

Parnassus Small-Cap 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

Strategy

The Fund is a diversified, fundamental, U.S., small-cap, core equity fund. The Fund invests principally in undervalued equity securities of small-capitalization companies under \$3 billion at the time of initial purchase. The Fund seeks to invest in smaller 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 small-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.

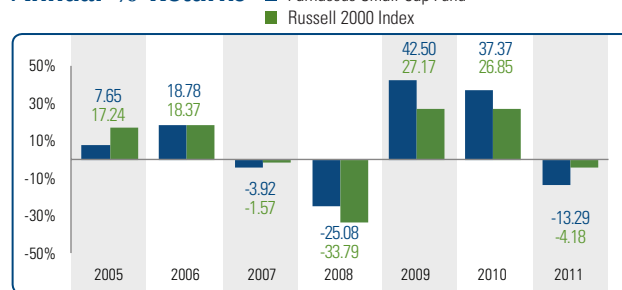
Total % Returns

As of 3/31/2012	3 Months	YTD	1 Year	3 Year	5 Year	Since Inception 4/29/05	Gross Expense Ratio ^(a)	Net Expense Ratio ^(a)
Parnassus Small-Cap Fund	16.98	16.98	-4.69	28.39	7.37	9.11	1.30	1.20
Russell 2000 Index	12.44	12.44	-0.18	26.88	2.13	6.74	NA	NA

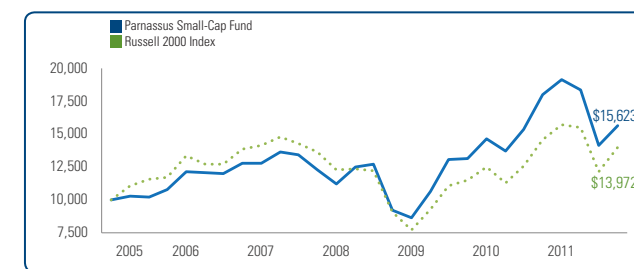
All returns greater than one year are annualized.

^(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 1.20% through May 1, 2012, for the Parnassus Small-Cap Fund, exclusive of acquired fund fees.

Annual % Returns



Growth of \$10,000¹



Ten Largest Holdings²

Finisar Corp.....	5.9%
First Horizon National Corp.....	4.4%
EZchip Semiconductor Ltd.....	3.8%
VCA Antech Inc.....	3.8%
Insperty Inc.....	3.8%
PulteGroup Inc.....	3.6%
Ciena Corp.....	3.6%
Harmonic Inc.....	3.3%
PMC-Sierra Inc.....	3.3%
Brocade Communications Systems Inc.....	3.2%
Total	38.7%

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.

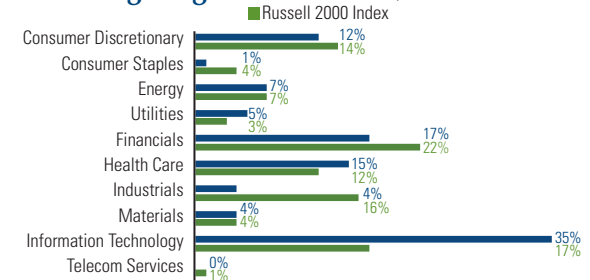
²Percent based on total net assets of date indicated.

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 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 Russell 2000

Sector Weightings³



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 Small-Cap Fund

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Portfolio Manager Commentary & Outlook

As of March 31, 2012, the Parnassus Small-Cap Fund's total return for the quarter was 16.98%. This compares to a return of 12.44% for the Russell 2000 Index ("Russell 2000") of smaller companies. The Parnassus Small-Cap Fund's strong performance marks a comeback for the Fund after a difficult year in 2011.

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. 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.

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.

Ryan Wilsey is a Portfolio Manager of the Parnassus Small-Cap Fund and a Senior Research Analyst. He joined Parnassus Investments in 2009 and was previously a Parnassus research intern. He has been a professional investor in both public and private equity since 2001. His prior experience includes work at Summit Partners, Greylack Partners and Scout Capital. Before he began his investment career, he worked at Opsware Inc., a software company that was later sold to Hewlett-Packard. Mr. Wilsey graduated Phi Beta Kappa, *summa cum laude* with a bachelor's degree in engineering from Princeton University and received his master's degree in business administration from Harvard Business School.

Fund Facts

Ticker	PARSX
CUSIP	701765877
Minimum Investment	\$2,000
Gross Expense Ratio	1.30%
Net Expense Ratio	1.20%
Inception Date	4/29/2005
Fund Manager Since April 2005	Jerome L. Dodson
Fund Manager Since May 2011	Ryan S. Wilsey
Fund Strategy	Small-Cap Core
Lipper Category	Small-Cap Core
Distribution Frequency	Annually
Total Net Assets	\$731.9MM

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

Fund Characteristics

	Fund	Russell 2000 Index
Ave Weighted Mkt Cap (\$Bn)	\$1.8	\$1.4
P/E Ratio	19.3x	17.4x
P/B Ratio	1.8x	1.8x
Number of Holdings	38	1941
Portfolio Turnover (2011 Annual)	39.5%	NA

Fund Statistics (5 year)

	Fund	Russell 2000 Index
Alpha	5.51%	0.00%
Beta	1.00	1.00
R-Squared	0.87	1.00
Sharpe Ratio	0.24	0.04
Standard Deviation	26.37%	24.68%
Downside Risk	16.78%	17.79%
Tracking Error	9.37%	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

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.

PARNASSUS INVESTMENTS

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