities such as iron ore and metallurgical coal have performed extremely well as the continued expansion of China's steel production coupled with on-going logistical bottlenecks for the producers has driven prices well-above our assessment of the long term marginal cost of supply. At the other end of the spectrum is North American natural gas, where concerns over a short-term supply glut and expectations of a rapidly flattening supply cost curve have driven gas prices well below sustainable long-term prices, and have negatively impacted the related stocks as well. We believe that in the absence of a coordinated pick-up in global demand, commodity prices will continue to oscillate around their respective incentive prices with a high degree of volatility. We will use short-term dislocations between price and underlying economic value to establish positions in what we believe are the most advantaged assets at reasonable prices, and will conversely use periods of strength to reduce exposure to businesses when valuations look stretched.

The longer-term outlook for natural resources remains positive, in our view. 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. Our objective is to continue to expose our shareholders to the most advantaged natural resource companies across the commodities spectrum when we believe valuations are attractive. By doing so, we feel that we are best able to provide our investors with all the benefits associated with an investment in the natural resource space. As long term investors, we believe that these are the markets that create compelling long term opportunities, and we are excited about the prospects moving forward.

We are, as always, thankful for your patience and support.

Sincerely,



MacKenzie Davis, CFA  
Co-Portfolio Manager



Andrew Pilara  
Co-Portfolio Manager



Ken Settles, CFA  
Co-Portfolio Manager

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 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. 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.

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 March 31, 2010.

**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 3/31/10)

Energy	47.03%
Materials and Processing	37.79%
Utilities	3.00%
Financial Services	1.81%
Cash	10.36%

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

(As of 3/31/10)

Denbury Resources, Inc.	5.11%
Southwestern Energy Co.	5.10%
Occidental Petroleum Corp.	4.82%
Martin Marietta Materials, Inc.	4.40%
BHP Billiton Ltd.	4.21%
Talisman Energy, Inc.	4.21%
Vale S.A., ADR	4.19%
Goldcorp, Inc.	4.03%
Antofagasta	3.78%
Oil Search Ltd.	3.55%

## Performance

(Average Annual Total Returns as of 3/31/10)

	First Quarter 2010	1-Year	3-Year	5-Year	10-Year	Since Inception <sup>5</sup>
RS Global Natural Resources Fund, Class A						
without sales charge	2.14%	57.30%	0.02%	8.83%	16.25%	10.92%
with maximum sales charge	-2.70%	49.83%	-1.59%	7.78%	15.69%	10.54%
S&P North American Natural Resources Sector Index™ <sup>1</sup>	0.49%	48.62%	0.89%	6.86%	8.77%	N/A
S&P 500® Index <sup>2</sup>	5.39%	49.77%	-4.17%	1.92%	-0.65%	9.87%

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

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<sup>1</sup> The S&P North American Natural Resources Sector Index™ is a modified cap-weighted index designed as a benchmark for U.S.-traded securities in the natural resources sector. The index includes companies involved in the following categories: extractive industries, energy companies, owners and operators of timber tracts, forestry services, producers of pulp and paper, and owners of plantations. 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.

<sup>2</sup> 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.

<sup>3</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>4</sup> Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

<sup>5</sup> Class A shares inception date November 15, 1995.

<sup>6</sup> The S&P Goldman Sachs Commodity Index (GSCI) is used in this paper to illustrate the risk and returns of an investment in commodities. It is a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The returns are calculated on a fully-collateralized basis with full reinvestment. The combination of these attributes provides investors with a representative and realistic picture of realizable returns attainable in the commodities markets.

<sup>7</sup> The Dow Jones-UBS Commodity Index (DJUBS) is used in this paper to illustrate the risk and returns of an investment in commodities. It is composed of futures contracts on 19 physical commodities. The commodities in the index are traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME).

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