Fourth Quarter 2009 Mutual Fund Commentary
RS Global Natural Resources Fund

For 2009, the RS Global Natural Resources Fund was up 49.33% while the S&P North American Natural Resource Index™[1] was up 37.54% for the same period. The S&P 500 Index[2] was up 26.46% during the year. For the fourth quarter, the Fund was up 8.05% versus the a 6.60% increase in the S&P North American Natural Resource Index and a 6.04% increase in the S&P 500.

Investments in independent oil and gas producers, base metals producers and mining equipment manufacturers were significant contributors to Fund returns during the year. Examples include Talisman Energy (4.93% of holdings as of 12/31/09), Vale SA (4.37%), Bucyrus International (1.47%), and Petrobank Energy and Resources (which we exited during the year). The Fund's underweight in the large integrated oil companies also helped relative performance. In general, these companies are challenged by their sheer size to create incremental value on a per share basis. Losses were limited to investments in partially deregulated utilities, which we exited during the year, as well as Martin Marietta Materials, Inc. (3.22%), a position we increased during the year at an extremely attractive valuation. Overall, we believe that the Fund is very well positioned going forward.

There are numerous reasons that investors may choose to allocate a portion of their portfolio to commodities or natural resource equities, including possible inflation protection, diversification benefits, exposure to emerging market growth dynamics and a belief in long-term commodity price trends. However, there are also risks associated with these benefits, primarily related to commodity price mean reversion, commodity price volatility and value creation (or lack thereof). Our job as investment professionals is not only to manage those risks, and but also to provide information to our clients so that they can better understand how our strategy may fit into a broader asset allocation model.

Commodities in and of themselves do not create value for investors. Instead, price fluctuations serve to balance supply and demand dynamics in the physical markets. We contend that long-term commodity price trends will likely continue to be positive, driven by a lack of spare capacity and increasingly challenging supply-side economics. However, we also expect that commodity prices will remain volatile, and more importantly will continue to mean revert. Specifically, commodity prices will oscillate between a lower boundary of cash costs (the breakeven point for a producer at current levels of production), where supply is rationed and an upper boundary, which is the price where demand is destroyed. The mean price is defined as the marginal cost of supply (i.e., the price at which the marginal producer earns a reasonable return on invested capital). Historically, commodity prices mean revert to the marginal cost of supply, with significant volatility in both directions, and we see no fundamental reason for this relationship to change. In fact, this volatile mean reversion played out during the past 15 months. As an example, during 2008 oil fell from $145 per barrel in early July to $34 in early December. This was due to demand destruction brought about, at least in part, by commodity price escalation. However, commodity production requires continuous investment and starting in March 2009, oil began its recovery from the low-$30's, below cash costs, to over $70 by June of the same year. During this 12 month period, we witnessed more than half of a full commodity price cycle, from demand destruction to supply destruction and back to mid-cycle - highly volatile, but mean reverting.

Commodity producing companies can create, or destroy, value for shareholders over longer periods of time. Over the short-term, however, stocks and the underlying commodity have been highly correlated, with commodity price volatility explaining as much as 80% of daily stock price changes. Many investment strategies are premised on directional bets on commodity prices, and the leveraged relationship between commodities and commodity producers' share prices. The successful execution of these strategies is therefore a function of one's ability to correctly time changes in commodity prices, which, as discuss above, are subject to mean reversion.

Our objective in managing the RS Global Natural Resource Fund is to optimize the risk adjusted returns that we generate for our shareholders across a full commodity price cycle. We do not believe that we have an edge in speculating on commodity price changes, nor do we wish to be exposed to variables that are subject to mean reversion. 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 that potentially compounds to the benefit of long-term shareholders, irrespective of increases or decreases in the commodity price. This process allows us to address the major risks discussed above:

- *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 companies will sustain permanent capital impairment across our investment time horizon. We firmly believe in the value manager's adage "it's not what you make, it's what you keep:"

We accept that this approach may not maximize returns when commodity prices are rising rapidly, as 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 better benefit our shareholders over the long-term. The following table shows our performance for 2009, as well as for the longer time frames that we believe to be more applicable to our through-cycle investment process and philosophy.

	1-Year	5-Year	7-Year	10-Year
RS Global Natural Resources Fund	49.33%	10.06%	17.46%	16.41%
S&P North American Natural Resources Sector Index™[1]	37.54%	11.14%	16.08%	9.22%
S&P GSCI Commodity Index™[6]	13.48%	-3.00%	2.83%	5.05%
Dow Jones-UBS Commodity Index[7]	18.91%	1.96%	5.86%	7.13%

Not surprisingly, our long-term returns also reflect that rate at which our individual companies compound net asset value across a commodity price cycle. We believe this annual value creation, independent of commodity price fluctuations is best illustrated by a case study that should be familiar to long-time readers. In our opinion, the long-term track record of an investment in XTO Energy serves as an emphatic counter argument to those who claim that commodity producers don't create value, contend that money making in the natural resource space requires commodity price speculation or assert that all returns in the public market are, by definition, subject to the laws of mean reversion.

XTO Energy is an on-shore US exploration and production company with roughly 80% of its production focused on natural gas. XTO's investment philosophy is much different than that of a traditional exploration and production company. Instead of focusing on production growth as the key to shareholder value creation, XTO management built an inventory of low cost, low decline projects. These assets generated economic profits at very low gas prices and also required a much smaller percentage of cash flow for maintenance spending, freeing up XTO's discretionary capital for investments in other high quality projects. XTO was able to grow both production and reserves with a high degree of capital efficiency, which in-turn translated into excess returns on capital that ultimately led to net asset value growth. Since its initial public offering in May 1993 until the announcement of Exxon's takeover in December 2009, XTO generated annualized returns of 25.5%. To put this achievement in perspective, over the same time frame natural gas appreciated by 5.1% per year while the S&P 500 posted annualized returns of 7.8%. Thus, XTO was able to create meaningful value for its shareholders that was well in excess of the returns available to investors in either the commodity or the broad equity markets. In addition, it is clear that the company's competitive advantage, namely its large inventory of low cost, capital efficient projects sitting in the bottom quartile of the supply cost curve, did not deteriorate through market forces and was in fact the primary determinant of value creation.

It is also instructional to look at XTO's returns relative to a peer company, which controls assets that sit further up the natural gas supply cost curve. This company is a favorite of investors who use its stock as a leveraged play on commodity prices. Therefore, the comparison between the two companies highlights the difference between investing in commodity producers with a competitive advantage and speculating on commodity price movements. From 1995 to 2008, we analyzed the performance of XTO and this high cost company during periods when natural gas prices were both up and down. In up markets, the high cost company generated average annual returns of 109% versus 84% for XTO. However, in down markets, the high cost company generated average annual –losses of 52% versus losses of 6% for XTO. Over the measurement period, natural gas had an annualized return of 6.1%, XTO 29.7% and the high cost company 2.9%. Several points are obvious to us. First, operating leverage works both ways, leading to outperformance of the high cost stock when commodity prices are up and significant underperformance when commodity prices decline. Over time, it is clear to us that the high cost company destroyed value for shareholders, generating negative returns relative to the commodity. Second, compounding is an important consideration for investors — +84%/-6% is a much better combination than +109%/-52%. We believe the material outperformance of XTO in down markets is a function of its ability to create economic value in any gas price scenario. Lastly, investors are clearly better served when they ignore commodity prices (natural gas varied from under $2/Mcf (Mcf=1,000 cu. ft.) to nearly $12/Mcf during the period) and remain focused on owning advantaged assets. We believe the former will mean revert towards the marginal cost of supply, while the latter retains its competitive advantage over time.

This underscores why 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 the Fund tends to concentrate around the lowest cost projects while remaining broadly diversified across commodities. Given our favorable longer-term view, we have attempted to take advantage of the current environment by deploying more capital against our highest conviction names at valuations that we believe represent extraordinary asymmetric return profiles across our investment time frame. Over the course of this year, we have worked to improve the composition of the Fund by adding direct exposure to several commodities and business models that we have long admired from a fundamental perspective, but were not comfortable with in terms of valuation and the downside risks we would be accepting with our shareholders' capital. Examples include new positions in the producers of copper, agricultural commodities such as potash, liquefied natural gas, and salt. Interestingly, many of these commodities are not traded on futures exchanges and thus represent unique investment opportunities for investors in natural resource equities. We believe that these investments will yield attractive risk-adjusted returns across the commodity price cycle and will also assist in further diversifying the Fund during periods of volatility.

Outlook

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 be deploying 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 create compelling long term opportunities, and we are excited about the prospects moving forward.

We are, as always, thankful for your support.

Sincerely,

MacKenzie Davis, CFA	Andrew Pilara	Ken Settles, CFA
Co-Portfolio Manager	Co-Portfolio Manager	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 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.

Sector Allocation[3]
(As of 12/31/09)

Energy	45.95%
Materials & Processing	35.73%
Financial Services	4.23%
Utilities	2.99%
Producer Durables	1.47%
Cash	9.62%

Top Ten Holdings[4]
(As of 12/31/09)

Denbury Resources, Inc.	5.41%
Occidental Petroleum Corp.	4.93%
Talisman Energy, Inc.	4.93%
Southwestern Energy Co.	4.58%
Vale S.A., ADR	4.38%
XTO Energy, Inc.	4.37%
BHP Billiton Ltd., ADR	4.28%
Goldcorp, Inc.	3.77%
Peabody Energy Corp.	3.62%
Concho Resources, Inc.	3.47%

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

	Fourth Quarter 2009	1-Year	3-Year	5-Year	10-Year	Since Inception[5]
RS Global Natural Resources Fund, Class A						
without sales charge	8.05%	49.33%	1.64%	10.06%	16.41%	10.95%
with maximum sales charge	2.92%	42.23%	0.00%	8.99%	15.84%	10.57%
S&P North American Natural Resources Sector Index™[1]	6.60%	37.54%	2.03%	11.14%	9.22%	N/A
S&P 500® Index[2]	6.04%	26.46%	-5.63%	0.42%	-0.95%	6.43%

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 1.50%. 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.

1 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.
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, it 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.
6 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.
7 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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