RS | investments

Fourth Quarter 2011 Mutual Fund Commentary
RS Greater China Fund

Investment Environment

"…be fearful when others are greedy and greedy when others are fearful"
–Berkshire Hathaway 2004 Chairman's Letter

Whilst the full context behind this oft-reproduced quote was more a warning against market timing than an instruction to be absolutely contrarian, the words are well worth remembering. Today, uncertainty reigns, problems are abundant and solutions seem a faint prospect. Against this backdrop, combined with a press – national, international or online – that is determined to remind us of impending doom on a daily basis, it is genuinely uncomfortable to take the road less travelled. At times like this, optimism is perhaps the admirable quality to uphold.

It is our belief that there is a growing disconnect between perception and reality. In short, everyone knows that Europe is being slowly pushed to the brink, that developed world growth is likely to be low for an extended period as adding leverage becomes yesterday's trick and that China's three decades of rapid growth have created some challenging imbalances. However, little is being written about the healthy position of the private sector, the sensible economic management being displayed in a number of countries, the continued robust economic growth from the emerging world, led by China, or the vast technological changes ongoing across the globe.

China has again dominated the column inches (or should that now be 'tweets'?) over the past quarter. Given much of the reporting by journalists and financial analysts veers towards the dramatic, it is worth reiterating the main macroeconomic developments. Firstly, the Chinese economy continues to grow rapidly. Q3 GDP growth was up 9.1% from a year ago. Other economic indicators, while clearly slowing, still appear robust, and at the same time inflation is moderating (to below 5% annual growth in the latest release). The most important thing to note, however, is that these are all backward looking data points and rarely help in predicting the future.

The second point is that the Chinese government is very well aware of this softening trend and is tweaking policy accordingly. With inflation under control for the time being, the government has been channelling lending to those areas most in need, such as the rail sector (the share price of CSR Corp, the rolling stock manufacturer, has rallied strongly from its lows in response). It has also started a pilot scheme to allow local governments to issue bonds (fully backed by the Central Ministry of Finance). Other measures include relaxing conditions in the banking sector (monthly lending quotas are noticeably looser, a reserve requirement cut has been implemented, and the planned increase in capital requirements has been delayed). As we have seen before, periods of lower inflation go hand in hand with further price liberalisation (electricity and refined products are the two key examples). This is all incredibly positive. The final point to note is the change of tone from the government following the all-important Central Economic Work Conference. The key word for policymaking for the year ahead is "stability", with the focus on "maintaining growth" ahead of "taming inflation". Subtle shifts like this are important in determining the likely backdrop for companies in the coming months and years.

Turning to the corporate sector, there are two newsworthy areas to note, albeit one, corporate governance, is now becoming something of a recurring theme. On this, there have been a number of companies targeted by short sellers, including Focus Media which is a holding in the fund. In this instance we question the grounds for the attack, dredging up issues that in the main have been known about and put to bed years ago. We believe the company may have been unfairly targeted – indeed Focus Media and its management have bought back stock since the share price fall. Unfortunately corporate governance, and particularly the interests of minority shareholders, is not always what it should be in China. We remain vigilant.

The second, much more positive area is the high level of corporate activity, underlining the vibrant position in which the private sector finds itself. China's dash overseas to secure resources continues apace, with both CNOOC (4.57% position as of 12/31/2011) and Sinopec (0.00%) making substantial investments in the oil and gas space, while, in the coal sector, Winsway Coking Coal (0.00%) acquired assets in Canada. Possibly of more significance has been the higher level of inward investment – the deal between restaurant operators Yum! Brands and Little Sheep has finally been cleared, as has the one between Joy Global and Chinese mining equipment manufacturer IMM. Meanwhile, PepsiCo is investing in Tingyi's soft drinks business and Caterpillar is buying mining equipment maker ERA Mining. Exciting times.

In comparison, developments in Hong Kong and Taiwan have been muted. Economic performance remains reasonable, although the openness of both regions has clearly had an impact as financial flows have slowed and developed market demand cooled. Most recently, there have been concerns that the previously certain one-way bet on the renminbi is no longer that. All of a sudden, renminbi beneficiaries are out of fashion, making it one of our favoured areas for consideration. The other long-term theme we highlight time and time again is improving cross strait relations with Taiwan. Another 'unexpected' announcement allowing Chinese banks to invest up to 10% in their Taiwanese counterparts saw the shares of the latter up strongly. We continue to be well-positioned here in names such as China Life Insurance (Taiwan, 1.07%) and asset plays Huaku Construction (0.93%) and Taiwan Fertiliser (0.83%).

Fund review

There have been minimal changes to the fund over the past quarter, as you will no doubt expect given our long-term investment horizon. At the margin, we have reduced ENN Energy Holdings (a city gas distributor, 0.96%) to increase our position in Kunlun Energy (China National Petroleum Corporation's appointed gas champion, 2.69%), and to better reflect the evolving debate on the merits of private versus state ownership.

We have also made a complete sale of telecommunications equipment maker ZTE (0.00%) and taken a new position in China National Building Material (1.46%), a cement company. The former follows a reappraisal of the original investment case and subsequent heightened concerns regarding its vendor financing model, and the proportion of profits provided by government subsidies. Taking a new (small) position in China National Building Material reflects conviction in the outlook for investment in China, and this is one of the more aggressive and leveraged players in this space.

Needless to say, the overall shape of the fund is little changed with overweight positions in information technology (especially 'new media' companies), energy and financials (with a preference for insurers rather than commercial banks), and no exposure to the telecommunications sector where we believe growth prospects to be relatively limited in the face of rising pricing competition.

Performance Review
During the fourth quarter of 2011, RS Greater China Fund returned 6.29%, outperforming the 5.02% return of the MSCI Golden Dragon Index[1].

Performance of the Greater China region over the past quarter has been better, although in reality this only represents a small, partial recovery from the dramatic falls reported previously. It was pleasing to see a rebound in the Chinese market which has been a lacklustre performer in recent years. Stock selection and the fund's overweight position in China were the main contributors to performance. Returns were driven by a turnaround in the fortunes of two of the country's embattled rail companies, CSR Corp (2.15% position as of 12/31/2011) and China Railway Construction (1.00%). The rally in these stocks from their lows resulted from a combination of several supportive government policies towards the troubled Ministry of Rail, and a reversal of the extreme valuations that appeared to be assigning negative growth to the sector, despite nearly 20,000 km of planned railway construction.

Several Chinese financial stocks also performed strongly given the cut in the reserve ratio for the banks late in the quarter. This provided a positive boost to the fund's holdings in China Merchants Bank and Ping An Insurance (2.01%). Elsewhere in the country, Focus Media (1.89%) bounced sharply from the extreme price falls generated by (thus far unsubstantiated) accusations from short seller Muddy Waters of financial irregularities at the company.

Taiwan was the notable laggard, with a couple of the technology heavyweights, Mediatek (2.69%) and HTC Corp (1.24%), performing poorly as concerns about competition resurface. Mediatek's shipments of 3G smartphone chipsets have disappointed the market whilst it is seeing a deceleration in its legacy 2G business. However, Hon Hai (3.54%) performed well on the back of strong iPhone4S demand and anticipation of the iPad3 launch in the first quarter of 2012. China Life Insurance (Taiwan, 1.07%) was the biggest detractor from relative performance, reflecting general weakness in the Taiwanese financial sector caused by election uncertainty, the European debt overhang, and some modest losses from equity holdings.

Investment Outlook
We continue to embrace a more optimistic view of the world. While problems are many, solutions will be found and life will go on. In the short term, risk aversion may result in added volatility and a rush to the rapidly diminishing number of 'risk-free' assets, but we have no intention of following this path. The fund invests in well-managed and soundly-financed companies with strong competitive positions

and ample growth prospects. Valuations are low and most investors are hiding in fear of what happens next. Fortuna audax iuvat. It is time to stand up and be counted.

We thank you for your continued support.

Sincerely,

Michael Gush	Richard Sneller
Co-Portfolio Manager	Co-Portfolio Manager

As with all mutual funds, the value of an investment in the Fund could decline, so you could lose money. International investing involves special risks, which include changes in currency rates, foreign taxation and differences in auditing standards and securities regulations, political uncertainty and greater volatility. These risks are even greater when investing in emerging markets.

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, 2011.

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.

Regional Allocation
(As of 12/31/11)

China	53.5%
Taiwan	28.7%
Hong Kong	15.9%
Cash	1.9%

Top Ten Holdings[2]
(As of 12/31/11)

Company	Country	Percentage of Total Net Assets
Taiwan Semiconductor Manufacturing	Taiwan	4.95%
CNOOC	China	4.57%
China Life Insurance (Taiwan)	Taiwan	4.15%
China Con.Bank	China	4.12%
Baidu	China	3.78%
Hon Hai Precn.Ind.	Taiwan	3.54%
Ping An Insurance	China	3.11%
China Shenhua En.Co.	China	3.01%
Mediatek	Taiwan	2.69%
Kunlun Energy	China	2.69%

Performance
(Average Annual Total Returns as of 12/31/11)

	Fourth Quarter 2011	Since Inception[3]
RS Greater China Fund, Class A		
without sales charge	6.29%	-24.32%
with maximum sales charge	1.18%	-27.92%
MSCI Golden Dragon Index[1]	5.02%	-18.99%

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 1.96%. 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. Current performance may be lower or higher than performance data quoted. Performance current to the most recent month-end is available by contacting RS Investments at 800-766-3863 and is frequently updated on our Web site: www.RSinvestments.com.

Please refer to the most current Fund prospectus for complete details on expenses including fees and also 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.

1 The MSCI Golden Dragon Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the China region. The MSCI Golden Dragon Index consists of the following country indices: China, Hong Kong and Taiwan. Index results assume the reinvestment of dividends paid on the stocks constituting the index.
2 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.
3 Class A shares inception date May 16, 2011.

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