COMMENTARY

Fourth Quarter 2017

Parnassus Asia Fund

Ticker: Investor Shares - PAFSX
Ticker: Institutional Shares - PFPSX

As of December 31, 2017, the net asset value ("NAV") of the Parnassus Asia Fund – Investor Shares was $19.02, so the total return for the year was 20.39%. This compares to a gain of 32.04% for the MSCI AC Asia Pacific Index ("MSCI Index") and a gain of 33.60% for the Lipper Asia Pacific Region Average, which represents the average return of the Asia Pacific Region funds followed by Lipper ("Lipper average"). The Parnassus Asia Fund generated its best annual return on record last year, yet fell significantly behind its benchmarks. We underperformed by being too cautious, as our conservative investment approach kept us away from hot emerging market stocks that rose spectacularly as the Chinese government revved its economy. Given the Fund's runaway performance in 2016, we are disappointed to have backtracked in 2017. Still, we remain optimistic about the prospects for the companies in the Fund, which are carefully selected for their future upside potential.

Below is a table comparing the Parnassus Asia Fund with the MSCI Index and the Lipper average over the past one- and three-year periods, and since inception. Last year's relative underperformance has put us behind both benchmarks on a one- and three-year basis. Since inception, the Parnassus Asia Fund – Investor Shares has returned 6.86% per year, which slightly trails the 7.27% returned by the MSCI Index and slightly leads the 6.79% returned by the Lipper average.

Parnassus Asia Fund

Average Annual Total Returns (%) for period ended December 31, 2017	One Year	Three Year	Since Inception on 4/30/13	Gross Expense Ratio	Net Expense Ratio
Parnassus Asia Fund Investor Shares	20.39	6.55	6.86	3.13	1.25
Parnassus Asia Fund Institutional Shares	20.60	6.78	NA	1.10	0.96
MSCI AC Asia Pacific Index	32.04	10.94	7.27	NA	NA
Lipper Asia Pacific Region Average	33.60	10.60	6.79	NA	NA

The average annual total return for the Parnassus Asia Fund-Institutional Shares from commencement (April 30, 2015) was 4.92%. Performance shown prior to the inception of the Institutional Shares reflects the performance of the Parnassus Asia Fund-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. 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 MSCI AC Asia Pacific Index is an unmanaged index of Asian stock markets, and it is not possible to invest directly in an index. Index figures do not take any expenses, fees or taxes into account, but mutual fund returns do.

The Fund invests primarily in non-U.S. securities. Foreign markets can be more volatile than the U.S. market due to increased risks of adverse issuer, political, regulatory, market or economic developments and can perform differently from the U.S. market.

As described in the Fund's current prospectus dated May 1, 2017, Parnassus Investments has contractually agreed to limit the total operating expenses to 1.25% of net assets for the Parnassus Asia Fund-Investor Shares and to 1.22% of net assets for the Parnassus Asia Fund-Institutional Shares. This agreement will not be terminated prior to May 1, 2018, and may be continued indefinitely by the Adviser on a year-to-year basis. The net expense ratio is what investors pay.

Year in Review

The Parnassus Asia Fund – Investor Shares generated a gain of 20.39% for the year, but couldn't match the MSCI Index, which gained 32.04%. Sector allocation had an overall negative impact on our relative performance. In a year when every sector in the benchmark was up over double digits, our underweight allocations in financials and consumer staples hurt the Fund's performance.

Ten Largest Holdings
as of December 31, 2017
(percentage of total net assets)

Kakaku.com Inc.	4.6%
Gilead Sciences Inc.	4.6%
Brambles Ltd.	4.3%
QUALCOMM Inc.	4.3%
SITC International Holdings Co., Ltd.	3.9%
Rakuten Inc.	3.9%
Mattel Inc.	3.8%
Perrigo Co. plc	3.7%
Asics Corp.	3.2%
Samsung Electronics Co., Ltd.	2.9%
Total	**39.2%**

Individually, four companies reduced the Fund's return by more than 13 basis points. (A basis point is 1/100th of one percent.) ASICS's stock price sank 20.3% from $19.93 to $15.89 and reduced the Fund's return by 64 basis points. Based in Japan, ASICS is a global sportswear company that sells athletic and casual apparel and is best known for its ASICS running shoes, a trusted and preferred brand among serious runners. Amid a generally weak sporting goods market, the company suffered from inventory markdowns and heightened competition, especially from a resurgent adidas. Softer sales in the U.S. and Europe dominated the outlook in 2017, but should be offset by brisk growth in key markets such as China and Southeast Asia in 2018. We held our shares, as the stock looks excessively undervalued and could surge once promotions and inventories normalize.

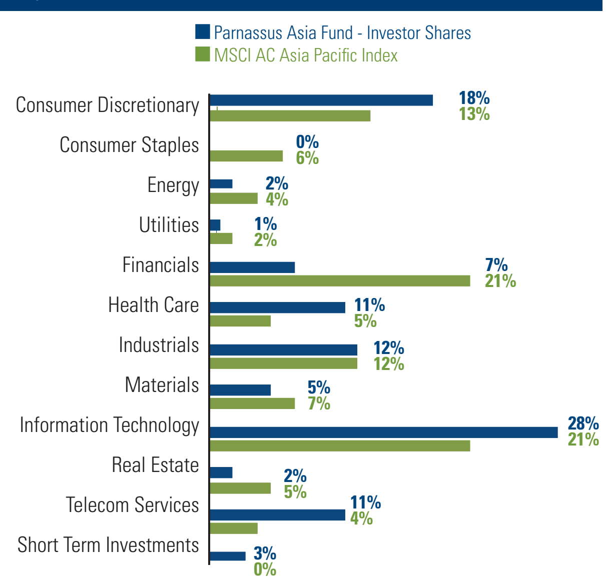
The stock of toy manufacturer Mattel, best known for its iconic brands Barbie, Hot Wheels and Fisher-Price, cut 59 basis points from the Fund's return as it dropped 10.6% from our average purchase price of $17.78 to $15.89. The shares slumped as Mattel reported declining sales and falling gross margins, which slashed earnings and forced the company to suspend its dividend. The weak performance was caused by a combination of tired brands, poor production planning and the bankruptcy of Toys"R"Us, the largest toy store chain in the country. Mattel now has a new management team in place, and we believe their plan to improve operation or sell the company at a premium will create significant upside for shareholders.

The stock price of Rakuten declined 6.7% from $9.80 to $9.14, subtracting 15 basis points from the Fund's return. Based in Japan, Rakuten is an international online shopping mall with tens of thousands of merchants; it is also a major player in online financial services, including securities brokerage and credit cards. Domestic gross merchandise sales again grew at a fast clip, and ecommerce profits rose for the first time in over a year. However, the company incurred higher costs in its card business, launched a new data-driven advertising operation and announced it would enter the mobile telecommunications business. While these investments could increase Rakuten's ecosystem value and offer earnings upside in the future, the upfront outlay worried investors, who took profits.

Brambles decreased the Fund's return by 13 basis points, as its stock price shrank 12.1% from $8.92 to $7.84. The Australia-based company is the largest global operator of pallet and reusable plastic-crate pooling services, with operations in over 50 countries around the world. Brambles significantly reduced its profit-growth forecast early in the year, citing margin pressures from competition and de-stocking issues. It also withdrew its long-term return targets, leading analysts to downgrade the stock. We still like Brambles's global scale and economic moat driven by its extensive distribution network. Despite the challenging environment, Brambles is still scoring new accounts, a good foundation for a turnaround in 2018.

Our best performing stock was Alibaba Group, which added 251 basis points to the Fund's return, as its stock price surged 96.4% from $87.81 to $172.43. Based in China, Alibaba is the world's largest online and mobile commerce company by sales volume. Its major marketplaces—Taobao, Tmall and Juhuasuan—together generated gross merchandise volume of over half a trillion dollars last year, more than Amazon and eBay combined. The company demonstrated continued sales momentum, driven by personalization efforts within core commerce and a healthy macro environment. Fast growth in Alibaba's dominant cloud business indicated brisk progress towards profitability, setting a positive precedent for the company's other investments in offline retail, digital media, mobile and advertising platforms.

Sector Weightings
as of December 31, 2017
(percentage of total net assets)



SITC International Holdings increased the Fund's return by 241 basis points, as its stock soared 62.3% from $0.61 to $0.99. The Hong Kong–based integrated shipping and logistics company has operations that span Mainland China, Japan, Southeast Asia and the rest of the world, making it the tenth-largest container-shipping operator in Asia. Both SITC's container-shipping and freight-forwarding volumes accelerated, driven by a synchronized recovery in external demand across the region. The company also continued expanding its profit margins, despite higher bunker costs, by improving load factors and controlling costs.

Samsung Electronics contributed 202 basis points to the Fund's return, as its stock climbed 60.1%, from $1,489.45 to $2,384.11. The South Korean consumer-electronics giant ranks number one in sales of mobile phones and displays worldwide and this year took number one in semiconductors, a spot occupied by Intel for 25 years. Samsung's share price rallied on positive reviews and strong pre-orders for the company's Galaxy S8 smartphone, which includes new services powered by artificial intelligence. Semiconductor profits also blew through analyst expectations due to rising prices for memory chips. The windfall overshadowed negative court rulings against company leadership and sent the stock another leg higher.

The stock price of OMRON leapt 55.6% from $38.21 to $59.47, increasing the Fund's return by 167 basis points. OMRON is a Japanese specialty manufacturer of sensing and control equipment. Their main products include factory automation devices, electronic and automotive components and blood pressure monitors. OMRON's operating profits overshot consensus forecasts by a wide margin, driven by strong growth in its industrial and automotive business to core clients. In August, the company also acquired Microscan Systems, a leading supplier of industrial code readers and smart cameras, to bolster its product lineup in machine vision. Investors applauded OMRON's positive momentum and the acquisition, since profit targets look to rise.

Outlook and Strategy

Asian stock markets surged higher in 2017. The uptrend that began in the first quarter of the year continued virtually unbroken through to the fourth quarter, with stocks in China, Korea and India leading the regional rally. Developed markets in Asia also posted healthy returns but failed to meet the torrid pace of emerging markets, so Australia and Japan were last year's relative losers. The Parnassus Asia Fund's underweight in Japan, our largest, paid off for a second year in a row. However, our above-benchmark allocations to other developed markets such as Hong Kong and the United States hurt our relative performance. As the U.S. dollar weakened, so too did the value of our U.S. dollar–linked securities. Consequently, the Fund ended the year under our benchmark, but with an otherwise respectable gain over 20%.

It was a banner year for Chinese stocks, which jumped 54.3%. To guarantee social stability ahead of a crucial leadership transition in October, the Chinese government unleashed stimulus designed to touch every corner of the economy. Though entirely stage managed, it worked. Factory and services activity, wholesale inflation, imports and housing prices hit multi-year highs, and President Xi Jinping became China's most powerful premier since Mao Zedong. Parnassus holdings Alibaba and SITC International soared, but not nearly as much as China's largest online gaming company, real-estate developers, for-profit schools or state-owned banks and insurance companies, which we avoided.

Helped by the ripple effects of China's stimulus, Korea and Japan also witnessed resurgent economies. Korea gained 47.8% in 2017, despite the impeachment of President Park on corruption charges, threats on Korean businesses by the Chinese government over plans for a U.S. missile defense system and the lingering specter of a nuclear North Korea. In Japan, years of ultra-loose monetary policy have finally revived the economy. Business conditions have reached their best levels since 1991; wage growth is starting to inch higher; and GDP is on its longest growth streak in more than a decade.

What should investors expect going forward? A key lesson from the current environment is that policy matters. Quantitative easing and low interest rates by the Federal Reserve, less regulation and lower taxes as championed by President Trump and endless stimulus from China and Japan have collectively pushed up stock valuations and debt levels to new heights. Policy manipulations such as these generally do not, however, translate into higher long-term growth or sustainable returns. True economic development comes from companies delivering goods and services in a market that people desire and can pay for—in other words, basic business fundamentals. That is why, despite a year dominated by politics, we remain committed to an investment philosophy centered on bottom-up, fundamental analysis. At some point, global policy support will wane, and carefully selected high-quality businesses such as the ones in the Fund's portfolio should continue to thrive.

Thank you for your investment in the Parnassus Asia Fund.

Yours truly,

Billy Hwan
Portfolio Manager

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

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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.