

# Parnassus Fixed-Income Fund<sup>SM</sup>

## First Quarter 2010

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

### Firm Overview

Parnassus Investments<sup>®</sup> 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 dictates that fundamental research combined with macroeconomic analysis is the most effective way to construct a consistent investment grade fixed-income portfolio. With a well defined securities universe and stringent risk management procedures we seek safety and principal preservation with a goal of current income.

### Objective

Current income and capital appreciation

### Strategy

We invest principally in investment-grade debt securities including U.S. government obligations, corporate bonds and convertible bonds. Under normal circumstances, we expect to maintain an overall dollar weighted average effective duration comparable to the benchmark. We actively invest at least 65% of the Fund's total net assets in fixed-income securities rated "A" or better by Moody's Investor Services, Inc. or Standard & Poor's Rating Group, and at least 80% in fixed-income securities with investment-grade ratings (i.e., rated at least BBB- or Baa3 or better).

### Risks

Bond fund values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. In general, when interest rates rise, bond fund values fall and investors may lose principal value.

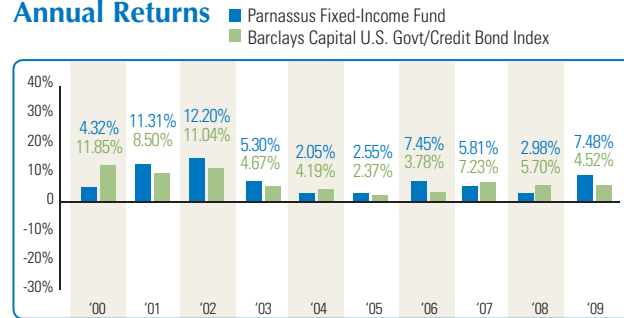
### Total Returns

As of 3/31/2010	3 Mo.	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 8/31/92	Gross Expense Ratio <sup>(a)</sup>	Net Expense Ratio <sup>(a)</sup>
Parnassus Fixed-Income Fund	2.06%	2.06%	9.90%	5.86%	5.57%	6.18%	6.04%	0.90	0.77
Barclays Capital U.S. Govt/Credit Bond Index	1.55%	1.55%	7.51%	5.84%	5.17%	6.22%	6.34%	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 0.87% through May 1, 2010, for the Parnassus Fixed-Income Fund, exclusive of acquired fund fees.

### Annual Returns



### Maturity Diversification

Years to Maturity	Parnassus Fixed-Income Fund	Barclays Capital U.S. Govt/Credit Bond Index
0 - 5 Years	42.0%	54.9%
5 - 10 Years	40.9%	28.7%
Over 10 Years	17.1%	16.4%

### Quality Ratings<sup>1</sup>

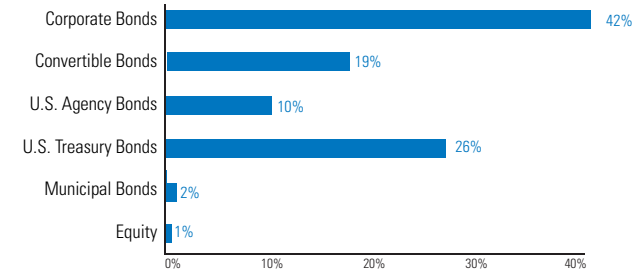
U.S. Gov't/Agency & AAA	37.6%
AA	7.2%
A	24.7%
BBB	18.5%
BB	5.6%
B	2.5%
Below B	0.0%
Not Rated/Unavailable	3.9%
<b>Average Credit Quality</b>	<b>A</b>

<sup>1</sup>The Fund's credit quality ratings are compiled from Moody's Investor Services and Standard & Poor's.

<sup>2</sup>Percent of long-term net assets

Performance data quoted represents 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 Barclays Capital U.S. Government/Credit Bond Index is a widely recognized index of fixed-income security prices. An individual cannot invest

### Portfolio Composition<sup>2</sup>



directly in an index. An index reflects no deductions for fees, expenses or taxes. Returns shown for the fund 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.**

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### Portfolio Manager Commentary

This first quarter represented a volatile beginning of the year for investors. The equity market started out by dropping 7% through early February, before surging more than 12% to finish the quarter up 5.4%. Treasury yields followed a similar wild pattern. While the 10-year benchmark yield ended the quarter mostly unchanged at 3.83%, the intra-quarter swings were nerve-racking. The yield on the 10-year Treasury swung from a low of 3.53% to a high of 3.92%.

Credit concerns over Greece's sovereign debt and rising political and regulatory risk for U.S. financial institutions kept investors nervous in the first half of the quarter. Sentiment quickly turned positive, as corporate earnings results for the fourth quarter of 2009 came in higher than investors' expectations. Reported revenues for the S&P 500 were on average 2.6% higher than expected, while earnings were 9.0% stronger than consensus expectations. These strong results gave investors confidence in owning risky assets and reduced the perceived risk of corporate bonds. As such, corporate bonds performed well during the quarter, with a gain of 2.3%, according to the Barclays Capital Credit Bond Index.

The Fund performed better than the Barclays Capital U.S. Government Bond Index during the quarter. Within the benchmark, corporate bonds returned 2.3%, compared to a gain of 1.1% for government bonds. Compared to the benchmark, the Fund has a larger weighting in corporate and convertible bonds than in government bonds. Therefore, the Fund's relative outperformance was due to it being overweighted in the higher returning corporate and convertible bonds. Our investments in corporate and convertible bonds added a total of 28 cents to the NAV, while the investments in government bonds contributed only 7 cents to the NAV.

For the quarter, the Fund trailed the Lipper Corporate Debt A-Rated average by 35 basis points. The main reason is that the Fund doesn't have investments in commercial mortgage-backed securities (CMBS). The latter returned more than 9% during the quarter, according to the Barclays Capital CMBS Index. While the Fund is not restricted from investing in securitized products, such as CMBS, I think that their current valuation is too expensive given the weak fundamentals of the commercial real estate market. The latest report from Realpoint, a leading provider of credit analysis and rating of CMBS, showed that delinquency rates

hit an all-time high of 6% in March. Also, the overall delinquent unpaid balance for CMBS has almost quadrupled from a year ago. More importantly, the delinquency rate is projected to increase to between 8% and 9% through mid-2010 and potentially surpass 12% by the end of 2010.

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

### Portfolio Manager Background

Minh T. Bui is Portfolio Manager of the Parnassus Fixed-Income Fund and a senior research analyst. He joined Parnassus Investments as a research analyst in 2005 and was a Parnassus research intern. His previous experience includes work at Lombard Odier & Cie, a private bank in Geneva, and at Merriman, Curhan Ford & Co. an investment firm in San Francisco. Minh received his bachelor's degree in business administration from the University of Lausanne, Switzerland and his master's degree in business administration from Golden Gate University.

### Fund Facts

Ticker	PRFIX
CUSIP	701769200
Minimum Investment	\$2,000
Gross Expense Ratio	0.90%
Net Expense Ratio	0.77%
Inception Date	8/31/1992
Fund Manager Since May 2008	Minh T. Bui
Lipper Category	Corporate Debt A-Rated
Morningstar Category	Intermediate Corporate Bond
Distribution Frequency	Monthly
Total Net Assets	\$149.7MM
*Expenses based on total net assets, net of reimbursement.	

### Fund Characteristics

	Fund	Barclays Capital U.S. Govt/Credit Bond Index
Number of Holdings	59	4,250
Portfolio Turnover (2009 Annual)	46.2%	NA
30 Day SEC Yield	2.32%	NA
Average Credit Quality	A	A
Average Coupon	3.84	4.16
Average Maturity (Years)	7.78	7.50
Average Duration (Years)	5.87	5.29

### Fund Statistics (3 year)

	Fund	Barclays Capital U.S. Govt/Credit Bond Index
Alpha	1.91%	0.00
Beta	0.67	1.00
R-Squared	0.87	1.00
Sharpe Ratio	1.10	0.79
Standard Deviation	3.73%	5.19%
Downside Risk	1.81%	2.66%
Tracking Error	2.19%	NA

**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 Lehman Aggregate Bond 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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