Parnassus Core Equity Fund
Ticker: Investor Shares - PRBLX
Ticker: Institutional Shares - PRILX

As of September 30, 2016, the net asset value ("NAV") of the Parnassus Core Equity Fund – Investor Shares was $39.61. After taking dividends into account, the total return for the third quarter was a gain of 4.54%. This compares to gains of 3.83% for the S&P 500 Index ("S&P 500") and 2.50% for the Lipper Equity Income Fund Average, which represents the average return of the equity income funds followed by Lipper ("Lipper average"). For the first nine months of 2016, the Fund posted a return of 8.03%, which is better than the S&P 500’s 7.80% gain, but falls short of the Lipper average return of 9.08%.

Below is a table that summarizes the performance of the Fund, the S&P 500 and the Lipper average. The returns are for the one-, three-, five- and ten-year periods ended September 30, 2016. You’ll note that on a trailing 10-year basis, our Fund is well ahead of both the S&P 500 and the Lipper average.

<table>
<thead>
<tr>
<th>Parnassus Core Equity Fund Average Annual Total Returns (%)</th>
<th>One Year</th>
<th>Three Years</th>
<th>Five Years</th>
<th>Ten Years</th>
<th>Gross Expense Ratio</th>
<th>Net Expense Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 30, 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parnassus Core Equity Fund - Investor Shares</td>
<td>13.20</td>
<td>10.55</td>
<td>16.13</td>
<td>9.66</td>
<td>0.88</td>
<td>0.87</td>
</tr>
<tr>
<td>Parnassus Core Equity Fund - Institutional Shares</td>
<td>13.41</td>
<td>10.76</td>
<td>16.33</td>
<td>9.88</td>
<td>0.67</td>
<td>0.67</td>
</tr>
<tr>
<td>S&amp;P 500 Index</td>
<td>15.38</td>
<td>11.13</td>
<td>16.33</td>
<td>7.22</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Lipper Equity Income Fund Average</td>
<td>14.09</td>
<td>7.80</td>
<td>12.99</td>
<td>6.12</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

The average annual total return for the Parnassus Core Equity Fund – Institutional Shares from commencement (April 28, 2008) was 9.80%. Performance shown prior to the inception of the Institutional Shares reflects the performance of the Investor Shares and includes expenses that are not applicable to and are higher than those of the Institutional Shares. The performance of the Institutional Shares differs from that shown for the Investor Shares to the extent that the classes do not have the same expenses. 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 current performance information to the most recent month-end is available on the Parnassus website (www.parnassus.com). Investment return and principal value will fluctuate, so an investor’s shares, when redeemed, may be worth more or less than their original principal cost. Returns shown in the table do not reflect the deduction of taxes a shareholder may pay on fund distributions or redemption of shares. The S&P 500 is an unmanaged index of common stocks, and it is not possible to invest directly in an index. Index figures do not take into account any expenses, fees or other taxes into a account, but in actual fund returns do.

As described in the Fund’s current prospectus dated May 1, 2016, Parnassus Investments has contractually agreed to limit total operating expenses to 0.87% of net assets for the Parnassus Core Equity Fund – Institutional Shares. This agreement will not be terminated prior to May 1, 2017, and may be continued indefinitely by the Adviser on a year-to-year basis. The net expense ratio is what investors pay.

Third Quarter Review
The Fund performed well during the quarter, as its 4.54% gain outpaced the S&P 500 by 71 basis points. (A basis point is 1/100th of 1%) The Fund’s sector allocations had a positive impact on performance relative to the index. The largest positive allocation effect came from having no exposure to the worst-performing sector in the benchmark: telecom services. The only allocation decision that had a meaningfully negative impact was our overweight position in consumer staples, which were down 3% on average for the quarter. During the first half of the year, we reduced our exposure to consumer staples from 19% of the portfolio to 13%, mostly due to valuation concerns. So far, this has proven to be a good decision.

While stock selection was a source of strength for us during the quarter, we still had three positions that reduced the NAV by 20 basis points or more. Wells Fargo was our biggest loser, as the stock dropped 6.4% from $47.33 to $44.28, reducing our Fund’s return by 29 basis points.

Drugstore chain CVS Health reduced the Fund’s return by 20 basis points, as the stock dropped 7.1% from $95.74 to $88.99. Despite reporting better-than-expected earnings and raising 2016 guidance, the company’s stock declined due to concerns about high drug prices. As outsized drug-price increases have come under political scrutiny, the company’s pharmacy benefit manager (PBM), Caremark, has been dragged into the discussion. We believe this concern is overblown, especially considering the fact that PBMs like Caremark help reduce costs for the healthcare system through their scale and clinical capabilities. We took advantage of the recent sell-off to buy more CVS Health shares.

Our three biggest winners each added at least 58 basis points to the Fund’s return. Applied Materials, maker of equipment used in semiconductor manufacturing, contributed 74 basis points to the Fund’s third-quarter return, as its stock surged 25.8% from $23.97 to $30.15. The company reported record-product orders and backlog in its August quarterly call. Then, in September, management outlined its long-term strategy to expand its addressable markets and to gain share from competitors. The key elements of this strategy are new transistor architecture and advanced display technologies.

Charles Schwab, the San Francisco–based bank and brokerage firm, jumped 24.7% from $25.31 to $31.57, adding 72 basis points to the Fund’s return. Expectations for higher interest rates increased in the
quarter. This boosted the stock, because higher interest rates improve Schwab’s ability to profit from its bank assets and money market funds.

Apple had a great quarter, as its stock rose 18.3% to $113.05 from $95.60 and boosted the Fund’s return by 58 basis points. The stock moved higher as signs indicated that the recent iPhone 7 launch would beat investor expectations. We continue to admire Apple’s competitive position, ability to innovate and vibrant ecosystem, so we’ve held onto the stock even as it’s moved higher.

Outlook and Strategy
The most anticipated event of the fourth quarter is the November 8th election. We’re watching the run-up to this day intently, with an eye on what the outcome could mean for stocks. Trade and tax policies are particularly relevant to the business community, and Ms. Clinton and Mr. Trump are offering significantly different plans in these areas. Given her party affiliation, a win by Ms. Clinton would probably mean continuity, for the most part, with regard to trade deals and taxes. If Mr. Trump wins, we’d likely see major changes over time to policies that impact businesses. That being said, it’s difficult to predict how these potential changes might affect stocks in the near-term.

Whatever happens on November 8th, we think the Fund is well-positioned for the long-term. We ended the quarter with 36 portfolio companies that we think have great long-term prospects and attractive valuations. One newcomer to the Fund is KLA-Tencor, a company that sells equipment to semiconductor manufacturers. More than 70% of KLA’s product orders come from logic and microprocessor customers and the rest come from memory manufacturers, including both 3D NAND and DRAM producers. About 25% of KLA’s revenue comes from high-margin services that support cash-flow generation during troughs in product cycles. Shortly after the third quarter ended, KLA announced that a previously agreed-upon merger with Lam Research was cancelled. We’re excited to see how the company performs now that its future as an independent company is certain.

We sold out of two stocks during the quarter. The first was Perrigo, a drug manufacturer specializing in over-the-counter and prescription generics. We are concerned that Perrigo’s industry could face a weak pricing environment for the foreseeable future, caused in part by an increase in competition. We also think Perrigo’s competitive advantages have eroded somewhat, especially as they pertain to new product launches. Finally, given our reduced earnings expectations, we are increasingly concerned that the company’s high debt could cause a permanent loss of capital for equity holders.

The second stock we sold was Deere, the well-known manufacturer of farm equipment. We sold the stock after a dramatic 13% price move in late August, which came on the heels of an upbeat earnings announcement. We had been waiting for a good price to exit the stock, because we had already downgraded our assessment of Deere’s business prospects.

At quarter-end, the Fund had very little exposure compared to the S&P 500 to two cyclical sectors: consumer discretionary and energy. On a combined basis, the portfolio had 9% invested in these sectors compared to 20% for the benchmark. Since both sectors tend to perform poorly in bear markets, these underweights contribute to an overall defensive posture for the Fund. Somewhat mitigating this defensiveness is the portfolio’s 15% exposure to the cyclical industrials sector, which only represents 10% of the index. Overall, we would expect the Fund to hold up relatively well if there is weakness in the fourth quarter. Given the uncertainty inherent in an election year, we certainly won’t be surprised if the market experiences some jitters over the next three months.

That said, our focus, as always, is on the long term. We think our portfolio is full of great businesses trading at reasonable valuations. This profile should yield attractive risk-adjusted returns for you over the long term.

We thank you for your confidence in us and for your investment in the Parnassus Core Equity Fund.

Todd C. Ahlsten
Lead Portfolio Manager
Benjamin E. Allen
Portfolio Manager

Mutual fund investing involves risk, and loss of principal is possible.

The Parnassus Funds are distributed by Parnassus Funds Distributor, an affiliate of Parnassus Investments and a FINRA member.

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