

Second Quarter 2011 Mutual Fund Commentary
RS Investment Quality Bond Fund

Performance

(Average Annual Total Returns as of 6/30/2011)
 RS Investment Quality Bond Fund (Class A – GUIQX)

	Second Quarter 2011	1-Year	3-Year	5-Year	10-Year	Since Inception (2/16/93)
without sales charge	1.76%	4.49%	6.54%	6.18%	5.45%	5.55%
with maximum sales charge	-2.02%	0.57%	5.18%	5.37%	5.04%	5.33%
Barclays Capital U.S. Aggregate Bond Index ¹	2.29%	3.90%	6.46%	6.52%	5.74%	6.25%

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

Fund Highlights

Portfolio Overweights

- Fund underperformed its benchmark largely due to its overweight in several non-Treasury sectors which did not do well in the wake of Greece's sovereign debt crisis.
- Specifically, overweights in corporate bonds and commercial mortgage-backed securities (MBS) weighed on Fund performance as both sectors underperformed Treasuries.

Portfolio Underweights

- Underweight in Agency MBS detracted from Fund performance as the MBS sector outperformed.
- Underweight in Treasuries also detracted as the sector performed well during the Greek credit crisis. Concerned investors sought the safe haven of Treasuries and drove yields towards their historic lows.

Performance quoted represents past performance and does not guarantee future results. The Fund is the successor to The Guardian Investment Quality Bond Fund; performance shown includes performance of the predecessor fund for periods prior to October 9, 2006. 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 1.04%/0.85%. The net expense ratio reflects a contractual expense limitation which will continue through 4/30/12. 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%. 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)

Market Overview

- Global markets rattled again by another Greek debt crisis. Crisis temporarily resolved but long-term prospects remain very uncertain.
- Fundamentals in U.S. fixed income remained positive but overwhelmed by Greek crisis during Q2.
- Signs of slower employment growth and weaker manufacturing activity cast doubt on the trajectory of U.S. economic recovery.

Outlook

- U.S. economy likely to grow modestly at 2.5% in 2011.
- Weak employment growth and a struggling housing market will continue to be a substantial drag on economic growth.
- Non-Treasury fixed income expected to recover from Q2's underperformance.

Fund Commentary

Performance

The RS Investment Quality Bond Fund (Class A shares) (the "Fund"), returned 1.76% for the second quarter ended June 30, 2011, compared with the Fund's benchmark, the Barclays Capital Aggregate Bond Index, which returned 2.29%. For first half of 2011, the Fund returned 2.58% while the benchmark returned 2.72%.

The average fund in the Lipper^{1,2} Intermediate Investment Grade Debt Funds peer group returned 1.84% in the second quarter and 2.76% for the first half of the year. (The peer group consists of 596 mutual funds that invest primarily in investment grade debt with average maturities of 5 -10 years.)

(As of 6/30/2011)	1-Year	3-Year	5-Year	10-Year
RS Investment Quality Bond Fund (Class A) Average Annual Total Return	4.49%	6.54%	6.18%	5.45%
Lipper Intermediate Investment Grade Debt Funds Average Annual Total Return	5.09%	6.68%	5.99%	5.24%
Lipper Intermediate Investment Grade Category Ranking*	369/566	296/486	216/394	125/271
Lipper Intermediate Investment Grade Category Percentile	66 th	61 st	55 th	46 th

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

Market Overview

Our calendar tells us that we're in the middle of 2011, but that can't be right. To us, the current environment looks more like the middle of 2010. As with 2010, we're in the middle of a sovereign debt crisis in Greece, Treasury yields are dropping towards their historic lows and we're seeing evidence that the economy recovery – once thought to be on a solid trajectory – may be hitting some unexpected headwinds. Doesn't this sound awfully familiar?

These events caused substantial volatility in the fixed income market during the second quarter, nowhere more than the concerns surrounding Greece's potential default. Even though the European Central Bank and the International Monetary Fund had set up mechanisms and bailout funds to support Greece, investors had substantial doubts whether Greece would undertake the additional austerity measures that were required to get more bailout money. The sight of demonstrators clashing with police in the streets did not help to quell those concerns. As a result, the situation took on substantial political uncertainty and

even though a default in Greece would have grave consequences for the European Union (and possibly beyond), the uncertainty of such a “low probability/high severity” event drove investors into Treasuries, just as it did in 2010.

As a result of this flight to quality, Treasury yields declined substantially in the second quarter. For example, 2-year Treasury yields dropped by 0.36% from 0.82% at the end of the first quarter to 0.46% at the end of the second. Similarly, 10-year Treasury yields dropped by 0.31% to close out the second quarter at 3.16%. (These changes include the rise in rates seen at the very end of June as the Greek debt crisis was lessened (however temporarily) by the Greek lawmakers’ agreement to adopt the required additional austerity measures. Additionally, the Fed ended its \$600 billion Treasury purchase program and removed a significant buyer from the Treasury market.)

Not surprisingly to us, the Treasury sector was the best performing fixed income sector in Q2, returning 2.39% as measured by the Barclays Capital US Treasury Index. Shorter-maturity government bonds (Treasuries and Agencies) as noted above also did well, returning 0.81% during the quarter. Corporate bonds (as measured by the Barclays Capital US Credit Index) and mortgage-backed securities (MBS) both returned 2.50%. Asset-backed securities (ABS) returned 1.77% while commercial mortgage-backed securities (CMBS) trailed the pack and returned 1.63%. (Sharp-eyed readers are probably asking, “Why is the 2.50% return for corporates and MBS *not* better than the 2.39% performance posted by Treasuries?” Answer: Well, it depends. Read on...)

We should also note that the above return data is a bit of an “apples to oranges” comparison. Since these sectors have different durations, comparing their returns can be misleading. However, by presenting this data on an equal-duration basis, we see that the non-Treasury sectors had a mixed performance in Q2. For example, corporates actually underperformed comparable-duration Treasuries by 0.07% and CMBS lagged all investment grade sectors, underperforming by 0.54%. In contrast, Agency MBS outperformed by 0.36% and ABS wound up 0.16% in the black.

Delving into these sectors a little more, we note that the corporate sector was particularly buffeted by several factors. After starting the second quarter on positive note, questions about the strength of the U.S. economy, widespread concerns about Greece and Europe and the subsequent decline in Treasury rates all weighed on the corporate sector.

As a result, corporate bonds underperformed Treasuries by 0.07% as noted above. However, we should point out the underperformance was not due to weak fundamentals; corporate balance sheets of U.S. companies remain in very good shape. Rather, it was due to the concerns regarding Greece and Europe. That was most apparent in the financials sector as it turned in the worst performance among corporates in Q2 and underperformed by 0.55% overall and by 1.56% in the longer maturities¹. U.S. banks have little exposure to Greece, but the sector was hurt by the potential contagion effect of a Greek debt restructuring and its resulting negative impact on the global financial system.

CMBS also underperformed in the second quarter despite slowly improving fundamentals such as higher rents and stabilizing vacancies and delinquencies. They were not enough to offset concerns about a weakening economy (a key driver in the demand for office space, consumer spending at malls, retail outlets, etc.) and general risk aversion. One notable characteristic in the second quarter’s investment environment was the speed at which investors would shift between undertaking risk vs. taking on *no* risk. This “risk on/risk off” phenomenon was most prominent in the demand for Treasuries but it was also reflected in the unwillingness of Wall Street trading desks to commit much capital to CMBS. Liquidity dissipated as the European debt crisis grew. In addition, a CMBS-related index was used by some investors to hedge macroeconomic risk, which then placed additional downward pressure on prices for actual CMBS.

Unlike corporates and CMBS, the Agency MBS market was relatively untouched by the Greek debt crisis since the payment of principal and interest on these bonds are guaranteed by the housing agencies (Fannie Mae and Freddie Mac) which were taken over by the US government. Due to this lack of credit

risk, MBS outperformed Treasuries during the second quarter as noted above. We do note that MBS are still subject to prepayment risk (homeowners refinancing their loans when rates drop) but despite mortgage rates remaining well below 5% in the second quarter, prepayment risk was mitigated by much tighter lending standards and the pervasiveness of homeowners saddled with negative equity.

In contrast, the climate for non-Agency MBS (securities that do not enjoy a government guarantee) was mixed during the quarter. While risks tied to global geopolitical/economic events dominated the headlines, domestic housing and home price data also deteriorated during the period. Of particular note was the near meltdown of the subprime mortgage sector, as the weight of a \$10 billion liquidation sale by the Fed of ex-AIG assets reversed 18 months of price gains and compounded concerns regarding a further erosion of subprime housing fundamentals. (By the way, there's another \$20 billion to go.) Fear reigned over the subprime sector for much of the period, but we did not see a similar reaction in the prime sector. (There was no forced selling and investor demand has been steady.) However, we are seeing signs of an increasingly bifurcated marketplace as investors (and trading desks) differentiate between subprime and prime securities. For example, the prices for prime fixed rate securities (which dominate the Fund's non-Agency MBS holdings) ended the quarter basically unchanged while subprime securities typically suffered a 10-15 percentage point decline.

As the quarter closed, we saw improved prospects for the housing market overall as data pointed to firming prices and increased demand. It's still too early to tell whether this is the start of a new upward trend or if the improvements turn out to be temporary. However, we do expect the economy to continue to grow modestly and that should translate into improved confidence and sentiment about housing. We shall see.

Portfolio Review

As the result of our continued expectation of a slowly growing economy, the Fund continued its investment strategy of overweighting the non-Treasury segments of the bond market in the second quarter. However, since many of these sectors underperformed in the wake of the renewed Greek debt crisis and signs of a slowing domestic economy, the Fund underperformed its benchmark by -0.53% in the second quarter. Year-to-date, the Fund has underperformed its benchmark by -0.14%. To be more specific, we had overweights in the corporate bond and CMBS sectors, neither of which did as well as comparable-duration Treasuries. We were also underweighted the Agency MBS sector, which outperformed Treasuries. Our holdings in non-Agency MBS (not included in the benchmark) also underperformed by -0.60%.

The Fund maintained its significant overweight in the corporate bond sector during the second quarter. As mentioned above, that decision had a negative impact on Fund performance as the sector underperformed Treasuries. In particular, our holdings in financials underperformed other corporate sectors and our underweight in sovereigns also hurt the Fund's performance. Overall, we ended the quarter with approximately 30% of the Fund allocated to investment grade corporate bonds relative to our benchmark weighting of 22%.

Similar to the corporate sector, the Fund's substantial overweight in the CMBS sector during Q2 subtracted from the Fund's outperformance versus its benchmark. We continued our strategy of owning (and adding) shorter-duration seasoned bonds that have ample credit support and underwritten to tougher credit standards. However, that positioning was not enough to offset the sector's overall underperformance in the wake of the Greek credit crisis. The Fund ended the quarter with a 21% allocation to CMBS versus the Index weighting of 2.3%.

Our activity in the ABS and Agency MBS sectors was fairly modest in Q2; we maintained our exposure to ABS at 3.8% of the Fund while we sold some Agency MBS to fund our CMBS purchases. Our MBS exposure wound up at 15% while the Index stood at 33%.

In non-Agency MBS, we were able to modestly increase our exposure to 13.2% despite the ongoing pressure of having our holdings shrink every month as bonds are paid down by prepayments. Furthermore, there are no new deals in the non-Agency MBS sector, which makes sourcing appropriate assets increasingly more difficult. However, we were able to find bonds that met our investment criteria – limited cashflow variability with ample credit enhancement – at attractive levels. Continuing to do so will remain a constant challenge.

Outlook

We have lowered our outlook for the US economy to one of slower growth. We believe the slowdown observed in the second quarter was a temporary “soft patch”; we currently do not expect the economy to slip into a “double dip” recession. We believe that 2011 GDP should come in at 2.5% overall (versus our earlier expectation of 2.5-3.0% growth) with a 2% growth rate in the first half and an improvement to 3% in the second half.

Unless there is a substantial improvement in the economy, the Fed will likely keep the Fed Funds rate at 0-0.25% until mid-2012.

We believe that inflation will slowly increase towards 2% in the so-called “core” measure (excluding food and energy costs) while the overall “headline” rate (*including* food and energy) will exceed 3%. We note that core inflation accelerated in the second quarter and came in at an annualized run rate of 2.4%, significantly above the 1.5-2% range. We note that oil prices have dropped \$20/barrel since their peak in early April. In addition, the Fed’s second round of large scale Treasury purchases ended in June as scheduled, and with it, the end of inflationary pressures caused by the Fed “printing money” to fund those purchases.

Unemployment also continues to be a strong disinflationary factor with recent job growth data coming in at very disappointing levels; the unemployment rate climbed steadily during the second quarter with June’s report coming in at 9.2%⁶. This is a reversal from the first quarter’s improving trend where we witnessed a drop to 8.8%. More worrisome, we note that jobs only grew by less than 45,000 jobs in May and June while the consensus expectation was more than 200,000⁶ jobs higher than what was ultimately reported. It appears businesses have adopted a very cautious approach to hiring. We do not expect much improvement in employment over the near-term.

We also believe the housing market will remain in a deep slump as it continues to face three substantial headwinds. Mortgage credit remains tough to get as lenders adhere to stricter lending standards. Housing prices also continue to face downward pressure from a big backlog of distressed properties, and finally, demand for housing remains weak as potential homeowners stay on the sidelines, fearing additional price declines. As a result, the housing market will continue to be a formidable anchor for an economy that is trying to accelerate.

Against this backdrop, we plan to maintain our strategy of overweighting many of the non-Treasury segments of the bond market. Although several sectors underperformed in the second quarter, we believe they will outperform Treasuries going forward as positive fundamentals prevail; in our view the economy is growing at a solid (though somewhat lackluster) pace, inflation does not appear to be a concern over our investment horizon and the sovereign debt crisis has receded.

We continue to remain overweight the corporate sector versus our benchmark. The positive factors that supported the market last year (a growing economy and strong corporate balance sheets) remain in place and should allow the sector to outperform.

That is not to say that we have seen the last of the sovereign debt crisis. It remains to be seen whether the announced austerity measures in Greece will yield the expected gains or whether the latest efforts only “kicked the can down the road.” This phrase has been overused in discussing the debt crisis, but

sadly it captures the tenor of the situation all too well. Even if Greece ultimately defaults on their debt or requires a restructuring, the hope may be that the financial institutions most likely to be negatively impacted will use this additional time to shore up their capital to better withstand any losses.

One of the recurring themes in our investment strategy has been to concentrate on CMBS deals that are backed by more seasoned, less levered and better underwritten loans. We expect commercial real estate fundamentals to continue improving, but the process will involve more months of working out troubled loans, very similar to what's been going on in the residential housing market. In the meantime, by investing in AAA-rated assets, we expect – as indicated by the results of our stress tests – they will be well-insulated from potential losses. Furthermore, we expect these assets will outperform as their yield premiums over Treasuries compress over the next six months.

Similarly, we remain positive on non-Agency MBS due to a very positive supply/demand imbalance. New issuance remains essentially at zero as regulatory uncertainty has damaged the economics of new securitizations. Until there is greater clarity on this front, we expect investor demand will continue to far outstrip supply. This along with the critical and steady improvement in delinquency statistics will fortify security valuations and fundamentals. We continue to favor seasoned issues backed by prime mortgage loans. (Late flash: The Fed announced on July 1 that the sale of the ex-AIG assets will be deferred indefinitely until market conditions improve. It appears that the negative impact of the earlier sales was not lost on the Fed. This is positive news for the non-Agency sector.)

At the end of the day, we believe our strong adherence to our discipline investment process has enabled us to provide consistent performance to our shareholders through the different economic cycles. We appreciate your continued support and welcome the opportunity to put our experience to work for you.

Sincerely,



Howard W. Chin
Co-Portfolio Manager



Robert J. Crimmins, Jr.
Co-Portfolio Manager

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

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 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.

**Sector Allocation
(As of 6/30/2011)**

	% Fund
Asset Backed Securities	3.8%
CMBS	20.9%
CMOs	17.1%
Corporate Notes/Bonds	35.5%
Government Agencies	0.0%
Mortgage Backed Securities	15.0%
Taxable Municipals	1.5%
Tax Exempt Municipals	0.9%
Treasury Notes/Bonds	3.2%
Short-Term / Other Assets and Liabilities	2.2%

**Top Ten Holdings³
(As of 6/30/2011)**

	Coupon Rate	Maturity Date	% Fund
FHLMC- MBS	4.000	12/01/40	3.59%
FNMA - MBS	5.000	11/01/39	3.47%
FNMA - MBS	5.500	01/01/38	2.96%
FNMA - MBS	4.500	12/01/99	1.92%
FHLMC - CMO	5.500	09/15/35	1.68%
U.S. Treasury Bonds	4.750	02/15/41	1.38%
U.S. Treasury Bonds	4.250	11/15/40	1.36%
CNH Equipment Trust	3.000	08/17/15	1.16%
Master Asset Securitization Trust	5.250	09/25/2033	1.11%
Crown Castle Towers LLC	6.110	01/15/20	1.09%

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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 Intermediate Investment Grade Debt Objective Average is the average of the funds in the group in existence in the Lipper database for the periods, and does not reflect any deduction for sales charges.

2 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.

3 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

4 Source: Barclays Capital Index Summary, Barclays Capital Inc.

5 Duration is a measure of bond price's sensitivity to a given change in interest rates. Generally, the longer a bond's duration, the greater the price sensitivity to a change in interest rates. Securities with longer-term maturity dates have higher duration risk because its price will be more influenced from a change in interest rates.

6 U.S. Department of Labor – Bureau of Labor Statistics