

## Fourth Quarter 2010 Mutual Fund Commentary RS High Yield Bond Fund

### Performance

(Average Annual Total Returns as of 12/31/2010)

RS High Yield Bond Fund (Class A – GUHYX)

	Fourth Quarter 2010	1-Year	3-Year	5-Year	10-Year	Since Inception (9/01/98)
without sales charge	3.18%	13.54%	8.01%	6.80%	6.94%	5.76%
with maximum sales charge	-0.74%	9.23%	6.66%	5.98%	6.53%	5.43%
Barclays Capital U.S. Corporate High-Yield Bond Index <sup>1</sup>	3.22%	15.12%	10.38%	8.91%	8.88%	7.07%

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

### Fund Highlights

#### Portfolio Overweights

- Energy and media sectors.
- Longer duration higher yielding securities.
- Securities with the potential for positive event risk.

#### Portfolio Underweights

- Credits with potential for negative event risk.
- The wireline, building materials and Native American gaming sectors.
- Credits with exposure to countries with a weak sovereign profile.

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](http://www.RSinvestments.com).

## Fund Highlights (cont)

### Outlook

- Potential for credit spreads to tighten.
- Robust new issuance.
- Low default rate.

## Fund Commentary

### Performance

RS High Yield Bond Fund (Class A Shares) (the "Fund"), returned 13.54% for the year ended December 31, 2010, underperforming its benchmark, the Barclays Capital U.S. Corporate High Yield Index, which returned 15.12% for the same period.

<b>(As of 12/31/2010)</b>	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
RS High Yield Bond Fund (Class A) Average Annual Total Return	13.54%	8.02%	6.80%	6.94%
Lipper <sup>1,2</sup> High Current Yield Funds Average Annual Total Return	14.24%	7.07%	6.60%	7.02%
Lipper High Current Yield Funds Category Ranking*	304/485	171/424	196/361	155/238
Lipper High Current Yield Funds Category Percentile	63 <sup>rd</sup>	41 <sup>st</sup>	55 <sup>th</sup>	65 <sup>th</sup>

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

### Portfolio Review

Improving corporate fundamentals, modest economic growth, a strong new issue market and a steep drop in defaults all led high yield bonds to strong returns for both the fourth quarter and for the year 2010 with the Barclay's High Yield index returning 3.22% and 15.12%, respectively. The positives in the market overshadowed ongoing European sovereign concerns and a steep rise in 10 year treasury yields in November and December, which put some pressure on longer duration higher rated securities. The strong demand for high yield in 2010 can best be seen in the record new issuance of \$263 billion for the year, which was 72% higher than the previous record issuance in 2009. With improving corporate fundamentals and a robust new issuance market, the high yield default rate fell precipitously after peaking in November 2009 at around 16.00%. The 12 month default rate has declined in every month since, reaching 1.25% by the end of 2010<sup>4</sup>.

We positioned the portfolio for moderate spread tightening entering the fourth quarter despite the ongoing sovereign concerns. 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 underperformed the Index for the quarter by 0.04%, which was attributable to its cash position. The Fund maintained a relatively low cash balance, averaging 1.5%, but even a small cash position proved a drag on returns in a rising market. During the quarter, we overweighted the energy, technology and wireless sectors, which we believe have positive fundamentals, and we underweighted Native American gaming, wirelines, 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 13 basis points (bps) for the year, as Ford Motor Credit continued its tightening trend, and the fund's investment in Tenneco rose significantly. 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 regaining investment grade status. Ford Motor Credit is currently rated Ba3/B+ by Moody's and S&P<sup>4</sup>. Tenneco is benefiting as automotive production continues to recover and we think the company is on the path to a rating upgrade. The company is currently rated B2/B+, but we believe its credit metrics would support a BB rating<sup>5</sup>.

The retail/consumer product and restaurant sectors outperformed the Barclay's Index by 26 bps for the year due to our security selection these sectors. Susser Holdings, DineEquity, Neiman Marcus, Duane Reade, Sonic Automotive, Nature's Bounty, Burger King, and Easton Bell all outperformed, while we avoided negatively performing credits such as the Great Atlantic and Pacific Tea Company, which filed for bankruptcy in the fourth quarter. Our strong performance resulted from correctly identifying the attractive new issues in the space, while still adding to names such as Susser Holdings that we believed were fundamentally cheap. Entering 2011, we are neutral on these consumer sensitive sectors and will look to add on a case –by-case fundamental basis.

We underperformed in the media non-cable sector as highly levered leveraged buyout (LBO) names in the sector such as Clear Channel Communication, Univision and Cengage rallied more than we anticipated. We did have an overweight in the sector, liking the overall sector fundamentals, but continue to be surprised at investors' willingness to take on risk in one of the most onerous of capital structures in our view. We were more aggressive in the media cable sub-sector where we outperformed by less than 1 basis point. We will continue to favor the media non-cable sector and the media cable sector. We believe they are attractive, but remain wary of the most overlevered LBO names which we believe would decline significantly, even in a small market sell off.

The Insurance sector, comprising both Life insurers and property & casualty (P&C) insurers, underperformed the Index by over 35 bps for the year, as result of our investments in the life insurance sub-sector, namely 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 positive on the credit. We also believe that with a yield over 9.0%, 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 2010 and in the fourth quarter, rising 15.12% and 3.22% respectively, as investors had a continued appetite for risk. Retail inflows to high yield mutual funds and investments by institutional 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 14<sup>th</sup> consecutive month to 1.25% by the end of December<sup>4</sup>.

A major theme that continued in the fourth quarter was new issuance. Fourth quarter new issuance totaled \$83.4 billion, the single largest quarter for high yield new issuance in history<sup>6</sup>. This capped a record breaking year of \$263 billion in high yield issuance, \$110 million greater than last year's record total<sup>6</sup>. We continue to expect robust new issuance activity driven by both bond refinancing and mergers and acquisitions (M&A) and leveraged buyout activity.

### **Outlook**

We expect that we will see moderate spread contraction in high yield during 2011 and continued expanded risk tolerance from investors. We expect positive corporate earnings momentum and meaningful balance sheet improvement for high yield issuers, which would indicate strong fundamentals moving forward. Further, improving corporate liquidity and robust capital markets activity should continue to support a low 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 2.0%. In fact, our view that positive growth is not currently strong enough to force the Federal Reserve to raise interest rates should 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 should seek additional yield. With unemployment remaining stubbornly high and inflation remaining low, Federal Fund rates are likely to remain low for an extended period of time. With the High Yield Index trading at a spread at over 578 bps to treasuries, the asset class remains attractive. We expect to see inflows from retail investors as well as institutional accounts as institutional investors direct more assets into high yield while the Federal Reserve maintains its accommodative stance. We expect that investors' thirst for yield, improving corporate earnings, and a strong new issue market, should be favorable for the market. We anticipate that any rise in treasury yields for 2011 will be manageable and will be absorbed by the excess spread in high yield as high yield spreads remain above their long-term average.

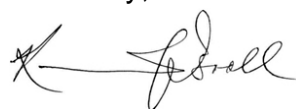
Based on our fundamental and technical outlook, we expect to add to the Fund's holdings in higher-rated high yield credits, which have offered value on a historical basis, while also adding to lower-rated paper where we see opportunity as there is tightening potential. We also expect to sell low duration paper issued by companies where we believe the yields do not support the potential credit risk. While being concerned about the potential for rising interest rates, we are currently favorably inclined on taking on some extra duration in credits that we think may have favorable upside.

Taking advantage of companies with potential positive event risk and avoiding companies with potential negative event risk will be a key to performance in 2011. We believe that M&A and LBO activity will dramatically increase in 2011, as will leveraged recapitalization. Seeking companies with tight covenants, where the bonds might be called at a premium, will be a major focus of the Fund. Likewise, many companies have weak covenants such as no "change of control" provision or limited restrictions on incurring additional debt. The bonds of these companies typically are at risk of falling precipitously in an LBO scenario. We believe there will be events throughout the year that will be both positive and negative and we will seek to take advantage of favorable opportunities for the Fund.

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  
Co-Portfolio Manager



Marc Gross  
Co-Portfolio Manager



Howard G. Most  
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.

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 December 31, 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](http://www.RSinvestments.com).**

**Bond Quality<sup>7</sup>**  
**(As of 12/31/2010)**

	<b>% Fund</b>
Short-Term / Other Assets and Liabilities	4.7%
AAA	0.0%
BBB	1.0%
BB	24.7%
B	54.4%
CCC	14.6%
Below CCC	0.0%
Not Rated	0.6%

**Top Ten Holdings<sup>3</sup>**  
**(As of 12/31/2010)**

	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>% Fund</b>
CIT Group, Inc.	7.000	05/01/2013	1.43%
Stallion Oilfield Holdings Ltd.	10.50	02/15/2015	0.95%
International Lease Finance Corp.	5.650	06/01/2014	0.93%
Wynn Las Vegas LLC	7.750	08/15/2020	0.91%
Block Communications, Inc.	8.250	12/15/2015	0.91%
Alliance HealthCare Services, Inc.	8.000	12/01/2016	0.89%
Bio-Rad Laboratories, Inc.	8.000	09/15/2016	0.87%
OPTI Canada, Inc.	8.250	12/15/2014	0.87%
CITGO Petroleum Corp.	11.500	07/01/2017	0.85%
International Lease Finance Corp.	8.630	09/15/2015	0.85%

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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** J.P. Morgan Securities LLC. North America High Yield and Leveraged Loan Research January 3, 2011.

**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** Barclays Capital Family of Indices, Barclays Capital U.S. High Yield Corporate Index Credit Research, January 3, 2011.

**7** The credit rating table displays the % of fund assets allocated to each rating. Rating agencies' independent ratings of individual securities 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.