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TIP SHEET

RS Strategic Income Fund Offers Broad Set

By **KELLIE GERESSY-NILSEN**

NEW YORK (Dow Jones)—As the economy finds its footing, Leslie Barbi and her management team at the RS Strategic Income Fund are focusing on a broad set of securities - all of which they assess to have good return potential, despite the fact that economic growth will likely not be rapid.

The RS Strategic Income Fund offers investors a broad range of securities in a single fund including investment grade, high yield and global bonds. Barbi and her team consider an instruments potential for appreciation, credit quality, maturity and degree of risk when considering them as possible contenders for inclusion in the fund.

“The RS Strategic fund is more of a ‘go anywhere’ fund,” said Barbi, head of fixed income investments for RS. “So for investors that just want one bond fund - it presents a good opportunity and fit for those investors wishing to become more diversified in a single fund, and to have portfolio managers to decide when to make larger allocations to the high yield market or to global bonds.”

Barbi said the fund is very value oriented and she, along with her team, bases investments on improving credit metrics, and is careful when analyzing whether each bond offers enough value to compensate for risk. In the current environment of

slow economic growth, stressed real estate markets, and regulatory uncertainty, that analysis can yield very different assessments across bond sectors.

The biggest focus in the fund is currently on corporate credits, given the portfolio managers view that positive, even slow, economic growth will continue to improve corporate credit fundamentals. When examining sectors, Barbi doesn't count out REITs, or Real Estate Investment Trust securities. In fact, she thinks some present a good investing opportunity.

“Early in the whole property bust, they took a bit of a beating, but a lot of REITs made good progress in terming out debt and lowering overall debt to capital by raising equity money,” Barbi said. “So despite challenges that may lie ahead across the housing market, a lot of REIT companies are in good shape from a bondholders perspective.”

Barbi and her team also feel that bank bonds offer value.

“There are a number of banks that we like and have holdings in,” Barbi said. She stressed that the fund is currently lower than it would otherwise be on bank holdings as proposed regulatory changes have prompted the ratings agencies to caution that downgrades could take effect as a result of new legislation: “We're saving a little powder for potential outcomes

where some names may widen in the bank space.”

Currently, the RS Fund has a moderate allocation to non-US dollar bonds - roughly one fifth of its makeup.

“While relative yield and inflation expectations would indicate there are a lot of opportunities outside the U.S., the spread difference between the U.S. and many other developed countries is narrow, so we have a moderate allocation,” Barbi said.

The fund's non-US dollar holdings are in sovereigns, supranationals, and corporates.

“Currently, we are fully hedged back to U.S. dollars,” she said.

The relatively new fund's inception was Dec. 31, 2009, with an initial value of \$50 million.

“Our approach to fixed income investing is based on risk-adjusted value, relying on intensive fundamental research and a disciplined investment process,” Barbi said. “The RS bond funds are managed with a focus on assessing returns relative to risk, which includes considering downside protection, not just income - the way we believe bond funds should be managed.”

(Kellie Geressy-Nilsen, based in New York, covers credit markets for Dow Jones Newswires.)

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RS Strategic Income Fund (RSIAX) Sector Allocation ¹ (As of 12/31/09)	
Treasury/Agency	0.00%
Investment Grade Credit	34.51%
High Yield Credit	15.59%
Agency MBS	0.00%
Non Agency MBS	5.85%
ABS	1.98%
CMBS	6.14%
Global – Non USD	17.02%
Other	3.04%
Short-Term*	15.87%

* Includes other assets and liabilities.

RS Strategic Income Fund (RSIAX) Top Ten Holdings ² (As of 12/31/09)			
	Coupon Rate	Maturity Date	Percentage of Total Net Assets
Australia and New Zealand Banking Group Ltd.	6.750%	11/10/14	1.79%
Rabobank Nederland NV	6.500%	1/15/15	1.78%
Development Bank of Japan	2.300%	3/19/26	1.56%
Asian Development Bank	2.350%	6/21/27	1.56%
Svensk Exportkredit AB	7.630%	6/30/14	1.54%
European Investment Bank	5.000%	12/1/20	1.20%
Freeport-McMoRan Copper & Gold, Inc.	8.250%	4/1/15	1.09%
Nordstrom, Inc.	6.250%	1/15/18	1.08%
JPMorgan Chase & Co.	6.000%	1/15/18	1.08%
Suncor Energy, Inc.	6.100%	6/1/18	1.07%
Total			13.75%

¹ The Fund's holdings are allocated to each sector based on their Barclays classification. If a holding is not classified by Barclays, it is assigned a Barclays designation by RS Investments. Cash includes short-term investments and net other assets and liabilities.

² Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

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