

**Second Quarter 2011 Mutual Fund Commentary**  
**RS High Yield Municipal Bond Fund**

**Performance**

(Average Annual Total Returns as of 6/30/2011)

RS High Yield Municipal Bond Fund (Class A – RSHMX)

	Second Quarter 2011	1-Year	3-Year	5-Year	10-Year	Since Inception (12/31/09)
without sales charge	5.30%	2.85%	n/a	n/a	n/a	6.22%
with maximum sales charge	1.34%	0.54%	n/a	n/a	n/a	3.55%
Barclays Capital Municipal Bond Index <sup>1</sup>	3.89%	3.48%	n/a	n/a	n/a	4.56%

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

**Fund Highlights**

**Portfolio Overweights**

- Investment grade credits
- Housing
- State General Obligations (which includes Puerto Rico)

**Portfolio Underweights**

- Troubled Big City General Obligations
- Longer maturity, highly leveraged tobacco bonds
- Weakly secured project financings

**Outlook**

- Somewhat stronger new issuance volume
- More credit stress

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 1.03% / 0.65%. 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 4/30/12. 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](http://www.RSinvestments.com).

## Fund Commentary

### Performance

RS High Yield Municipal Bond Fund (Class A shares) (the “Fund”), had a total rate of return of 5.30% for the second quarter ended June 30, 2011, versus its benchmark<sup>1</sup>, the Barclays Capital Municipal Bond Index (formerly the Lehman Brothers Municipal Bond Index), which returned 3.89%<sup>1</sup>. The Barclays High Yield Municipal Index, which has a lower credit profile than our Fund returned 5.29%<sup>2</sup>. These indexes do not include expenses. We would note that the Fund has quite a different profile than either index. At any one time, the Barclays Capital Municipal Bond Index benchmark has approximately 45,700 issues and the Barclays High Yield Municipal Index has approximately 3,200-issues<sup>2</sup>, whereas the Fund generally has exposure to about 60 to 70 issues, some of which may not be in the benchmark.

<b>(As of 6/30/2011)<sup>6</sup></b>	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
RS High Yield Municipal Bond Fund (Class A) Average Annual Total Return	2.85%	n/a	n/a	n/a
Lipper <sup>1,2</sup> High Yield Municipal Debt Funds Average Annual Total Return	2.96%	n/a	n/a	n/a
Lipper High Yield Municipal Debt Funds Category Ranking*	68/124	n/a	n/a	n/a
Lipper High Yield Municipal Debt Funds Category Percentile	55 <sup>th</sup>	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.*

As of June 30, the Fund's 30-day SEC yield<sup>3</sup> was 5.12% (which grosses up to 7.88% taxable equivalent yield for a person in the highest federal income tax bracket in 2011). Without the subsidy, the fund's 30-day SEC yield was 4.80% (grossing up to 7.38% taxable equivalent yield for a person in the 35% income tax bracket in 2011).

### Portfolio Review

In the second quarter, only \$67.603 billion in municipals were issued versus \$100.504 billion in the second quarter of 2010, a 32.7% decline. For the first six months of the year, new issuance was \$115.196 billion versus \$204.913 billion, a 43.8% decline year over year<sup>7</sup>.

The total return of the Barclays Capital High Yield Municipal Index<sup>2</sup> for the second quarter through June 30, 2011 was 5.29%. The best performing sectors in the quarter were Solid Waste/Resource Recovery (7.07%), Industrial (6.54%), and Health Care (5.55%). The worst performing sector was Transportation (3.43%)<sup>2</sup>.

As California lumbered at the end of June toward a new fiscal year that began July 1, it struggled to enact a balanced budget – even though both the executive and legislative branches of state government were led by the same party. In March, it was able to pare down a \$26 billion budget gap to \$10 billion. While income taxes from high earners in California have been stronger than expected, the gap largely remained. To eliminate this remaining gap, the legislature had passed a “balanced” budget on June 15. The governor vetoed it as being full of gimmicks. The state controller then ruled that lawmakers would permanently forfeit their salaries and expense re-imburements until they passed a properly balanced budget.

The governor wanted to balance the budget with tax extensions, but needed some minority party votes in the legislature to get it approved. They, in turn, wanted pension reform and other business friendly economic issues addressed as well. On June 24<sup>th</sup>, it was reported that Standard & Poor's concluded the State's rating was at a “crossroad” because of the budget impasse, and was in jeopardy. On June 28, the

governor and legislature did pass a new budget that had neither pension reforms nor tax extensions. Instead, it depended on optimistic tax collection assumptions and one-shot revenues with the proviso that some expenditure reductions will occur if revenues fall short.

It should be noted that approximately 5% of the bonds in the fund are either California state general obligations or state lease rentals. They were purchased with attractive structures and at spreads to our benchmark that reflected these concerns.

Illinois is another state we are monitoring closely. On June 30, the Illinois signed into law a budget beginning July 1 without paying an estimated \$8 billion in overdue bills. Early in January, the State had approved personal and corporate income-tax increases that eliminated about half of the \$13 billion deficit. The governor had hoped to finance at least part of the unpaid bills through a bond issue. There was opposition in the legislature to adding to debt, and support instead to cutting the budget. By the end of June, this had not been resolved. Of all the bonds we have in the fund, Illinois state general obligations represented approximately 1%, and were purchased at spreads and structures that reflected our concerns.

On June 24, Fitch Ratings cut the rating of Detroit's unlimited-tax general obligation debt to BB- from BB+, three steps below investment quality. The limited-tax general obligation bonds were cut to B+ from BB. The rating agency stated the outlook is negative because of the weakening of the city's revenues, continued economic fragility and difficulty in cutting spending. We do not have any of these bonds in the fund.

We seek to assess value in the high yield sector, with a sharp eye toward limiting downside risk. Our investment approach is based on our analysis of the credit fundamentals of each issuer, and on its specific coupon structure and yield considerations, i.e., we look at bonds that meet our credit evaluation criteria with relatively high coupons that we believe will maximize current income. Maturity and duration are secondary considerations.

Given the broad opportunity set open to a national high yield fund, we focus on what we believe to be issuers in the low investment grade and high yield sectors that offer value. We avoid large concentrations in any one issuer, industry, credit sector, or state. The index is heavily weighted in health care issues such as hospitals, nursing homes and continuing care retirement community (CCRC) bonds. They are non-rated bonds and bonds rated below investment grade, i.e., Ba1 and below, which makes sector diversification difficult<sup>5</sup>. However, we feel that we have mitigated this risk somewhat through state diversification as economic regions will react differently than sectors. As of June 30, 2011, the ratings breakdown of the Fund's holdings was 0.0% AAA, 22.8% AA and A rated, 53.1% BBB-rated, 5.1% BB-rated, 2.1% B-rated and 13.0% non-rated. 3.9% of the fund was held in short-term instruments.

## **Outlook**

While new issue supply in the second quarter and for the first six months lagged 2010 numbers, it should be noted that in June, the supply was only off 9.2%<sup>7</sup>. This may hint that the market may be turning around. Most analysts expect the new issue market in the second half of the year to be somewhat stronger, but still close to 50% of 2010 volume.

The pace of economic recovery became less clear by the end of June. Factors included supply chain disruptions to American plants after the earthquake and tsunami in Japan and rising oil prices caused by the cutoff of the Libya supply. Other factors in the deceleration and concern include: housing prices continued to fall, hiring was weak, wages were flat, growth in China and India slowed, and the debt crisis in Europe could have ripple effects.

Since certain high yield sectors such as toll roads, real estate development, and continuing care retirement communities are more dependent on economic activity and property values than others, we will continue to monitor this closely.

Through June 27, the issuers of approximately \$38.399 billion of municipal bonds notified investors of some credit impairment that included \$9.477 billion in actual cash payment defaults on 313 bonds. In March the numbers were \$26.762 billion, \$8.207 billion and 277 bonds, respectively. The uptick in credit impairment was largely driven when in mid-May some of the more highly leveraged tobacco bonds gave notices that in December they expected minor draws on their debt reserve funds to pay bondholders<sup>8</sup>. We did not have any of these bonds in the fund. It should also be noted that on June 22, it was announced that the big cigarette makers and the state attorneys general had a proposed deal for resolving a long-running dispute over required payments. While the states could collect several billions of the disputed dollars, the parties won't start drafting the final deal until a "critical mass" of states and firms agree.

Many of the defaults continue to be land-secured issues (which are directly related to real estate). Projects in Florida continue to default as the projects started in 2006 and 2007 hit their completion dates and need to begin assessment payments. When the end of new defaults is expected by year-end, a turnaround is not yet visible. What is visible is litigation in bankruptcy court among bondholders, banks and developers over the bond restructurings<sup>8</sup>. We do not have any of these bonds in the fund.

The incidence of default increases among certain types of issuers, notably smaller non-essential projects from economically challenged areas with cash flows that are not supported by taxes. By carefully monitoring our investments and doing thorough research we have avoided these situations.

Given the broad opportunity set open to a national fund, we continue to focus on issuers in the low investment grade and high yield sectors that we believe offer potential for value. We will continue to seek to avoid large concentrations in any one issuer, industry, credit sector, or state. If we believe we are properly compensated for risk, we may purchase non-rated or lower-rated credits if we believe there may be value in the bonds.

We believe there are compelling opportunities for investors in the RS High Yield Municipal Bond Fund.

Thank you for your investment and continued support.

Sincerely,



Alexander M. Grant, Jr.  
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.

High yield bond investing includes special risks. Investments in lower rated and unrated debt

securities are subject to a greater loss of principal and interest than investments in higher rated securities.

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. Investors in the Fund may be subject to alternative minimum tax (AMT) and certain other state and local taxes.

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 derivative transaction at a favorable time or price.

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 June 30, 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](http://www.RSinvestments.com).***

<b>Sector Allocation (As of 6/30/2011)</b>	<b>% Fund</b>
General Obligation Bonds	9.8%
Special Tax	11.1%
Housing	3.9%
Education	8.8%
Water and Sewer	1.2%
Transportation	17.6%
Resource Recovery	0.0%
Hospital / Nursing Home / Health Care	24.5%
Industrial Revenue/Power	19.2%
Short-Term / Other Assets and Liabilities	3.9%

<b>Top Ten Holdings<sup>4</sup> (As of 6/30/2011)</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>% Fund</b>
Kentucky Economic Dev. Fin. Auth. Hosp. Facs. Rev.	6.375	03/01/2040	2.24%
Village Cmnty. Dev. District No. 8 FLA Spl. Assessment Rev.	6.125	05/01/2039	2.20%
New Jersey Economic Development Auth. Rev.	5.750	06/15/2034	2.15%
Tex. Private Activity Bd. Surface Transn. Corp.	7.500	06/30/2033	2.02%
California St. Pub. Wrks. Brd. Lease Rev.	6.625	11/1/2034	1.95%
Cook Cnty. IL Rev.	6.500	10/15/2040	1.86%
North Tex. Twy. Auth. Rev.	5.750	1/1/2033	1.82%
Farmington NM Poll. Ctrl. Rev	5.900	06/1/2040	1.77%
Tobacco Settlement Auth. WA Tobacco Settlement Rev.	6.625	06/1/2032	1.74%
Illinois St. G.O. Ser. A	5.000	09/01/2031	1.73%

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**1** The Barclays Capital Municipal Bond Index is an unmanaged index considered to be generally representative of investment-grade municipal issues having remaining maturities greater than 1 year and a national scope. It is not possible to invest directly in an unmanaged index. The Barclays Capital Municipal Bond index returns only available since 5/22/2003. Prior to November 1, 2008, this index was published by Lehman Brothers.

**2** The Barclays High Yield Municipal Index is composed entirely of non-rated bonds and bonds rated below investment grade, i.e., Ba1 and below. Additionally, it is heavily weighted in health care issues such as hospitals, nursing homes and continuing care retirement community bonds, which makes sector diversification difficult.

**3** SEC Yield is a standard yield calculation developed by the Securities and Exchange Commission (SEC) that allows for fairer comparisons of bond funds. It is based on the most recent 30-Day period covered by the fund's filings with the SEC. The yield figure reflects the dividends and interest earned during the period, after the deduction of the fund's expenses. This is also referred to as the "standardized yield."

**4** Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual bonds.

**5** Rating agencies' independent ratings of individual bonds are aggregated by Barclays and market weights are reported using Standard & Poor's letter rating conventions. Rating methodology uses the middle rating of Moody's, Standard & Poor's and Fitch. When a rating from only two of the rating agencies is available the lower rating is used.

**6** 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.

**7** The Bond Buyer. July 1, 2011.

**8** MMA Weekly Outlook. June 27, 2011.