

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

Performance

(Average Annual Total Returns as of 12/31/2011)

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

	Fourth Quarter 2011	1-Year	3-Year	5-Year	10-Year	Since Inception (12/31/09)
without sales charge	2.94%	11.68%	n/a	n/a	n/a	8.16%
with maximum sales charge	-0.88%	7.47%	n/a	n/a	n/a	6.12%
Barclays Capital Municipal Bond Index ¹	2.12%	10.70%	n/a	n/a	n/a	6.46%

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

Fund Highlights

Portfolio Overweights

- Investment Grade Bonds

Portfolio Underweights

- Healthcare
- Airlines
- California Redevelopment Agencies
- 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 2.94% for the fourth quarter ended December 31, 2011, versus its benchmark, the Barclays Capital Municipal Bond Index, which returned 2.12%¹. The Barclays High Yield Municipal Index, which has a lower credit profile than the Fund, returned 0.79%². For the year the total rate of return for the Fund was 11.68%, versus its benchmark, the Barclay’s Capital Municipal Bond Index which returned 10.70%.¹ 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 46,025 issues³ and the Barclays High Yield Municipal Index has approximately 2,985 issues³, whereas the Fund generally has exposure to only about 90 to 105 issues, some of which may not be in one or both indexes.

(As of 12/31/2011)⁴	1-Year	3-Year	5-Year	10-Year
RS High Yield Municipal Bond Fund (Class A) Average Annual Total Return	11.68%	n/a	n/a	n/a
Lipper ⁴ High Yield Municipal Debt Funds Average Annual Total Return	9.94%	n/a	n/a	n/a
Lipper High Yield Municipal Debt Funds Category Ranking*	21/125	n/a	n/a	n/a
Lipper High Yield Municipal Debt Funds Category Percentile	17%	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 December 31, 2011, the Fund’s 30-day SEC yield⁵ was 4.49% (which grosses up to 6.91% 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 4.11% (grossing up to 6.33% taxable equivalent yield for a person in the 35% income tax bracket in 2011).

Portfolio Review

In the fourth quarter, only \$99.99 billion in municipals were issued versus \$133.85 billion in the fourth quarter of 2010, a 25% decline⁹. For the full year, new issuance was \$294.94 billion versus \$ 433.27 billion in 2010, a 32% decline year over year. It should be noted that in 2010, \$117.35 billion in taxable Build America Bonds were issued versus only \$ 0.43 billion in 2011.⁶

As noted above, the total return of the Barclays High Yield Municipal Index for the fourth quarter through December 31, 2011, was 0.79%. The best performing sectors in the quarter were Transportation (4.16%), State G.O. (2.43%) and Solid Waste/Resource Recovery (2.41%). The worst performing sector was Industrial (-0.92%).²

It has been a wild ride for municipals in 2011. It all started in early 2011 with the “prediction”⁷ that there would be hundreds of billions of municipals in default which drove the municipal market lower in price as investors exited the market in droves. Fast forward to the end of 2011 and you see not a shattered municipal market but one of the best performing asset classes for 2011. If you stuck with the Fund as an investor, you were rewarded with performance and tax-exempt income.

On September 16, Jefferson County, Alabama officials had announced an agreement with bondholders to restructure more than \$3 billion of its sewer revenue debt that had been in default for three years. The deal fell apart and on November 9, the county filed for bankruptcy protection under Chapter 9 of the U.S. Bankruptcy Code. The total county debt in default is now \$4.105 billion, and it is the largest-ever municipal bankruptcy filing. By the end of December, the filing was being challenged by certain bondholders who

wanted the state-court appointed receiver of the county's sewer system to remain in control of its finances and operations as the bankruptcy proceeds.⁸ The Fund does not hold any of these bonds.

On November 16, a report by the California Legislative Analyst's Office projected billion dollar revenue shortfalls in the state's current budget.⁹ The shortfalls triggered expenditure cuts. In December, the governor began pitching a vote for the November 2012 ballot to raise income taxes on individuals who earn \$250,000 or more and to raise sales taxes to 7.75% from 7.25%. If approved, it is estimated that the increased taxes would raise nearly \$7 billion a year.^{10,11} The Fund owns California state bonds.

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, the Fund holds 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 the Fund's AMT credits were rated A or better.¹²

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 difficult¹². However, we feel that we have mitigated this risk somewhat through state diversification as economic regions typically will react differently than sectors. As of December 31, 2011, the ratings breakdown of the Fund's holdings was 8.1% AAA- and AA-rated bonds, 28.9% A-rated, 47.5% BBB-rated, 2.5% BB-rated, 0.0% B-rated and 8.0% non-rated. 4.95% of the Fund was held in other assets and liabilities.

Through December 19, the issuers of approximately \$41.136 billion of municipal bonds notified investors of some credit impairment that included \$12.679 billion in cash payment defaults on 361 bonds.¹³ In September, the numbers were \$36.270 billion, \$8.753 billion and 320 bonds, respectively.¹⁴ This increase was largely dominated by the American Airlines (AMR) Chapter 11 bankruptcy filing. This threw into the default classification \$3.5 billion in AMR-backed special facility bonds.¹⁵ The Fund did not own any of these bonds.

While there had been talk in Detroit of a renaissance—of auto jobs growing, new companies moving into empty buildings downtown, and gardens blooming in vacant lots, at the end of December it was announced that this major city would run out of cash by April. The state began a formal review of the city's records that could result in the appointment of an outside manager to take over its finances.¹⁶ The Fund did not own any Detroit bonds.

On December 29, the California Supreme Court, the state's highest court, upheld a state law dissolving the state's redevelopment agencies, but ruled against one law that would have allowed the agencies to remain in business if they paid a percentage of their income to the state. According to a spokesman for the state's Department of Finance, it is the state's interpretation of the law that when the agencies are shut

down, the existing bondholders will have the money to pay them placed in a special fund. New legislation may be desirable to further specify the procedures.¹⁷ We hold approximately 3% of the Fund's assets in these bonds, and will monitor this situation closely.

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.

Outlook

The Securities Industry and Financial Markets Association is predicting overall municipal bond issuance in 2012 will increase over 2011. It expects long-term issuance will increase approximately 20% to \$347 billion.¹⁸ While this is highly dependent upon a number of market-affecting factors, the strong issuance forecast underscores the market's appetite for municipal bonds despite fiscal challenges at the state and local levels.

While the "Gang of Six" in Congress didn't accomplish its goals, the discussion over deficit reduction could continue into 2012, and become part of the presidential election narrative. Tax and entitlement reforms could be part of any discussions.

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 December 31, 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 12/31/2011)	% Fund
General Obligation Bonds	13.2%
Special Tax	7.7%
Housing	2.9%
Education	10.6%
Water and Sewer	1.8%
Transportation	21.8%
Resource Recovery	0.6%
Hospital / Nursing Home / Health Care	17.7%
Industrial Revenue/Power	18.7%
Other Assets and Liabilities	4.9%

Top Ten Holdings¹⁹ (As of 12/31/2011)	Coupon Rate	Maturity Date	% Fund
Regl. Transn. Dist. CO Private Activity Rev.	6.000	01/15/41	1.80%
Kentucky Economic Dev. Fin. Auth. Hosp. Facs. Rev.	6.375	03/01/40	1.54%
New Jersey Economic Dev. Auth. Rev.	5.750	06/15/34	1.53%
Wyandotte Cnty/Kansas City KS Unified Govt. Poll. Ctl. Rev.	6.000	06/01/25	1.48%
Village Cnty Dev Dist No. 8 FLA Spl. Assessment Rev.	6.125	05/01/39	1.43%
California St. Pub. Works Brd. Lease Rev.	6.625	11/01/34	1.33%
Tex. Private Activity Bd. Surface Transn. Corp.	7.500	06/30/33	1.32%
District of Columbia Rev.	6.875	07/01/40	1.31%
Tex. Private Activity Bd. Surface Transn. Corp.	7.000	06/30/40	1.27%
New Jersey St. Trans. Trust Fund Auth.	5.250	06/15/30	1.26%

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¹The 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 Source: Bloomberg Sheets.

⁴ 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.

⁵ 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."

⁶ Source: Bond Buyer, Jan 3, 2011, pg 19.

⁷ Source: Municipal Market Data, Weekly Outlook & Primary Preview for 1/17/2012.

⁸ Source: The Bond Buyer, December 22, 2011.

⁹ Source: New York Times, November 17, 2011 "Sharp Decline in Revenue Is Forecast for California".

¹⁰ Source: Bloomberg "California's Brown May Delay or Reduce \$11 Billion Water Bond", December 28, 2011.

¹¹ Source: Bond Buyer, 12/16/2011.

¹² 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.

¹³ Source: MMA Weekly Outlook, December 19, 2011, pg 5.

¹⁴ Source: MMA Weekly Outlook, September 26, 2011.

¹⁵ Source: MMA Weekly Outlook, December 19, 2011, pg 3.

¹⁶ Source: New York Times, December 24, 2011, Monica Davey.

¹⁷ Source: The Bond Buyer, December 29, 2011 "California High Court Upholds RDA Dissolution, Rejects Payment Option", Keeley Webster.

¹⁸ Source: Bond Buyer, December 22, 2011, Robert Slavin.

¹⁹ Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual bonds.