

Parnassus Mid-Cap FundSM

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

Strategy

We invest principally in equity securities of medium-capitalization companies with market capitalization between \$3 billion and \$20 billion at the time of initial purchase. We seek to invest in established companies with good businesses that are still developing and have attractive valuations.

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. Security holdings in the fund can vary significantly from broad market indexes.

The Fund invests in the stocks of mid-cap companies, which are generally riskier than larger companies, and the Fund's share price may be more volatile than funds that invest in larger companies.

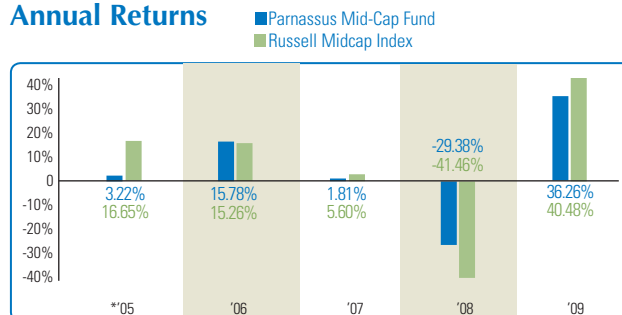
Total Returns

As of 3/31/2010	3 Mo.	YTD	1 Year	3 Year	5 Year	Since Inception 4/29/05	Gross Expense Ratio ^(a)	Net Expense Ratio ^(a)
Parnassus Mid-Cap Fund	6.02%	6.02%	56.75%	0.91%	NA	4.49%	2.26	1.21
Russell Midcap Index	8.67%	8.67%	67.71%	-3.30%	NA	4.96%	NA	NA

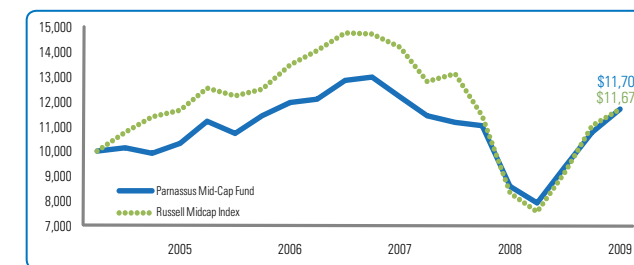
All returns greater than one year are annualized.

^(a) 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 1.20% through May 1, 2010, for the Parnassus Mid-Cap Fund, exclusive of acquired fund fees.

Annual Returns



Annual Growth of \$10,000¹



Ten Largest Holdings²

Waste Management Inc	4.7%
Cooper Industries.....	4.3%
Sysco Corp.....	4.1%
C.R. Bard Inc.....	4.0%
Applied Materials.....	3.7%
Hudson City Bancorp.....	3.6%
McCormick & Co.....	3.3%
Gen-Probe Inc.....	3.1%
Patterson Companies.....	3.0%
Pentair Inc.....	3.0%
Total	36.8%

¹The chart shows the growth of a hypothetical \$10,000 investment since inception and does not reflect the deduction of taxes a shareholder would pay on fund distributions or the redemption of fund shares.

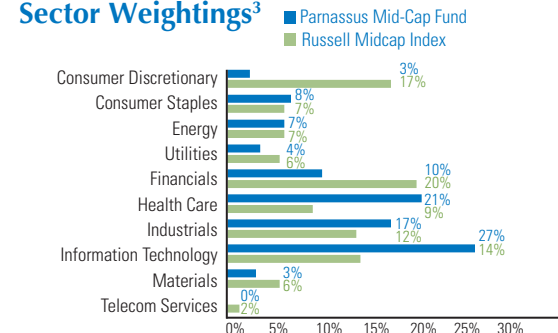
²Percent based on total net assets of date indicated.

³Excluding cash and cash equivalents.

*Data since inception on 4/29/05.

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). Investment return and principal will fluctuate, so that an investor's shares, when redeemed, may be worth more

Sector Weightings³



or less than their original principal cost. The Russell Midcap Index is a widely recognized index of common stock prices. An individual cannot invest 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, or by calling (800) 999-3505.

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Portfolio Manager Commentary

It has been difficult for us to keep pace with the Russell Midcap Index ("Russell") over the past year. An important reason is that the Fund held up much better than the Russell during the bear market of 2008 and early 2009, and therefore had less ground to recover. This is a trade-off we're willing to make because limiting losses on the downside is crucial for strong long-term performance. The benefit of this trade-off is evident in our three-year return, which averages more than four percentage points better than both the Russell and the Lipper Multi-Cap Core Average.

As usual, our performance was mostly impacted by stock selection, as opposed to sector allocation. There were five stocks that added at least 7¢ to the Fund's NAV for the first quarter. Conversely, only one stock hurt the Fund materially in the period.

Cooper Industries, a diversified industrial company with a specialty in electrical products, was the Fund's most positive contributor. The stock rose 12.4% to \$47.94 from \$42.64, adding 9¢ to the Fund's NAV. The company has a compelling long-term growth story, and the improving economy has accelerated near-term demand for Cooper products. On top of this, management has cut costs aggressively, further boosting earnings beyond investors' expectations.

Molecular diagnostics company Gen-Probe was the second largest contributor during the quarter, increasing the Fund's NAV by 8¢, as its stock jumped 16.6% from \$42.90 to \$50.00 per share. The company owns technology that helps labs test the nation's blood supply and detect numerous diseases. Investors are excited that its core blood screening business has stabilized, and that the company has many promising R&D initiatives underway. Furthermore, as a testament to its excellent cash flow generation, Gen-Probe announced a \$100 million stock buyback early in 2010.

Teleflex, a healthcare and industrial products company, soared 18.9% during the first quarter to \$64.07 from \$53.89, growing the Fund's NAV by 8¢. Investors drove shares higher after the company offered a rosy forecast for 2010 earnings. Management has done an excellent job of divesting lower margin, cyclical businesses and expanding the company's more profitable healthcare segments.

C.R. Bard, a provider of medical instruments and supplies, added 7¢ to the NAV as its stock rose 11.2% from \$77.90 to \$86.62. The stock went up when the company reported strong revenue results due to increased demand for its surgical and oncology products. Earnings were also aided by aggressive cost-cutting programs.

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

Portfolio Manager Background

Benjamin E. Allen, Director of Research, Portfolio Manager
Ben Allen joined Parnassus Investments in 2005. Prior to joining the firm, Ben was a financial analyst at Morgan Stanley's investment banking division before moving into the firm's venture capital group. He received a bachelor's degree in government from Georgetown University and a master's degree in business administration from the University of California, Berkeley.

Matthew D. Gershuny, Portfolio Manager
Matthew Gershuny joined Parnassus Investments in 2006. Prior to joining the firm, he was Vice President of Equity Research at Cowen and Company; formerly SG Cowen Securities Corporation. Prior to that, he held various equity research and asset management positions at UBS Securities. Mr. Gershuny received his bachelor's degree in philosophy from Cornell University and his master's degree in business administration from the University of Michigan.

Lori A. Keith, Portfolio Manager
Lori Keith joined Parnassus Investments in 2005. Prior to joining the firm, she was Vice President of Investment Banking at Deloitte & Touche Corporate Finance LLC and was a senior associate at Robertson Stephens & Company's investment banking division. Lori received her bachelor's degree in Economics from the University of California, Los Angeles and her master's degree in business administration from Harvard Business School.

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 Russell Midcap 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.

Fund Facts

Ticker	PARMX
CUSIP	701765885
Minimum Investment	\$2,000
Gross Expense Ratio	2.26%
Net Expense Ratio	1.21%
Inception Date	4/29/2005
Co-Managers Since October 2008	Benjamin E. Allen Matthew D. Gershuny Lori A. Keith
Lipper Category	Multi-Cap Core
Morningstar Category	Mid-Cap Growth
Distribution Frequency	Annually
Total Net Assets	\$27.1MM

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

Fund Characteristics

	Fund	Russell Midcap Index
Ave Weighted Mkt Cap (\$Bn)	\$10.8	\$6.8
P/E Ratio	29.2	42.3x
P/B Ratio	2.9x	2.0x
Number of Holdings	45	766
Portfolio Turnover (2009 Annual)	40.1%	NA

Fund Statistics (3 year)

	Fund	Russell Midcap Index
Alpha	3.42%	0.00
Beta	0.82	1.00
R-Squared	0.90	1.00
Sharpe Ratio	-0.04	-0.21
Standard Deviation	21.52%	25.07%
Downside Risk	16.23%	19.15%
Tracking Error	8.14%	NA

PARNASSUS INVESTMENTS

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