

Fourth Quarter 2009 Mutual Fund Commentary RS Partners Fund

Performance and Market Commentary

For the full year 2009, RS Partners Fund (Class A Shares) generated a return of 43.67%, while the benchmark Russell 2000[®] Value Index¹ posted a 20.58% return. During the fourth quarter of 2009, the Fund increased by 4.91% vs. a return of 3.63% for the Russell 2000 Value Index.

The Fund's results in 2009 were positive both in absolute terms and relative to the benchmark, which the Fund outperformed by 2,309 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. A keen focus on mitigating losses remains an integral component of the RS Value Team's 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 1.53%. 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. As we enter 2010, the healthcare weighting in the Fund stands well above that of our benchmark index. 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 helped our team form a differentiated view that enabled us to make compelling healthcare investments.

Outside of healthcare, we continue to allocate capital toward companies with less cyclical exposures, which 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

As we progressed through 2009, the Fund's exposure to financial services increased as we became increasingly more constructive on the sector. During the year, our strategy was to be incremental buyers of financial services companies on either continued stock price weakness or in connection with additional capital raises. We patiently and opportunistically used market volatility to deploy capital toward those companies that we felt possessed solid capital positions, stable and reliable funding sources, strong management teams, and increasing returns on capital. Our financial services investments made a very strong positive contribution 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. Looking forward, we would expect the portfolio to continue its 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 bet 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



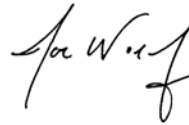
Joseph Mainelli
Co-Portfolio Manager



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. 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. 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.

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

One detractor from our performance during the fourth quarter was **Coinstar**, a company that we have owned for several years and have written about in the past. Coinstar is known for its coin-counting division, a business that we have always admired for its high returns on capital and durable cash flow. Over the last few years Coinstar has invested in its Redbox business, a \$1 per night DVD kiosk rental business. Redbox has been a spectacular growth story, growing to over 22,000 kiosks from only 12 five years ago and revenues will exceed \$750 million in 2009, up from \$150 million just two years ago. Redbox is taking market share from brick and mortar rental companies like Blockbuster due to its attractive value proposition by offering consumers convenient access to movie content at rock-bottom prices. Its low cost structure and minimal fixed capital requirements enable Redbox to earn very attractive returns, with EBITDA margins approaching 20% and cash paybacks on its kiosks of less than three years.

The recent stock weakness resulted from investor concerns around Redbox's relationships with certain major movie studios. In December of 2008, Universal Studios announced that it would no longer supply Redbox with new releases until 45 days after the DVDs were made available for sale. In August of 2009, Fox and Warner Bros also announced that they would restrict access to new releases. In aggregate, these studios represent approximately 40% of the industry. In conversations with management and through our independent research and industry contacts, we have developed conviction that eventually Redbox and the studios will come to an agreement on an economic model that works for both sides. In the meantime, Redbox has demonstrated that it can successfully work around the holdout studios by acquiring content from other sources. At the current enterprise value of approximately \$1.3 Billion, and after subtracting the value of the coin counting, money transfer, and gift card businesses, we believe that we are paying very little (if anything) for Redbox, which will generate \$120 million of EBITDA this year and continues to grow at a very healthy rate. As such, we took advantage of the stock price weakness during the fourth quarter to more than double our stake in the company.

During 2009, we invested in Canadian mortgage insurer **Genworth MI Canada**, after it was spun out from U.S.-based Genworth Financial. Because of capital issues caused by losses at several mortgage insurance businesses in the United States, all but one of Genworth Canada's competitors exited the Canadian market, leading to an oligopoly. Genworth Canada currently has a 31% market share, which is down from the 45% market share it enjoyed in 2007 because of concerns regarding its former parent's solvency. The newly spun company, however, is completely unlevered, with capital levels that exceed those required by Canadian regulators by \$400 million. Given its strong financial position, we expect that over time the company will be able to regain some of this lost market share. The Company also has solid and experienced management. The CEO, Brian Hurley, who has run the business for the last 10 years, came through the GE leadership program and was the former CFO of Genworth Financial's US mortgage insurance business.

At the time that we made our investment, many investors assumed that the Canadian mortgage insurance market was very similar to the US market. Through our analysis of the underwriting criteria and restrictions in Canada, and by speaking with industry participants and several banks, we came to the conclusion that the Canadian market was a significantly better place to do business, when compared with the US. The advantages of the Canadian market include:

- Canadian mortgages tend to carry lower leverage;
- There is personal recourse in Canada when a debtor fails to pay his/her mortgage;
- There is an absence of subprime and alternative mortgage structures (e.g., no option ARMs and very few interest only loans);
- Premiums are received upfront and earned over the life of the policy, allowing for additional investment income;

- Canadian delinquencies are currently 29 bps compared to some US mortgage insurance companies with delinquencies over 10%; and
- Home prices in Canada appreciated double digits during 2009, which should help decrease the severity of losses.

Our investment thesis is built on the fact that Genworth Canada is a conservatively run business, operating in a duopoly, that generates significant free cash flow. We also believe that this investment provides us with considerable downside protection. At the time of purchase, we initiated our investment at 90% of book value and we believe that delinquencies would have to increase 6 fold before any capital destruction would set in. Moreover, unlevered returns appear to have troughed at a 12% ROE, and we believe that over time the company will see unlevered returns in the mid to high teens.

Sector Allocation³

(As of 12/31/09)

Financial Services	40.23%
Consumer Discretionary	17.73%
Technology	11.02%
Health Care	10.11%
Energy	8.48%
Materials & Processing	4.83%
Utilities	1.71%
Consumer Staples	0.74%
Cash	5.16%

Top Ten Holdings⁴

(As of 12/31/09)

Coinstar, Inc.	3.73%
Magellan Health Services, Inc.	3.71%
ACI Worldwide, Inc.	3.52%
Denbury Resources, Inc.	3.17%
Comverse Technology, Inc.	2.99%
Scientific Games Corp.	2.81%
The Cooper Cos., Inc.	2.80%
Compass Minerals International, Inc.	2.62%
Jack Henry & Associates, Inc.	2.55%
BorgWarner, Inc.	2.44%

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 Partners Fund, Class A						
without sales charge	4.91%	43.67%	-5.33%	1.10%	13.60%	11.35%
with maximum sales charge	-0.08%	36.83%	-6.85%	0.15%	13.05%	10.97%
Russell 2000 [®] Value Index ¹	3.63%	20.58%	-8.22%	-0.01%	8.27%	9.11%

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 1.53%. 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 2000[®] Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 2000[®] Index with lower price-to-book ratios and lower forecasted growth values. (The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000[®] Index, which consists of the 3,000 largest U.S. companies based on total market capitalization.) 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.

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.

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 July 12, 1995.

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