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TIP SHEET:

RS Natural Resources Fund Seeks Rock Stars In Energy

By DAVID BIRD

NEW YORK (Dow Jones)—Ken Settles is what could be called a rock-and-roll investor, yet his field is about as far away from the music business as could be imagined.

Settles and two co-managers at the \$1.1 billion RS Global Natural Resources Fund (RSNRX) seek out low-cost companies that drill and mine rocks and watch returns of over 10% roll in.

Like talent scouts looking to discover the next big star, Settles said he and his colleagues are “always on the road,” checking out projects from the ground up in places like the Canadian oil sands capital of Fort McMurray, Alberta. “First and foremost,” Settles said, the portfolio managers consider themselves analysts, who know the nitty-gritty of their holdings. Settles described favored projects at companies the fund invests in as having “the best rocks,” compared with competitors.

The San Francisco-based fund from RS Investments currently invested in about three dozen diverse companies, ranging from \$1 billion to \$50 billion in market capitalization, but with the common low-risk, low-cost pedigree; 40% of the fund’s holdings are in energy companies.

Unlike investors who fixate on volatile swings in the price of oil and natural gas, the fund seeks out companies that can deliver strong returns regardless of commodity prices’ performance. If strong prices bolster

company earnings, that’s the “cherry on top,” Settles said.

Year-to-date through Monday, the fund has returned 50.9%, according to Morningstar Inc., versus about 24% for the Standard & Poor’s 500 index. Over five years annualized through Monday, Morningstar shows the fund returned about 13%, versus the index’s 2%. Since the fund’s inception in November 1995, its return is 10.5%, according to RS Investments. The fund hit a per-share 52-week high of \$30.26 on Monday as both crude prices and the Dow Jones Industrial Average also climbed to one-year highs in recent days.

Among current top picks are Calgary-based Talisman Energy Inc. (TLM, TLM.T), a long-term holding that hit a per-share 52-week high Monday of \$19.51. The company has oil and gas exploration and production operations in North America, the North Sea and Southeast Asia. Settles said some knocked Talisman for having problem assets but the issue, now being addressed by new management, was that funds were being allocated into low-return projects.

Southwestern Energy Co. (SWN) in Houston is a natural gas producer active in Arkansas’ Fayetteville Shale field, which Settles called “one of the two highest-return natural gas properties in the country.” Southwestern Energy hit a per-share 52-week high Tuesday morning of \$50.61. Investors in upstream natural gas projects have to be especially selective, Settles added, because

unlike that of crude, copper and coal, the production cost curve of gas is flattening, not steepening, as new technology is reducing costs.

Settles also likes Denbury Resources Inc. (DNR) in Plano, Texas. The company holds the largest reserves of carbon dioxide east of the Mississippi. The CO₂, piped in from the Jackson Dome field in Mississippi, is used for enhanced oil recovery operations at aged oil fields that are unwanted by other producers. At a cost of about \$5 to \$10 a barrel, Settles said, the company breathes new life into old fields by flooding them with CO₂, which boosts oil flows by up to 20% beyond what would be otherwise recovered from the fields. “They don’t have to explore. The geology is known; the oil is there,” he said, adding that exploration costs elsewhere are at a minimum \$20 a barrel and carry the risk of dry holes.

While Denbury has a modest market capitalization of about \$4 billion, Settles said the fund also likes BHP Billiton Ltd. (BHP, BHP.AU), the massive Australian mining, metals and energy conglomerate. BHP is one of the three lowest-cost iron ore producers and holdings include South Australia’s Olympic Dam, the world’s largest uranium mine. BHP also hit a per-share 52-week high Monday, reaching \$74.

(David Bird, senior energy correspondent for Dow Jones Newswires, has covered global oil markets for more than 20 years.)

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The following are mentioned in the article, portfolio weighting of RS Global Natural Resources Fund listed in parentheses as of 9/30/09: Talisman Energy Inc. (5.05%), Southwest Energy Co. (4.50%), Denbury Resources Inc. (4.53%), and BHB Billiton Ltd. (4.09%).

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RS Global Natural Resources Fund (RSNRX) Performance [†] (Average Annual Total Returns as of 9/30/09)						
	Third Quarter 2009	1-Year	3-Year	5-Year	10-Year	Since Inception (11/15/95)
RS Global Natural Resources Fund, Class A						
without sales charge	17.32%	-2.49%	1.31%	10.34%	14.33%	10.54%
with maximum sales charge	11.73%	-7.13%	-0.33%	9.27%	13.78%	10.16%
S&P North American Natural Resources Sector Index™ ¹	17.34%	-8.43%	2.97%	10.77%	8.62%	N/A
S&P 500® Index ²	15.61%	-6.91%	-5.43%	1.02%	-0.15%	6.10%

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

Sector Allocation ³ (As of 9/30/09)	
Energy	48.7%
Materials and Processing	35.5%
Utilities	5.8%
Producer Durables	3.0%
Financial Services	2.0%
Cash	5.0%

Top Ten Holdings ⁴ (As of 9/30/09)	
Occidental Petroleum Corp.	5.27%
Talisman Energy Inc.	5.06%
Denbury Resources, Inc.	4.53%
Southwestern Energy, Co.	4.50%
XTO Energy, Inc.	4.31%
Goldcorp, Inc.	4.25%
BHP Billiton Ltd.	4.09%
Companhia Vale del Rio Doce	3.87%
Martin Marietta Materials, Inc.	3.68%
Calpine, Corp.	3.47%

† 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 1.50% for the Class A shares. Class A performance quoted "with maximum sales charge" reflects the current maximum sales charge of 4.75%. 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. Certain share classes are subject to lower maximum sales charges whether paid at the time of purchase or deferred. Any sales charges are in addition to the Fund's fees and expenses as detailed in the Fund's most current prospectus. Fees and expenses are factored into the net asset value of your shares and any performance numbers we release. Total return figures reflect an expense limitation in effect during the periods shown; without such limitation, the performance shown would have been lower. Performance results assume the reinvestment of dividends and capital gains. The return figures shown do not reflect the deduction of taxes that a shareholder may pay on Fund distributions or the redemption of Fund shares. Current and month-end performance information, which may be lower or higher than that cited, is available by contacting RS Investments at 800-766-3863 and is frequently updated on our Web site: 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, the index 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.

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