RS | investments

Third Quarter 2010 Mutual Fund Commentary
RS High Yield Bond Fund

Performance
(Average Annual Total Returns as of 09/30/2010)
RS High Yield Bond Fund (Class A – GUHYX)

	Third Quarter 2010	1-Year	3-Year	5-Year	10-Year	Since Inception (9/01/98)
without sales charge	6.58%	15.67%	6.31%	6.45%	5.90%	5.61%
with maximum sales charge	2.65%	11.31%	4.98%	5.63%	5.49%	5.28%
Barclays Capital U.S. Corporate High-Yield Bond Index[1]	6.71%	18.44%	8.75%	8.37%	7.96%	6.95%

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

Fund Highlights
Portfolio Overweights
- Energy – Attractive valuations and strong asset coverage. Demand from Asia is increasing
- Media Non Cable – Advertising spending is on the rebound, record political advertising should benefit TV stations
- Technology – Increasing demand for infrastructure build in Asia and positive momentum in North American and European markets should bolster technology spending moving forward

Portfolio Underweights
- Native American casinos – Overcapacity as more regional casinos continue to be built and lack of clarity regarding bankruptcy law treatment of defaults on “sovereign tribal land” create uncertainty
- Construction Machinery/Building Suppliers – Overcapacity in both housing and commercial sectors expected to continue to weigh on these two sectors
- CCC’s – Not as attractive on a historical basis when compared to higher rated high yield securities

Performance quoted represents past performance and does not guarantee future results. The Fund is the successor to The Guardian High Yield 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 1.14% / 0.85%. The net expense ratio reflects a contractual expense limitation which will continue through 4/30/11. 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)

Outlook

- Expect to see moderate spread contraction for the remainder of 2010
- Improving growth along with low inflation could benefit the high yield sector
- Expect the default rate to remain low for the remainder of 2010

Fund Commentary

Performance

RS High Yield Bond Fund (Class A Shares) (the "Fund"), returned 10.03% for the nine-month period ended September 30, 2010, underperforming its benchmark, the Barclays Capital U.S. Corporate High Yield Index, which returned 11.53% for the same period.

(Asof 09/30/2010)	1-Year	3-Year	5-Year	10-Year
RS High Yield Bond Fund (Class A) Average Annual Total Return	15.67%	6.31%	6.45%	5.90%
Lipper[1,2] High Current Yield Funds Average Annual Total Return	16.59%	5.39%	6.03%	6.04%
Lipper High Current Yield Funds Category Ranking*	318/482	179/416	168/351	155/234
Lipper High Current Yield Funds Category Percentile	66th	43rd	48th	66th

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

Portfolio Review

Corporate fundamentals continued to improve based on a number of credit metrics during the third quarter. The default rate continued to fall, corporate leverage declined and cash on balance sheets increased. Furthermore, strong in-flows into the high yield market, as well as non-traditional investors entering the market in a quest for yield, resulted in a strong positive tone in the high yield market throughout the quarter. The positive market fundamentals and technicals outweighed the mixed economic signals received during the quarter and performance for the sector remained strong.

We positioned the portfolio for moderate spread tightening going into the third quarter despite the market sell-off in the Q2. We believed the high yield sector was attractive on a fundamental basis as well as on a relative basis to other asset classes. The Fund's positioning helped generate strong returns in the quarter on both absolute and relative terms as we finished the quarter in the 2nd quartile of our Lipper Peer Group. The Fund did underperform the Index for the quarter by 0.13%, which was attributable to its cash position. The Fund maintained a relatively low cash balance averaging 2.1%, but even a small cash position proved a drag in the rising market. During the quarter, we had overweights in sectors such as Energy, Technology and Media which we believe have positive fundamentals and underweights in Native American Gaming, Construction Machinery and Building Suppliers, which we believe will continue to be weak going into 2011.

Turning to individual sectors, the automotive sector outperformed the Barclay's High Yield Index by 11 basis points (bps) as Ford Motor Credit continued its tightening trend, and the Fund's investment in Accuride rose significantly following its bankruptcy. We have been a strong believer in Ford Motor Credit's rapidly improving investment profile. Despite its earlier CCC rating, we continue to believe in the company's prospects for becoming investment grade. Ford Motor Credit is currently rated Ba3/B+ by Moody's and S&P[4]. Accuride is benefiting as the Commercial Truck market rebounds from its lowest production levels since WW II. We considered its new issue to be attractive because the company needed to pay a premium to issue securities because of the taint of its previous bankruptcy. However, we believe that Accuride has positive business prospects which, along with its restructured capital structure, attracted us to the company.

We outperformed in the Electric sector by 15 bps relative to the Index in the third quarter as a result of our conservative positioning. The secured and better credit quality names including Energy Future Holdings' (EFH) secured loan, North American Energy Alliance, and Calpine outperformed in the face of falling natural gas prices and weak power prices. Moreover, owning the correct part of EFH's capital structure contributed to the Fund's performance for the quarter, as the company's distressed debt exchange at a level in the capital structure we did not own, caused the bonds to fall nearly 6 points. We also benefited from underweighting credits that we perceived to have event risk such as Dynegy, which made an announcement during the quarter to sell itself to a private equity firm. Given the weak outlook for power prices, we continue to remain bearish on the sector.

We underperformed the Energy sector by 10 bps due to one credit, Opti Canada. Opti is one of the Fund's largest holdings and is what we would classify as an event driven situation. Last November, Opti, a Canadian Oil sands energy company, sought a buyer following a string of operational issues. We believe that the company has strong asset coverage despite the operational setbacks. Recent transactions involving similar Oil Sands companies affirm our belief in the value of Opti's assets. Over the past year, however, no buyer has emerged. We continue to believe that a sale of the company to a large foreign oil company seeking to diversify its operations is the most likely outcome for Opti.

The Insurance sector, comprising both Life insurers and Property & Casualty (P&C) insurers, in a reversal from last quarter, underperformed the Index by over 17 bps, as result of our investments in the life insurance sub-sector, Genworth Financial and Symetra Financial. We believe that Genworth Financial, which was downgraded to high yield from investment grade, is on the path to regaining investment grade metrics and we are constructive on the credit. We also believe that with a yield over 10.5%, Symetra Financial is undervalued and has the potential to appreciate. We continue to be uncomfortable with what we consider to be weaker issuers in the sector. We currently see limited value in the P&C insurance sub segment.

Market Overview

The high yield market (represented by the Index) posted strong returns during Q3, rising 6.71%, as investors' appetite for risk increased and inflows returned to the high yield market. Substantial inflows to high yield mutual funds and investments by new investors seeking higher yield potential contributed to a stronger technical environment. Even though absolute yields are low on a historical basis, we believe spreads are still attractive in a low interest rate environment. The par-weighted default rate for high yield bonds decreased for the eleventh consecutive month to 2.5% at the end of September. The annualized default rates through the first 9 months of 2010 were a slim .3%.

A major theme for Q3 was new issuance. Both August and September new issuance topped $30 billion. This was only the third and fourth time, respectively, that high yield issuance has ever topped $30 billion for a single month. Year-to-date new issuance already stands at $210.7 billion, handily surpassing last year's record $180 billion of new issuance. For the year, we believe that new Issuance could easily rise to $250 - $280 billion.

Outlook

We expect that we will see moderate spread contraction in high yield for the remainder of 2010. Positive corporate earnings momentum and meaningful balance sheet improvement for high yield issuers indicates strong fundamentals moving forward, which we do not believe will be derailed by a moderate slowing of the economy. Improving corporate liquidity and robust capital markets activity should meaningfully lower the default rate over the next two years and should also provide a positive tone for the market. Even if U.S. economic growth were to disappoint over the next 12 months, we do not believe that our outlook for a benign default rate would substantially change. We believe that high yield bond valuations reflect the current fiscal and global uncertainty and that there is additional upside potential for the market even if the U.S. economy grows at a pace below 1.5% In fact, our view that positive growth is not currently strong enough to force the Federal Reserve to raise interest rates may be a positive scenario for high yield.

Improving growth, together with low inflation, has proven to be an ideal backdrop for higher yielding assets in the past. With money market rates near zero and low investment grade bond yields, many investors will seek additional yield. With the Index yielding over 7.80% the asset class remains attractive. We expect to see inflows from institutional accounts increase as institutional investors direct more assets into high yield while the Federal Reserve maintains its accommodative stance and weighs a potential quantitative easing. We expect that investors' thirst for yield, improving corporate earnings, and a strong new issue market, should be favorable for the market. In addition, the new issue market continues to provide fresh capital for refinancing, resulting in a very low default rate.

Based on our fundamental and technical outlook we expect to add to the Fund's holdings in higher-rated high yield credits, which have offered value on a historical basis, while selectively adding to lower-rated paper where we see opportunity. We also expect to sell low duration paper issued by credits where we believe the yields do not support the potential credit risk. As the Federal Reserve weighs the potential for quantitative easing in an attempt to bolster the economy, we are currently not concerned about taking on some extra duration in credits that we think may have favorable upside.

Sectors that we currently believe offer favorable fundamentals include Food and Beverage, Media Non Cable, Technology, and Independent Energy, and we expect to make selective investments in sectors about which we remain cautious, such as Refining, Gaming, Building Suppliers and Construction Machinery. We believe that the high yield sector has the potential to post solid returns moving forward; however, we expect returns to be below those seen over both the last 12 months and the last quarter.

We thank you for your continued support.

Sincerely,

Kevin Booth	Marc Gross	Howard G. Most
Co-Portfolio Manager	Co-Portfolio Manager	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.
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.

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.
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 September 30, 2010.

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.

Bond Quality (As of 09/30/2010)	% **Fund**
Short-Term / Other Assets and Liabilities	3.39%
AAA	0.00%
BBB	1.13%
BB	29.98%
B	48.82%
CCC	16.07%
Below CCC	0.00%
Not Rated	0.60%

Top Ten Holdings[3] (As of 09/30/2010)	**Coupon Rate**	**Maturity Date**	% **Fund**
CIT Group, Inc.	7.000	05/01/2013	1.55%
First Data Corp.	9.875	09/24/2015	1.30%
Venoco, Inc.	11.500	10/01/2017	1.12%
OPTI Canada, Inc.	8.250	12/15/2014	1.11%
Ford Motor Credit Co. LLC	8.700	10/01/2014	1.08%
Block Communications, Inc.	8.250	12/15/2015	1.08%
DISH DBS Corp.	7.875	09/01/2019	1.01%
International Lease Finance Corp.	8.625	09/15/2015	1.01%
International Lease Finance Corp.	5.650	06/01/2014	1.00%
SunGard Data Systems, Inc.	10.625	05/15/2015	0.98%

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1 The Barclays Capital U.S. Corporate High Yield Bond Index is generally considered to be representative of the investable universe of the U.S.-dominated high-yield debt market. The Barclays Capital U.S. Corporate High Yield Bond Index is not available for direct investment and there are no expenses associated with it, while there are expenses associated with the Fund. The Lipper High Current Yield 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 bonds.
4 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.