

# Parnassus Equity Income Fund<sup>SM</sup>

## First Quarter 2010

All information, unless otherwise indicated, is as of 3/31/2010

### Firm Overview

Parnassus Investments® is an independent and employee-owned investment management company based in San Francisco, CA. The firm seeks to invest in good businesses that have increasingly relevant products or services, sustainable competitive advantages, quality management teams and ethical business practices. Founded in 1984, we believe the most attractive opportunities for investments are when companies with good business fundamentals become temporarily undervalued.

Total Assets Under Management: \$3.8 billion

### Investment Philosophy

Our investment philosophy is to own good businesses at reasonable prices. We believe that fundamental research combined with macroeconomic analysis is the most effective way to identify attractive investments over a three-year investment horizon.

### Objective

Capital appreciation and current income

### Strategy

We invest principally in equity securities of larger capitalization companies, including common and preferred stocks and convertible bonds. At least 75% of the Fund's total assets will normally be invested in equity securities that pay interest or dividends. The remaining 25% may be invested in non-dividend-paying equity securities.

### Risks

The Fund's share price may change daily based on the value of its security holdings. Stock markets can be volatile, and stock values fluctuate in response to the asset levels of individual companies and in response to general domestic and international market and economic conditions. In addition to large-cap companies, the Fund may invest in small and/or mid-cap companies, which can be more volatile than large-cap firms. Security holdings in the fund can vary significantly from broad market indexes.

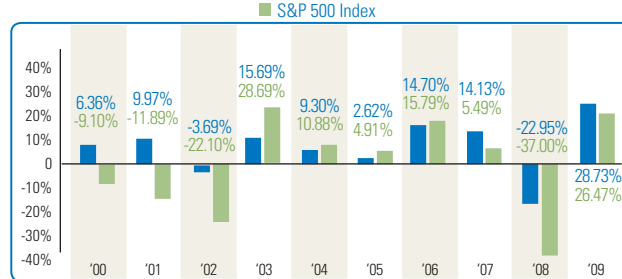
### Total Returns

As of 3/31/2010	3 Mo.	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 8/31/92	Since Inception 4/28/06	Gross Expense Ratio <sup>(a)</sup>	Net Expense Ratio <sup>(a)</sup>
Parnassus Equity Income Fund - Investor Shares	3.87%	3.87%	50.15%	4.35%	7.03%	6.09%	10.08%	NA	1.02	1.01
Parnassus Equity Income Fund - Institutional Shares	3.88%	3.88%	50.32%	4.57%	7.21%	6.18%	NA	6.33%	0.81	0.80
S&P 500 Index	5.39%	5.39%	49.77%	-4.17%	1.92%	-0.65%	8.18%	-0.74%	NA	NA
Russell 1000 Index	5.70%	5.70%	51.60%	-3.98%	2.31%	-0.36%	8.40%	-0.56%	NA	NA

All returns greater than one year are annualized.

<sup>(a)</sup> Expense ratios include gross expenses and expenses net of contractual waivers as described in the Fund's current prospectus dated May 1, 2009. Parnassus Investments is contractually obliged to limit the total operating expenses to 0.99% and 0.78% through May 1, 2010, for the Parnassus Equity Income Fund - Investor Shares and Parnassus Equity Income Fund - Institutional Shares respectively, exclusive of acquired fund fees. Performance shown prior to April 28, 2006 (the inception of the Institutional Shares), reflects the performance of the Parnassus Equity Income Fund - Investor Shares and includes expenses that are not applicable to and are higher than those of the Institutional Shares.

### Annual Returns



### Ten Largest Holdings<sup>2</sup>

Qualcomm Inc. ....	5.7%
Waste Management Inc. ....	5.1%
Proctor & Gamble Co. ....	5.0%
Microsoft Corp. ....	4.8%
Johnson & Johnson. ....	4.5%
Bank of New York Mellon Corp. ....	4.3%
Teleflex Inc. ....	3.9%
Accenture Inc. ....	3.8%
Applied Materials. ....	3.5%
Energen Corp. ....	3.4%
<b>Total</b> .....	<b>44.0%</b>

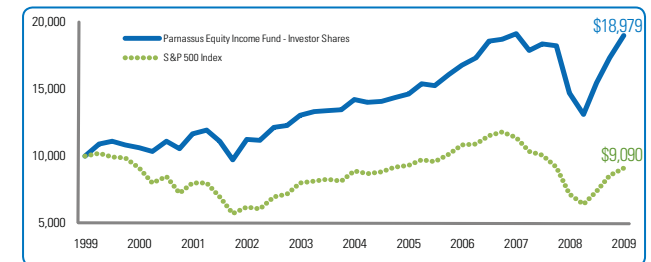
<sup>1</sup>The chart shows the growth of a hypothetical \$10,000 investment over the last 10 years and does not reflect the deduction of taxes a shareholder would pay on fund distributions or the redemption of fund shares. The performance of Institutional Shares will differ from that shown for the Investor Shares to the extent that the Shares do not have the same expenses or inception date.

<sup>2</sup>Percent based on total net assets as of date indicated.

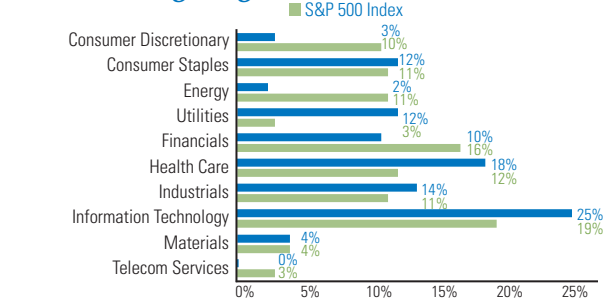
<sup>3</sup>Excluding cash and cash equivalents.

Performance data quoted represent past performance and are no guarantee of future returns. Current performance may be lower or higher than the performance data quoted, and most recent month end performance is available on the Parnassus Investments website ([www.parnassus.com](http://www.parnassus.com)). Investment return and principal will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original principal cost. The Standard

### Annual Growth of \$10,000<sup>1</sup>



### Sector Weightings<sup>3</sup>



& Poor's 500 Composite Stock Price Index (the S&P 500 Index) and the Russell 1000 Index are widely recognized indexes of common stock prices. An individual cannot invest directly in an index. An index reflects no deductions for fees, expenses or taxes. Prior to March 31, 1998, the Parnassus Equity Income Fund was a balanced fund. The Investor Shares and Institutional Shares do not reflect the declaration of taxes a shareholder would pay on the fund distributions or the redemption of fund shares.

**Before investing, an investor should carefully consider the investment objectives, risks, charges and expenses of the fund and should carefully read the prospectus, which contains this information. A prospectus can be obtained on the website, [www.parnassus.com](http://www.parnassus.com), or by calling (800) 999-3505.**

# Parnassus Equity Income Fund

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### Portfolio Manager Commentary

The Fund's one-, three-, five-, and ten-year returns beat both the S&P 500 Index and Lipper average for all periods. The past 10 years included the dotcom bust, a financial crisis and the "Great Recession." In spite of all this, the Fund generated an average annual return of 6.09% over the last decade. Conversely, the S&P 500 Index lost 0.65% per year during this time.

We started 2010 with a 3.87% gain for the quarter, but still lagged the S&P 500 Index by 1.52%. The biggest factor reducing performance was our technology stocks, which lowered the Fund's return by 0.9% versus the Index. This is surprising, because the Fund owns a collection of great technology businesses, such as QUALCOMM, Microsoft and Applied Materials, which reported improved prospects during the first quarter. Unfortunately, they still ended up underperforming their peers. We're still hanging on to them because they're great companies, and we think they'll move higher this year.

The Fund was fortunate to have only one stock that meaningfully declined during the first quarter. Houston-based oil and gas producer W&T Offshore fell 28.2% during the quarter to \$8.40 from \$11.70, trimming the Fund's NAV by 10¢. W&T's stock dropped because it announced that 2010 oil and gas production could fall 20-30% from last year. One reason for this is that the company didn't drill many wells during 2009. Quite simply, drilling costs were too high in relation to energy prices. The company also experienced technical issues at its Daniel Boone platform, where production is 3,000 barrels per day less than expected.

Despite these setbacks, I remain bullish on W&T for the long-term. The company has sufficient cash for acquisitions or drilling opportunities. In addition, I think CEO Tracy Krohn does a good job of drilling wells in an environmentally responsible way. Based on his experience working on offshore rigs in the 1970s, Tracy makes sure that his workplace is as safe as possible. He states proudly that "we won't send employees to a location where I won't work myself." I was also impressed with how Mr. Krohn helped his New Orleans-based employees in the aftermath of Hurricane Katrina.

Moving to positive investments, we had five stocks that each added at least 8 cents to the Fund's NAV for the first quarter. The Fund's biggest contributor was Teleflex, a Pennsylvania-based company that sells healthcare and industrial products.

Teleflex rose 18.9% during the first quarter to \$64.07 from \$53.89, boosting the Fund's NAV by 17¢. The company's largest division, which sells catheters for applications such as vascular access, respiratory and anesthesia, is growing sales and expanding profit margins. I want to thank my Director of Research, Ben Allen, for helping me manage our Teleflex investment.

Financial services firm Bank of New York Mellon had a strong quarter, adding 10¢ to the NAV, as the stock increased 10.4% to \$30.88 per share from \$27.97. Bank of New York Mellon's trust, asset servicing and wealth management businesses are valuable segments with growing profits. In addition, Bank of New York Mellon has an enviable capital position, which the company is using to make acquisitions, including a \$2.3 billion deal announced during the quarter to buy PNC Financial's back office operations.

San Diego-based Gen-Probe, a maker of lab diagnostic testing technology, also boosted the Fund's NAV by 10¢ as its stock jumped 16.6% from \$42.90 to \$50.00 per share. The company owns important technology that helps labs test the blood supply and screen for various diseases.

For a full recap and strategy outlook please reference the March 31, 2010 Shareholder Report.

### Portfolio Manager Background

Todd Ahlsten is the Chief Investment Officer and Portfolio Manager of the Parnassus Equity Income Fund. Todd began his career at Parnassus Investments in 1994 as a research analyst after he was a Parnassus research intern during his senior year at the University of California, Berkeley. In 1998, he was promoted to Director of Research and subsequently became Portfolio Manager of the Parnassus Equity Income Fund in 2001. He became Chief Investment Officer in 2008. Todd received his bachelor's degree in business administration from the University of California, Berkeley Haas School of Business in 1994 with an emphasis in finance and accounting.

### Fund Facts

	Investor Shares	Institutional Shares
Ticker	PRBLX	PRILX
CUSIP	701769101	701769408
Minimum Investment	\$2,000	\$100,000
Gross Expense Ratio	1.02%	0.81%
Net Expense Ratio	1.01%	0.80%
Inception Date	8/31/1992	4/28/2006

Fund Manager Since May 2001	Todd C. Ahlsten
Lipper Category	Equity Income
Morningstar Category	Large Blend
Distribution Frequency	Quarterly
Total Net Assets	\$2,925.2MM

\*Expenses based on total net assets, net of reimbursement.

### Fund Characteristics

	Fund	S&P 500 Index
Ave Weighted Mkt Cap (\$Bn)	\$55.0	\$81.6
P/E Ratio	20.0x	25.5x
P/B Ratio	2.6x	2.2x
Number of Holdings	38	500
Portfolio Turnover (2009 Annual)	60.2%	NA
30 Day SEC Yield	1.19%	1.79%

### Fund Statistics (3 year)

	Fund	S&P 500 Index
Alpha	7.96%	0.00
Beta	0.84	1.00
R-Squared	0.93	1.00
Sharpe Ratio	0.14	-0.30
Standard Deviation	17.84%	20.37%
Downside Risk	13.31%	15.94%
Tracking Error	5.68%	NA

**Average Weighted Market Cap** is the average capitalization of all stocks in the portfolio, weighted by each holding's size in the portfolio. **Price/Earnings (P/E) Ratio** is a ratio of a stock's current price to its per-share earnings over the past 12 months (or "trailing" 12 months). **Price/Book (P/B) Ratio** is the ratio of a stock's latest closing price divided by its book value per share. **Alpha** is a measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of a mutual fund and compares its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark index is a fund's alpha. **Beta** is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. A beta of 1.00 means that the share price moves exactly in line with the market. A beta over 1.00 suggests that

the share price will typically be more volatile than the market, and conversely, a beta below 1.00 indicates that the share price will typically be less volatile than the market. **R-Squared** is a measurement of how closely the portfolio's performance correlates with the performance of a benchmark index such as the S&P 500 Index. **Standard Deviation** is a calculation used to measure variability (risk) of a portfolio's performance. **Sharpe Ratio** is a ratio used to measure risk-adjusted performance. It is calculated by subtracting the risk-free rate from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns. **Downside Risk** is a statistical measurement of a portfolio's dispersion below the mean return of a benchmark. **Tracking Error** is the standard deviation of the difference between the portfolio return and the desired investment benchmark return.

## PARNASSUS INVESTMENTS

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