

Second Quarter 2011 Mutual Fund Commentary RS Tax-Exempt Fund

Performance

(Average Annual Total Returns as of 6/30//2011)

RS Tax-Exempt Fund (Class A – GUTEX)

	Second Quarter 2011	1-Year	3-Year	5-Year	10-Year	Since Inception (2/16/93)
without sales charge	3.62%	2.62%	5.55%	4.59%	4.91%	4.90%
with maximum sales charge	-0.30%	-1.22%	4.20%	3.79%	4.51%	4.68%
Barclays Capital Municipal Bond Index ¹	3.89%	3.48%	5.58%	4.93%	4.99%	5.59%

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

Fund Highlights

Portfolio Overweights

- Dedicated tax and revenue bonds for essential services
- High Quality General Obligations

Portfolio Underweights

- Longer maturity, highly leveraged tobacco bonds
- Illinois, California, Minnesota

Outlook

- New Issue volume may pick up
- Continued Credit Stress for some municipal issuers

Performance quoted represents past performance and does not guarantee future results. The Fund is the successor to The Guardian Tax-Exempt Fund; performance shown includes performance of the predecessor funds 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 0.96% / 0.80%. The net expense ratio reflects a contractual expense limitation which will continue through 4/30/12. 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

Fund Commentary

Performance

RS Tax-Exempt Fund (Class A shares) (the "Fund"), had a total rate of return of 3.62% for the quarter ended June 30, 2011, versus its benchmark, the Barclays Capital Municipal Bond Index (formerly the Lehman Brothers Municipal Bond Index), which returned 3.89%¹. For the last twelve months, the Fund had a total return of 2.62%, versus the Barclays benchmark return of 3.48%. The benchmark does not include expenses. We would note that the Fund has quite a different profile than the index. At any one time, the benchmark has approximately 45,700 issues, whereas the Fund generally has exposure to about 150 to 175 carefully selected issues, some of which may not be in the benchmark.

We feel that meaningful peer group comparisons are available from Lipper. Funds in the Lipper General Municipal Debt Fund^{1,3} category invest primarily in municipal debt issues in the top four credit ratings. Lipper rankings are based on total return with dividends reinvested and do not take into account or reflect sales charges. As shown in the chart below, the Fund had favorable performance compared with the Lipper peer group for the past three, five and ten year periods ended June 30, 2011. It should be noted that for the ten years ended June 30, 2011, Lipper ranked the Fund 9th out of 165 funds and was in the 1st quartile of its Lipper peer group. Over the long term the fund has ascended to the ranks of one of the best performing national tax-exempt funds as determined by Lipper. During the second quarter, the RS Tax-Exempt Fund maintained an overall high-grade credit profile and held no bonds that were not rated by a rating agency or with a below investment grade rating.

(As of 06/30/2011)	1-Year	3-Year	5-Year	10-Year
RS Tax-Exempt Fund (Class A) Average Annual Total Return	2.62%	5.55%	4.59%	4.91%
Lipper ³ General Municipal Debt Funds Average Annual Total Return	2.72%	4.08%	3.38%	3.89%
Lipper General Municipal Debt Funds Category Ranking*	148/250	25/223	25/199	9/165
Lipper General Municipal Debt Funds Category Percentile	59%	12%	13%	6%

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

As of June 30, the Fund's 30-day SEC yield¹³ was 2.99% (which grosses up to 4.60% 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 2.92% (grossing up to 4.49% taxable equivalent yield for a person in the 35% income tax bracket in 2011).

Portfolio Review

In the second quarter, only \$67.603 billion in municipals were issued versus \$100.504 billion in the second quarter of 2010, a 32.7% decline⁹. For the first six months of the year, new issuance was \$115.196 billion versus \$204.913 billion, a 43.8% decline year over year.

In early June, the National Governors Association and the National Association of State Budget Officers released their biannual revenue surveys that showed that while many states were recovering from the recession, their revenues and expenditures were still below 2008 levels⁶. As examples, on June 23 it was reported that the state of Tennessee revenue collections continued a nine-month growth trend in May with a 9.82% increase over the same month a year ago and more than budgeted. The fund owns these general obligation bonds. New York State on June 25, reported that for the first two months of fiscal year 2011-12, that started on April 1, tax collections were \$365.8 million higher than assumed in

the enacted budget. This was driven by higher than anticipated personal income tax collections. The fund also owns bonds that are secured by these taxes.

In California, even though both the executive and legislative branches of state government were led by the same party, the state lumbered in the last days of June to enact a balanced budget beginning July 1. In March, the state was able to pare down a \$26 billion budget gap to \$10 billion. While income taxes from high earners in California since then have been stronger than expected, the gap largely remained. To eliminate this remaining gap, the legislature passed a “balanced” budget on June 15. The governor vetoed it. The state controller then ruled that lawmakers would permanently forfeit their salaries and expense re-imbursements until they passed a properly balanced budget⁷.

The California governor wanted to balance the budget with tax extensions, but needed some minority party votes in the legislature to get it approved. They, in turn, wanted pension reform and other economic issues addressed as well. On June 24th, it was reported that Standard & Poor’s concluded the State’s rating was at a “crossroads” because of the budget impasse, and was in jeopardy⁷. On June 28th, the governor and legislature did pass a new budget that had neither pension reforms nor tax extensions. Instead, it depended on optimistic tax collection projections and one-shot revenues with the proviso that some expenditure reductions will occur if revenues fall short. It should be noted that the Fund holds these bonds, representing approximately 5% at 6/30/2011.

Illinois is another state we are monitoring closely. On June 30, the Illinois governor signed into law a budget beginning July 1 without paying an estimated \$8 billion in overdue bills. Early in January, the State had approved personal and corporate income-tax increases that eliminated about half of the \$13 billion deficit⁶. The governor had hoped to finance at least part of the unpaid bills through a bond issue. There was opposition in the legislature to adding to debt and support instead to cut the budget. By the end of June, there had been no resolution. Of all the bonds held in the fund, Illinois state general obligations represented approximately 1% at 6/30/2011, and were purchased at spreads and structures that reflected our concerns.

It should also be noted that at midnight on June 30, with the proposed budget in the state of Minnesota still in dispute, a government shutdown occurred. A court order had been released on June 29, expiring July 31, that authorized funding for among other functions, debt service. Approximately 2% of the fund was held in Minnesota’s state general obligation bonds at 6/30/2011.

As noted above, the total return of the Barclays Capital Municipal Bond Index for the second quarter was 3.89%. By credit rating, the return of the AAA sector was 2.68%, AA was 3.64%, A was 4.64%, and BAA was 5.57%¹. This outperformance of lower rated bonds, in general, did not benefit our Fund as we did not reach for yield at the expense of credit quality, and maintained the Fund’s overall high-grade portfolio profile. As of June 30, the ratings breakdown⁶ of the fund’s holdings were 59.9% AAA or AA-rated, 17.4% A-rated, and 16.3% BBB rated. 6.4% of the fund was held in short-term instruments. We continue to view this fund as a high quality fund.

We seek to thoroughly understand the bonds that we purchase for the Fund, we believe that our understanding of the revenue stream is essential to understanding the bond. We look for strong revenue that flows directly to the issuer. Once the bond is purchased, we continue to monitor the cash flows.

Our long-standing investment approach for the Fund is based on our analysis of the fundamentals of each issuer, rather than reliance on a rating or insurance. Given the broad opportunity set open to a national fund, we focus on what we believe to be quality issuers that offer value, and avoid large concentrations to any one issuer, insurer, industry, sector, or state. However, when we feel we are properly compensated for risk, we will seek to purchase lower-rated credits if our research indicates upside potential for the bond.

The Fund did not use derivatives to boost returns. We have also stayed away from many local issues and ones that depend typically upon appropriations and have certificate of participation (COP) structures.

COPs are not voter approved and usually depend on appropriations. For General Obligation and revenue bonds, we looked for those that we deem have strong underlying credit fundamentals.

Outlook

While new issue supply in the second quarter and for the first six months lagged 2010 numbers, it should be noted that in June, the supply was only off 9.2%. This may hint that the market may be turning around. Most analysts expect the new issue market in the second half of the year to be somewhat stronger, but still close to 50% of 2010 volume.

While, as noted above, state and local government revenues began to increase, the pace of economic recovery going forward became less clear by the end of June. Factors included supply chain disruptions to American plants after the earthquake and tsunami in Japan and rising oil prices caused by the cutoff of the Libya supply. Other factors in the deceleration concern include: housing prices continued to fall, hiring was weak, wages were flat, growth in China and India slowed, and the debt crisis in Europe could have ripple effects. With state and local governments in general, so dependent on sales and income taxes, we will monitor this situation closely as well as those specific states that are lagging in balancing their budgets.

Moody's Investors Service, Inc. announced in a June 29 study that in the event it strips the U. S. sovereign credit of its AAA, some top-rated state and local government bonds could move in lockstep with any outlook or downgrade on the sovereign credit. It noted that for those municipals that retained their credit scores, their ratings could be higher than the federal government for the first ever. They announced they have begun their review process.

Given our investment approach of focusing on the quality and stability of issuers, as well as the large opportunity set that a national fund allows us, we will continue to put our experience to work.

We see both challenges and opportunities ahead, and believe there are compelling opportunities for investors in the 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.

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.

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 June 30, 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 6/30/2011)**

	% Fund
State General Obligation Bonds	11.7%
Local General Obligation Bonds	12.7%
Revenue Bonds	69.2%
Special Tax	5.9%
Housing	1.6%
Education	8.5%
Water and Sewer	11.6%
Transportation	15.7%
Power	7.2%
Leasing	6.5%
Resource Recovery	7.2%
Hospital / Nursing Home / Health Care	5.1%
Industrial Revenue	0.00%
Short-Term / Other Assets and Liabilities	6.4%

**Top Ten Holdings⁵
(As of 6/30/2011)**

	Coupon Rate	Maturity Date	% Fund
Illinois St. G.O.	5.000	01/01/2019	1.25%
Puerto Rico Comwlth Govt. Dev. Bk.	5.000	12/01/2014	0.91%
Orlando & Orange Cnty. FLA Expressway Auth Rev. Ser. C	5.000	07/01/2026	0.91%
North Texas Twy. Auth. Dallas North. Twy Sys. Rev. Ser. C	6.000	01/01/2025	0.86%
Wake Cnty. NC G.O.	5.000	04/01/2018	0.83%
Minnesota St. Var. Purp. Ser. D G.O.	5.000	08/01/2024	0.79%
Tex. Private Activity Bd. Surface Transn. Corp.	6.880	12/31/2039	0.79%
Michigan Mun. Bd. Auth. Dept. of Treasury Rev.	5.000	10/01/2019	0.79%
Florida St.	5.000	01/01/2022	0.79%
North Texas Twy. Auth. Dallas North. Twy Sys. Rev. Ser. C	6.000	01/01/2023	0.78%

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1 The Barclays Capital Municipal Bond Index total return data is provided by Barclays Capital. The Barclays Capital Municipal Bond Index is an unmanaged index that is generally considered to be representative of the municipal bond market and is not available for direct investment. There are no expenses associated with the index, but there are expenses associated with the Fund.

2 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.

3 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.

4 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."

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

6 Source: The Bond Buyer. June 23, 2011.

7 Bloomberg News, California Fiscal Year Looms Without Plan as Brown Tax Falter, June 27, 2011

8 Source: The Bond Buyer. July 1, 2011