

Third Quarter 2011 Mutual Fund Commentary RS Tax-Exempt Fund

Performance

(Average Annual Total Returns as of 9/30/2011)

RS Tax-Exempt Fund (Class A – GUTEX)

	Third Quarter 2011	1-Year	3-Year	5-Year	10-Year	Since Inception (2/16/93)
without sales charge	4.09%	2.70%	8.14%	4.69%	5.04%	5.05%
with maximum sales charge	0.16%	-1.12%	6.77%	3.89%	4.64%	4.84%
Barclays Capital Municipal Bond Index ¹	3.81%	3.88%	8.08%	5.01%	5.09%	5.72%

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

Fund Highlights

Portfolio Overweights

- Puerto Rico
- Water & Sewer
- AAA and Baa credits

Portfolio Underweights

- California
- Healthcare
- AA and A credits

Outlook

- Nominal yields and supply could impact performance

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 performance quoted, “with maximum sales charge” reflects the current maximum sales charge of 3.75%. 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%. Current performance may be lower or higher than performance data quoted. Performance current to the most recent month-end is available by contacting RS Investments at 800-766- 3863 and is frequently updated on our Web site: www.RSinvestments.com.

The Fund is the successor to The Guardian Tax-Exempt Fund; performance shown includes performance of the predecessor fund for periods prior to October 9, 2006. The net expense ratio quoted above 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 Commentary

Performance

RS Tax-Exempt Fund (Class A shares) (the “Fund”), had a total rate of return of 4.09% for the quarter ended September 30, 2011, versus its benchmark, the Barclays Capital Municipal Bond Index, which returned 3.81%¹. For the twelve months ended September 30, 2011, the Fund had a total return of 2.70%, versus the Barclays benchmark return of 3.88%. We would note that, unlike the Fund, the benchmark return does not include expenses. In addition, at any one time, the benchmark has approximately 45,344 issues, whereas the Fund generally has exposure to only about 165 to 185 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^{1,2} 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 September 30, 2011.

For the ten years ended September 30, 2011, Lipper ranked the Fund 10th out of 157 funds and was in the 1st quartile of its Lipper peer group.² 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.³ During the third 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 09/30/2011)	1-Year	3-Year	5-Year	10-Year
RS Tax-Exempt Fund (Class A) Average Annual Total Return	2.70%	8.14%	4.69%	5.04%
Lipper ^c General Municipal Debt Funds Average Annual Total Return	2.78%	7.15%	3.49%	4.04%
Lipper General Municipal Debt Funds Category Ranking*	135/237	37/214	27/188	10/157
Lipper General Municipal Debt Funds Category Percentile	57%	18%	15%	7%

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

As of September 30, the Fund's 30-day SEC yield⁴ was 2.43% (which grosses up to 3.74% 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 2.36% (grossing up to 3.63% taxable equivalent yield for a person in the 35% income tax bracket in 2011).

Portfolio Review

There appeared to be increased pressure to prepare for potentially difficult times, with many state and local governments – and particularly counties, looking at flat sales and property tax collections as well as likely reductions in local inter-governmental and federal aid. According to census data released on August 30, state and local governments had eliminated more than 200,000 jobs in 2010.⁵ Besides cutting personnel, another way to retrench was to reduce debt issuance secured by local taxes. In the third quarter, only \$75.15 billion in municipals were issued versus \$94.55 billion in the third quarter of 2010, a 20.5% decline⁶. For the first nine months of the year, new issuance was \$192.91 billion versus \$299.47 billion, a 35.6% decline year over year. The third quarter numbers exceeded our expectations considering issuance was down over 30% in the second quarter and over 54% in the first quarter compared to 2010.¹²

The market did see some positive activity near the end of September, when on September 21, the US Central Bank said it would buy \$400 billion worth of Treasuries with maturities of 6 years-to- 30 years. It also announced it would sell the same amount of bonds that mature in less than three years.¹²

As noted above, the total return of the Barclays Capital Municipal Bond Index for the third quarter was 3.81%. By credit rating⁶, the return of the AAA sector was 3.07%, AA was 3.70%, A was 4.44%, and BBB was 4.10%¹. In general, the outperformance of lower rated bonds (within the investment grade category) did not benefit the Fund during the quarter. In keeping with the Fund's investment strategy, we did not reach for yield at the expense of credit quality, and maintained the Fund's overall focus on issues in the higher credit rating categories.. As of September 30, the ratings breakdown of the Fund's holdings were 58.6% AAA or AA-rated, 16.4% A-rated, and 13.8% BBB rated. 11.3% of the Fund was held in other assets and liabilities.

We seek to thoroughly understand the bonds that we purchase for the Fund; for example, 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 typically depend upon appropriations and have certificate of participation (COP) structures. COPs are not voter approved and usually depend on appropriations. As for General Obligation and revenue bonds, we look for those that we deem have strong underlying credit fundamentals.

Our avoidance of appropriation debt is primarily confined to the local and county levels, whereas we view state appropriation debt differently. 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 variables.

Outlook

On August 2, after political gridlock and much debate in Congress in July, President Obama signed into law a deficit reduction plan with possible spending reductions⁸. With federal funds under a variety of grant and aid programs representing a sizable percentage of state resources, even with an improving economy, states will have to continue to trim spending.

On September 27, the U.S. Census Bureau reported that state and local government tax revenue rose 6.9% in the second quarter from a year earlier⁹. While on the surface this would appear like good news, it should be noted that this was driven primarily by a 10% jump for states benefiting from higher income-tax collections, not property or sales tax revenues.

On September 16, Jefferson County, Alabama officials announced an agreement with bondholders to restructure more than \$3 billion of its defaulted debt¹¹. A Chapter 9 bankruptcy filing by the county has been a cloud hanging over the market for some time. If approved by all the parties involved, the restructuring should avoid what could have been the biggest municipal bankruptcy filing in American history. The plan will eliminate \$1 billion of debt and refinance \$2 billion, ending three and a half years of controversy. It is expected that the plan will take effect by June 30, 2012. The Fund did not own any of the bonds.

As part of the package to finance President Obama's jobs bill ("American Jobs Act of 2011"), introduced on September 12, the President proposed financing the bill, in part, with a new tax on municipal bond interest. It would impact tax filers in the highest income brackets and reduce demand for municipals⁵. Additionally, the draft legislation ("Debt Reduction Act of 2011") that the President sent to the congressional deficit reduction committee at the end of September has a feature⁵ that, if enacted, could increase taxes on municipal bond interest over and above what the American Jobs Act proposed should the federal budget deficit not realize its deficit reduction target as set by the Office of Management and Budget. If enacted, the bill could negatively impact tax-exempt municipal bond interest along with other deduction income. We believe that the bills will not likely be approved by Congress as proposed.

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 September 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 9/30/2011)	% Fund
State General Obligation Bonds	10.1%
Local General Obligation Bonds	14.4%
Revenue Bonds	64.3%
Special Tax	6.3%
Housing	1.4%
Education	7.3%
Water and Sewer	10.0%
Transportation	16.6%
Power	6.2%
Leasing	6.1%
Resource Recovery	0.0%
Hospital / Nursing Home / Health Care	6.2%
Industrial Revenue	4.3%
Other Assets and Liabilities	11.3%

**Top Ten Holdings⁵
(As of 9/30/2011)**

(As of 9/30/2011)	Coupon Rate	Maturity Date	% Fund
Illinois St. G.O.	5.000	01/01/2019	1.08%
Orlando & Orange Cnty. FLA Expressway Auth Rev. Ser. C	5.000	07/01/2026	0.79%
Puerto Rico Comwlth. Govt. Dev. Bk.	5.000	12/01/2014	0.76%
North Texas Twy. Auth. Dallas North. Twy Sys. Rev. Ser. C	6.000	01/01/2025	0.74%
Charleston Cnty. SC G.O.	5.000	11/01/2022	0.71%
Wake Cnty. NC G.O.	5.000	04/01/2018	0.71%
Minnesota St. Var. Purp. Ser. D G.O.	5.000	08/01/2024	0.68%
California St. Var. Purp. G.O.	6.500	04/01/2033	0.68%
Florida St.	5.000	01/01/2022	0.68%
New York St. Dorm. Auth. Lease Rev.	5.000	08/15/2021	0.67%

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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 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

3 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."

4 U.S. Bureau of Labor Statistics. "The Employment Situation – September 2011"

5 Source: National Council of State Housing Agencies, "Administration Jobs Bill Caps Municipal Bond Tax Exemption," September 13, 2011.

6 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.

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

8 Source: National Council of State Housing Agencies, "Administration Jobs Bill Caps Municipal Bond Tax Exemption," September 13, 2011.

9 Source: U.S. Census Bureau "Quarterly Summary of State & Local Taxes," September 27, 2011.

10 Source: The Bond Buyer. September 16, 2011.

11 Source: The Bond Buyer. September 14, 2011.

12 Bloomberg World Indices