RS | investments

First Quarter 2011 Mutual Fund Commentary
RS Strategic Income Fund

Performance
(Average Annual Total Returns as of 3/31/2011)
RS Strategic Income Fund (Class A – RSIAX)

	First Quarter 2011	1-Year	3-Year	5-Year	10-Year	Since Inception (12/31/09)
without sales charge	1.46%	7.63%	n/a	n/a	n/a	8.36%
With maximum sales charge	-2.33	3.63%	n/a	n/a	n/a	5.07%
Barclays Capital U.S. Aggregate Bond Index[1]	0.42%	5.12%	n/a	n/a	n/a	5.57%

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

Fund Highlights

Portfolio Overweights

- Overweight to U.S. "spread product" overall (sectors that trade at higher yields than similar Treasuries added to performance, contributing about 91 basis points (bps) of relative performance in the first quarter.
- The fund's significant allocation to corporate credit, particularly to high yield, contributed strongly to performance, with the combined added value of over 80 bps from those sector allocations and security selections. U.S. corporate credit benefited from economic growth and good earnings despite market volatility in March.
- Allocation to non-USD strategies (including hedging and currency exposures) added about 13 bps to performance in the first quarter.

Portfolio Underweights

- Having a significantly underweighted allocation to Treasuries helped the portfolio in the first quarter.
- Underweight to agency residential mortgage-backed securities (RMBS) subtracted about 7 bps from performance in the first quarter.

Performance quoted represents past performance and does not guarantee future results. Please note that the performance shown is since the Fund's inception on 12/31/2009. Because the performance shown is for a short period of time, it is provided for informational purposes only and should not form the basis for an investment decision. 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/net annual operating expense ratio as of the most current prospectus for the Class A Shares is 1.39% / 0.35%. The views expressed in the portfolio manager commentaries are those of the Fund's portfolio manager(s) and are subject to change without notice. Please refer to the most current Fund prospectus for complete details on expenses including fees. The performance quoted, "with maximum sales charge" reflects the current maximum sales charge of 3.75%. The net expense ratio reflects a contractual expense limitation which will continue through 4/30/11. 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. A "deferred sales charge" also known as "back end load" or "CDSC" is incurred when liquidating an A share purchase over $1 million, for example, before a specified holding period. 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. 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, is available by contacting RS Investments at 800-766-3863 and is frequently updated on our Web site: www.RSinvestments.com.

Fund Highlights (cont)

- Underweight to more subordinated bonds with lower ratings in the commercial mortgage-backed securities (CMBS) sector subtracted from performance.

Outlook

- We expect expansion to continue, with U.S. gross domestic product (GDP) growth around 3.0% for 2011. Even with new global events and risks that arose during Q1 (Unrest in the Middle East pushing up oil prices, Japan events potentially impact on growth, supply chains, and energy as well), we currently assess GDP growth would not be impacted by more than 0.5% for the year.
- Consumer spending, employment growing, and investment all growing. We expect consumer spending growth around 2.75% for the rest of 2011, after a bit slower pace in Q1, with spending supported by job growth (plus payroll tax cuts). The employment outlook is crucial the Fed's focus on the unemployment rate, and the connection between job growth and housing market health. We are more optimistic than consensus: we expect the unemployment rate at year end to be close to 8%, not near 9%. We expect business investment to grow 10-12%, and see some contribution from residential and other structures.
- Post crisis stresses and challenges remain: Large U.S. banks are on solid footing, but new regulations for focus on building capital, not lending growth. Housing is still a quagmire. Commercial real estate fundamentals are weak but show signs of stabilization. US government deficits need to be addressed. The Federal Reserve's additional easing is coming to an end. A full exit will be a challenge and take time.
- Q1 brought some new stresses, plus Europe revisited: Middle East/North Africa (MENA) unrest, rising Oil prices, and Japan disasters. Volatility is likely to continue and events created some idiosyncratic risks for companies with assets or suppliers in harm's way or at risk from potential energy policy changes. European stresses continue, and we think restructuring is likely for some smaller countries. On a positive note: Spain (4th largest economy in Europe) separated itself from the weak pack, even as Portugal moved closer to a bailout. Also, Ireland's recent bank stress tests appeared credible. Bailout funds, progress on fiscal consolidation, and bank stress tests and capital plans have reduced contagion risk.
- Inflation: On a year-over-year basis, we expect that core inflation to rise towards 2.0% and we expect headline CPI to hit 3% or higher during 2011. Input costs have risen notably and rents are also moving up. Both point to a flow through of inflation to consumer prices. Labor market slack will help counter a bigger or longer inflation spike, however, the broad nature of the higher input costs is faced by all producers. An upward slope for upcoming inflation prints is baked in. Prints of inflation of 3% or higher may not last long, but could raise inflation fears if the Fed appears to be moving too slowly.
- Monetary Policy is very accommodative, with the Fed Funds target rate near zero (target range 0% to 0.25%) and an expanded balance sheet which suggests an "effective" short rate closer to -3.75%. We see Q2 as the kick off for a policy reversal, but it will likely be a slow turn, starting with an end to further purchases. Rate hikes are likely still a ways off. We are in uncharted territory, we consider a host of combination moves the Fed may make. Bottom line: some modest withdrawal of accommodation in 2011 with more to come in 2012.

Market Overview

- The long list of stresses and new risks may create some market volatility in coming months, but we judge that current spreads still offer value in a number of fixed income sectors, particularly in light of underlying solid footing for the US economy and the merits of each issuer and bond.
- We believe that Treasury yields have already largely risen to a level consistent with our economic growth expectations (the 10 year yielded 3.47% at quarter end). Rates could drop temporarily on reduced growth expectations or a flight to quality, but inflation fears (or a major policy error) could push rates up.
- We expect various bond market sectors to outperform Treasuries by 3% to 5% in the remainder of 2011.
- Despite gains that have already occurred, our updated assessment is that the strongest relative returns will likely come from high yield bonds. Credit fundamentals improved during the recovery and many companies are in good shape. We believe that current yield premiums over Treasuries are attractive and expect them to narrow further as the economy continues to grow (the U.S. High Yield Index ended the first quarter at 7.02% yield-to-worst, and has an option adjusted spread (OAS) of 465 basis points (bps) [1].
- Allocation to non-USD bonds provides diversification given their sensitivity to moves in the local government bond yields rather than to U.S. Treasuries. They may suffer from bouts of volatility given sovereign stresses and geopolitical risks, but if so, U.S. yields may drop so the portfolio structure will help

balance that outcome. Bailout funds, progress on fiscal consolidation, and bank stress tests and capital plans have reduced contagion risk.

Fund Commentary

Performance

The RS Strategic Income Fund (Class A shares) (the "Fund"), returned 1.46% for the first quarter ended March 31, 2011, compared with the Fund's benchmark, the Barclays Capital Aggregate Bond Index[1] (the "index"), which returned 0.42% for the same period.

(Asof 3/31/2011)	1-Year	3-Year	5-Year	10-Year
RS Strategic Income Fund (Class A) Average Annual Total Return	7.63%	n/a	n/a	n/a
Lipper[3] Multi-Sector Income Funds Average Annual Total Return	9.25%	n/a	n/a	n/a
Lipper[3] Multi-Sector Income Funds Category Ranking*	123/170	n/a	n/a	n/a
Lipper[3] Multi-Sector Income Funds Category Percentile	72nd	n/a	n/a	n/a

**Lipper rankings are based on total return with dividends reinvested and do not take into account or reflect sales charges.*

Portfolio Review

Coming into 2011, the U.S. (and world) economy was picking up some steam, and consensus outlooks were being revised up (Blue Chip Consensus Outlook for 2011 U.S. GDP peaked at 3.2% in February and stood at 3.1% in the March report)[4]. Concerns and downside risks arose during the quarter and took on more scale in March, with unrest in the Middle East/ North Africa turning violent in some countries and significantly in Libya, an oil producing country. Then Japan was struck by natural and nuclear disasters on March 11th, which will weigh on Japan GDP, at least in the near term, and also impact energy prices and companies who source products from Japan. Further, sovereign risks flared again in Europe, with Portugal near to needing a bailout as the quarter ended, and Ireland having just announced an increased capital need for its banks (but looked like a net positive given the severity and credibility of these tests). So far the US economy is clearly still on the growth path, with economy-wide indicators, such as the ISM manufacturing and non-manufacturing surveys in expansionary territory (the combined ISM report for March as still a very high 57.8, unusually strong historically well into expansionary territory versus a "neutral" reading of 50) and the unemployment rate continued to drop more quickly than expected. Despite all the headlines and hours of analysis spent on geopolitical risk, market behavior for the quarter tells a different story. There was no tell-tale "flight to quality" in Treasuries for the quarter as a whole, and many of the fixed income sectors with the biggest yield premiums did best (which may be read as the "riskiest" sectors did best). We have probably not seen the last of this debate since most March data is not yet out, and Q2 may be impacted, but so far the market focused more on strong growth and earnings than the potential drags that could lower the growth outlook. Given our view that underlying growth in the U.S. is on solid footing, we plan to focus on those fundamentals as well and not get thrown off course by some near term volatility.

In the first quarter, the Treasury market posted a small loss (-0.16%, as measured by the Barclays Capital Treasury Index) as yield rose [1]. The 2-year Treasury yield up 23 bps to 0.82% while the yield on the 10-year Treasury increased by 18 bps to 3.47%, so that curve (or yield difference) was about 5 bps flatter over that period.

Although Treasuries posted negative returns, other sectors of the fixed income market posted positive returns (All the return data quoted here are based on the various sector indexes compiled by Barclays Capital.) As in 2010, the high yield bond market was again the best performing, posting a return of 3.88% for Q1. The best investment grade sector in Q1 was, again, the commercial mortgage-backed securities (CMBS) sector which posted a return of 2.05%. Investment grade Credit was next in line posting a 0.89% return, followed by ABS at +0.64%, mortgage-backed securities (MBS) +0.58% and Agencies at +0.27%[1].

We should also note that the above return data looks at that sector indices that have different durations, and comparing the various returns directly against each other can be misleading. However, in this case, the order and magnitude of results look fairly similar when you present them on a comparable-duration or "excess return" basis, given the overall Treasury market return that was near zero on the quarter. High yield bonds did best, posting 3.87% of excess returns in Q1. The best investment grade sector in Q1 was still CMBS sector at +2.03% of excess returns, followed by investment grade credit at 1.05%, ABS at +0.61%, MBS at 0.55% and Agencies at 0.26%[1].

As mentioned, the corporate sector, both high yield and investment grade, put in a strong performance in Q1. The improving U.S. economy, strong balance sheets, persistent demand from investors and lack of supply in other sectors like CMBS and MBS continued to support these markets. Financials were the best performing investment grade sector in Q1 generating 148 bps of excess returns[1] and continue to benefit from new regulations requiring banks to de-lever and increase their capital levels. To this point, on March 18th the results of the Fed's Comprehensive Capital Analysis and Review were better than expected and reaffirmed the regulator's confidence in the current capital levels and earnings prospects of the largest US banks. As a result of their stronger balance sheets and with the blessing of the Fed a majority of the banks have now begun to increase to increase their dividends and or share buybacks. The strong performance in high yield was very broad, with some financials among the top performers as well: Insurance +798 bps and Banking +661 bps. A few other very strong sectors were: Utilities at +520 bps of excess return, Technology at +563 bps, and Energy at +484 bps.

A record $285 billion of investment grade corporate bonds were issued during the quarter[5] as issuers took advantage of the low Treasury yields and strong demand to lock in attractive levels and like last quarter many companies continue to prefund higher coupon debt coming due later this year and in 2012. Similarly $83.8 billion of HY bonds and $40 billion of HY loans were issued in Q1 [5]. CMBS issuance has revived somewhat as in expected to be about $50 billion. Non-agency RMBS issuance is not expected to revive much in 2011 given many regulatory, rule making, and liability issues that are not yet fully determined.

The Fund posted positive returns of 1.46% in the first quarter, outperforming the index by 104 basis points over that period[1]. The Fund's portfolio composition is designed to vary from the index. In Q1 the heavy allocation to corporate credit, particularly to high yield, contributed strongly to performance, with the combined added value of over 80 bps from those sectors and security selections. U.S. corporate sectors performed well on the improving economy and good earnings despite market volatility in March. Overall, the sector allocations (including currency exposures and hedges) added about 88 bps to the fund performance relative to the Index, with the U.S. dollar denominated sector allocations adding about 74 bps to the Fund's returns. The largest sector contributions came from our overweight to high yield bonds and bank loans, which added 60 bps overall. The largest sector detraction was from MBS, which subtracted 7 bps from the Fund's returns (but that portion of the fund was generally allocated to other U.S. sectors that did well). An allocation to municipals also subtracted 4 bps from the return relative to the benchmark. Security selection added about 18 bps to returns in the first quarter. Currency exposures (less than 2% at quarter end) had little impact on the Fund return.

The Fund had significant allocations to corporate credit throughout the quarter, given strong credit metrics and attractive risk premiums. The most significant allocation and overweight in the Fund was the high yield corporate credit strategy, with 36.0% at quarter-end (up 1.2% vs. Q4), which includes both high yield bonds (25.2%) as well as bank loans (10.8%). Additionally, the U.S. dollar investment grade corporates holdings totaled 19.5% of the Fund, for a combined weight (with the high yield strategies) of 55.5%. The global allocation (meaning, non-USD denominated holdings) totaled 15.5% at quarter end (up slightly, 0.2%, from Q4), invested across 8 countries which we view as having better return potential than the U.S. bond market given our assessment of fundamentals such as expectations about growth, inflation and deficits and yields (both actual "nominal" yields, and inflation-adjusted "real" yields). Global bond positions included sovereigns (but not Greece or Ireland or Portugal; we did maintain a small position in Italy), supranationals (such as the European Investment Bank (EIB)), and corporate credits.

At quarter-end the Fund had allocations of 11.5% in non-agency residential mortgage-backed securities (RMBS) and 9.8% in CMBS, both up slightly vs. Q4. Both sectors face challenging underlying fundamentals,

which cannot be solved soon by moderate GDP growth alone. However, we see bottom-up value in some subsectors and specific bonds we analyzed warranted an allocation, in our view. Each security chosen withstood our value assessment and stress case scenarios, offering good potential returns. We have avoided securities that deteriorate substantially in weaker than expected scenarios, and instead have been focused on more senior bonds and on the amount of credit enhancement available relative to current and potential credit issues. We note, as in 2010, some of those bonds that look weakest on a fundamental basis performed best in their sectors. However, we feel the risk reward trade off did not warrant investment. We position the portfolio with consideration for downside scenarios as well, and try to avoid holdings that may hit a "cliff" and drop sharply in a downside scenario. We do not put all of our clients "eggs" in one basket and assume our base case outlook is the only possible scenario.

Outlook

We expect the U.S. economic expansion to continue through 2011 despite some remaining challenges (stressed real state fundamentals; banks forced to improve capital rather than focus on lending growth; government deficits need to be addressed) plus new global events and risks that arose during Q1 (Mid East unrest pushing up oil prices, Japan events potentially impact on growth, supply chains, and energy as well). We expect U.S. gross domestic product (GDP) growth to be around 3.0% for 2011; and even with drags and risks that have arisen, we currently assess less than a 0.5 hit to GDP (in other words, we do not expect GDP growth to be slower than 2.5% for the year as a whole). We expect consumer spending growth around 2.75% for the rest of 2011, after a bit slower pace in Q1, with spending supported by job growth (plus payroll tax cuts). We are more optimistic than consensus: we expect the unemployment rate at year end to be close to 8%, not near 9%. We expect business investment to grow 10-12%, and see some contribution from residential and other structures.

Post crisis stresses and challenges remain: Large U.S. banks are on solid footing, but new regulations and Basel III rules emphasize higher capital and liquidity levels, not lending growth. Housing is still a quagmire. Commercial real estate fundamentals are weak but showing signs of stabilization. Large long term projected federal deficits will need to be addressed. We expect progress on long-term U.S. budget issues in 2011, but nothing concrete was proposed in Q1. State and local government budgets also need revamping. Our outlook includes a 5% annualized rate of decline in federal government spending for the second half of 2011, and about a 2% drop in state and local spending for all of 2011. The Federal Reserve's balance sheet hit a new record of $2.6 trillion and will need to be reduced over time.

New stresses and risks flared in Q1: Mid East/North Africa (MENA) unrest, rising oil prices, and Japan disasters. Volatility is likely to continue and events created some idiosyncratic (more company specific) risks for companies with assets or suppliers in harm's way or at risk from potential changing views on energy policy. Renewed European Sovereign & Bank stresses with restructuring likely for some smaller countries. However, Spain seems to have distinguished itself from Greece, Ireland, and Portugal, which is key given the size of Spain's economy (4th largest in Europe). A stabilized Spain and separate Bank Stress Test results and capital requirement having been announced in Ireland as well, make the scope of the problem manageable. Bailout funds, progress on fiscal consolidation, and bank capital plans have reduced contagion risk. Prior to MENA/Japan, European growth outlooks were being revised up.

Inflation: On a year-over-year basis, we expect that core inflation to rise towards 2.0% and we expect headline CPI to hit 3% or higher during 2011. Input costs have risen notably and rents are also moving up. Both point to a flow through of inflation to consumer prices. Labor market slack (unemployment was 8.8% in March) will help counter a bigger or longer inflation spike. The cost increases that companies are facing are due to large and broad commodities price increase, including recent jumps in oil prices. The broad nature of the higher input costs is faced by all producers, and our credit analysts have conveyed that a number of companies and sectors specifically mentioned the desire to pass through cost increases that have occurred, to the extend possible, and more quickly than they did in 2008 since margins were hurt then and the economic trajectory is much more positive now. China continues to be a focal point for commodity price inflation, an upward force if growth is sustained and a risk to the downside if the policy tightening in China is overdone. Given past commodities price increase and this likely passes through, we expect an upward slope for inflation prints in incoming months. We do not expect sustained inflation of 3% or higher. However,

the Fed's bias to stay "easy" may raise inflation fears and expectations further as cost increases flow through to inflation reports.

The Fed Outlook: We see Q2 as a policy turning point, but it will be a wide turn. In total we expect some modest withdrawal of accommodation in 2011 with more to come in 2012. The Fed may seek to drag a few oars before surging off in the opposite direction. We expect the Fed to start turning the policy boat by letting the market know it will not do additional quantitative easing after QE2 wraps up at the end of Q2. Monetary Policy is very accommodative, with the Fed Funds target rate near zero (target range 0% to 0.25%) and an expanded balance sheet which may mean the short rate is effectively closer to -3.75%. Withdrawal of some of the excess accommodation would be warranted. The Fed has upgraded its economic outlook and the unemployment rate has been falling faster than they anticipated. However, given still-high unemployment some senior FOMC members have indicated a desire to remain accommodative for an extended time.

We expect the Fed will turn away from easing further, and turn to a slight removal of accommodation. We believe that the first step of the Fed's policy reversal should be to stop the additional easing. The Fed is still buying bonds under its "QE2" program. The balance sheet hit new records in Q1 of $2.6 Trillion and should peak slightly higher in Q2. We expect the Fed to decide not to do any additional quantitative easing program after "QE2" ends in June. The Fed is also still buying Treasury bonds to reinvest cash flows coming from their holdings of MBS bonds. This should allow the balance sheet to start shrinking modestly. (Fixed income portfolios naturally shrink through coupon payments, prepayments, maturities, etc.). Rate hikes are likely still a ways off, although the "extended period" language is likely to change later in 2011. Given that we are in uncharted territory with the types of policies that have been employed, we consider a host of combination moves for the unwind strategy in our portfolio strategy sessions. Bottom line: we expect some modest withdrawal of accommodation in 2011 with more to come in 2012.

Our base case is for a gradual turn in monetary policy and therefore it will be a long time before we get to neutral monetary policy. However, continued commodity price rises or a more sustained increase in inflation expectations would likely prompt the Fed to be more aggressive. The Fed still appears committed to medium term price stability and if they can't talk the market into keeping inflation expectations stable, we believe they will take action to prove their commitment if and when market expectations challenge them on that front. We do see risks that inflation expectation may move up more than actual inflation, even if actual inflation is in the "ideal" zone. These concerns center on oil/commodity prices and on policy errors. On the policy side, the risks are that policy makers are tempted to allow inflation to help reduce the nominal debt burden, or forget the lessons of the 1970s and think that they can achieve a lower unemployment rate by allowing inflation to continue to rise. Neither of those things are our base case, but we are on alert. Even without those risks materializing, the market may lose patience in waiting for signs that the necessary fiscal policy discipline or any needed monetary policy discipline will emerge in a timely fashion.

In terms of market outlook and opportunities, the long list of stresses and new risks may create some market volatility in coming months, but we judge that there is further value to realize in a number of fixed income sectors over the balance of the year, given the underlying solid footing of the economy and the fundamentals and merits of each security. We see solid but moderate GDP growth (2.5% to 3%), employment gains, and fairly accommodative monetary policy as supportive of many market sectors. We believe that growth alone would be unlikely to push rates up dramatically (more on the order of 0.50% or so, not 2%), and that chance has lessened near term given the potential for some drag effect from higher oil prices or the near term hit Japan will take in the wake of the March disasters. A temporary spike may result from government budget haggling or concerns about the Fed falling behind the curve, but both also would probably elicit corrective responses.

Coming into Q1, we had expected that U.S. Treasuries (and Agencies) would lag the performance of other fixed income sectors and we positioned for better relative performance elsewhere. That turned out to be the case and we expect it to be a continued theme for 2011. Our current strategy in the portfolio is to favor "spread product" overall (meaning sectors that trade at higher yields than similar Treasuries). We continue to think it is a good environment for investors to take on appropriate credit risk. The extra yield and the potential for some additional spread compression make several bond sectors attractive. We expect high yield bonds and loans and select parts of the commercial mortgage-backed securities (CMBS) and non-

agency residential mortgage-backed securities (RMBS) sectors to outperform Treasuries by 3% to 5% over the next 12 months. We particularly favor corporate credit, particularly to high yield bonds and bank loans. Credit fundamentals improved during the recovery and many companies are in good shape. We expect default rates to remain low, and we see current yield premiums over Treasuries as attractive. Despite gains that have already occurred, our updated assessment is that the strongest relative returns will likely come from high yield bonds. We believe that current yield premiums over Treasuries are attractive and expect them to narrow further as the economy continues to grow (the U.S. High Yield Index ended the first quarter at 7.02% yield-to-worst, and has an option adjusted spread (OAS) of 465 basis points (bps). Yields on the bank loans we like were in area of 5% all in yields at quarter end, compared to the 5-year Treasury yield at 2.28%. Additionally, we like U.S. dollar-denominated investment grade corporate credit. At quarter-end the U.S. Credit index had a sector OAS of 132 bps and 3.91% yield; however, we are alert to increasing event risk at this point. Our central case for investment grade corporates is about 150 bps of outperformance potential. We particularly like large stable financials, particularly U.S. banks that are already in solid shape and are on a bit of a "forced march" to even better credit metrics given new regulatory rules pointing to higher capital and liquidity positions (lower overall leverage).

For both commercial and residential real estate-related sectors, we are still focused on protecting against downside risks, given the still weak broader fundamentals in those sectors. We have found subsectors and specific bonds that meet our rigorous scenario stress testing. We have stayed focused on seasoned loans (originated when loan standards were still solid), seniority of cash flows for our bonds, and the amount of credit protection each specific security has relative to the types of loans and credit concerns. For instance, the RMBS and CMBS holdings in the Fund at quarter-end were typically bonds that were originated in 2003 through 2006, which are "super senior." The most recently purchased 2006 super senior bond had 30% credit enhancement, meaning the first 30% of losses go to other bonds in the deal, not the one held by the Fund. The Fund had a less than 0.5% allocation to U.S. Treasuries and a 1.4% allocation to agency MBS given our assessment that better relative values lie elsewhere, but we will stay alert to changing relative value, particularly with respect to the agency MBS.

We believe that Treasury yields have already largely risen to a level consistent with our economic growth expectations (the 10 year yielded 3.47% at quarter end). Rates could drop temporarily on reduced growth expectations or global risks that trigger a flight to quality, but further increases in inflation expectations, which may happen on elevated inflation prints as commodity price rises show up, if the Fed is perceived to be insensitive to changes on that front and too solely focused on the unemployment rate.

Allocation to non-USD bonds provides diversification given their sensitivity to moves in the local government bond yields rather than to U.S. Treasuries. They may suffer from bouts of volatility given stresses that still exist, especially in Europe, and geopolitical risks, but if that outcome were to happen, in addition to opportunities to assess evolving market situations and trade the portfolio, the overall portfolio construction is designed to help balance that outcome given exposures in the US where rates may be falling or constrained in that scenario. Bailout funds, progress on fiscal consolidation, and bank stress tests and capital plans have reduced contagion risk.

In summary, in our current investment strategy for the Fund, we continue to favor spread product and plan to focus our risk-taking in areas where we believe the fundamentals, structure, and risk premiums (yields above Treasuries) compensate the Fund for risk. Currently the largest US allocation focus on that are High Yield bonds and loans, non-agency RMBS, and CMBS. While the coming months may bring some market volatility, and possibly some reduction in the consensus outlook, we currently expect that those will be good opportunities to add to positions. We are positioning the portfolio for our 6 to 12 month outlook, not just the upcoming few weeks and we think yield premiums in many sectors look attractive in a clearly expanding economy (GDP growth 2.5% to 3%), especially given our focus on specific sectors and subsectors and securities that we think have solid fundamental value.

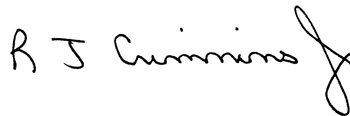
The Fund's significant allocation to high yield sectors, and other sectors, may create greater potential for income and return. The Fund is taking on more credit risk, but currently we believe that the risk is justified given our views on solid fundamentals and attractive spreads. Additionally, the Fund had an allocation of close to 16% to global strategies at quarter end, investing across 8 countries that we viewed as having better

return potential than the U.S. bond market, given our assessment of fundamentals such as expectations about growth, inflation and deficits and yields (both actual "nominal" yields, and inflation-adjusted "real" yields). These non-USD denominated bonds provide diversification with respect to U.S. interest rate moves; however, in this cycle, we seek to be compensated for sovereign credit risk as well. At quarter-end the Fund had a bit less than 2% net exposure to foreign currencies, in two countries we think will benefit from oil sales, as well as other factors.

We look forward to evaluating all the exciting developments ahead and adjusting allocations as opportunities change in the market place.

Sincerely,

Leslie Barbi Co-Portfolio Manager	Kevin Booth Co-Portfolio Manager	Howard W. Chin Co-Portfolio Manager



Robert J. Crimmins, Jr. Co-Portfolio Manager	Marc Gross Co-Portfolio Manager	Jonathan Jankus Co-Portfolio Manager

Guardian Investor Services LLC, the Fund's sub-adviser

The foregoing is the opinion of the Fund's management team as of the date of this report and is subject to change without notice.

As with all mutual funds, the value of an investment in the Fund could decline, so you could lose money. Bond funds are subject to interest rate risk, credit risk and prepayment risk. When interest rates rise, bond prices generally fall, and when interest rates fall, bond prices generally rise. Currently, interest rates are at relatively low levels. Please keep in mind that in this kind of environment, the risk that bond prices may fall when interest rates rise is potentially greater. The values of mortgage-backed securities depend on the credit quality and adequacy of the underlying assets or collateral and may be highly volatile. Derivative transactions can create leverage and may be highly volatile. It is possible that a derivative transaction will result in a loss greater than the principal amount invested and the Fund may not be able to close out a time or price. Floating rate investments issued in connection with leveraged transactions are subject to greater credit risk than many other investments.

High Yield bond investing includes special risks. Investments in lower rated and unrated debt securities are subject to greater loss of principal and interest than investments in higher rated securities.

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.

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, 2011.

Mutual funds are offered 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.

Sector Allocation (As of 3/31/2011)	**% Fund**
Treasury / Agency	0.4%
Investment Grade Credit	19.5%
High Yield Credit	36.0%
Agency MBS	1.4%
Non Agency MBS	11.5%
ABS	0.0%
CMBS	9.8%
Global - Non USD	15.5%
Other	2.2%
Cash & Equivalents	3.8%

Top Ten Holdings[2] (As of 3/31/2011)	**Coupon Rate**	**Maturity Date**	**% Fund**
Mexican Bonos	7.250	12/15/16	2.15%
Pilot Travel Centers LLC	4.250	03/30/18	1.45%
Springleaf Finance Corp.	7.250	04/21/15	1.44%
Leslie's Poolmart, Inc.	4.500	11/21/16	1.44%
Sequa Corp.	3.560	12/03/14	1.42%
Poland Government Bond	5.250	10/25/17	1.40%
FNMA - MBS	4.000	11/01/40	1.39%
Dealer Computer Services	5.250	04/21/17	1.22%
Bank Nederlandse Gemeenten NV	3.000	1/28/14	1.02%
CS First Boston Mortgage Securities Corp.	5.075	02/15/38	1.01%

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1 The Barclays Capital U.S. Aggregate Bond Index is generally considered to be representative of U.S. bond market activity. The Barclays Capital U.S. Aggregate Bond Index is an unmanaged index that is not available for direct investment and there are no expenses associated with the index while there are expenses associated with the Fund. The Lipper Multi-Sector Income Fund Index Objective Average is the average of all the funds in the group in existence in the Lipper database for the periods, and does not reflect the deduction for sales charges.
2 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.
3 Lipper, Inc. is an independent mutual fund monitoring and rating service. Its database of performance information is based on historical returns, which assume the reinvestment of dividends and distributions and the deduction of all fund expenses. Lipper return figures do not reflect the deduction of any sales charges that an investor may pay when purchasing or redeeming shares of the Fund.
4 *Blue Chip Economic Indicators*, Randall E. Moore, March 10, 2011
5 Barclays Capital Bond Sector Updates. April 1, 2011.