

PARNASSUS FUNDS®

1 Market Street | Suite 1600 | San Francisco, CA 94105 | (415) 778-0200
www.parnassus.com

Dear Shareholder:

Beginning in 2012, mutual fund companies such as Parnassus Funds will become subject to new information reporting requirements to mutual fund shareholders and the IRS with respect to taxable redemptions of mutual fund shares reported on Form 1099-B. In addition to the present law requirement to report the gross proceeds from redemptions on Form 1099-B, Parnassus Funds will also be required to report the cost basis and holding period information (indication of short-term or long-term) of fund shares redeemed on Form 1099-B. The reporting requirements of the new law will apply to fund shares acquired on or after January 1, 2012, and redeemed on and after that date. This reporting does not apply to tax-deferred or tax-exempt accounts such as IRAs or other retirement accounts.

The current law requirement to report only the gross proceeds from the redemption of mutual fund shares on Form 1099-B will continue to apply to all fund shares acquired through December 31, 2011, and redeemed on and after that date. Form 1099-B is required to be provided to the IRS and the mutual fund shareholder.

What is Cost Basis?

Cost basis is used to determine your gain or loss for tax purposes should an investment be sold. The cost basis is the purchase price of a mutual fund (or other asset) plus reinvested dividends and reinvested capital gains distributions. If an investment is sold and the market value exceeds the cost basis, then there is a realized capital gain. Conversely, if the cost basis exceeds the market value, then there is a realized capital loss. Parnassus Funds will default to Average Basis if a cost basis disposition method is not chosen.

Calculating Cost Basis

The IRS allows you to calculate cost basis using one of three methods.

Average Basis. Under this method, the shareholder must divide the total cost basis of all shares held in the account (including reinvested distributions) by the total number of shares held at the time of the sale or redemption. The holding period of the shares sold is determined on a FIFO basis. This method is most commonly used by mutual funds (including Parnassus Funds) when providing cost basis information to their shareholders.

First-in, First-out (FIFO). This method assumes that the first shares acquired were the first shares redeemed. While this method is simple to apply, it may result in the realization of larger gains if the first shares you acquired were purchased at the lowest prices. The IRS assumes FIFO is used if shares are not adequately identified at the time of the sale or exchange or another method has not been selected.

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Specific Share Identification. Under this method, the shareholder is required to specifically identify the shares sold at the time of the sale. Although this method allows shareholders to identify the shares that will yield the most favorable tax result, it may result in additional record keeping.

You're required to provide written instructions to your selling agent in advance of any redemption as to which shares are to be sold.

Once you've selected an Average Basis method for calculating the cost basis for a particular fund, you generally cannot change to another cost basis method without the approval of the IRS. However, you can select different methods for other funds you may own. For additional information on the three available methods, please refer to IRS Publication 564, *Mutual Fund Distributions*.

Cost Basis Accounting Selection

Fund Default Average Basis:

You **do not** need to complete this form if you choose to use the Fund default of Average Basis.

OR

Alternative Cost Basis Method:

(Please select one if you choose not to use the Fund default cost basis accounting method)

_____ First-in, First-out (FIFO)

_____ Specific Share Identification

Fund Account Number(s): _____, _____, _____

Name(s) on Account: _____

Signature: _____ **Date:** _____ **Telephone:** _____

Note: If there are multiple authorized account owners, only one account owner is required to sign above. However, all account owners will remain responsible for the information provided.

Please mail this completed and signed form in the enclosed return envelope, or you may fax this Cost Basis Selection Form to Shareholder Services at 415-778-0228 by December 16, 2011 or your account will default to the Average Basis accounting method. If you have any questions, please call Shareholder Services at 1-800-999-3505.