COMMENTARY

Fourth Quarter 2017

Parnassus Mid Cap Fund

Ticker: Investor Shares - PARMX
Ticker: Institutional Shares - PFPMX

As of December 31, 2017, the net asset value ("NAV") of the Parnassus Mid Cap Fund – Investor Shares was $32.07, and after taking dividends into account, the total return for 2017 was a gain of 15.79%. This compares to a gain of 18.52% for the Russell Midcap Index ("Russell") and a gain of 15.83% for the Lipper Mid-Cap Core Fund Average, which represents the average mid-cap core funds followed by Lipper ("Lipper average"). For the quarter, the Parnassus Mid Cap Fund – Investor Shares was up 4.07%, behind the Russell's 6.07% return and the Lipper average's 5.54% gain.

Below is a table comparing the Parnassus Mid Cap Fund with the Russell and the Lipper average for the one-, three-, five- and ten-year periods. The Fund's long-term track record remains very good, as it outperformed its benchmarks in most of the listed periods.

Parnassus Mid Cap 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 Mid Cap Fund Investor Shares	15.79	10.04	13.71	10.28	1.01	0.99
Parnassus Mid Cap Fund Institutional Shares	16.04	10.26	13.84	10.35	0.80	0.80
Russell Midcap Index	18.52	9.58	14.96	9.11	NA	NA
Lipper Mid-Cap Core Fund Average	15.83	8.37	13.24	7.79	NA	NA

The average annual total return for the Parnassus Mid Cap Fund-Institutional Shares from commencement (April 30, 2015) was 11.34%. Performance shown prior to the inception of the Institutional Shares reflects the performance of the Parnassus Mid Cap 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 Russell Midcap Index 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. Mid-cap companies can be more sensitive to changing economic conditions and have fewer financial resources than large-cap companies.

As described in the Fund's current prospectus dated May 1, 2017, Parnassus Investments has contractually agreed to limit total operating expenses to 0.99% of net assets for the Parnassus Mid Cap Fund-Investor Shares and to 0.85% of net assets for the Parnassus Mid Cap 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.by the Adviser on a year-to-year basis. The net expense ratio is what investors pay.

Year in Review

The Parnassus Mid Cap Fund – Investor Shares returned 15.79% in 2017. Normally, we would be thrilled with this return. However, the Fund's gain wasn't enough to keep up with the surging Russell. The Fund trailed the Russell by 273 basis points and the Lipper average by 4 basis points. (A basis point is 1/100th of one percent.)

The Fund had positive attribution from its sector allocations. The Fund benefitted from having an underweight position in energy and real estate stocks, two of the worst-performing sectors in the benchmark. These allocations increased the Fund's return relative to the benchmark by 90 and 45 basis points, respectively. Our overweight position in the consumer staples sector hurt us the most, detracting 45 basis points from the Fund's return.

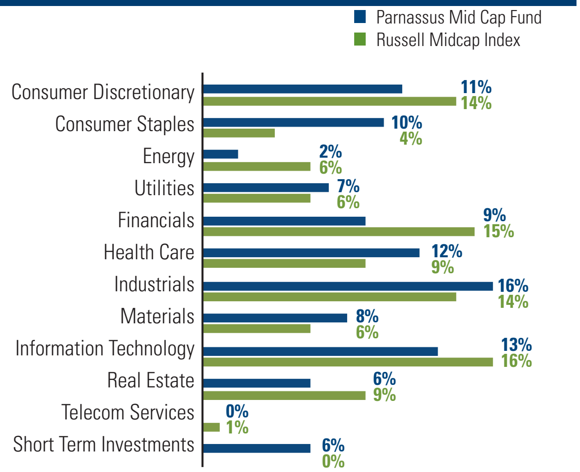
The Fund's health care and information technology stocks hurt performance relative to the Russell by 217 and 96 basis points, respectively. Our health care stocks, which were up 8.7% in aggregate, significantly trailed the benchmark's healthcare return of 26.1%. Similarly, our information technology stocks, which rose 26.6% in aggregate during the year, also performed poorly relative to the overall sector, which increased 34.6%. Conversely, our strong stock selection in the consumer staples sector, which rose 21.1% in aggregate versus the Russell's consumer staples group's 7.8% return, helped the Fund's performance by 134 basis points.

The Fund's weakest performer was drug distributor Cardinal Health, as its stock plummeted 16.5% from $71.97 to $60.06, where we sold it, slicing 56 basis points from the Fund's return. The stock fell in early 2017 after the company reported disappointing sales due to pricing pressure in its pharmaceutical business and the loss of a contract with Safeway. The stock took another leg down in the fall after management provided a disappointing outlook for 2018, and investors became concerned about the potential entry of Amazon into the drug-distribution segment. To compound these issues, the stock was also hurt by its exposure to the nation's opioid crises. While Cardinal Health does not manufacture or prescribe opioids, the company has become the subject of a growing number of lawsuits due to its distribution practices within affected communities. Based on our re-evaluation of the ESG investment case and concerns that the company no longer met our ESG standards, we exited our position.

Ten Largest Holdings as of December 31, 2017 (percentage of total net assets)	
First Horizon National Corp.	4.1%
Motorola Solutions Inc.	4.1%
Fiserv Inc.	4.0%
Verisk Analytics Inc.	3.9%
Sysco Corp.	3.8%
The Clorox Company	3.7%
Shaw Communications Inc., Class B	3.7%
Dentsply Sirona Inc.	3.6%
Iron Mountain Inc.	3.6%
Praxair Inc.	3.5%
Total	**38.0%**

Mattel, the toy manufacturer famous for its Barbie and Fisher-Price brands, cut 32 basis points from the Fund's return, as it dropped 24.7% from our initial purchase price of $20.43 to $15.38. 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 has a new management team in place, and we feel their plan to reinvigorate the company will create significant upside for shareholders over time. We also believe the current stock price does not reflect the company's valuable brands, and we see significant upside ahead as management either improves operations or sells the company at a premium.

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



Patterson Companies, the dental and animal health products distributor, slumped 11.9% from $41.03 to $36.13, taking 29 basis points from the Fund's return. The stock had a good start in 2017, as strong demand for its core dental equipment boosted earnings. However, the stock started falling over the summer after the company reported weak earnings due to sluggish dental sales and the loss of exclusivity with its largest dental-manufacturing partner. Investor sentiment soured after management lowered earnings guidance in the fall. The stock is now on the bargain table, and we're hopeful that the newly appointed CEO, Mark Walchirk, will take steps to improve sales execution and operating margins.

Our best performer during the year was healthcare product distributor Teleflex. The shares surged 54.4% from $161.15 to $248.82, increasing the Fund's return by 159 basis points. The stock steadily climbed throughout the year as the company consistently delivered better-than-expected sales and earnings. The company saw sales momentum accelerate after it released new anesthesia and catheter products. Investors became more bullish on the stock after the company acquired Vascular Solutions, a provider of minimally invasive coronary and vascular products, and NeoTract, a leading urology provider of minimally invasive treatment for benign prostatic hyperplasia. We're excited about the company's long-term growth prospects, as it benefits from synergies from its recent acquisitions, new products and margin expansion.

Xylem, an industrial manufacturer focused on water infrastructure, rose 37.7% from $49.52 to $68.20, increasing the Fund's return by 114 basis points. The stock moved higher in the spring after the company reported better-than-expected sales, driven by healthy demand in its public utility segment in North America and increased order growth in the emerging markets. Investors gained even greater conviction in the Fall after management raised the 2017 earnings guidance due to strong order trends, driven by its multiple applications for smarter watershed management, water quality and advanced analytics.

VF Corporation, the apparel manufacturer famous for brands such as The North Face, Vans and Wrangler, contributed 109 basis points to the Fund's return, as its stock soared 38.7% during the year from $53.35 to $74.00. As the year progressed, the company raised its annual sales and earnings forecast. Strength in Vans and The North Face businesses, rising e-commerce sales and higher growth from international markets all contributed to a better outlook. During the year, VF Corporation also made two acquisitions that complement its existing brand portfolio and offer new growth opportunities. The company acquired Williamson-Dickie, a workwear company known for its namesake Dickies brand and Icebreaker Holdings, an outdoor apparel brand specializing in merino wool and natural fibers.

Outlook and Strategy

We are in the ninth year of a bull market. This is the second-longest cycle on record without a major correction. After this year's 19% surge in the Russell and after taking dividends into account, the Russell is up over 368% since the trough of 2009. This represents an annualized return of nearly 20%. At year end, the Russell traded at over 18 times forward earnings estimates, close to the 10-year high and well above the 10-year average of 16 times. In short, stocks are expensive.

In our view, stock valuations are already pricing in good news from the solid economy, low unemployment, robust corporate earnings growth and expectations for lower taxes. Additionally, investors are quick to shrug off risks from the tumultuous geo-political environment, rising interest rates and record-high corporate debt levels. As a result, we remain focused on identifying stocks with attractive risk-reward opportunities.

In 2017, certain sectors went up much more or substantially less than the Russell, creating opportunities for us to adjust our individual portfolio holdings. For example, the information technology sector rose 35%. We reduced our exposure in this area because the range of outcomes for some stocks became less favorable. Over the past year, we decreased our information technology holdings by almost 500 basis points. Our most significant reductions were in the semiconductor space. We exited our positions in Applied Materials and Micron after their tremendous outperformance and reduced our position in KLA-Tencor. These stocks are also highly volatile, so when momentum changes, they can suffer steep declines very quickly. We also exited our position in software-maker Autodesk after the stock reached our price target.

Conversely, the consumer staples sector underperformed the Russell in 2017, rising 8%. We increased the Fund's consumer staples weighting by almost 350 basis points. We initiated a position in Clorox and added to our holding in Sysco. We like the stability of these businesses and believe they are uniquely positioned with their leading products and services to deliver strong earnings and cash-flow growth.

We also increased our financial sector holdings by over 250 basis points. Our largest addition was to Tennessee-based regional bank First Horizon National, given the rising rate environment, synergy possibilities from its recent acquisition and favorable tax outlook. The Fund seeks to own high- quality businesses at reasonable prices that can grow intrinsic value faster than our benchmarks over the long term. We are confident that this strategy will help the Fund outperform the market over the long term by participating in up-markets, providing down-market performance and avoiding permanent capital losses.

Thank you for your investment in the Parnassus Mid Cap Fund.

Yours truly,

Matthew D. Gershuny	Lori A. Keith
Lead Portfolio Manager	Portfolio Manager