

The Benefits of a Natural Resources Strategy



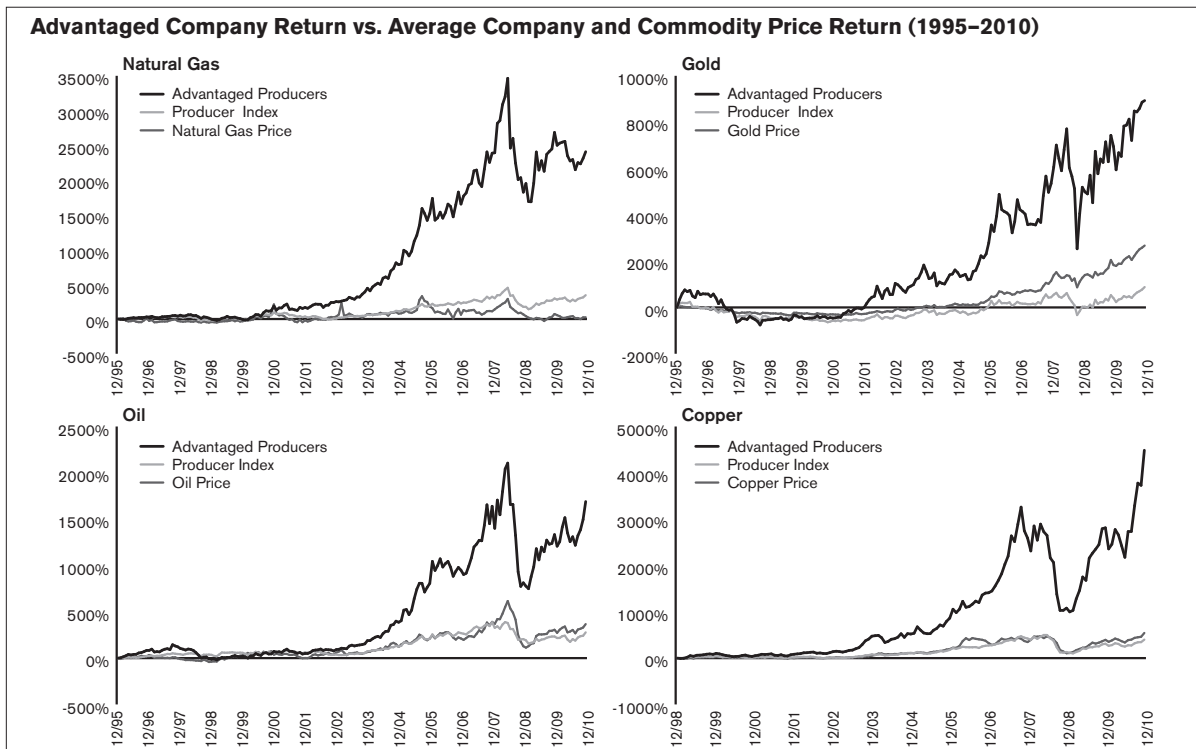
A Positive Long-Term Outlook

The fundamental outlook for commodity prices and natural resource equities began to improve in the late 1990's. Twenty years of underinvestment in supply coupled with growing demand from developing economies resulted in a significant decline in spare capacity for many commodities. In addition, the marginal cost of supply for most commodities began to rise after falling in real terms for nearly three decades. The increase is being driven by the continued geological maturation of the supply base. For example, natural gas reserves per well have fallen 50% over the last decade while copper and gold grades have declined by roughly 40% over the same period. Future natural resource projects will require higher commodity prices to generate economic returns, meaning that the incentive price needed for incremental production to meet incremental demand will continue to rise. Thus, while commodity prices will remain cyclical, the secular outlook for commodity prices and natural resource equities, in particular, continues to be positive.

Diversification Benefits

Natural resource equities can provide investors with unique return streams that may help to diversify portfolios. Specifically, actively managed natural resource equity strategies offer investors two potential sources of returns which cannot be captured via direct commodity investments and which typically are not exploited in diversified equity strategies. First, natural resource equity strategies have an ability to invest in the producers of many commodities that are not traded on futures exchanges and are not typically owned in diversified equity portfolios. An abbreviated list includes iron ore, potash, water, timber, salt, aggregates, and rare earth metals to name a few. Interestingly, many of these commodities are less correlated with changes in global economic activity and the equity markets than other exchange-traded commodities.

Second, and perhaps most importantly, natural resource equity strategies focused on low-cost companies with "advantaged assets" have an ability to create value across a commodity price cycle irrespective of changes in commodity price. Indeed, the alpha generation associated with owning advantaged commodity companies is both unique and much more meaningful than the returns related to changes in commodity prices or the equity indices more broadly, as shown in the chart below. This source of returns is not available to commodity investors and is not typically derived from investments in the larger energy companies that represent a significant portion of the natural resource exposure in diversified equity portfolios.

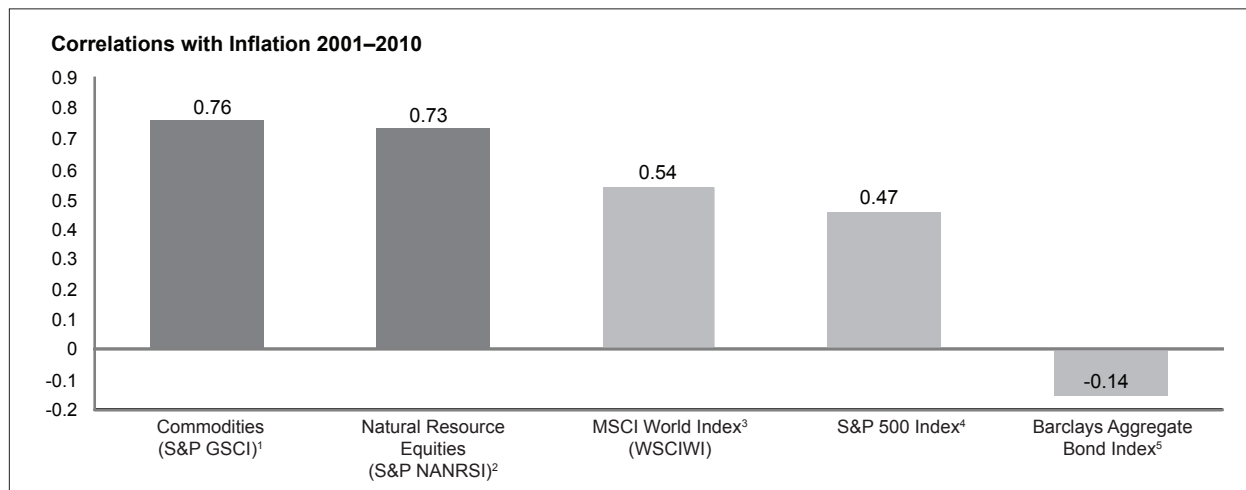


Source: RS Investments, Bloomberg

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Inflation Protection

In addition to the unique and less correlated return streams, natural resource equities have historically been positively correlated with inflation. In fact, both commodities and natural resource equities have exhibited similar correlations with inflation in the past.



Source: Factset, Bureau of Economic Analysis, January 2001–December 2010

Correlations quoted represent historical data and does not guarantee future results.

Furthermore, natural resource equities have been more effective than commodities in protecting investors from inflation over the last decade. As such, natural resource equities can potentially protect investors from inflation more effectively than other asset classes, including commodities.

Commodity and Natural Resource Index Returns (9/30/01–9/30/11)		
Commodities	Cumulative	Annualized
S&P GSCI Total Return (S&P GSCI)	40.81%	3.48%
Dow Jones UBS (AIG) Commodity Index Total Return ⁶ (DJUBS)	78.19%	5.95%
Reuters/Jefferies CRB Total Return ⁷ (RJCRB)	127.61%	8.57%
Natural Resources Equities		
S&P North American Natural Resources Sector Index (NANRSI)	161.79%	10.10%
MSCI World Commodity Producers ⁸ (MSCI WCP)	167.11%	10.32%
Morgan Stanley Commodity Related Index ⁹ (CRX)	241.22%	13.06%

Past performance is not a guarantee of future results

Returns

The empirical evidence suggests that a long-term allocation to natural resource equities has effectively improved real risk-adjusted returns for investors. The table below compares the risk-adjusted returns of the various commodity indices, natural resource equity indices, and the RS Global Natural Resources Fund with the MSCI World Equity Index over the past 10 years.

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10-Year Performance Comparison of Natural Resource Equities and Commodities (9/30/01–9/30/11)						
	Cumulative Return	Annualized Return	Annualized Standard Deviation	Sharpe Ratio	Sortino Ratio RF MAR	Down Market Correlation to MSCI World
Global Equities						
MSCI World Index (MSCIWI)	51.53	4.24	16.68	0.14	0.19	1.00
Commodities Futures						
S&P GSCI Total Return (S&P GSCI)	40.81	3.48	25.03	0.06	0.09	0.45
Dow Jones UBS (AIG) Commodity Index Total Return (DJUBS)	78.19	5.95	18.14	0.22	0.31	0.40
Reuters/Jefferies CRB Total Return (RJCRB)	127.61	8.57	18.44	0.36	0.52	0.43
Natural Resources Equities						
S&P North American Natural Resources Sector Index (NANRSI)	161.79	10.10	23.29	0.35	0.51	0.70
MSCI World Commodity Producers (MSCI WCP)	167.11	10.32	21.31	0.39	0.58	0.70
Morgan Stanley Commodity Related Index (CRX)	241.22	13.06	23.12	0.48	0.69	0.74
RS Global Natural Resources Strategy (Net)	312.99	15.24	22.86	0.58	0.86	0.60

Past performance is not a guarantee of future results

Over the last 10 years, adding natural resource equities to a diversified equity portfolio has resulted in a significant improvement in risk-adjusted returns, as shown below.

Impact on Portfolio Risk-Adjusted Returns (9/30/01–9/30/11)						
	Cumulative Return	Annualized Return	Annualized Standard Deviation	Sharpe Ratio	Sortino Ratio RF MAR	Down Market Correlation to MSCI World
Commodities						
MSCIWI and S&P GSCI 85%/15%	4.08	0.28	-0.68	0.02	0.03	-0.04
MSCIWI and DJUBS 85%/15%	6.88	0.46	-0.99	0.04	0.05	-0.03
MSCIWI and RJCRB 85%/15%	12.98	0.86	-1.01	0.06	0.09	-0.03
Natural Resources Equities						
MSCIWI and NANRSI 85%/15%	15.37	1.01	0.32	0.06	0.08	-0.01
MSCIWI and MSCI WCP 85%/15%	15.23	1.00	0.16	0.06	0.08	-0.01
MSCIWI and CRX 85%/15%	21.63	1.40	0.51	0.08	0.11	-0.01
MSCIWI and RS Global Natural Resources Strategy 85%/15%	27.56	1.76	0.16	0.10	0.15	-0.02

The Blended Portfolio Returns shown are hypothetical and do not represent results for actual investment vehicles. These hypothetical returns were achieved by weighting the monthly returns of the MSCI World Index (85% weight) and the commodity index, natural resources equity index, or Strategy named (15%). Except for the Strategy, the returns do not reflect management or administrative fees of any kind. The returns also do not reflect any transactions costs associated with re-balance activity. Results assume the reinvestment of all dividends.

In summary, a natural resources equity strategy offers inflation protection potential that is similar to commodities investments, with the added benefits of greater diversification into commodities that aren't available on commodities futures markets and for potentially improved risk-adjusted returns.

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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. Portfolios that concentrate investments in a certain sector may be subject to greater risk than portfolios that invest more broadly, as companies in that sector may share common characteristics and may react similarly to market developments or other factors affecting their values. Investments in companies in natural resources industries may involve risks including changes in commodity prices, changes in demand for various natural resources, changes in energy prices, and international political and economic developments. 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.

1 The S&P Goldman Sachs Commodity Index (S&P GSCI) is used in this paper to illustrate the risk and returns of an investment in commodities. It is a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The returns are calculated on a fully-collateralized basis with full reinvestment. The combination of these attributes provides investors with a representative and realistic picture of realizable returns attainable in the commodities markets.

2 The S&P North American Natural Resources Sector Index™ (S&P NANRSI), which is not covered by the report of independent accountants, is a modified capitalization-weighted index of 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. Index results assume the reinvestment of dividends paid on the stocks constituting the index and do not include any transactions costs, management fees or other costs. As of December 31, 2007 the strategy has changed its benchmark from the Lipper Natural Resources Fund Index to the S&P North American Natural Resources Sector Index because the S&P North American Natural Resources Sector Index is composed of securities of companies in the natural resources sector while the Lipper Natural Resources Fund Index is composed of mutual funds that invest in the natural resources sector.

3 The MSCI World Index (MSCIWI) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of June 2007 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

4 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.

Natural Resources Fund Index is composed of mutual funds that invest in the natural resources sector.

5 The Barclays Capital U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage and asset-backed issues, rated investment grade or higher, and having at least one year to maturity. Unlike the Fund, the index does not incur fees or expenses.

6 The Dow Jones-UBS Commodity Index (DJ-UBS) is used in this paper to illustrate the risk and returns of an investment in commodities. It is composed of futures contracts on 19 physical commodities. The commodities in the index are traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME).

7 The Thomson Reuters/Jefferies CRB (RJ-CRB) Index maintains broad diversification through 19 commodities representing all commodity sectors. Commodities are equitably distributed whenever feasible, though exposure to selected markets, in particular those within the petroleum sector, are modified to create a liquid and rational index.

8 The MSCI World Commodity Producers Index (MSCI-WCP) is an equity-based index designed to reflect the performance related to commodity producer stocks. The MSCI World Commodity Producers Index is a free float-adjusted market capitalization-weighted index comprised of commodity producer companies based on the Global Industry Classification Standard (GICS®).

9 The Morgan Stanley Commodity Related Equity Index (CRX) is an equal dollar weighted index based on shares of widely held companies involved in commodity-related industries such as energy (e.g. oil and gas production and oil field services and equipment), non-ferrous metals, precious metals, agriculture and forest products.

Year	Gross of Fees Total Return (%)	Net of Fees Total Return (%)	S&P North American Natural Resources Sector Index™ 6 (%)	Number of Portfolios	Composite Assets (\$millions)	Total Firm Assets (\$billions)	% of Firm Assets	Composite Dispersion
2001	2.50%	0.61%	-15.59%	1	21.8	7.0	0%	n/m
2002	19.10%	17.04%	-12.99%	1	38.8	4.2	1%	n/m
2003	44.65%	42.30%	34.40%	2	154.0	7.2	2%	n/m
2004	36.77%	34.82%	24.59%	2	647.1	8.4	8%	n/m
2005	44.32%	42.26%	36.61%	2	1,737.1	10.0	17%	n/m
2006	9.72%	8.11%	16.85%	3	1,648.0	16.8	10%	n/m
2007	33.95%	32.08%	34.44%	5	2,240.9	18.1	12%	n/m
2008	-45.89%	-46.73%	-42.55%	5	937.0	10.2	9%	0.002
2009	51.47%	49.38%	37.54%	6	1,226.1	13.9	9%	0.001
2010	27.12%	25.38%	23.88%	10	2,380.1	19.8	12%	0.004

Strategy: The RS Global Natural Resources Composite invests principally in equity securities of issuers in natural resources industries, and may invest in securities of companies located anywhere in the world, including the United States.

Standard Fee Schedule:
 1.00% Assets up to \$30M
 0.80% Assets \$30M-\$50M
 0.60% Assets over \$50M

Past performance is not a guarantee of future results. More current information on performance may be available by contacting RS Investments.

RS Investments (the "Firm") has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

RS Investments' claim of compliance has been verified on a firmwide basis for the periods January 1, 2009 through December 31, 2009 by Ashland Partners & Company LLP, for the periods January 1, 1996 through December 31, 2001 and January 1, 2004 through December 31, 2008 by PricewaterhouseCoopers LLP and for the periods January 1, 2002 through December 31, 2003 by Ernst & Young LLP. In addition, the performance results of RS Global Natural Resources Composite have been examined for the periods January 1, 2008 through December 31, 2009 by Ashland Partners & Company LLP, and for the periods January 1, 2003 through December 31, 2007 by PricewaterhouseCoopers LLP. A copy of the verification report is available upon request.

RS Investments is defined as RS Investment Management Co. LLC, an investment adviser registered under the Investment Advisers Act of 1940. The Firm was previously defined as the total assets managed by RS Investment Management L.P., RS Investment Management, Inc., RS Value Group LLC, and RS Growth Group LLC. On August 31, 2006 RS Investment Management Co. LLC ("RS") entered into an agreement with The Guardian Life Insurance Company of America ("Guardian") in which Guardian took a majority ownership position in RS Investments (the "Transaction"). In connection with the Transaction, RS undertook a simplification of its corporate structure and consolidated the investment advisory function under one entity, RS Investment Management, L.P., RS Investment Management, Inc., RS Value Group LLC, and RS Growth Group LLC (the "Advisers") are subsidiaries of RS. Immediately after the close of the Transaction, RS assumed the investment advisory functions previously performed by the Advisers.

The RS Global Natural Resources Composite includes all discretionary accounts invested in the Global Natural Resources Strategy. Accounts must be under management for at least one full month to be included in the composite. Closed accounts remain in the composite through the last full month under management. Results prior to 2003 represent the returns of a single account.

The RS Global Natural Resources Composite results are time weighted rates of return net of transactions costs, and have been presented both gross and net of investment advisory fees. Monthly composite returns are calculated by weighting each account's monthly return by its beginning value as a percent of the total composite's beginning market value. Quarterly and annual returns are calculated by linking the monthly and quarterly returns, respectively, through compounded multiplication. Valuations and returns are computed and stated in U.S. dollars. Returns reflect the reinvestment of income, and are net of foreign withholding taxes. Additional information regarding policies for calculating and reporting returns is available upon request.

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Composite dispersion is the standard deviation of asset-weighted gross annual returns for portfolios active the entire year, and is reported as not meaningful (n/m) if fewer than five accounts were active the entire year.

The RS Global Natural Resources Composite was created in January 2003.

A complete list and description of the Firm's composites is available upon request.

