COMMENTARY

Fourth Quarter 2017

Parnassus Fund

Ticker: Investor Shares - PARNX
Ticker: Institutional Shares - PFPRX

As of December 31, 2017, the net asset value per share ("NAV") of the Parnassus Fund – Investor Shares was $48.27, so after taking dividends into account, the total return for the year was 16.08%. This compares to a gain of 21.83% for the S&P 500 Index ("S&P 500") and a gain of 19.50% for the Lipper Multi-Cap Core Average, which represents the average return of the multi-cap core funds followed by Lipper ("Lipper average"). Normally, we'd be pleased with an annual return of more than 16%, but this year, it doesn't look so good in comparison with our benchmarks. The market's advance was led by technology stocks that we didn't own due to their expensive valuations. Investors paid exorbitant prices for growth and left behind many of our socially responsible, competitively advantaged businesses with long track records of success. Eventually, we believe the market will come to its senses and realize that these technology stocks are overvalued, that our industry leaders are undervalued, or both.

Below is a table comparing the Parnassus Fund with the S&P 500 and the Lipper average over the past one-, three-, five- and ten-year periods. Our underperformance in 2017 pulled the Fund's return below the S&P 500 for the one-, three- and five-year periods, but we remain well ahead on the ten-year period. The Fund is trailing the Lipper average for the one-year period, but is ahead on the three-, five- and ten-year periods. We're proud of the ten-year period, where the Parnassus Fund – Investor Shares has returned 10.72% per year, compared to 8.50% for the S&P 500 and 7.14% for the Lipper average. This is 2.22% per year more than the S&P 500 and 3.58% per year more than the Lipper average.

Parnassus 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 Fund Investor Shares	16.08	9.71	15.24	10.72	0.86	0.86
Parnassus Fund Institutional Shares	16.25	9.84	15.31	10.76	0.71	0.71
S&P 500 Index	21.83	11.41	15.79	8.50	NA	NA
Lipper Multi-Cap Core Average	19.50	8.90	13.74	7.14	NA	NA

The average annual total return for the Parnassus Fund--Institutional Shares from commencement (April 30, 2015) was 9.99%. Performance shown prior to the inception of the Institutional Shares reflects the performance of the Parnassus Fund-Investor Shares and includes expenses that are not applicable to and are higher than those of the Institutional Shares. The performance of 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 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.

Company Analysis

Eight companies each contributed 80 basis points or more to the Parnassus Fund's return this year, while only three subtracted more than 30 basis points from the return. (A basis point is $1/100^{\text{th}}$ of one percent.) The stock that hurt us the most was toy manufacturer Mattel, best known for its iconic brands Barbie, Hot Wheels and Fisher-Price. Mattel's stock cut 65 basis points from the Fund's return, as it dropped 10.3% from our average purchase price of $17.15 to $15.38. The shares slumped as Mattel reported declining sales and earnings, which 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 reinvigorate the company will create significant upside for shareholders, so we added to our position as the stock sunk to its low of $13.04 in November. The stock quickly jumped off its low after press speculation that toy rival Hasbro may acquire Mattel. We believe the current stock price does not reflect the company's valuable brands, and we expect that our upside will be significant, as management either improves operations or sells the company at a premium.

Allergan, a pharmaceutical company best known for developing Botox, fell 22.1% from $210.01 to $163.58, reducing the Fund's return by 35 basis points. The stock fell after a federal judge invalidated patents covering the company's $1.5 billion dry-eye drug, Restasis, thereby enabling a generic version to come to the market. Shares declined again after Revance Therapeutics, a clinical-stage biotech company, presented data showing that its competing Botox product lasts longer than Allergan's Botox. We added to our position as the stock moved lower, because we think Allergan's aesthetics franchise remains solid despite increasing competition. The stock is also cheap, trading at just 10 times expected 2018 earnings.

Patterson Companies, a leading animal health and dental distributor, sank 11.9% from $41.03 to $36.13, lowering the Fund's return by 34 basis points. The company reported weak earnings due to sluggish dental sales caused by personnel issues and the loss of exclusivity with its largest dental manufacturing partner. The stock is now on the bargain table, and we're hopeful the newly appointed CEO, Mark Walchirk, will improve Patterson's sales execution and operating margins.

Auto insurer Progressive was the Parnassus Fund's best performer, adding 192 basis points to the Fund's return, as its shares soared 58.6% from $35.50 to $56.32. Progressive's earnings growth shifted into high gear due to the impressive combination of accelerating revenue growth and lower policy loss rates. The company is the industry leader in predictive analytics, which allows it to identify safe drivers and reward them with lower prices, while avoiding unsafe drivers who are unprofitable. A new home insurance product drove Progressive's revenue growth, as customers bundled their home and auto policies together to save money and time.

Industrial gas supplier Praxair contributed 122 basis points to the Fund's return, as the stock rose 32.0% from $117.19 to $154.68. Praxair announced a merger with Linde, a German competitor. The merger will create the world's largest industrial-gas supplier, combining Praxair's leading position in the Americas with Linde's strong presence in Europe and Asia. The combination of Praxair's operational excellence and Linde's engineering and technology leadership should accelerate earnings growth.

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

Alliance Data Systems Corp.	4.4%
Progressive Corp.	4.4%
Gilead Sciences Inc.	4.3%
Motorola Solutions Inc.	4.2%
Praxair Inc.	4.1%
IBM Corp.	3.3%
Mattel Inc.	3.3%
Mondelez International Inc., Class A	3.2%
Intel Corp.	3.2%
Pentair plc	3.0%
Total	**37.4%**

Semiconductor manufacturer Micron Technology added 94 basis points to the Parnassus Fund's return, as the stock jumped 21.3% from $21.92 to our average selling price of $26.59. Micron makes two kinds of memory chips, DRAMs (dynamic random access memory) and NAND flash memory chips. Memory chips are commodities, which are sensitive to supply-demand relationships. Memory chip prices continued their upward momentum from 2016 due to surging demand from data center servers, smartphones and Internet-connected devices, while producers were careful not to oversupply the market.

KLA-Tencor, a leading semiconductor equipment manufacturer, boosted the Fund's return by 90 basis points, as its stock rose 33.5% from $78.68 to $105.07. The stock climbed higher as healthy demand for the company's wafer inspection tools drove better-than-expected earnings results.

Alphabet, the parent of Google, added 86 basis points to the Fund's return, as its stock increased 32.9% from $792.45 to $1,053.40. The stock marched higher throughout the year, as revenue growth exceeded 20%. Mobile search, YouTube and digital advertising were the main growth drivers.

Pentair manufactures pumps, filters, valves and thermal solutions for the water and electrical markets. The company contributed 84 basis points to the Fund's return, as its stock jumped 26.0% from $56.07 to $70.62. Early in the year, investors cheered the company's plan to separate its water and electrical segments into two standalone companies. Pentair also noted signs of improvement in its markets throughout the year, supporting sales momentum into 2018.

Transportation provider FedEx added 83 basis points to the Fund's return, as the stock climbed 34.0% from $186.20 to $249.54. The company delivered solid earnings and benefited from growing demand for international air-freight and e-commerce shipments, as consumers globally are purchasing more imported goods online.

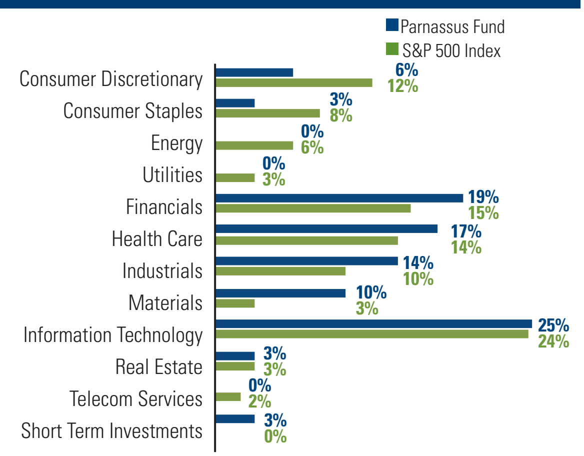
Semiconductor giant Intel added 80 basis point to the Fund's return, as its stock rose 27.3% from $36.27 to $46.16. The company raised its financial forecast for the year due to surging demand for semiconductors in its data center business, especially from its cloud-computing customers. Intel also closed the acquisition of Mobileye, a leader in computer vision for autonomous driving, which will boost sales and earnings in the future.

Outlook and Strategy

The S&P 500 was up 21.83% in 2017, the ninth consecutive year of positive returns. It was a remarkably smooth ride, as 2017 was the first year in history that the market rose in every month. Stocks moved higher due to strong corporate earnings growth, synchronized global economic expansion and tax reform, which should boost corporate earnings in 2018 and provide consumers with more cash in their pockets.

The S&P 500 Growth Index returned 27.4% in 2017, far exceeding the 15.4% return of the S&P 500 Value Index. This 12.0% difference is the largest outperformance of Growth over Value since 1999, the peak of the dot-com bubble. This large gap hurt us in 2017, as the Fund skews more toward Value than Growth. While it's fun to own the stocks that everyone is talking about, we're confident that our time-tested discipline to avoid the high flyers and search for under-the-radar bargains will pay off over the long term.

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



As we turn the page to 2018, the economy looks strong. The U.S. has added jobs for 86 consecutive months, the longest period on record, and the unemployment rate now stands at just 4.1%, the lowest level since 2000. A strong job market and the excitement around tax reform have propelled consumer confidence close to its highest level in 17 years. Mortgage rates remain low by historical standards, helping to support a robust housing market.

However, we're also monitoring several cautious data points. Wage growth and inflation have remained stubbornly low, which have held longer-term Treasury yields down while shorter-term yields have risen. This phenomenon, known as a flattening yield curve, has been a leading indicator of economic downturns. Additionally, we think the biggest risk to the stock market in 2018 is its high valuation. At year end, the S&P 500 traded at 18.2 times forward earnings estimates, its highest level since 2002. This level of optimism among investors makes us nervous, but we gain some comfort knowing that the stocks in our portfolio trade at just 16.8 times forward earnings estimates. While we won't be immune to a market correction, we expect the Fund to fall less than the market if we experience a sell-off.

Overall, we think the market is fully valued, if not overvalued. So we were pleased to identify an attractive investment opportunity toward the end of the year. We purchased shares of Nielsen, the leading information and data company that measures what consumers buy and watch. The company's "Buy" business, which provides consumer packaged-goods data to manufacturers and retailers, has suffered as manufacturers have reduced their marketing spend. We believe that this is more than reflected in the stock's cheap valuation, and that management has the expertise needed to improve this segment's performance. Meanwhile, Nielsen's "Watch" business, which measures media viewership, continues to do well.

Over the course of 2017, we reduced our exposure to the technology sector given its significant outperformance and high valuation. We increased our exposure to the healthcare and consumer-discretionary sectors, where we have found a number of undervalued businesses with competitive advantages. The Fund remains overweight the financial sector, which we expect will benefit from a strong economy and rising rates.

We're not market forecasters, so although the market is expensive, we don't know if its next move will be up or down. Our focus is on investing in increasingly relevant, high-quality businesses that trade at bargain prices. That's what's worked for us in the past, and we believe it will continue to pay dividends in the future.

Yours truly,

Jerome L. Dodson	Robert J. Klaber	Ian E. Sexsmith
Lead Portfolio Manager	Portfolio Manager	Portfolio Manager