

## First Quarter 2010 Mutual Fund Commentary RS Small Cap Growth Fund

### Performance

The stock market continued to recover lost ground in the first quarter as investors welcomed positive corporate earnings news across multiple sectors. There were also signs that the economic recovery was starting to broaden, as spending trends for consumers and corporations improved. The Commerce Department reported that inflation-adjusted GDP grew at a 5.6% annual rate in the fourth quarter, more than double the pace of third quarter growth. Despite better news on retail spending and factory orders, the economy continued to face headwinds. The unemployment rate remained near 10% through March, while rising commodity prices fueled inflation worries.

Against this backdrop, the Fund delivered a solid gain, returning 8.27% for the three-month period, compared to a 7.61% return by the benchmark Russell 2000<sup>®</sup> Growth Index<sup>1</sup>. RS Small Cap Growth has also outperformed the Russell 2000<sup>®</sup> Growth Index over the one- and three-year periods. Stock selection during the quarter helped to support relative performance, especially in the health care and technology sectors. On a negative note, stock selection in the producer durables sector weighed on relative returns.

### Portfolio Strategy

RS Small Cap Growth Fund is managed with a team-based approach that leverages the unique expertise and experience of our investment managers and analysts, in an effort to identify promising small cap companies before they are recognized by the broader market. Our team members continue to interview company officials in person and witness their operations from the ground up. We back up our findings through discussions with industry leaders, as well as with company competitors, suppliers, and customers. We also conduct exacting financial modeling and scenario testing, evaluating the downside risk and reward for each holding. Our emphasis is on identifying well-managed companies that offer the potential for strong organic revenue growth, superior profit margins, sustainable competitive advantages, and expanding market opportunities.

### Portfolio Review

The Fund's relative performance was supported by stock selection in the health care sector, especially in the biotechnology industry, an area we began adding to late last year as we focused on

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 1.51%. 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).

companies with platform technologies or substantial reward potential relative to their downside risk. These included Nektar Therapeutics (1.07% of holdings as of 3/31/10), a biotechnology company that has developed adjuvant technology platforms that improve the duration or effectiveness of drugs. We also benefited from our stake in InterMune (0.84%) whose drug for the deadly and so far untreatable lung condition idiopathic pulmonary fibrosis (IPF) is now under review by the U.S. Food and Drug Administration (FDA). In the first quarter, an FDA panel gave InterMune's compound a favorable evaluation, raising expectations that the drug will receive approval for U.S. sales later this year. While we are excited about the potential for the stock, we continue to take a measured approach given the recent run-up in the stock price, and trimmed our position.

A number of our consumer stocks have also benefited from the improved spending environment. These include Zumiez (1.69%), a mall-based retailer of surf and skate apparel and accessories that we initiated last year after the company's disappointing sales performance weighed on its share price. Zumiez largely caters to a young male demographic who tend to delay clothing purchases during recessions. Our view was that this created pent-up demand that might work to Zumiez's benefit once the economy improved, especially given some of the innovative strategies the company was undertaking to drive sales and reduce expenses. In the first quarter, we saw the company's same-store sales growth rebound even faster than we had expected, rewarding our interest in the stock. We remain constructive on its long-term potential, especially given our view that the company could double its store base as it gains footholds in malls around the country.

On a negative note, our relative results were dampened by our investment in natural gas exploration and production company Comstock Resources (0.74%), which traded off along with a sharp drop in natural gas prices. Nonetheless, we remain constructive on the company and our long-term investment thesis in the natural gas industry. Not only does natural gas produce 50% to 70% less pollution than oil, but the United States benefits from more than a hundred year supply of the fuel. Given recent technological innovations that have improved yields and reduced the cost of extraction, we remain upbeat on natural gas's long-term prospects as a more environmentally-friendly alternative to crude oil when it comes to power generation. This investment thesis appears on track, despite the recent volatility in natural gas prices.

Our relative performance was also hurt by several investments in the producer durables sector, including Telvent GIT (0.99%), a supplier of business integration software and infrastructure management services to companies in a variety of energy, utility, and industrial sectors. While the company's recent financial performance disappointed investors, we remain constructive on its long-term prospects, especially given its diversified exposure to different industry segments and technological platforms, including a number of smart-grid initiatives in the utilities area.

We liquidated our investment GrafTech International (0.00%), a manufacturer of graphic electrodes and other components used in scrap metal processing that underperformed in the first quarter on lowered financial guidance resulting from pricing pressures. Given the reduced visibility of the business and likely pressures on its profit margins, we exited the position.

## **Outlook**

Going forward, we caution that the market may take some time to digest recent gains, creating volatility in share price performance. In this environment, we remain committed to our bottom-up growth investment discipline, combining hands-on fundamental research with rigorous financial modeling and scenario testing. We continue to monitor the performance and underlying fundamentals of the companies we own as we remain on the lookout for high quality, well-capitalized growth companies that we believe can deliver strong returns, regardless of the underlying economic environment.

Thank you for your continued investment.

Sincerely,



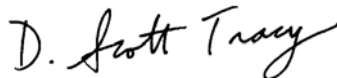
Steve Bishop  
Co-Portfolio Manager



Melissa Chadwick-Dunn  
Co-Portfolio Manager



Allison Thacker  
Co-Portfolio Manager



D. Scott Tracy, CFA  
Co-Portfolio Manager

As with all mutual funds, the value of an investment in the Fund could decline, so you could lose money. Investing in smaller companies can involve risks such as having less publicly available information, higher volatility, and less liquidity than in the case of larger companies. 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. Investments in technology companies may be highly volatile.

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>2</sup>**  
(As of 3/31/10)

Health Care	26.52%
Technology	19.76%
Consumer Discretionary	18.45%
Producer Durables	12.76%
Financial Services	7.91%
Energy	5.35%
Consumer Staples	2.58%
Materials & Processing	2.37%
Utilities	1.16%
Cash	3.06%

**Top Ten Holdings<sup>3</sup>**  
(As of 3/31/10)

Medidata Solutions, Inc.	1.72%
P.F. Chang's China Bistro, Inc.	1.70%
Zumiez, Inc.	1.69%
Super Micro Computer, Inc.	1.67%
Align Technology, Inc.	1.63%
Human Genome Sciences, Inc.	1.59%
Advanced Energy Industries, Inc.	1.56%
GSI Commerce, Inc.	1.55%
Dril-Quip, Inc.	1.54%
HEICO Corporation	1.51%

## Performance

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

	First Quarter 2010	1-Year	3-Year	5-Year	10-Year	Since Inception <sup>4</sup>
RS Small Cap Growth Fund, Class A without sales charge	8.27%	62.81%	-0.63%	3.61%	-6.63%	13.02%
with maximum sales charge	3.12%	55.09%	-2.24%	2.60%	-7.80%	12.77%
Russell 2000 <sup>®</sup> Growth Index <sup>1</sup>	7.61%	60.32%	-2.42%	3.82%	-1.53%	7.76%

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

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<sup>1</sup> The Russell 2000<sup>®</sup> Growth Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 2000<sup>®</sup> Index with higher price-to-book ratios and higher forecasted growth values. (The Russell 2000<sup>®</sup> Index measures the performance of the 2,000 smallest companies in the Russell 3000<sup>®</sup> 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.

<sup>2</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>3</sup> Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

<sup>4</sup> Class A shares inception date November 30, 1987.

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