

First Quarter 2012 Mutual Fund Commentary
RS High Yield Municipal Bond Fund

Performance

(Average Annual Total Returns as of 3/31/2012)

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

	First Quarter 2012	1-Year	3-Year	5-Year	10-Year	Since Inception (12/31/09)
without sales charge	3.77%	16.80%	n/a	n/a	n/a	9.01%
with maximum sales charge	-0.11%	12.41%	n/a	n/a	n/a	7.18%
Barclays Capital Municipal Bond Index ¹	1.75%	12.07%	n/a	n/a	n/a	6.54%

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

Fund Highlights

Portfolio Overweights

- Transportation
- State general obligations
- Education bonds

Portfolio Underweights

- Healthcare
- Airlines
- California redevelopment agencies

Outlook

- Upcoming tax policy decisions could have a far-reaching impact on the municipal market.
- Effective May 1, 2012, the Fund’s name will be changed to RS High Income Municipal Bond Fund.

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

The RS High Yield Municipal Bond Fund (Class A shares) (the Fund), outperformed its benchmark in the first quarter of 2012 with a total rate of return of 3.77%, excluding sales charges. This compares with a return of 1.75% for the Fund's benchmark, the Barclays Municipal Bond Index¹. The Barclays High Yield Municipal Index², which has a lower credit-rating profile than the Fund, returned 5.40%². For the last 12 months, the total rate of return for the Fund was 16.80%, compared with 12.07% for the benchmark Municipal Bond Index and 15.48% for the High Yield Municipal Index.

We would note that, unlike the Fund, the indexes do not include expenses. In addition, at any one time, the Barclays Municipal Bond Index benchmark has approximately 46,081 issues³ and the Barclays High Yield Municipal Index has approximately 2,931 issues³, whereas the Fund generally has only about 110 to 120 issues, some of which may not be in the indexes.

Credit quality selection, security selection and sector selection all contributed strongly to our outperformance relative to the Municipal Bond Index. Our overweight in Baa-rated credits was the largest contributor to relative performance. We also benefitted from our overweights in the outperforming industrial, transportation and healthcare sectors. There were modest detractions as a result of our underweights in state and local general obligations and special tax issues.

(As of 3/31/2012) ⁴	1-Year	3-Year	5-Year	10-Year
RS High Yield Municipal Bond Fund (Class A) Average Annual Total Return	16.80%	n/a	n/a	n/a
Lipper ⁵ High Yield Municipal Debt Funds Average Annual Total Return	16.26%	n/a	n/a	n/a
Lipper High Yield Municipal Debt Funds Category Ranking*	47/125	n/a	n/a	n/a
Lipper High Yield Municipal Debt Funds Category Percentile	38%	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.*

Market Overview

The markets swung into risk-on mode in the first quarter of 2012, with investors embracing risk as decisively as they had shunned it at other times during the past year. While sovereign debt problems and recession in Europe continued to dominate the headlines, massive lending to European banks by the ECB restored some sense of stability, and investors drew confidence from signs of momentum in the U.S. economic recovery.

Perhaps most importantly, the U.S. unemployment rate improved substantially in recent months, falling to 8.2% in March. The number of people filing initial unemployment claims also hit a four-year low as the pace of layoffs slowed. These developments created confidence that recent unexpectedly strong labor market indicators were not a fluke. By saying it plans to keep interest rates near zero into 2014 and leaving open the possibility of additional stimulus, the Fed signaled its continued willingness to intervene if the U.S. economy backslides. Investors finally seemed reassured enough to seek out yield, which has been unattractively low in Treasuries.

Despite these generally positive trends, the problems that have periodically sent investors fleeing into risk-off mode over the past year haven't suddenly vanished. The U.S. economic recovery is still modest and is constrained by stubbornly high unemployment and an overhang from the housing market. Employment growth remains stagnant in some regions. We believe there could be further setbacks if the government

fails to adequately address tax cuts that are due to expire at year end and automatic federal spending cuts that are slated to begin at the start of next year. Congress may also need to revisit the highly divisive debt limit issue soon after the November elections.

Municipal debt, which tends to be less affected by events outside the U.S. continues to play a valuable role for investors. And the quarter was a busy one, with \$78.3 billion in municipals issued, a 63.5% increase over the \$47.9 billion issued in the first quarter of 2011. Refundings, which mainly sought to take advantage of low interest rates, played a large role in this, representing 57% of issuance, compared with 33% for the same period in 2011.

Portfolio Review

As noted above, the Barclays Municipal Bond Index returned 1.75% for the first quarter ending March 31, 2012.² The total return of the Barclays High Yield Municipal Index, was 5.40%. The best performing sectors in the High Yield Index were industrial (6.60%), housing (5.25%) and healthcare (5.10%). The worst performing sector was solid waste/resource recovery (0.38%).

The Fund has a lower credit rating profile than the Aa3/A1 of its benchmark, the Municipal Index. It has a higher profile than the High Yield Index's B1/B2.

As of March 31, 2012, the ratings breakdown of the Fund's holdings was:

- AAA: 2.18%
- AA: 4.49%
- A: 29.26%
- BBB: 45.99%
- BB: 2.61%
- B: 0.84%
- Non-rated: 8.01%
- Other assets and liabilities: 6.62%

Our largest overweights relative to the High Yield Index are investment grade bonds, transportation and state general obligations, while we are underweight healthcare, airlines and California redevelopment agencies (RDAs).

It should be noted that while we generally avoid the appropriation debt of local and county governments, we view the state level differently given the long histories of support in many states, including California and New Jersey. Among the characteristics we examine in detail when evaluating state appropriation bonds are the size and history of the project and the need for it.

While we maintained a low profile in the Alternative Minimum Tax ("AMT") sector, we modestly increased exposure when spreads widened because the sector offered attractive yields without stepping down in the credit spectrum. The majority of the Fund's AMT credits were rated A or better.⁵

We seek to maximize current income with bonds that meet our criteria and have relatively high coupons. Maturity and duration are secondary considerations. Our search for value with carefully limited downside risk is based on our analysis of the credit fundamentals of each issuer, and on each bond's specific coupon structure and yield considerations. We do not simply rely on ratings or insurance. Rather, we base our assessments on the fundamentals of each bond and each issuer. We seek to thoroughly understand the bonds we purchase, and we believe that understanding the revenue stream is essential to understanding the bond. We look for strong revenue that flows directly to the issuer. Once a bond is purchased, we continue to monitor its cash flows. When our research indicates upside potential for the bond and we feel we are properly compensated for risk, we may purchase select non-rated or lower-rated credits.

Given the broad set of opportunities open to a national fund, we focus on issuers that we believe offer value, and avoid large concentrations to any one issuer, insurer, industry, sector or state.

This can be challenging at times because the High Yield Index is heavily weighted in health care issues such as hospitals, nursing homes and continuing care retirement community (CCRC) bonds. However, we feel that we have mitigated this risk somewhat by diversifying according to location, since economic regions typically react differently than sectors.

Through March 27, the issuers of approximately \$41.701 billion of municipal bonds had notified investors of some credit impairment. This included \$13.44 billion in cash payment defaults on 374 bonds. This is an increase from the fourth quarter total of \$41.136 billion, with \$12.68 billion in cash defaults on 361 bonds. The increase was concentrated among smaller, non-essential projects from economically challenged areas and have cash flows that are not supported by taxes. By carefully monitoring our investments and doing thorough research, we avoided these situations, and the Fund did not hold any bonds with impairments.

The Fund is not exposed to the Jefferson County, Alabama, bankruptcy. However, that default has raised important legal issues for the municipal market as a whole, and we continue to monitor it closely. Among the key questions is whether the bankruptcy court can raise the sewer rates in order to generate revenues that are pledged to bondholders.

Although we are underweight relative to the High Yield Index, about 3% of the Fund's assets are held in California RDA bonds. The California Supreme Court, the state's highest court, has upheld a state law dissolving the RDAs. However, the bonds have stabilized as the state legislature is addressing the various concerns. All the parties in the discussion have described the RDA's bond obligations as protected. We are watching this situation closely.

Detroit continues to struggle to avoid a slide into insolvency, but it is expected to run out of cash by May. The Fund did not own any Detroit general obligation bonds, but it did own some water and sewer bonds. These derive approximately 75% of their revenue from suburban areas that would not be part of a default by Detroit.

Outlook

- We expect moderate U.S. GDP growth at or slightly above 2% this year, up from 1.6% in 2011. We expect core inflation to hold at about 2% year over year.
- Our better-than-consensus view on unemployment is that it will fall to 7.8% or slightly below by year end. Blue Chip consensus and Fed projections are for 8.1% to 8.5% unemployment by year end. Despite our more optimistic view on employment, we are forecasting restrained growth of 2% in real disposable income and consumer spending.
- The Fed continues to say it plans to keep the Fed Funds target rate at zero to 0.25% into 2014, and it continues to use unconventional policy tools to provide additional monetary stimulus. We see the Fed as prepared to intervene further if the economy falters or contagion risks from Europe escalate.
- Although they are improving, still-high unemployment and a weak housing market should continue to weigh on economic growth and on the municipal market. We expect housing prices to decline up to another 3% this year, but we believe this could be the bottom. A firmer conviction that home prices have hit bottom would support housing activity and the economy.
- Heavy lending to banks by the European Central Bank has helped to stabilize the situation in Europe, postponing concerns about banking system liquidity into at least 2013. But the problems emanating from Europe continue to be a key wildcard for the markets.
- Given the tentativeness of the U.S. recovery and the seriousness of the problems in Europe, we believe investors are likely to remain skittish and markets should remain volatile.

Although the recession is over, many state and local governments have had to make difficult transitions. Many have done so by cutting their spending and work forces rather than raising taxes. Despite a steady pace of economic recovery for most states through the first two quarters of fiscal 2012, modest economic prospects and federal budget cuts mean significant uncertainty and possibly continued austerity for state and local governments.

In February, the Obama administration presented its proposed budget for fiscal 2013, which begins October 1. It recycled some previous municipal bond proposals, such as limiting the benefit of tax preference items (including tax-exempt interest) to 28% for taxpayers with incomes over \$250,000. It also proposed a "Buffett rule," which would replace the current alternative minimum tax with a new 30% minimum tax for incomes over \$1 million. While there is little expectation that anything can be achieved in a presidential election year, calls for tax reform may grow louder as the campaign escalates.

Given our investment approach, which focuses on detailed research and in-depth understanding of the bonds we buy, we believe there are compelling opportunities for investors in the Fund. As we survey the many options that a national fund allows us, we will continue to put our experience and investment discipline to work to meet your investment needs.

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 March 31, 2012.

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 3/31/2012)**

	% Fund
General Obligation Bonds	18.79%
Special Tax	6.18%
Housing	2.79%
Education	8.83%
Water and Sewer	3.34%
Transportation	20.40%
Resource Recovery	0.53%
Hospital / Nursing Home / Health Care	16.35%
Industrial Revenue/Power	16.17%
Other Assets and Liabilities	6.62%

**Top Ten Holdings⁶
(As of 3/31/2012)**

	Coupon Rate	Maturity Date	% Fund
Puerto Rico Pub. Bldgs. Auth. Rev. Gtd	6.000	7/1/2041	2.29%
Regl. Transn. Dist. CO Private Activity Rev.	6.000	1/15/2041	2.05%
Village Cmnty. Dev. Dist. No. 8 FLA Spl. Assessment Rev.	6.125	5/1/2040	1.77%
Dallas-Fort Worth Tex. International Arpt. Fac. Impro. Corp. Rev.	5.000	11/1/2032	1.54%
St. John The Baptist Parish LA Rev.	5.125	6/1/2037	1.46%
Illinois Fin. Auth. Rev.	6.250	4/1/2029	1.35%
New Jersey Economic Dev. Auth. Rev.	5.750	6/15/2034	1.34%
Kentucky Economic Dev. Fin. Auth. Hosp. Facs. Rev.	6.375	3/1/2040	1.34%
Tobacco Securitization Auth. MN Tobacco Settlement Rev.	5.250	3/1/2031	1.29%
Village Cmnty. Dev. Dist. No. 8 FLA Spl. Assessment Rev.	6.125	5/1/2039	1.22%

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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.

²The 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.

³Source: Bloomberg Sheets.

⁴Lipper, 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 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 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual bonds.