RS | investments

Fourth Quarter 2011 Mutual Fund Commentary
RS Global Growth Fund

Investment Environment

The evidence of the last few years should have demolished the notion that capital markets are efficient. But we continue to behave as though prices are an honest predictor of the future. Nowhere is this problem more acute than in the Eurozone. Rises in government bond yields and falls of stock prices have been heralded regularly as signals of imminent disaster and have had global effects. An overwhelming consensus now exists that sovereign defaults and a breakup of the euro are inevitable. A return to global recession is seen as the likely result.

The Eurozone does enjoy particularly fertile conditions for a self-reinforcing downward spiral, with weak asset prices affecting the economy and vice versa. The prevalent mood is uncertain and worried. Many market participants on both buy and sell sides have been experiencing difficult conditions since the onset of the global financial crisis and are therefore predisposed to feeling glum about the outside world. The risk of being wrong in such volatile conditions has led investment managers to further reduce their time horizons. Pension funds are under pressure that is exacerbated by exceptionally low bond yields. Companies are hoarding cash rather than investing in the face of uncertainty. Taking all these factors together, it seems optimism, and tolerance for volatility in the interests of longer-term gain, are at a nadir.

The inter-relationship between financial markets and the real world, the reflexivity most famously characterised and exploited by George Soros, has again come to the fore during a period of stress. However, this feedback loop might be broken in several ways: most likely through effective policy action, or through stronger external demand; and these bearish conditions could rapidly reverse. We suspect that there are particular reasons why current market prices should not be seen as unbiased or efficient sources of information about the world.

Much weight has been given to rising sovereign yields in southern European countries, widely cited by commentators as evidence that debt sustainability is out of reach and disaster no longer avoidable. This may prove to be a self-fulfilling prophecy. But these bond markets have been largely deserted by many investors since the summer, leaving them at the mercy of hedge funds' speculative attacks. Tightening balance sheet constraints at the market-making banks have exacerbated the lack of liquidity.

In the equity markets we suspect that the exceptional spike in daily volatility could have much to do with the dramatic shift in market participation, from long-term investors to traders in millisecond increments, the High Frequency Traders.

Using technology located at the heart of the stock exchanges themselves, these traders apply complex algorithms to detect the initial signs of large buy or sell orders, then trade at a furious pace in anticipation of the price impact these orders bring. An electronic arms race is underway as all participants fear being the slowest guy in the room. Since the May 2010 'Flash Crash' this questionably useful activity has attracted increasing scrutiny; at the least, it appears to exacerbate volatility in already volatile times. Linkages between markets and regions are also tightened by these pattern-seeking algorithms, which means bad news ripples through global markets in seconds. Over one-third of all equity activity in Europe, and over half in the United States, now consist of High Frequency Trading (The Financial Times; October 2011).

This latest manifestation of a financial market activity that serves itself rather than providers or recipients of capital is extracting enough profit from actual investors to pay for the laying of a new cable beneath the Atlantic, minus the kinks and bends that currently slow things down by five milliseconds. The implications for investors with multi-year time horizons are mixed: ever increasing levels of volatility on one side, but greater inefficiencies and opportunities on the other.

Portfolio review
We have not made any significant changes to the Fund over the quarter and turnover remains low.

Over time, our bottom up stock selection has resulted in a portfolio biased to activity in eastern economies rather than the west. Our focus on investing in the true winners on a global basis has served us well over the long run as has our preference for investing in businesses which are well capitalised and durable. Over the quarter, we have made subtle changes to the overall balance of the fund and broadened our exposure to different themes. As highlighted in our last Quarterly Letter, we have placed particular emphasis on allocating more funds towards stocks which we characterise as secular growth winners and those which we would view as opportunities lying within the eye of the storm.

Secular winners
We have taken advantage of attractive valuations to increase our exposure to a number of secular growth winners. We believe that many of these investments offer idiosyncratic growth drivers and precious diversification. An area where we continue to find a number of these opportunities is healthcare. Here we search for truly ground-breaking companies which provide products, treatments, or solutions with the potential to both improve the outcome for patients and remove costs from the system. During the quarter, starter or 'incubator' holdings were bought in Illumina (0.35% position as of 12/31/2011), the global leader in manufacturing gene sequencing equipment; Seattle Genetics (0.40%), a biotech company developing targeted drug therapies for the treatment of cancer; and Qiagen (0.47%), a provider of genetic testing equipment. We also further increased our holding in Roche (1.96%), making this one of our high conviction positions. Our research continues to indicate that this business is right at the heart of exciting genetics and personalised drug therapy innovation.

Opportunities in the eye of the storm
We have also been spending more time reviewing robust growth businesses which appear to have fallen out of favour with the market given temporary cyclical headwinds. Our work in this area has resulted in a number of new purchases such as the Danish brewing business, Carlsberg (0.94%). In our view, the market is worrying excessively about weakening demand within Western Europe and ignoring the huge potential for growth offered by the company's Russian operations. Further new buys included the North American used car retailer, CarMax (0.50%); the recruitment agency, Hays (0.36%); and the Japanese semiconductor equipment manufacturer, Tokyo Electron (0.47%). We believe that each of these businesses is well managed and financed, and that they possess the potential to deliver superior rates of profit and cash flow growth over the long run.

Another company which remains front of mind is the Japanese endoscope and camera maker, Olympus (0.45%). Accounting fraud has recently emerged dating back to the 1990s and the share price has fallen significantly on the back of this news. We believe that the core franchise remains highly valuable and we are working hard to engage with management to ensure that shareholders do not see that value destroyed.

Performance Review

During the fourth quarter of 2011, RS Global Growth Fund returned 7.46%, outperforming the MSCI All Country World Index[1] return of 7.30%.

Wolseley (2.44%), one of the world's largest suppliers of building materials has been the strongest contributor to performance over the quarter. Its share price strengthened on the back of rising sales to the US and the disinvestment of a number of under-performing businesses. As we move into a new year Wolseley should be well placed for an upturn in the US market.

EOG resources (a Houston based oil and gas exploration corporation, 1.21%) continues to experience rapid revenue growth. Q4 results were stronger than expected, mainly due to improved completion techniques and recovery rates in its Eagle Ford acreage in Texas implying a larger resource base that first thought. The valuation of EOG is under-pinned by recent acquisitions of shale assets (for instance Marathon's purchase of Hilcorp Resources) which means its Oil shale assets are worth c$20bn against a market cap of c$25bn. Around _'s of EOG's reserves are in unloved gas assets suggesting huge prospective value when the gas price recovers.

Olympus (0.45%) was the largest detractor to performance over the quarter following the dismissal of CEO Michael Woodford, with the Board citing differences of opinion with senior executives on direction and management style. Woodford responded, alleging publically that c$1.3bn of value had been destroyed through a combination of write-downs and inflated M&A advisory fees. With the establishment of an independent oversight committee and the resignation of the Chairman providing some degree of reassurance, we continue to hold the stock in the belief that its endoscope division is fundamentally strong.

Another detractor was Yamaha Motor Co (1.59%). Yamaha's main business, representing two-thirds of sales and around half of profits in a "normal" year, is motorbike manufacturing, ranging from superbikes to small scooters. Over the quarter motorbike profits fell due to the strong Yen. We, however, remain positive in the long-term. Demand continues to be very strong in Emerging Markets with market increases averaging 5% and rising by double digits in Vietnam, Thailand, India and Brazil.

Outlook

We are cautious about our ability to forecast the resolution of the Eurozone crisis, which is after all a multinational political project of great complexity and historical significance. We do however feel that there are some areas where we disagree with the market consensus. It is understandable that the

German commitment to the euro is called into question when the main leverage that Berlin has over its neighbours is the threat of expulsion, but we believe that commitment remains strong among both the government and the populace.

We also believe that southern Europe is not beyond redemption. Spain and Italy are grappling with the same problems of low growth and public deleveraging as the US, UK and Japan, amongst others. To conclude that low bond yields in these countries marks them out as safe havens strikes us as perverse. Without the support of quantitative easing in the debt markets, European governments are being forced to confront their problems uncomfortably quickly. If the crisis abates, the tax, pension and labour market reforms now being put in place should serve these countries well in coming years. Indeed, the scenario of a sharp recovery in domestic European assets represents a risk to our portfolios in the shorter term at least in relative terms, not least because the region's heavily beaten down banks could easily double in value. With this in mind our investment teams continue to assess companies that meet our requirements for growth and competitive strength that might benefit from an end to the euro crisis.

Elsewhere in the world, our optimism about long-term developments in China, based on the durable forces of urbanisation, emulation and education, remains undimmed. The investment opportunities that result are by no means restricted to the Chinese market. There will certainly be booms and busts along the path of China's development, but we stress that the country has ample resources to solve problems as they arise, whether in the banking sector, local government or elsewhere. We view the specific instance of falling luxury real estate prices, which have generated so much angst, as the successful achievement of a government policy designed to boost much needed social housing at the expense of speculation. The American economy has also just enjoyed a particularly strong quarter of positive economic surprises, showing reviving strength in the areas of manufacturing, employment, consumer confidence, job creation and even housing (Citigroup Economic Surprise Index, a daily measure of whether economic data is better or worse than economists' projections).

We thank you for your continued support.

Sincerely,

Spencer Adair	Malcolm MacColl	Charles Plowden
Co-Portfolio Manager	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)

American	35.9%
European	21.5%
Emerging Markets	18.9%
UK Equity	12.3%
Developed Asia	9.8%
Cash	1.7%

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

Company	Country	Percentage of Total Net Assets
Nestle	Switzerland	2.55%
Wolseley	United Kingdom	2.44%
Schindler	Switzerland	2.30%
Prudential	United Kingdom	2.19%
Svenska Handbkn	Sweden	2.09%
Pepsico	United States	2.03%
Roche Holding	Switzerland	1.96%
Atlas Copco	Sweden	1.89%
Brambles	Australia	1.85%
Richemont	Switzerland	1.73%

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

	Fourth Quarter 2011	Since Inception[3]
RS Global Growth Fund, Class A		
without sales charge	7.46%	-12.10%
with maximum sales charge	2.33%	-16.29%
MSCI All Country World Index[1]	7.30%	-11.17%

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 1.64%. 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 ACWI (All Country World Index) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. 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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