

Parnassus Equity Income FundSM

First Quarter 2012

All information, unless otherwise indicated, is as of 3/31/2012

Firm Overview

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

Total Assets Under Management: \$6.1 billion

Investment Philosophy

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

Objective

Capital appreciation and current income

Strategy

The Fund is diversified, fundamental, U.S., large-cap, core equity fund. The Fund invests principally in undervalued equity securities of larger capitalization-companies. At least 75% of the Fund's total assets will normally be invested in equity securities that pay dividends. The remaining 25% may be invested in non-dividend-paying equity securities. The Fund also takes environmental, social and governance factors into account in making investment decisions.

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.

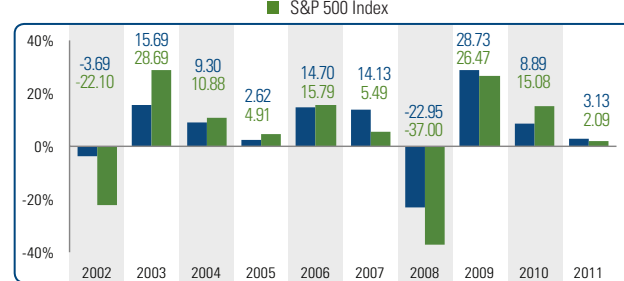
Total % Returns

As of 3/31/2012	3 Months	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 8/31/92	Since Inception 4/28/06	Gross Expense Ratio ^(a)	Net Expense Ratio ^(a)
Parnassus Equity Income Fund - Investor Shares	7.62	7.62	5.46	20.44	5.74	6.76	9.85	NA	0.99	0.99
Parnassus Equity Income Fund - Institutional Shares	7.66	7.66	5.73	20.67	5.97	6.89	NA	6.93	0.75	0.75
S&P 500 Index	12.58	12.58	8.51	23.38	2.01	4.11	8.56	3.40	NA	NA
Russell 1000 Index	12.90	12.90	7.86	24.01	2.19	4.53	8.77	3.57	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, 2011. Parnassus Investments is contractually obliged to limit the total operating expenses to 0.99% and 0.78% through May 1, 2012, 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 Holdings²

Procter & Gamble Co.	4.8%
Waste Management Inc.	4.6%
Gilead Sciences Inc.	4.6%
Teleflex Inc.	3.9%
Google Inc.	3.6%
Charles Schwab Corp.	3.4%
CVS Caremark Corp.	3.2%
Questar Corp.	3.1%
Sysco Corp.	3.1%
Target Corp.	3.1%
Total	37.4%

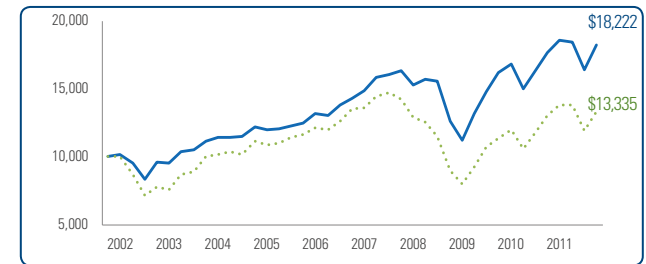
¹The chart shows the growth of a hypothetical \$10,000 investment over the last 10 years and does not reflect the deduction of taxes a shareholder would pay on fund distributions or the redemption of fund shares. The performance of Institutional Shares will differ from that shown for the Investor Shares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

²Percent based on total net assets as of date indicated.

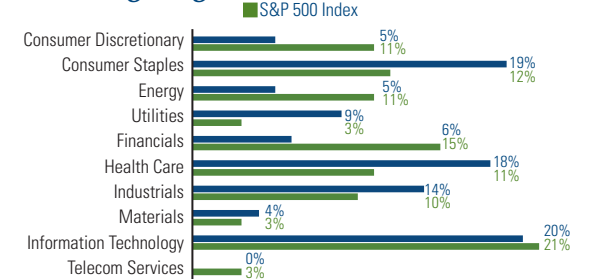
³Excluding cash and cash equivalents.

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 website (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 & Poor's 500 Composite Stock Price Index (the S&P 500 Index) and the Russell 1000 Index are

Annual Growth of \$10,000¹



Sector Weightings³



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.

The Parnassus Funds are underwritten and distributed by Parnassus Funds Distributor, a subsidiary of Parnassus Investments and a FINRA member.

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

Parnassus Equity Income Fund

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Portfolio Manager Commentary & Outlook

As of March 31, 2012, the Parnassus Equity Income Fund-Investor Shares total return after taking dividends into account, was 7.62%. This compares to a return of 12.58% for the S&P 500 Index ("S&P 500"). The biggest contributor to our underperformance during the first quarter was the technology sector, which trimmed 225 basis points (one basis point equals 0.01%) off our return relative to the S&P 500. We didn't own Apple, which jumped over 50% during the quarter and reduced our return relative to the index by an amazing 107 basis points. I've avoided Apple over the years, because of concerns that their string of hot new products would slow, and profit margins would shrink due to competition. Unfortunately, I've been wrong-Apple has done far better than I anticipated. Apple is a fantastical company, but at a market capitalization close to \$600 billion, I don't think it's currently undervalued.

There have been two significant changes to our technology investments since the last report; I sold our Hewlett Packard (HP) position and bought shares of semiconductor equipment-maker Applied Materials. My key concern regarding HP is that its printing and PC businesses face secular headwinds. On the other hand, Applied Materials has sustainable long-term competitive advantages and is undervalued due to cyclical weakness in its solar and display segments. Going forward, Applied Materials should outperform HP.

The Fund had three other sources of meaningful underperformance in the quarter. First, our cash position averaged 7%, which trimmed our return by 81 basis points versus the S&P 500. Our cash position typically ranges from 1% to 10%, and is a function of timing differences between buy and sell decisions. Second, our utility stocks reduced our return by 72 basis points versus the S&P 500. While the Fund's utility investments offer attractive long-term growth and income, they clearly weren't in favor during the first quarter, as compared to companies in higher growth sectors. Finally, the financial services sector reduced our return by 66 basis points versus the benchmark. This group performed very well last quarter, and the Fund was underweight the sector.

Neither my outlook nor my strategy has changed meaningfully since the beginning of the year. While there has been some improvement in economic data in the U.S., and the European Central Bank has acted aggressively to ease its continent's debt woes, I still think the range of outcomes for the global economy in 2012 is unusually wide. Risk management is at the core of

the Fund's strategy, so I've positioned the portfolio to limit the downside if the economy continues to grow below its potential. If the stock market keeps going up, the Fund should deliver attractive returns, even with its risk-averse posture, because our portfolio companies have terrific business prospects.

An old adage that summarizes my concerns about the economy and financial markets is "there's no such thing as a free lunch." This common-sense idea applies now because our central bank and federal government have provided a staggering amount of "free" lunches since the credit crisis erupted in late 2008. Our Federal Reserve bankers have driven down interest rates to extremely low levels, to the benefit of mortgage holders in need of refinancing and corporations that use debt to fund their operations. Meanwhile, our representatives in Washington have chalked up an unprecedented \$4 trillion in deficit spending in just the last three fiscal years. These combined actions have clearly boosted economic activity since the Great Recession ended, and most importantly, helped millions of people who have suffered through a tepid recovery.

Some of the cost of these benefits is already being borne by savers and people living on a fixed income. These groups are collecting a much lower yield on their investments as a result of the Federal Reserve's loose monetary policy. Their pain is further compounded by the fact that the prices of vital goods like food and gasoline are rising, while their incomes are shrinking.

The good news is that our Fund is full of companies that produce attractive, growing yields, and have characteristics that should protect them against inflation. I'm confident that our Fund will preserve its strong, long-term track record of risk-adjusted returns.

For a full recap and strategy outlook please reference the March 31, 2012 Shareholder Report.

Portfolio Manager Background

Todd Ahlsten is the Chief Investment Officer and Portfolio Manager of the Parnassus Equity Income Fund. He joined Parnassus Investments in 1995 as a Research Analyst and was previously a Parnassus research intern. In 1998, Mr. Ahlsten 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. Mr. Ahlsten received his bachelor's degree in business administration from the University of California, Berkeley 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	0.99%	0.75%
Net Expense Ratio	0.99%	0.75%
Inception Date	8/31/1992	4/28/2006
Fund Manager Since May 2001	Todd C. Ahlsten	
Fund Strategy	Large-Cap Core	
Lipper Category	Equity Income	
Distribution Frequency	Quarterly	
Total Net Assets	4,432.7 MM	

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

Fund Characteristics

	Fund	S&P 500 Index
Ave Weighted Mkt Cap (\$Bn)	\$43.3	\$111.5
P/E Ratio	17.4x	15.4x
P/B Ratio	2.8x	2.3x
Number of Holdings	43	500
Portfolio Turnover (2011 Annual)	63.0%	NA
SEC 30-Day Yield (Investor) ¹	1.70%	2.00%
Unsubsidized SEC 30-Day Yield (Investor) ²	1.70%	2.00%

Fund Statistics (5 year)

	Fund	S&P 500 Index
Alpha	3.84%	0.00%
Beta	0.84	1.00
R-Squared	0.93	1.00
Sharpe Ratio	0.28	0.05
Standard Deviation	16.69%	19.08%
Downside Risk	11.87%	13.87%
Tracking Error	5.37%	NA

¹The 30-Day SEC Yield is computed under an SEC standardized formula based on net income earned over the past 30 days. It is a "subsidized" yield, which means it includes contractual expense reimbursements and it would be lower without those reimbursements.

²The Unsubsidized 30-Day SEC Yield is computed under an SEC standardized formula based on net income earned over the past 30 days. It excludes contractual expense reimbursements, resulting in a lower yield.

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 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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