

# Parnassus Mid-Cap Fund<sup>SM</sup>

## 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

### Strategy

The Fund is a diversified, fundamental, U.S., mid-cap, core equity fund. The Fund invests principally in undervalued equity securities of medium-capitalization companies between \$3 billion and \$20 billion at the time of initial purchase. The Fund seeks to invest in established companies with good businesses that are still developing. 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. 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 large-cap companies, and the Fund's share price may be more volatile than funds that invest in larger companies.

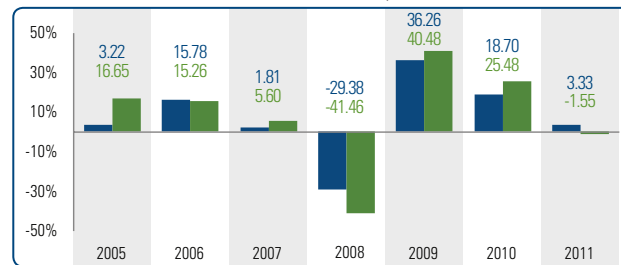
### Total % Returns

As of 3/31/2012	3 Months	YTD	1 Year	3 Year	5 Year	Since Inception 4/29/05	Gross Expense Ratio <sup>(a)</sup>	Net Expense Ratio <sup>(a)</sup>
Parnassus Mid-Cap Fund	12.38	12.38	4.91	26.78	5.96	7.16	1.46	1.20
Russell Midcap Index	12.94	12.94	3.31	29.10	3.02	7.30	NA	NA

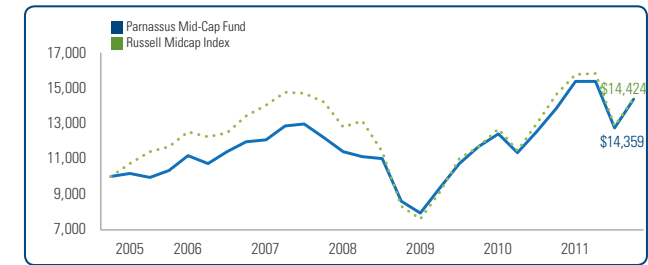
All returns greater than one year are annualized.

<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, 2011. Parnassus Investments is contractually obliged to limit the total operating expenses to 1.20% through May 1, 2012, for the Parnassus Mid-Cap Fund, exclusive of acquired fund fees.

### Annual % Returns



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



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

Waste Management Inc. ....	4.6%
Teleflex Inc. ....	4.5%
First Horizon National Corp. ....	3.5%
Sysco Corp. ....	3.3%
Insperty Inc. ....	3.3%
Questar Corp. ....	3.2%
Charles Schwab Corp. ....	3.1%
SEI Investments Co. ....	3.1%
Motorola Solutions Inc. ....	3.0%
Paychex Inc. ....	3.0%
<b>Total</b> .....	<b>34.6%</b>

<sup>1</sup>The 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.

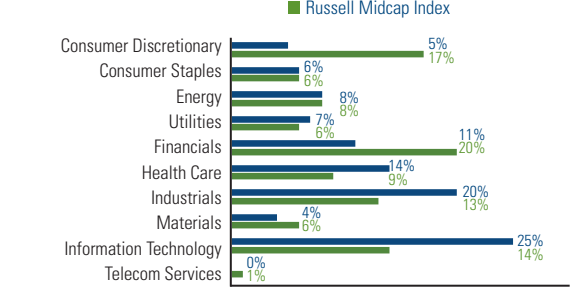
<sup>2</sup>Percent based on total net assets of date indicated.

<sup>3</sup>Excluding 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 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

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



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.

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](http://www.parnassus.com), or by calling (800) 999-3505.**

# Parnassus Mid-Cap Fund

## First Quarter 2012

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

### Portfolio Manager Commentary & Outlook

As of March 31, 2012, the Parnassus Mid-Cap Fund's total return for the quarter was a gain of 12.38%. This compares to a gain of 12.94% for the Russell Midcap Index (the "Russell"). We're pleased with the Fund's double-digit rise this quarter, even though it fell slightly behind its benchmarks.

Domestic equity markets soared in the first quarter, with all indices posting double-digit gains. This is a welcome start to the year, considering last year's market volatility and lackluster performance. Mid-cap stocks had an especially strong quarter, as the Russell rose 12.94%. Even though our return is slightly behind the Russell this quarter, we're pleased that the Fund participated to such a great extent in the rally and provided a large gain for investors. We are not too concerned with the underperformance, because the market's first quarter jump was driven by appreciation in risky assets, and the Fund's long-term strategy for outperformance is to own less risky companies, with larger market values and higher returns on capital.

The best economic news to come out of the United States this quarter was job creation. The massive government stimulus of the past few years seems to be working because the private sector is adding jobs, the unemployment rate is coming down and consumer confidence is moving higher. We're hopeful that these stabilizing trends have created enough sparks to enable the economy to stand on its own two feet, without the help of the government.

At the same time, we look at the Russell, up an amazing 159% from its March 2009 lows, and wonder if enough has changed for the market to have moved so high so fast. It seems that investors have turned a blind eye to potential market disrupting pitfalls.

Many investors aren't considering the cost of the bailout and stimulus: an escalating budget deficit and debt load. There are also the issues of moderating corporate earnings growth, potential high inflation here in the United States, slowing economic growth in China, continuing debt worries in the Euro zone and a potential military conflict involving Iran. So, while the market had a great first quarter, we don't see a smooth ride ahead. The Fund's positioning continues to be cautious, with a focus on owning quality issues that are larger, less-leveraged, and have higher returns on capital than the Russell as a whole. This

positioning is the result of our bottom-up investment process, which focuses on companies with attractive growth rates, competitive positions, management teams and valuations. These companies should do better than their peers over time regardless of the economic environment.

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

### Portfolio Manager Background

Matthew Gershuny is the lead Portfolio Manager of the Parnassus Mid-Cap Fund and a Senior Research Analyst. He joined Parnassus Investments in 2006 as a Senior Research Analyst and was previously a Parnassus research intern. Prior to joining the firm, Mr. Gershuny was a 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.

Benjamin Allen is a Portfolio Manager of the Parnassus Mid-Cap Fund and is the Director of Research. He joined Parnassus Investments in 2005 as a Senior Research Analyst and was previously a Parnassus research intern. Prior to joining the firm, Mr. Allen worked at Morgan Stanley in New York, first as an Investment Banking Analyst and later in the firm's venture capital group. Raised in Massachusetts, he is an alumnus of the Boston Latin School. Mr. Allen graduated Phi Beta Kappa, *magna cum laude* from Georgetown University with a bachelor's degree in government, and completed the general course in philosophy at the London School of Economics. Mr. Allen received his master's degree in business administration from the University of California, Berkeley.

Lori Keith is a Portfolio Manager of the Parnassus Mid-Cap Fund and a Senior Research Analyst. She joined Parnassus Investments in 2005 and was previously a Parnassus research intern. Prior to joining the firm, Ms. Keith was a Vice President of Investment Banking at Deloitte & Touche Corporate Finance LLC and was a Senior Associate in Robertson Stephens & Company's investment banking division. Prior to that, she worked in the management consulting practice at Ernst & Young. Ms. Keith 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.

### Fund Facts

Ticker	PARMX
CUSIP	701765885
Minimum Investment	\$2,000
Gross Expense Ratio	1.46%
Net Expense Ratio	1.20%
Inception Date	4/29/2005
Fund Managers Since October 2008	Matthew D. Gershuny Benjamin E. Allen Lori A. Keith
Fund Strategy	Mid-Cap Core
Lipper Category	Multi-Cap Core
Distribution Frequency	Annually
Total Net Assets	\$72.0M

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

### Fund Characteristics

	Fund	Russell Midcap Index
Ave Weighted Mkt Cap (\$Bn)	\$8.8	\$8.7
P/E Ratio	18.8x	17.9x
P/B Ratio	2.4x	2.1x
Number of Holdings	41	779
Portfolio Turnover (2011 Annual)	38.7%	NA

### Fund Statistics (5 year)

	Fund	Russell Midcap Index
Alpha	3.15%	0.00%
Beta	0.83	1.00
R-Squared	0.92	1.00
Sharpe Ratio	0.25	0.08
Standard Deviation	19.88%	22.97%
Downside Risk	14.16%	16.55%
Tracking Error	6.97%	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 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.

## PARNASSUS INVESTMENTS

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