

Third Quarter 2011 Mutual Fund Commentary
RS High Yield Municipal Bond Fund

Performance

(Average Annual Total Returns as of 9/30/2011)

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

	Third Quarter 2011	1-Year	3-Year	5-Year	10-Year	Since Inception (12/31/09)
without sales charge	3.83%	2.28%	n/a	n/a	n/a	7.59%
with maximum sales charge	-0.02%	-1.57%	n/a	n/a	n/a	5.27%
Barclays Capital Municipal Bond Index ¹	3.81%	3.88%	n/a	n/a	n/a	6.14%

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

Fund Highlights

Portfolio Overweights

- Texas
- Transportation
- Investment Grade Bonds

Portfolio Underweights

- California
- Airlines
- Below Investment Grade Bonds

Outlook

- Supply and nominal yields could impact performance

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. 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 Class A shares is 1.03%/0.65%. The performance quoted "with maximum sales charge" reflects the current maximum sales charge of 3.75%. Performance current to the most recent month-end, 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.

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. Any sales charges are in addition to the Fund's fees and expenses as detailed in the Fund's most current prospectus. The net expense ratio reflects a written expense limitation agreement with RS Investments which will continue through 4/30/12. Fees and expenses are factored into the net asset value of your shares and any performance numbers we release. Total return figures reflect an expense limitation in effect during the periods shown; without such limitation, the performance shown would have been lower. Performance results assume the reinvestment of dividends and capital gains. The return figures shown do not reflect the deduction of taxes that a shareholder may pay on Fund distributions or the redemption of Fund shares.

Fund Commentary

Performance

RS High Yield Municipal Bond Fund (Class A shares) (the “Fund”), had a total rate of return of 3.83% for the third quarter ended September 30, 2011, versus its benchmark¹, the Barclays Capital Municipal Bond Index, which returned 3.81%¹. The Barclays High Yield Municipal Index, which has a lower credit profile than the Fund, returned 3.25%². We would note that, unlike the Fund, the indexes do not include expenses. In addition, at any one time, the Barclays Capital Municipal Bond Index benchmark has approximately 45,300 issues and the Barclays High Yield Municipal Index has approximately 3,100 issues², whereas the Fund generally has exposure to only about 90-95 issues, some of which may not be in one or both indexes.

(As of 9/30/2011)³	1-Year	3-Year	5-Year	10-Year
RS High Yield Municipal Bond Fund (Class A) Average Annual Total Return	2.28%	n/a	n/a	n/a
Lipper ¹ High Yield Municipal Debt Funds Average Annual Total Return	2.30%	n/a	n/a	n/a
Lipper High Yield Municipal Debt Funds Category Ranking*	71/125	n/a	n/a	n/a
Lipper High Yield Municipal Debt Funds Category Percentile	57%	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 September 30, the Fund's 30-day SEC yield⁴ was 4.67% (which grosses up to 7.18% 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 4.39% (grossing up to 6.75% taxable equivalent yield for a person in the 35% income tax bracket in 2011).

Portfolio Review

In the third quarter, only \$75.15 billion in municipals were issued versus \$94.55 billion in the third quarter of 2010, a 20.5% decline⁹. For the first nine months of the year, new issuance was \$192.91 billion versus \$299.47 billion, a 35.6% decline year over year.⁵ The third quarter numbers exceeded our expectations considering issuance was down over 30% in the second quarter and over 54% in the first quarter compared to 2010.

The total return of the Barclays High Yield Municipal Index² for the third quarter through September 30, 2011, was 3.25%. The best performing sectors in the quarter were Education (5.97%), Local government (5.68%), and Water & Sewer (5.37%). The worst performing sector was Industrial (1.29%)².

It should be noted that while we seek to avoid appropriation debt of local governments, we do look for opportunities in the appropriation debt sector when it is issued by states with long histories of governmental support. As examples, we do have state appropriation bonds of New Jersey and California. Our avoidance of appropriation debt is primarily confined to the local and county levels. Some characteristics that we look for when buying state appropriation bonds are: the size of the project, the need for the project, and the history of the project, to name just a few.

Also, in the Alternative Minimum Tax (“AMT”) sector, while we maintained a low profile, when spreads widened, we found them more attractive because they offered high yields without stepping down in the credit spectrum. The majority of our AMT credits were A or better⁶.

We seek to assess value in the high yield sector, while seeking to limit 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 municipal bond fund, we focus on what we believe to be issuers in the below investment grade and high yield sectors that offer value. We 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. The benchmark 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 difficult⁶. However, we feel that we have mitigated this risk somewhat through state diversification as economic regions will react differently than sectors. As of September 30, 2011, the ratings breakdown of the Fund's holdings was 3.0% AAA, 30.6% AA and A rated, 51.0% BBB-rated, 2.8% BB-rated, 0.0% B-rated and 9.0% non-rated. 3.5% of the fund was held in other short term assets and liabilities.

Outlook

As part of the package to finance President Obama's jobs bill ("American Jobs Act of 2011") introduced on September 12, the President proposed financing the bill, in part, with a new tax on municipal bond interest. It would impact tax filers in the highest income brackets and could reduce demand for municipals. Additionally, the draft legislation ("Debt Reduction Act of 2011") that the President sent to the congressional deficit reduction committee at the end of September has a feature⁸ that, if enacted, could increase taxes on municipal bond interest over and above what the American Jobs Act proposed should the federal budget deficit not realize its deficit reduction target as set by the Office of Management and Budget. If enacted, the bill could negatively impact tax-exempt municipal bond interest along with other deduction income.⁸ We believe that the bills will likely not be approved by Congress.

On September 16, Jefferson County, Alabama officials announced an agreement with bondholders to restructure more than \$3 billion of its defaulted debt⁹. If approved by all the parties involved, this will avoid what could have been the biggest municipal bankruptcy filing in American history. The plan would eliminate \$1 billion of debt and refinance \$2 billion, ending three and a half years of controversy and fears of a Chapter 9 filing. It is expected that the plan will take effect by June 30, 2012. The Fund did not own any of the bonds.

Through September 26, the issuers of approximately \$36.270 billion of municipal bonds notified investors of some credit impairment that included \$8.753 billion in actual cash payment defaults on 320 bonds. In June the numbers were \$38.999 billion, \$9.477 billion and 313 bonds, respectively¹¹.

In general, 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.

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 September 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 9/30/2011)**

	% Fund
General Obligation Bonds	13.8%
Special Tax	8.5%
Housing	4.2%
Education	10.1%
Water and Sewer	0.9%
Transportation	21.5%
Resource Recovery	0.0%
Hospital / Nursing Home / Health Care	19.8%
Industrial Revenue/Power	17.6%
Other Assets and Liabilities	3.5%

Top Ten Holdings¹⁰			
(As of 9/30/2011)	Coupon Rate	Maturity Date	% Fund
Regl. Transn. Dist. CO Private Activity Rev.	6.000	01/15/2041	2.04%
Kentucky Economic Dev. Fin. Auth. Hosp. Facs. Rev.	6.375	03/01/2040	1.73%
Village Cmty. Dev. Dist. No. 8 FLA Spl. Assessment Rev.	6.125	05/01/2039	1.66%
Wyandotte Cnty/Kansas City KS Unified Govt. Poll. Ctl. Rev.	6.000	06/01/2025	1.66%
New Jersey Economic Dev. Auth. Rev.	5.750	06/15/2034	1.61%
Tex. Private Activity Bd. Surface Transn. Corp.	7.500	06/30/2033	1.48%
California St. Pub. Works Brd. Lease Rev.	6.625	11/01/2034	1.47%
District of Columbia Rev.	6.875	07/01/2040	1.46%
Tex. Private Activity Bd. Surface Transn. Corp.	7.000	06/30/2040	1.43%
New Jersey St. Trans. Trust Fund Auth.	5.250	06/15/2030	1.43%

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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 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 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."

5 Source: The Bond Buyer. September 14, 2011.

6 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.

7 Source: The Bond Buyer. September 14, 2011.

8 Source: National Council of State Housing Agencies, "Administration Jobs Bill Caps Municipal Bond Tax Exemption," September 13, 2011.

9 Source: The Bond Buyer. September 16, 2011.

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

11 Bloomberg World Indices.