COMMENTARY

Fourth Quarter 2017

Parnassus Core Equity Fund

Ticker: Investor Shares - PRBLX
Ticker: Institutional Shares - PRILX

As of December 31, 2017, the net asset value ("NAV") of the Parnassus Core Equity Fund – Investor Shares was $42.67. After taking dividends into account, the total return for the fourth quarter was 5.52%. This compares to increases of 6.64% for the S&P 500 Index ("S&P 500") and 5.46% for the Lipper Equity Income Fund Average, which represents the average equity income funds followed by Lipper ("Lipper average"). For the year, the Parnassus Core Equity Fund – Investors Shares gained 16.58%, which was better than the 15.48% return for the Lipper average, but falls short of the 21.83% gain for the S&P 500.

Below is a table that summarizes the performances of the Parnassus Core Equity Fund, the S&P 500 and the Lipper average. The returns are for the one-, three-, five- and ten-year periods.

Parnassus Core Equity Fund Average Annual Total Returns (%) for period ended December 31, 2017	One Year	Three Years	Five Years	Ten Years	Gross Expense Ratio	Net Expense Ratio
Parnassus Core Equity Fund Investor Shares	16.58	8.58	14.45	9.70	0.87	0.87
Parnassus Core Equity Fund Institutional Shares	16.81	8.79	14.65	9.92	0.66	0.66
S&P 500 Index	21.83	11.41	15.79	8.50	NA	NA
Lipper Equity Income Fund Average	15.48	8.24	12.32	7.00	NA	NA

The average annual total return for the Parnassus Core Equity Fund--Institutional Shares from commencement (April 28, 2006) was 10.37%. Performance shown prior to the inception of the Institutional Shares reflects the performance of the Parnassus Core Equity 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, 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 any expenses, fees or taxes into account, but mutual fund returns do.The net expense ratio is what investors pay.

Year in Review

The Fund returned 16.58% for the year and trailed the S&P 500 by 5.25%. Sector allocations had a slightly negative effect on our relative performance. Our overweight position in consumer staples stocks cost us the most, as this group gained 13.3% on average during the year, far less than the Index. The most significant positive allocation effect came from our underweight in the energy sector, which posted a slight loss for the year.

Moving on to individual stocks, our biggest loser for the year was CVS Health. The stock reduced the Fund's return by 21 basis points as it dropped 8.1% from $78.91 to $72.50. (A basis point is 1/100th of one percent.) Customer losses, weakness in its retail business and concern that Amazon may enter the pharmaceutical supply chain weighed on CVS Health throughout the year. Partly to offset these headwinds, the company announced in December that it will invest $77 billion to acquire Aetna, one of the country's largest healthcare insurers. This deal will transform CVS Health into a vertically integrated healthcare company, which should enable more coordinated care and greater savings for patients and the healthcare system.

Compass Minerals, a leading provider of salt for road safety and minerals for plant nutrition, dropped 17.2% from $78.35 to our average selling price of $64.89, subtracting 19 basis points from the Fund's return. The stock fell at the beginning of the year after management issued a disappointing earnings outlook for 2017, as a warm winter reduced demand for the company's de-icing salt. Shares declined again in September when the company cut its earnings guidance due to weaker-than-expected plant nutrition volumes and a production outage at one of its salt mines. We decided to sell our shares because we were disappointed with the company's capital allocation decisions, high leverage and significant management turnover.

Sempra Energy, a San Diego, California–based utility, reduced the Fund's return by 13 basis points in 2017, as the stock fell 7.1% from our average buy price of $115.11 to $106.92. The stock declined during December, as Northern California–based utility PG&E announced the suspension of its dividend due to a large potential liability associated with the wildfires in Napa and Sonoma Counties. While none of Sempra's operations were impacted by the Northern California wildfires, the stock fell in sympathy with PG&E. During 2017, we met extensively with Sempra's management team and have been very impressed with its fire management strategy, which includes state-of-the-art weather monitoring, electric shut-off protocols, advanced camera systems, vegetation management, a high percentage of steel pole infrastructure and contracted fire crews. In addition, a large percentage of Sempra's electric infrastructure is underground, which greatly reduces fire risk. Another positive about Sempra is that it generates 43% of its electricity from renewable sources, well ahead of California's regulations. We are excited about Sempra's prospects in 2018, as they plan to close their acquisition of Texas utility Oncor during first quarter of 2018.

Tech giant Apple had a fantastic year, as the stock surged 46.1% from $115.82 to $169.23, increasing the Fund's return by 165 basis points. The stock rose early in the year after the company reported better-than-expected earnings, driven by robust demand for its iPhone 7, Mac computers and service offerings across nearly all its major sales regions. The stock moved higher over the summer as investors turned their attention to the launch of the widely anticipated 10th anniversary iPhone X. After positive reviews of the newly released iPhone X and its captivating features, such as Face ID, investors gained even greater conviction that Apple could sustain its sales momentum. We remain excited about Apple's long-term growth prospects, as it benefits from a strong product upgrade cycle, growing services business and tremendous free cash flow.

Ten Largest Holdings as of December 31, 2017 (percentage of total net assets)	
Intel Corp.	5.4%
Danaher Corp.	5.3%
Praxair Inc.	4.9%
Gilead Sciences Inc.	4.7%
The Walt Disney Co.	4.3%
Alphabet Inc., CL C / Alphabet Inc., CL A	4.3%
VF Corp.	4.0%
Wells Fargo & Co.	4.0%
Novartis AG (ADR)	3.4%
The Clorox Company	3.2%
Total	**43.5%**

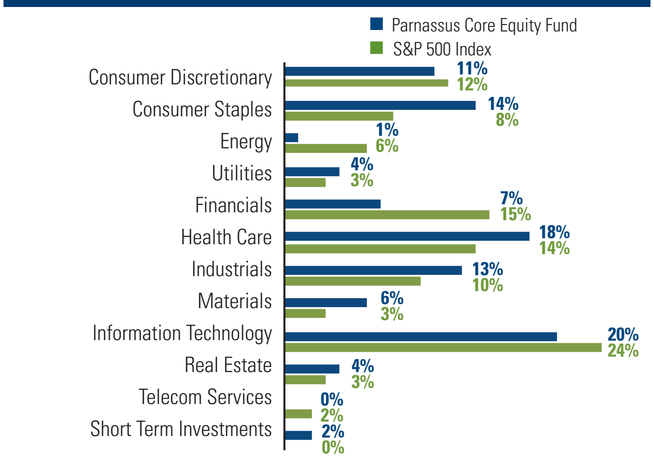
PayPal, the leading digital payments company, rose an amazing 86.5% from $39.47 to $73.62, adding 146 basis points to the Fund's return. The stock climbed steadily throughout 2017, as the company consistently delivered better-than-expected sales and earnings. The company saw meaningful improvement during the year in customer engagement, transaction volumes and pricing. Investors also gained confidence in the long-term relevancy of PayPal's platform after it announced strategic partnerships with numerous players in the payments ecosystem, including Visa, MasterCard and Facebook.

Praxair added 142 basis points to the Fund's return, as the stock rose 32.0% from $117.19 to $154.68. During the year, the company announced a merger of equals with Linde, a leading German industrial-gas company. The merger will create the world's largest industrial-gas company, with a combined market value of over $70 billion and revenue of approximately $30 billion. The new company will have more diverse and balanced end-markets and will combine Praxair's leading position in the Americas with Linde's strong presence in Europe and Asia. Additionally, each company brings complementary strengths with Praxair's operational excellence and Linde's engineering and technology leadership. The deal is expected to close in the second half of 2018.

Outlook and Strategy

Entering 2018, we feel that, while the economic cycle appears to be in the late innings, a recession doesn't seem imminent. In fact, economic growth accelerated during the second half of 2017, and signs point to continued acceleration in 2018. Geopolitics are a concern, as always, but we think these risks are best mitigated by owning companies with durable franchises. A risk more difficult to manage is the overall valuation of the stock market, a result of an unusually long bull market that began in early 2009. According to FactSet, the S&P 500 currently trades at a P/E ratio of 21X expected 2017 earnings, while the tech-heavy NASDAQ is even more expensive at 27X earnings. These multiples are significantly above historic averages.

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



While many technology companies have great long-term prospects due to potential growth in cloud computing, data analytics and connectivity, valuations for most technology companies seem excessive. As a result, the Fund is underweight the technology sector. This sector allocation decision could reduce downside risk if richly valued technology companies come back to earth in 2018.

We remain underweight the energy sector. We expect oil prices to remain low for the long term, due to increased shale oil supply and weaker hydrocarbon demand as renewable energy gains share. Our other major underweight is in the financial sector.

A major theme of our portfolio is to own companies that use technology to transform their operations, but that trade at reasonable valuations. Portfolio companies Disney, Starbucks and UPS use technology to drive efficiency, improve customer experiences and develop new growth opportunities. Another good example of this theme is Clorox, the Oakland, California–based household products company, an innovative version of its much larger competitor, Procter & Gamble.

Healthcare remains a significant overweight position in the Fund. The Fund's highest conviction healthcare investments include leaders in innovation, including Danaher, Gilead Sciences, Novartis and Hologic. The Fund is also overweight consumer staples companies that offer durable earnings growth potential. While we are closely monitoring Amazon's ability to change the competitive landscape, we think our consumer staples investments, led by Clorox and global snack company Mondelez, can grow due to strong brands and innovation. Finally, the Fund is overweight the industrials and materials sectors. Our holdings in these areas offer long-term upside due to increasing demand for infrastructure, manufacturing and logistics.

We wake up every morning expecting good things to happen to our portfolio companies, while also keeping a close eye on risks. While some of the worst risks are nearly impossible to predict and mitigate, we think a consistent stock selection process can help minimize losses in the event of an overall stock market correction. Our stock selection process has served us well over the course of multiple market cycles, and we expect the Fund to offer an attractive balance of upside participation and downside risk mitigation in the future.

As always, we thank you for your confidence and 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.

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