

## Fourth Quarter 2011 Mutual Fund Commentary

### RS Investment Quality Bond Fund

#### Performance

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

RS Investment Quality Bond Fund (Class A – GUIQX )

|  | Fourth<br>Quarter<br>2011 | 1-Year | 3-Year | 5-Year | 10-Year | Since<br>Inception<br>(2/16/93) |
|--|---------------------------|--------|--------|--------|---------|---------------------------------|
| without sales charge                                       | 1.34%                     | 6.87%  | 8.30%  | 6.00%  | 5.39%   | 5.63%                           |
| with maximum sales charge                                  | -2.42%                    | 2.90%  | 6.94%  | 5.19%  | 4.99%   | 5.42%                           |
| Barclays Capital U.S.<br>Aggregate Bond Index <sup>1</sup> | 1.12%                     | 7.84%  | 6.77%  | 6.50%  | 5.78%   | 6.36%                           |

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

#### Fund Highlights

##### Portfolio Overweights

- Fund outperformed its benchmark in the fourth quarter due largely to its overweight to several non-Treasury sectors.
- Overweights in commercial mortgage-backed securities (CMBS) and corporate bonds worked out well as both sectors outperformed Treasuries.
- Overweight to non-Agency mortgage-backed securities (non-Agency MBS) also added to the Fund's performance.

##### Portfolio Underweights

- Underweight in Treasuries helped performance since the Treasury sector fared less well relative to earlier quarters once the European debt crisis eased.
- Underweight in Agency MBS detracted from performance since the MBS sector outperformed, but this was partially offset by our holdings in non-Agency MBS which fared better.

**Performance quoted represents past performance and does not guarantee future results. 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 1.05%/0.85%. The performance quoted, "with maximum sales charge" reflects the current maximum sales charge of 3.75%. 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).**

**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. 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. 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.**

## Fund Highlights (cont)

### Outlook

- U.S. economy expected to continue growing modestly in 2012.
- Though improving, still-high unemployment and a weak housing market should continue to have a negative effect on economic growth.
- Volatility is likely to remain at elevated levels.
- Non-Treasury assets are attractive.
- European sovereign debt risk will be the key wildcard in 2012.

### Market Overview

- Domestic markets (both equity and fixed income) were held hostage to the volatility caused by the European sovereign debt crisis in 2011. The markets swung wildly between “risk on” and “risk off.”
- Bailout agreements have eased European risk but it remains to be seen whether they will be sufficient.
- Absent European risk, low Treasury yields pushed investors to add non-Treasury assets.

## Fund Commentary

### Performance

The RS Investment Quality Bond Fund (Class A shares) (the “Fund”), returned 1.34% for the fourth quarter ended December 31, 2011, compared with the Fund’s benchmark, the Barclays Capital U.S. Aggregate Bond Index, which returned 1.12%. For the year ended December 31, 2011, the Fund returned 6.87% while the benchmark returned 7.84%<sup>1</sup>.

The average fund in the Lipper<sup>1,2</sup> Intermediate Investment Grade Debt Funds peer group returned 1.34% in the fourth quarter and 6.22% at year-end. (The peer group consists of 597 mutual funds that invest primarily in investment grade debt with average maturities of 5 -10 years).<sup>2</sup>

| <b>(Asof 12/31/2011)<sup>2</sup></b>   | <b>1-Year</b> | <b>3-Year</b> | <b>5-Year</b> | <b>10-Year</b> |
|--|---------------|---------------|---------------|----------------|
| RS Investment Quality Bond Fund<br>(Class A) Average Annual Total Return       | 6.87%         | 8.30%         | 6.00%         | 5.39%          |
| Lipper Intermediate Investment Grade<br>Debt Funds Average Annual Total Return | 6.22%         | 9.05%         | 5.57%         | 5.13%          |
| Lipper Intermediate Investment Grade<br>Category Ranking*                      | 206/597       | 330/511       | 202/424       | 137/293        |
| Lipper Intermediate Investment Grade<br>Category Percentile                    | 35%           | 65%           | 48%           | 47%            |

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

### Market Overview

In real estate, the three most important things are location, location and location. For investments in 2011, the corollary was Europe, Europe and oh, by the way, Europe. Whether we thought about the equity or fixed income markets, both were subject to the whim of the financial uncertainties in Europe. It did not matter that there might have been only a tenuous connection to events there; the markets reacted (often strongly) every time a potential problem reared its ugly head. And it reared its head frequently in 2011. As a result of this unprecedented volatility, investors took on a bipolar response to risk; it was either “risk on” (for example, buying equities or bonds in any of the non-Treasury sectors) or “risk off” (fleeing these very same equities and non-Treasuries for the safety of U.S. Treasuries) at the first sign of trouble in Europe. Gyration became the norm.

The problems in Europe were caused by sovereign nations undertaking unsustainably high debt levels to fund popular spending programs. Concern over these large budget deficits first emerged in 2010 when investors suspected that Greece might not be able to repay their debts and would have to default. (That concern later grew to include Ireland.) A sovereign default would obviously hurt bondholders but in the case of Europe, it was feared that such a default would severely damage the European banking system itself. Because many banks throughout the euro-zone and European Union hold bonds issued by several of the member countries, a sovereign default could have wide ranging consequences. These institutions would likely suffer crippling losses and possibly fail. Even if the banks avoided insolvency, they would be severely weakened and unable to perform their role as a lender. As a result, the “credit crunch” would likely trigger a sharp economic contraction and possibly a recession. As it turns out, these concerns were premature. The European Central Bank (ECB) and the International Monetary Fund (IMF) developed a joint plan that appeared credible enough to prevent the potential default(s). Unfortunately, the plan did not solve the problem; it just kicked the can down the road.

The sovereign debt problem re-emerged in 2011, bigger and more complex. It was not restricted to just Greece and Ireland this time; this time the list of potentially defaulting countries included Italy and later, Spain. Put another way, the problem was no longer limited to two countries that made up less than 4% of the euro-zone’s Gross Domestic Product (GDP) on a combined basis; it now included the third largest country in the euro-zone (Italy), which accounts for 15% of the euro-zone’s GDP by itself. (Adding Spain would increase it to nearly 25%.)<sup>3</sup> Given the increased size of the potential problem, the stakes for a successful resolution were clearly raised.

We don’t want to recount all the uncertainties that emerged in 2011 – there were many – but as these issues unfolded, Europe’s policymakers and regulators seemed, from our perspective, to greatly underestimate the severity of the problem facing them (at least publicly). In addition, they showed no urgency in addressing it unless prodded to do so by disruptions in the capital markets. Perhaps getting 17 countries to agree is like herding cats, but the process was fitful at best. And each unanswered question ratcheted up the precariousness of the situation. Uncertainty and volatility ruled. And investors responded by going into “risk off” mode and waited for signs that it was safe to resume the “risk on” posture again. Until it wasn’t. Rinse and repeat... This cycle was the defining characteristic of 2011.

To be sure, the fixed income market was also driven by other notable events in 2011. First, the historically unquestioned AAA rating of the U.S. was downgraded by Standard & Poor’s due to the lack of progress in getting our fiscal house in order. Not unlike countries in Europe, the United States is also on a path of unsustainable debt levels and spending levels that are not in line with our revenues. However, attempts to control the growing deficit over the summer were mired in a very partisan debate about how such deficit reductions should be achieved. Political gridlock resulted and nowhere was this more apparent than in the complete failure of the congressional “Super Committee”<sup>4</sup> tasked with identifying over \$1 trillion in deficit reductions in November. Not only did they fall short of that goal, they fell short by over \$1 trillion. They could not agree on *any* cuts! We also note that the legislative effort to extend the expiring payroll tax cut by a year resulted in a last-minute agreement to extend it by *two months*.<sup>3</sup> You can’t make this stuff up...

Expectations surrounding the growth of the U.S. economy were volatile in 2011 as well. Earlier in the year, the economy’s positive growth trajectory was expected to be only temporarily slowed by the supply disruptions caused by the Japanese disasters. Consistent with that, the June report of the Blue Chip Consensus forecast for 2011 GDP was a solid 2.6%. However, that forecast was revised sharply downwards by September (to 1.6%) when the growth rate in the first half actually came in at under 1% and weak economic data continued to come out in July and August. By the end of the year, that consensus forecast was back up to 1.7% (with some further upward risk) as measures of employment and consumption showed strength.<sup>5</sup>

Against this backdrop and the frequent flights-to-quality arising from the European debt crisis, Treasuries were the preeminent sector of the fixed income market in 2011. The Treasury sector, as measured by the Barclays Capital Treasury Index,<sup>6</sup> returned 9.81% for the year and 0.89% in the fourth quarter. Sharp-eyed readers can correctly conclude that Treasuries achieved the bulk of their performance in the first three

quarters of the year when concerns of sovereign debt risk escalated and then dominated the headlines. When those concerns receded in the fourth quarter, interest in Treasuries faded and the sector's performance moderated.

In terms of yield changes during the fourth quarter, the 2-year Treasury note wound up unchanged at 0.24% while the yield on the 10-year note declined by 0.04% to close the year at 1.88%. For the full year, the yield on these two benchmark issues declined by 0.35% and 1.42%, respectively, while the yield of the 30-yr benchmark dropped by 1.44%. (The greater decrease in longer maturity yields can be partially attributed to the Federal Reserve's (the "Fed's") "Operation Twist"; \$400 billion of the Fed's shorter-maturity holdings are expected to be sold in favor of longer maturities by June 2012.<sup>7</sup>)

In a very similar fashion, the non-Treasury portions of the bond market performed well in the fourth quarter when the flight-to-quality to Treasuries eased. Corporate bonds and commercial mortgage-backed securities were the two best-performing sectors, returning 1.70% and 3.11%, respectively. Mortgage-backed securities (MBS) came in third place, posting a return of 0.88% for the quarter. For the full year, these sectors earned 8.35%, 6.02% and 6.23%, respectively.<sup>8</sup>

However, these results are not as positive as they might seem. Since these various sectors have different durations, it's a bit misleading to compare these raw numbers without taking that into account. Accordingly, when we compare these sectors relative to their comparable-duration Treasury benchmarks, we see that corporate bonds and MBS actually *underperformed* in 2011 to the tune of -3.22% and -1.06% respectively. (CMBS outperformed by 0.47%.) When we focus on the fourth quarter, we see these three sectors each outperformed as the European debt crisis receded. Specifically, corporate bonds, MBS and CMBS outperformed by 0.61%, 0.24% and 2.49%, respectively.<sup>8</sup>

In summarizing these results, just remember that corporate bonds, MBS, CMBS, etc. exhibited the same performance pattern over the course of 2011: they either all outperformed Treasuries as a group or they all underperformed. Here's the breakdown: Q1) Outperformed Treasuries (sovereign risk had not yet re-emerged), Q2) Underperformed modestly (MBS were the exception) when it appeared that the sovereign debt crisis was just limited to Greece, Q3) Underperformed sharply when the uncertainty in Europe expanded to include Italy and was at its most severe, and then Q4) Outperformance resumed as sovereign risk receded. In other words, Europe, Europe and Europe.

Let's take a closer look.

As noted above, 2011 proved to be a very tough year for the credit market. After a solid performance in the first half of the year, which saw the credit sector outperform similar maturity Treasuries by 1.00%, the re-emergence of the European sovereign debt crisis caused yield premiums to move dramatically higher in the second half of the year. As a result, corporate bonds, as measured by the Barclays Capital Credit Index<sup>9</sup> underperformed Treasuries by 4.17%. For the full year, the Index underperformed by 3.22%, the second-worst full-year result since the Index's inception.<sup>10</sup>

Finance issues were particularly hard hit in 2011. (The Finance sector underperformed Treasuries by 6.28% while the Industrial and Utility sectors fared a bit better, underperforming by 2.33% and 1.60% respectively.<sup>11</sup>) Investors worried about the exposure of U.S. banks to European debt. Even those banks with no material direct exposure to Europe were affected as the fear of contagion and the uncertainties of counterparty risk in a globalized financial system dominated. Furthermore, uncertainties surrounding new regulations from the Dodd-Frank Act and increased capital requirements helped to push bank risk premiums higher. These negative influences overshadowed several positive factors in the bank sector: reduced systemic leverage, an improved outlook for the U.S. economy and strong investor demand for corporate bonds.

The CMBS sector traded very much like the corporate bond sector in 2011. It outperformed Treasuries in the first half by 1.53% but as with corporates, they lost a lot of ground as the sovereign debt crisis prompted a "risk off" response. The underperformance was particularly dramatic in the third quarter as the

CMBS sector lost 3.52% to Treasuries. On the other hand, CMBS was able to recoup some of the third quarter's weakness by outperforming in the last quarter of the year (by 2.49%) as non-Treasury fixed income and "risk on" regained their footing.<sup>12</sup>

As discussed above, the MBS sector underperformed Treasuries in the third quarter, along with all the other sectors. However, it had little to do with the volatility in Europe. Since Agency MBS payments are guaranteed by the government, there is no credit risk. Rather, MBS investors worried about the prospect of a broad government initiative to make it much easier for homeowners to refinance their mortgages. To be sure, reduced monthly payments would bolster the housing sector and likely inject stimulus into the economy, but any such program is a zero-sum game and MBS investors would be on the other side of the trade. (Heightened prepayment risk would severely erode the value of their holdings.) As it turns out, the government did unveil some enhancements to their Home Affordable Refinance Program (HARP) in the fourth quarter, but the terms were less expansive than originally feared and the MBS sector subsequently rebounded.

### **Portfolio Review**

Portfolio activity in the Fund during the fourth quarter was relatively modest. After the underperformance of the non-Treasury sectors in the third quarter, we believed these sectors to be fundamentally cheap (even priced to recession-type levels) and the allocations among the sectors appropriate, in light of the potential for European sovereign credit risk to flare up once again.

Rather, we made adjustments to the portfolio as opportunities presented themselves. For example, our credit exposure (investment grade and high yield corporate bonds and high yield bank loans) remained constant at 28% of the Fund over the quarter but we took the opportunity to modestly reduce our high yield bond exposure in favor of investment grade issues. Similarly, our activity in Agency MBS, non-Agency MBS and CMBS was largely limited to finding replacement issues to maintain our desired sector allocations and offset the monthly principal payments these assets normally experience. Given the sharply reduced supply of new issues in non-Agency MBS and CMBS relative to past years, the real challenge was to find assets in sufficient size that met our investment criteria. At the end of the year, the Fund had 24% Agency MBS, 11% non-Agency MBS and 18% CMBS.

As noted above, the Fund outperformed its benchmark by 0.22% in the fourth quarter as the non-Treasury sectors recovered and outperformed. Those results aligned well with the Fund's positioning. Much of that outperformance came from our allocation to CMBS. The benchmark consists of 2% CMBS while the Fund held 18%. As a result of this overweight and the strong recovery in CMBS, the Fund benefited substantially over the quarter. Similarly, our decision to hold non-Agency MBS helped the Fund as our holdings outperformed the benchmark. Our corporate bond exposure added to the Fund's performance in two respects, we were overweighted an outperforming sector and our specific holdings outperformed the benchmark. On the other side of the ledger, our decision to underweight Agency MBS detracted from Fund performance since the sector performed well during the quarter but as discussed above, that outcome was mitigated by our decision to hold non-Agency MBS.

For the year, the Fund returned 6.87% but underperformed its benchmark by 0.97% as one of the Fund's overweights that helped the Fund in fourth quarter detracted from performance on a full-year basis. Specifically, our slight overweight in corporate bonds had a negative effect on performance since the sector underperformed by 3.22% in 2011. In contrast, our overweighted CMBS position was a positive contributing factor since the sector outperformed by 0.47% for the full year. Similarly, our decision to underweight Agency MBS was a positive factor for the Fund since the sector underperformed by 1.06% in 2011.

### **Outlook**

We think that 2012 will resemble 2011 in many respects. The U.S. economy should continue to grow at a modest pace (2+%) and there are some encouraging signs that it might accelerate. Interest rates should remain low and inflation is not likely to be an issue. Europe should continue to be a major risk factor and

as amply demonstrated in 2011, the single largest wildcard in the outlook. And most importantly, volatility is likely to persist at elevated levels.

We should also become accustomed to political gridlock. As we saw in 2011, the divisions between the two political parties seem vast and unbridgeable. As a result, we do not expect any material progress towards solving our deficit and debt problems until the political landscape potentially becomes clearer following the 2012 elections.

The labor market has shown some improvement recently. First-time unemployment claims have been dropping and job growth has been increasing. We note that the unemployment rate dropped to 8.5% in December after starting the year at 9.4%.<sup>13</sup> Despite these improvements, there's still much room for improvement, so slack labor will continue to be a disinflationary factor.

We also believe the housing market will remain lackluster with some further modest price decreases likely. A significant portion of home sales are still coming from foreclosures and these distressed sales have had a dampening effect on home values. That said, be on the lookout for the possibility of a new government program to further bolster the housing sector beyond the already-announced changes to HARP mentioned above. Any measure to increase the availability of mortgage credit would be a popular move in an election year and a source of uncertainty for the MBS sector.

Against this backdrop, we continue to favor many of the non-Treasury segments of the bond market. Corporate bonds are particularly attractive to us right now, as last year's underperformance has left them near recession-type valuations. We do not see the need at this time to have a large exposure to Treasuries, even though the European debt crisis remains a very significant wildcard.

We continue to remain positive on the corporate sector due to their attractive valuations. We expect the positive factors that supported the market last year (an improving economy, strong corporate revenues and profitability, strong demand in a low yield environment, etc.) will persist. However, this sector remains closely tied to the fortunes of the European financial system and as we saw in 2011, a negative surprise here can easily swamp these positive factors. As a result, we have selected corporate issues that we believe are far-removed from the European turmoil. While this does not make them immune to the sovereign debt crisis, we believe that they are very attractively priced and make sense on a risk-reward basis.

We are comfortable with our current strategy to overweight CMBS. We believe the sector should continue to provide attractive yields along with supportive fundamentals. We will continue to concentrate on bonds that we believe have ample credit support and deals that are backed by more seasoned, less levered and better underwritten loans. (Seasoned loans have the benefit of a demonstrated track record of reliable payments by the borrower.)

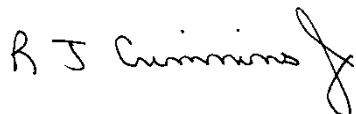
Similarly, we remain positive on non-Agency MBS due to a very positive supply/demand imbalance. New issuance has dwindled to zero since 2010 and until regulatory uncertainties are resolved, the dearth of new deals will likely continue. On the other hand, we expect demand to remain robust in 2012. As with CMBS, the challenge will remain to be to find enough suitable assets to maintain our desired sector allocation.

We believe our strong adherence to our disciplined investment process has benefited the Fund's 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*

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

**Sector Allocation  
(As of 12/31/2011)**

|   | <b>% Fund</b> |
|---|---------------|
| Asset Backed Securities                   | 2.2%          |
| CMBS                                      | 18.2%         |
| CMOs                                      | 13.6%         |
| Corporate Notes/Bonds                     | 28.6%         |
| Government Agencies                       | 0.0%          |
| Mortgage Backed Securities                | 21.0%         |
| Taxable Municipals                        | 1.0%          |
| Tax Exempt Municipals                     | 0.7%          |
| Treasury Notes/Bonds                      | 11.5%         |
| Short-Term / Other Assets and Liabilities | 3.1%          |

**Top Ten Holdings<sup>14</sup>**  
**(As of 12/31/2011)**

|                     | <b>Coupon Rate</b> | <b>Maturity Date</b> | <b>% Fund</b> |
|---------------------|--------------------|----------------------|---------------|
| U.S. Treasury Notes | 0.880              | 11/30/16             | 4.10%         |
| FNMA - MBS          | 3.500              | 12/01/41             | 3.97%         |
| FNMA - MBS          | 4.000              | 12/01/41             | 3.62%         |
| FNMA - MBS          | 4.000              | 09/01/40             | 2.81%         |
| U.S. Treasury Bonds | 4.380              | 05/15/41             | 2.72%         |
| FHLMC - MBS         | 4.000              | 12/01/40             | 2.69%         |
| FNMA - MBS          | 5.000              | 11/01/39             | 2.47%         |
| FNMA - MBS          | 5.500              | 01/01/38             | 1.86%         |
| FNMA - MBS          | 4.500              | 12/01/41             | 1.53%         |
| U.S. Treasury Notes | 2.130              | 08/15/21             | 1.35%         |

Distributed by: Guardian Investor Services LLC (GIS), 7 Hanover Square, New York, NY 10004.

*Not a Deposit | Not FDIC or NCUA Insured | May Lose Value | No Bank or Credit Union Guarantee*

GIS is a member: FINRA, SIPC.

©2012 RS Investment Management Co. LLC

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Source: Bloomberg.

<sup>4</sup> A 12 member committee created by the Budget Control Act of 2011 with 3 members from each party and each chamber of Congress.

<sup>5</sup> Source: Blue Chip Economic Indicators July 10, 2011, October 10, 2011 and December 10, 2011.

<sup>6</sup> The Barclays Capital U.S. Treasury Index is an unmanaged index of U.S. Treasury securities.

<sup>7</sup> Source: The Federal Reserve Web site. [www.federalreserve.gov](http://www.federalreserve.gov).

<sup>8</sup> Source: Barclays Capital Index Summary, Barclays Capital Inc.

<sup>9</sup> The Barclays Capital U.S. Credit Index is a subindex of the Barclays Capital U.S. Government/Credit Index. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government.

<sup>10</sup> Source: Barclays Capital Index Summary, Barclays Capital Inc. from 12/31/2011 and 6/30/2011.

<sup>11</sup> Source: Barclays Capital IG Credit Sector Details.

<sup>12</sup> Source: Barclays Capital Index Summary, Barclays Capital Inc. from 6/30/2011, 9/30/2011 and 12/31/2011.

<sup>13</sup> Source: Bloomberg Unemployment rate table.

<sup>14</sup> Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.