Parnassus Core Equity Fund Commentary

Third Quarter 2018

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

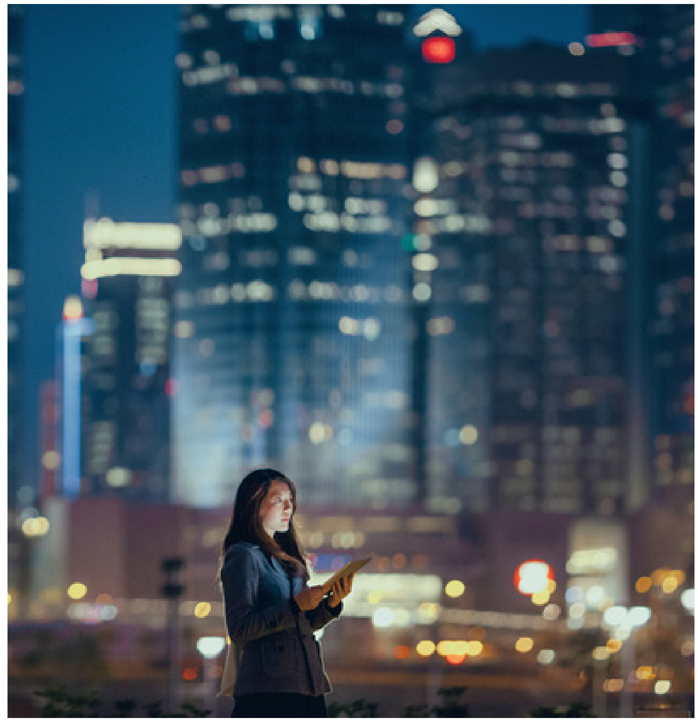
As of September 30, 2018, the net asset value ("NAV") of the Parnassus Core Equity Fund – Investor Shares was $46.74. After taking dividends into account, the total return for the third quarter was a gain of 7.88%. This compares to a return of 7.71% for the S&P 500 Index ("S&P 500") and 5.33% for the Lipper Equity Income Fund Average, which represents the average equity income funds followed by Lipper ("Lipper average"). For the year-to-date, the Parnassus Core Equity Fund – Investor Shares posted a return of 10.43% versus a gain of 10.56% for the S&P 500 and return of 4.72% for the Lipper average.

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. We are pleased to report that the Fund has outperformed the Lipper average for all periods.

Average Annual Total Returns (%)[1]

	1Y	3Y	5Y	10Y	Gross Expense Ratio	Net Expense Ratio
PRBLX	16.52	14.20	12.20	11.33	0.87	0.87
PRILX	16.74	14.42	12.41	11.55	0.64	0.64
S&P 500 Index	17.91	17.31	13.95	11.97	–	–
Lipper Equity Income Fund Average	10.59	13.03	9.75	9.57	–	–

[1]As of September 30, 2018.
The average annual total return for the Parnassus Core Equity Fund-Institutional Shares from commencement (April 28, 2006) was 10.61%. 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 represents 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.



Third Quarter Review

The Parnassus Core Equity Fund – Investor Shares gained 7.88% for the quarter, which beat the S&P 500 by 17 basis points. (One basis point is 1/100th of one percent.) The Fund's outperformance was driven by positive stock selection, highlighted by strong returns in the communications services, consumer staples and consumer discretionary sectors. The Fund's overall sector allocations neither added to nor subtracted from performance relative to the S&P 500.

Given our strong performance, only two stocks trimmed the Fund's return by 10 basis points or more. The stock of Public Storage, the largest owner of self-storage facilities, returned negative 10.3% (for this report, we will quote total return to the portfolio, which includes price change and dividends), reducing the Fund's return by 20 basis points. The stock fell after the company's same-store sales growth decelerated to 1.5%, with new supply pushing down occupancy rates across the self-storage industry. We're holding onto our position, because Public Storage's concentration in fast-growing, supply-constrained markets like Los Angeles, San Francisco and Seattle should protect it from the worst of the industry downturn. The company's pristine balance sheet also provides it with the flexibility to opportunistically acquire smaller competitors, which could boost Public Storage's growth as the new supply is absorbed and the industry recovers.

MDU Resources, a company that operates utility, construction materials and services businesses, reduced the Fund's return by 18 basis points, as its stock posted a 9.8% loss. While MDU's utility business is performing well, the construction materials division had weaker-than-expected results despite the strong economy. MDU has high-quality materials assets in good construction markets, and we expect improvement in this segment during the remainder of 2018.

Four stocks added at least 48 basis points to the Fund's quarterly return. Drug store chain CVS Health increased the Fund's return by 105 basis points, as the stock gained 23.3%. Shares moved higher after the company announced better-than-expected earnings and raised earnings guidance for the year. Investors have been concerned about CVS's exposure to retained rebates in its pharmacy benefits management (PBM) segment, but management disclosed that its exposure accounts for only 3% of earnings, much lower than investors feared. The stock continued to move higher toward the end of the quarter after the Department of Justice approved Cigna's acquisition of Express Scripts. This announcement boosted investors' confidence that CVS's proposed acquisition of Aetna would gain regulatory approval early in the fourth quarter.

Ten Largest Holdings[2,3]

CVS Health Corp.	5.3%
Alphabet Inc., Class C / Alphabet Inc., Class A	4.7%
The Walt Disney Co.	4.6%
Praxair Inc.	4.3%
3M Co.	4.0%
Mastercard Inc., Class A	3.8%
The Clorox Company	3.3%
American Express Co.	3.3%
VF Corp.	3.2%
Gilead Sciences Inc.	3.1%
Total	**39.6%**

[2]As of September 30, 2018.
[3]As a percentage of total net assets.

Disney, the media conglomerate that owns well-known brands including Pixar, Marvel and Lucasfilm, returned 12.5%, adding 55 basis points to the Fund's return. The company's park and resort businesses continued to excel, demonstrating strong growth and rising margins. Disney's studio entertainment segment continued to set box office records with blockbuster films, such as Incredibles 2, the highest grossing domestic animated film of all time. Despite this success, Disney's stock trades at a discount to the S&P 500 based on its price-to-earnings multiple. Investors have largely focused on the risks associated with the company's direct-to-consumer (DTC) efforts, including the Disney-branded streaming product, which is expected to launch in 2019. After the acquisition of 21st Century Fox closes, we believe Disney's prospects will remain bright, as it will be even better positioned with its valuable, hard-to-replicate portfolio of content.

Apple, maker of the iPhone, added 48 basis points to the Fund's return, as the company's stock returned 22.4%. Although Apple achieved only moderate growth in iPhone unit sales, the popularity and success of the iPhone X increased average selling prices. This outcome, along with high growth from Apple's services and wearables businesses, helped drive their strong performance.

Mastercard, the leading payments company, had another fantastic quarter, adding 48 basis points to the Fund's return, as the stock gained 13.4%. The company reported robust 18% revenue growth last quarter, and continues to benefit from a collection of new partnerships.

Outlook and Strategy

The economic backdrop remains positive for our portfolio companies to grow earnings during the final quarter of 2018. GDP expanded about 4% during the third quarter, according to the Federal Reserve Bank of Atlanta, while consumer confidence rose to 138 in September, up from 135 in August. The September level is not far from the all-time high of 145 reached in 2000. At the same time, the U.S. unemployment rate of 3.9% is near a generational low. This strength was underscored by Fed Chairman Jerome Powell in a speech delivered on October 2nd when he said that "the economy looks extraordinarily strong."

While we agree with Chairman Powell's current economic assessment, we're concerned that cyclical factors could be unsustainably boosting growth. First, corporate earnings soared this year, in part due to the significant tax cut signed into law at the end of 2017. This additional cash flow spurred major stock buybacks, dividends, acquisitions and other investments. At the same time, increased government spending has not only stimulated the economy, it has also produced a large budget deficit. Another concern is that the potential exists for significantly higher interest rates in 2019. While the Federal Reserve's rate increases have been measured during 2018, many of our portfolio companies have been raising prices to offset cost increases. This could be a precursor to rising inflation and even higher interest rates, which—after a decade of easy monetary policy—could slow the economy. Finally, geopolitical tensions, including potentially more trade tariffs and policy uncertainty due to the upcoming mid-term elections, could impact growth in 2019.

Moving to the stock market, in September we saw the largest sector classification change since the Global Industry Classification Standard (GICS®) was established in 1999. The growth of internet and media companies has profoundly impacted both individual stock weights and GICS sector weights within the S&P 500. Because of these changes, more than 10% of the S&P 500's market cap was shaken up this quarter, with significant modifications to the information technology and consumer discretionary sectors. The telecommunications sector was renamed communication services and its parameters were broadened to include companies that facilitate communication and offer content and information through various types of media. The changes increased the weight of communication services relative to the retired telecommunications sector, while reducing the weight of the information technology and consumer discretionary sectors within the S&P 500.

This reshuffling shifted some of the biggest and most popular companies into the new communication services sector, with names like Facebook, Alphabet (Google's parent company) and Twitter moving out of the old technology grouping. The updated technology sector is now more oriented toward software, hardware and semiconductor companies and is now more concentrated in specific names such as Apple, Microsoft and Intel. The communication services sector also absorbed some consumer discretionary stocks, specifically from its media wing, including Disney, Netflix and 21st Century Fox. The new communication services sector makes up roughly 10% of the S&P 500's market cap, a significant jump compared to the ~2% weight of the former telecommunication services sector. These changes have updated industry nomenclature to better reflect the market's evolution.

Sector Weighting[4,5]

	PRBLX	S&P 500 Index
Communication Services	9%	10%
Consumer Discretionary	6%	10%
Consumer Staples	9%	7%
Energy	2%	6%
Utilities	3%	3%
Financials	9%	13%
Health Care	18%	15%
Industrials	15%	10%
Materials	7%	2%
Information Technology	16%	21%
Real Estate	4%	3%
Short-Term Investments	2%	0%

[4]As of September 30, 2018.
[5]As a percentage of total net assets.

Focusing on the implications for our fund, Alphabet moved to the communication services sector. This reduced our exposure to the technology sector by about a quarter. Disney, another large holding of the Fund, also moved into the new communications services sector, which trimmed the Fund's exposure to consumer discretionary companies by almost half. As a result, the Fund, which had no exposure to the old telecom group, now has approximately 9% allocated to the communications services sector.

For sectors not impacted by the GICS reclassification, the portfolio's positioning hasn't changed much since last quarter. The Fund is significantly underweight stocks found in the financials, technology, consumer discretionary and energy sectors. The Fund's largest overweight allocations are in the industrials, materials, healthcare and consumer staples sectors. Given these sector weights, and other portfolio characteristics, we consider the Fund to be defensively positioned relative to the S&P 500.

During the quarter, the Fund trimmed one major long-term holding, Gilead Sciences, from 5% of the portfolio to 3%. While we remain very positive about the company's growing HIV business and emerging drug pipeline, several top executives are departing the company in 2019, including CEO John Milligan, who will step down by year end. We reduced our position due to this management uncertainty.

The Fund bought Synopsys, which sells hardware and software for designing integrated circuits and systems to semiconductor companies, during the quarter. Like Cadence Design Systems, a company we added to the Fund in the second quarter, Synopsys is set to benefit from increased complexity in chip design, and will see vast emerging opportunities as cloud computing workloads require new chips and systems. Whereas Synopsys is especially strong in digital chip design and has an emerging software security business, Cadence has leading share in analog and custom chip R&D tools. Our investments in these two companies are a fantastic way for the Fund to participate in the growth of cloud computing and the explosion of data analytics.

Thank you for your confidence and investment in the Parnassus Core Equity Fund.

Sincerely,

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

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