

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., multi-cap, core equity fund. The Fund invests principally in equity securities of all capitalizations. The Fund follows a “contrarian” strategy of seeking to invest in stocks that are currently out of favor with the financial community. The Fund seeks to invest in companies with good businesses and that have attractive valuations. 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.

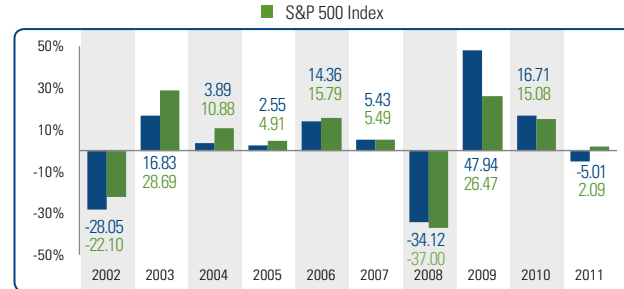
Total % Returns

As of 3/31/2012	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 12/31/84	Gross Expense Ratio ^(a)	Net Expense Ratio ^(a)
Parnassus Fund	17.54	17.54	6.37	24.97	5.82	3.46	9.43	0.97	0.97
S&P 500 Index	12.58	12.58	8.51	23.38	2.01	4.11	10.74	NA	NA

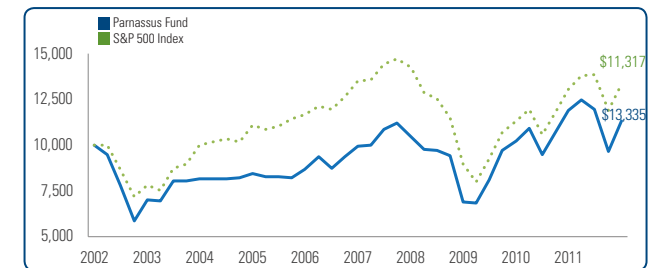
All returns greater than one year are annualized.

^(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% through May 1, 2012, for the Parnassus Fund, exclusive of acquired fund fees.

Annual % Returns



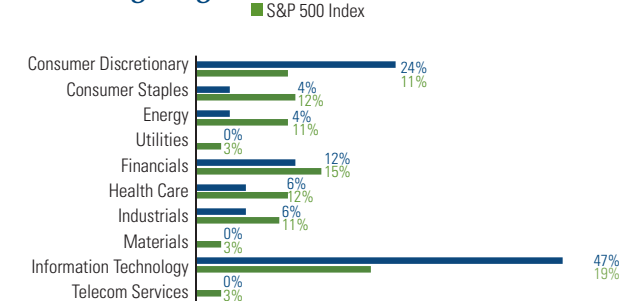
Annual Growth of \$10,000¹



Ten Largest Holdings²

Finisar Corp.	6.5%
Ciena Corp.	5.1%
Wells Fargo & Co.	5.1%
Intel Corp.	5.0%
Adobe Systems Inc.	4.2%
Gilead Sciences Inc.	4.2%
QUALCOMM Inc.	4.1%
Cisco Systems Inc.	4.1%
PulteGroup Inc.	4.1%
Lowes Cos. Inc.	4.0%
Total	46.4%

Sector Weightings³



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.

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) 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, or by calling (800) 999-3505.

Parnassus Fund

First Quarter 2012

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Portfolio Manager Commentary & Outlook

As of March 31, 2012, the Parnassus Fund's total return for the quarter was 17.54%. This compares to a return of 12.58% for the S&P 500 Index ("S&P 500"). For the quarter, the Parnassus Fund was up about five percentage points over the S&P 500. Most of our strong gains can be attributed to a "bounce-back" phenomenon.

A large portion of our positive activities depend on spontaneous optimism rather than mathematical expectations... Most of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits --- a spontaneous urge to action or inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities. --- John Maynard Keynes

I have always admired John Maynard Keynes for his keen understanding of the reality of economic activity. The above quote comes from his 1936 book, *The General Theory of Employment, Interest and Money*. In 1936, much more than today, the economy was mired in economic difficulties, and it was hard to get businesses and consumers to take economic action to pull the nation out of the slump now known as the Great Depression. Much like today, bankers were reluctant to lend, consumers were reluctant to spend, people were reluctant to buy houses and businesses were reluctant to invest. Keynes' argument was that when there weren't enough animal spirits around, the government would have to take action to prime the pump and get economic activity going again. He indicated, though, that government action was not enough, because economic growth required private economic activity to keep things moving.

We're certainly not in a depression now and we're not even in a recession, but economic activity is weak, and we're not having the robust recovery that normally follows a recession.

Normally, housing leads the economy out of a recession. When interest rates and home prices are low, people usually start buying houses. When people buy houses, construction jobs are created. When a family buys a house, they purchase a lot of other things at the same time. The purchase of these items creates more jobs, so more people are working, more people have money and they buy more things. This creates a virtuous circle.

This time, though, it's not working --- at least not to any great degree. The questions I pose to myself are: Why aren't people buying homes and all that

other stuff? Why aren't bankers lending more? Why aren't corporations using more of that money to invest? Why aren't employers hiring more of those people who are looking for work? The answer, I think, lies more in the realm of psychology than it does in the realm of finance and economics. It goes back to the animal spirits described by Lord Keynes. We've just come through a terrible economic time --- the worst since the Great Depression. This is a traumatic experience and the psychological damage has not been easy to repair. Bankers who made home loans to anyone in 2007 are now reluctant to make loans even to people who are good credit risks. Corporations want to hang onto their cash instead of investing it, because of concerns that they might not be able to sell the increased goods or services that they would produce. Even if they could qualify for a loan, many people don't want to make a financial commitment to buy a house, if they are afraid of being laid off like seven million other people were.

At some point, though, the animal spirits will return. I don't know for sure when, but I think it will be this year. For the five months from November of 2011 through March of 2012, the economy has produced an average of 200,000 net new jobs per month. This should be enough to get the economy moving again.

Even with the big first-quarter gain in the stock market, equities are trading at relatively low valuations. I think the stock market will follow the economy higher. It will not, however, be an uninterrupted move upward. I'm expecting a lot of volatility --- much more than usual.

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

Portfolio Manager Background

Jerome Dodson founded Parnassus Investments in 1984. He is the President of Parnassus Investments and the Portfolio Manager of the Parnassus Fund and the Parnassus Workplace Fund, and is a Portfolio Manager of the Parnassus Small-Cap 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 his 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 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.

Fund Facts

Ticker	PARNX
CUSIP	701765109
Minimum Investment	\$2,000
Gross Expense Ratio	0.97%
Net Expense Ratio	0.97%
Inception Date	12/31/1984

Fund Manager Since December 1984	Jerome L. Dodson
Fund Strategy	Multi-Cap Core
Lipper Category	Multi-Cap Core
Distribution Frequency	Annually
Total Net Assets	\$410.4 MM

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

Fund Characteristics

	Fund	S&P 500 Index
Ave Weighted Mkt Cap (\$Bn)	\$50.5	\$111.5
P/E Ratio	16.2x	15.4x
P/B Ratio	2.0x	2.3x
Number of Holdings	35	500
Portfolio Turnover (2011 Annual)	74.4%	NA

Fund Statistics (5 year)

	Fund	S&P 500 Index
Alpha	4.14%	0.00%
Beta	1.20	1.00
R-Squared	0.87	1.00
Sharpe Ratio	0.19	0.05
Standard Deviation	24.58%	19.08%
Downside Risk	16.38%	13.87%
Tracking Error	9.69%	NA

PARNASSUS INVESTMENTS

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