

Parnassus Small-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 small-capitalization companies with market capitalizations under \$3 billion at the time of initial purchase. We believe that investing in undervalued small-capitalization companies will provide long term capital appreciation.

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 smaller 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

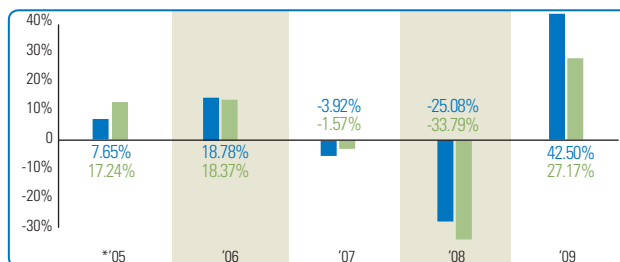
As of 3/31/2010	3 Mo.	YTD	1 Year	3 Year	5 Year	Since Inception 4/29/05	Gross Expense Ratio ^(a)	Net Expense Ratio ^(a)
Parnassus Small-Cap Fund	11.61%	11.61%	69.51%	4.55%	NA	8.05%	1.88	1.21
Russell 2000 Index	8.85%	8.85%	62.76%	-3.99%	NA	4.66%	NA	NA

All returns greater than one year are annualized.

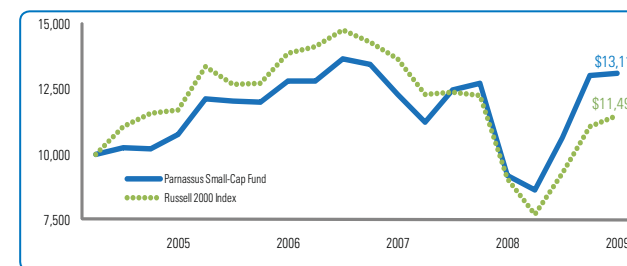
^(a) Expense ratios include gross expenses and expenses net of contractual waivers as described in the Fund's current prospectus dated May 1, 2009. Parnassus Investments is contractually obliged to limit the total operating expenses to 1.20% through May 1, 2010, for the Parnassus Small-Cap Fund, exclusive of acquired fund fees.

Annual Returns

■ Parnassus Small-Cap Fund
■ Russell 2000 Index



Growth of \$10,000¹



Ten Largest Holdings²

Administaff Inc.	4.9%
Bridgepoint Educ Inc.	4.4%
CIENA Corp.	4.3%
Mariner Energy Inc.	3.6%
Tower Group Inc.	3.6%
Quicksilver Res Inc.	3.4%
Teleflex Inc.	3.2%
NorthWestern Corp.	3.2%
Toll Brothers Inc.	3.1%
VeriSign Inc.	3.1%
Total	36.8%

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

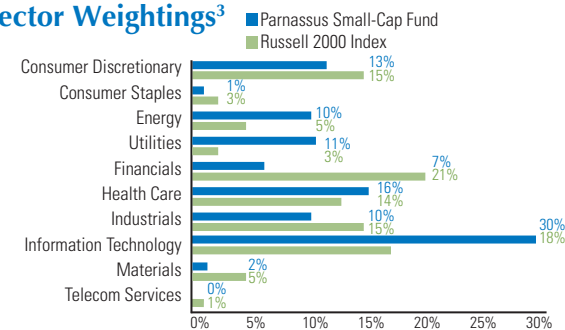
²Percent based on total net assets of date indicated.

³Excluding cash and cash equivalents.

⁴Data since inception on 4/29/05.

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). Investment return and principal will fluctuate, so that an investor's shares,

Sector Weightings³



when redeemed, may be worth more or less than their original principal cost. The Russell 2000 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.

Parnassus Small-Cap Fund

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Portfolio Manager Commentary

The Fund is substantially ahead of all the benchmarks for all time periods. Especially noteworthy is the three-year period with the Fund gaining an average of 4.55% per year compared to an average annual loss of 3.99% for the Russell 2000 Index. Over that time period, the Fund has gained an average of more than eight percentage points per year over the index.

Four companies contributed the most to our strong performance during the quarter, with each one adding 18¢ or more to the NAV. Only one company had a major negative impact on the Fund, and that was W&T Offshore, an independent oil and gas exploration company. Its stock dropped 28.2% from \$11.70 to \$8.40, slicing 21¢ off the NAV. While the company reported improved profitability, management lowered expectations for revenue growth in 2010 because of weak natural gas prices and ramp-up delays with one of its deep-water projects. W&T has strong liquidity, so it should be able to make acquisitions at bargain prices and increase revenue and production when natural gas prices rebound. For these reasons, we'll continue to hold the stock.

The stock helping us the most was Bridgepoint Education, a for-profit college with mostly on-line courses, which added 42¢ to the NAV, soaring from \$15.02 to \$24.58 for a gain of 63.7%. For 2009, the company had revenue growth of 108%, and management indicated that revenue growth would continue to be strong in 2010.

Finisar provides fiber optic subsystems and network performance test systems for use in telecommunications. Its stock rocketed up 76.1% during the quarter from \$8.92 to \$15.71 for a contribution of 32¢ to each fund share. Sales of all its optical products have been strong, but the driving force behind the stock has been sales of ROADM, a device that allows telecommunication firms to reconfigure optical networks remotely to allow for changes in wavelengths and power needs.

Increasing use of on-line transmissions (caused by more use of smart phones, high-speed internet and video) means more demand for equipment used in fiber optic networks, and this has helped not only Finisar, but also Ciena. The latter's stock soared 40.6% during the quarter from \$10.84 to \$15.24

for a gain of 30¢ on the NAV. Ciena recently acquired the optical equipment assets of Nortel Networks, the Canadian telecommunications company that went bankrupt last year. The acquisition will give Ciena increased market share, economies of scale and a dominant position in the market for telecommunications equipment and Ethernet components. The company reported that sales trends were improving for all optical equipment.

Terra Industries, a leading producer of nitrogen fertilizer, had an increase of 26.3% in its stock price, as it rose from \$32.19 at the start of the quarter to \$40.66, where we sold it for an increase of 18¢ for each fund share. Terra's stock price moved higher because of a bidding war between fertilizer companies CF Holdings and Yara International of Norway, with CF ultimately acquiring the company. Terra's earnings were headed higher because of increased demand for nitrogen fertilizer and lower prices for the natural gas used in producing the fertilizer.

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

Portfolio Manager Background

Jerome L. Dodson founded Parnassus Investments in 1984. He is the President of Parnassus Investments and Portfolio Manager of the Parnassus Fund, Parnassus Small-Cap Fund, and Parnassus Workplace Fund. Prior to founding Parnassus Investments he served as President and Chief Executive Officer of Continental Savings of America from 1976 to 1982 where he started the "Solar T-Bill" program to finance solar energy installations and also developed innovative programs to finance low and moderate income housing. Mr. Dodson received his bachelor's degree in political science from the University of California, Berkeley and received his master's degree in business administration from Harvard Business School.

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 2000 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	PARSX
CUSIP	701765877
Minimum Investment	\$2,000
Gross Expense Ratio	1.88%
Net Expense Ratio	1.21%
Inception Date	4/29/2005

Fund Manager Since April 2005	Jerome L. Dodson
Lipper Category	Small-Cap Value
Morningstar Category	Small Blend
Distribution Frequency	Annually
Total Net Assets	\$177.9MM

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

Fund Characteristics

	Fund	Russell 2000 Index
Ave Weighted Mkt Cap (\$Bn)	\$1.8	\$1.1
P/E Ratio	26.2x	42.4x
P/B Ratio	2.1x	1.8x
Number of Holdings	46	2000
Portfolio Turnover (2009 Annual)	46.0%	NA

Fund Statistics (3 year)

	Fund	Russell 2000 Index
Alpha	9.52%	0.00
Beta	1.03	1.00
R-Squared	0.87	1.00
Sharpe Ratio	0.10	-0.23
Standard Deviation	28.53%	25.84%
Downside Risk	18.57%	19.89%
Tracking Error	10.37%	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

PARNASSUS INVESTMENTS

1 Market Street, Suite 1600
San Francisco, CA 94105
www.parnassus.com
(800) 999-3505