Parnassus Endeavor Fund Commentary

Third Quarter 2018

Ticker: Investor Shares - PARWX
Ticker: Institutional Shares - PFPWX

As of September 30, 2018, the net asset value ("NAV") of the Parnassus Endeavor Fund – Investor Shares was $38.82, so the Fund gained 5.35% in the third quarter. This compares to a gain of 7.71% for the S&P 500 Index ("S&P 500") and a gain of 5.70% for the Lipper Multi-Cap Core Average, which represents the average return of the multi-cap core funds followed by Lipper ("Lipper average"). The Fund underperformed this quarter, causing us to lag the S&P 500 and the Lipper average for the one-year period as well. For the year-to-date, the Parnassus Endeavor Fund – Investor Shares is up 4.41%, compared to 7.60% for the Lipper average and 10.56% for the S&P 500. Longer term, we are ahead of both benchmarks for most time periods (three-, five- and ten-years). See the table below for details.

Average Annual Total Returns (%)[1]

	1Y	3Y	5Y	10Y	Gross Expense Ratio	Net Expense Ratio
PARWX	9.82	17.37	15.17	15.01	0.92	0.92
PFPWX	10.04	17.59	15.31	15.09	0.72	0.72
S&P 500 Index	17.91	17.31	13.95	11.97	–	–
Lipper Multi-Cap Core Average	14.03	14.15	11.04	10.40	–	–

[1]As of September 30, 2018.
The average annual total return for the Parnassus Endeavor Fund-Institutional Shares from commencement (April 30, 2015) was 13.12%. Performance shown prior to the inception of the Institutional Shares reflects the performance of the Parnassus Endeavor 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 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 Endeavor Fund – Investor Shares gained 5.35% for the quarter, trailing the S&P 500 by 236 basis points (bps) and the Lipper average by 35 bps. (One basis point is 1/100th of one percent.) Normally, a gain of 5.35% in a quarter would be great, since on an annualized basis, it's well over 20% per year. This year, though, the market has been so strong that it's hard to keep up. While most stocks earned less than the S&P 500, a handful of highflying tech giants like Amazon, Apple and Microsoft have had the biggest impact on the index. (While we own a small position in Apple, it only accounts for one-tenth of one percent, so its influence on our return is negligible.) Because we follow a value investment strategy, we don't own most of the high fliers, so our performance suffers in comparison to them, but it looks pretty good in absolute terms. We think that the high fliers are overvalued, so we've avoided them, but overvalued stocks can keep going higher and become even more overvalued. When the correction comes, as it always does, we hope to avoid going down as much as the S&P 500.

For the quarter, there were two stocks that cut 60 bps or more off the Fund's return, but there were five that added 60 bps or more. The one that hurt us the most was Hanesbrands, a leading manufacturer of undergarments and athletic apparel, which subtracted 77 bps from the Fund's return, as its stock sank from $22.02 to $18.43 for a negative total return of 15.6% (for this report, we will quote total return to the portfolio, which includes price change and dividends). The sharp price drop was due to the decision by Target to discontinue Hanesbrands' "C9 Champion" apparel brand when the exclusive contract ends in January of 2020. Despite the lost future revenue, management remained confident in the long-term growth of the Champion brand. During the second quarter, Champion global sales increased 18%. Outside the U.S. mass-market, which includes Target, Champion activewear grew 70%. Contributing to this impressive growth were strong consumer demand, increasing online sales and more shelf space at specialty retailers.

Micron Technology sliced 70 bps from the Fund's performance, as its stock sank from $52.44 to $45.23 for a negative total return of 13.7%. Prices for Micron's dynamic random-access memory chips (DRAMs) stayed flat this quarter, after rising steadily for two years. This stoked investor fears that the cycle had peaked, and this fear was magnified when management lowered their profit forecast, citing weaker PC demand, higher inventory with customers and the potential impact of the U.S.-China trade dispute. Long term, however, strong demand from datacenters and the Internet of Things (IOT) should increase sales of memory chips.

Ten Largest Holdings[2,3]

QUALCOMM Inc.	6.7%
Mattel Inc.	6.0%
CVS Health Corp.	5.5%
United Parcel Service Inc., Class B	4.7%
Alliance Data Systems Corp.	4.6%
Micron Technology Inc.	4.3%
Hanesbrands Inc.	4.3%
Bristol-Myers Squibb Co.	4.2%
Gilead Sciences Inc.	4.1%
American Express Co.	3.7%
Total	**48.1%**

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

Turning to the winners, the Fund's best performer was Qualcomm, the leading supplier of telecommunications chips found in virtually every smartphone and wireless device in the world. During the quarter, the stock went from $56.12 to $72.03, while yielding a total return of 29.5% and adding 254 bps to the Fund's return. For over a year, Qualcomm had been in discussions with NXP Semiconductor to acquire the latter, but the Chinese government refused to approve the transaction, so on July 26, Qualcomm withdrew its $44 billion offer. Interestingly enough, the stock raced higher once uncertainty over the deal's closing was lifted, and management used the funds to buy back shares of the company.

Drugstore chain CVS Health increased the Fund's return by 111 bps, as the stock went from $64.35 to $78.72 for a total return of 23.3%. Shares moved higher, after the company announced better-than-expected profits and raised earnings guidance for the year. Investors had been concerned about the company's policy of retaining rebates from drug companies, but management disclosed that this accounted for only 3% of its earnings, much lower than investors feared. The stock kept moving higher toward the end of the quarter, when the Department of Justice approved Cigna's acquisition of Express Scripts, indicating that CVS's acquisition of Aetna would probably be approved in the near future.

Gilead Sciences, the biotechnology firm that makes therapies for HIV and Hepatitis C (HCV), contributed 73 bps to the Fund's return, as the stock climbed from $70.84 to $77.21 for a total return of 9.8%. Despite the announcement that CEO John Milligan will leave the company by year end, the stock was up, as Gilead reported strong demand for its HIV medicine and promising data from its clinical trials. After two years of revenue declines, investors were encouraged that sales might start moving higher again. Demand trends in the HIV market remained healthy and management reported a more stable and predictable HCV business, with pricing pressure and share losses moderating.

Pharmaceutical company Allergan added 72 bps to the Fund's return, as the stock went from $166.72 to $190.48 with a total return of 14.7%. The shares rallied after the company reported better-than-expected earnings and raised guidance for the remainder of the year. The aesthetics franchise continues to show robust growth, and management is bullish on the long-term outlook for this business, expecting that it will double over the next five to seven years. As the shares appreciated, we trimmed our position to take some profits.

Autodesk is the leading software provider for architects, engineers and designers, and it generated a total return of 19.1% for the quarter, increasing the Fund's return by 62 bps, as its stock went from $131.09 to $156.11. Strong demand for its cloud-based products increased revenue and earnings, while the number of subscribers moved higher. We believe Autodesk's earnings will continue to move higher, as it benefits from increasing adoption of its software tools in the design process. The company should see market-share gains and increased operating leverage.

Sector Weighting[4,5]

	PARWX	S&P 500 Index
Communication Services	3%	10%
Consumer Discretionary	15%	10%
Consumer Staples	0%	7%
Energy	0%	6%
Utilities	0%	3%
Financials	10%	13%
Health Care	23%	15%
Industrials	11%	10%
Materials	0%	2%
Information Technology	24%	21%
Real Estate	0%	3%
Short-Term Investments	14%	0%

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

Outlook and Strategy

As we write this report, the stock market is at an all-time high. The economy is very strong, so the stock market should be doing well. The tax cuts have been helping, and unemployment is very low. Right now, there are more job openings than there are people looking for work.

Even so, it looks like the market has gotten ahead of itself. The price/earnings ratio ("P/E ratio") of the S&P 500 is now at 21.5 based on last 12 months' earnings. This compares to a long-term average of 17.9. By this measure, it seems like the market is overvalued now. By comparison, the P/E ratio of the Parnassus Endeavor Fund is 18.0. On a price/earnings basis, U.S. stocks are trading at a 12% premium to an MSCI Index of 22 developed markets and 24 emerging markets, which is the biggest gap since 2009, according to Bank of America Merrill Lynch. Compared to both international markets and its previous history, the American market appears overvalued.

As we've seen, however, an overvalued market does not mean that stocks will fall—at least not right away. They can keep going higher for an extended period of time. There has to be a catalyst or some strong force that causes a stock market plunge. In 2000, it was the dot-com bust. In 2008, it was the melt down of mortgage-backed securities and the collapse of brokerage firms like Lehman, Bear Stearns and even Merrill Lynch, which had to be saved by Bank of America.

It's impossible to know what might touch off the next big move down, but one possibility might be a trade war with China. Given our interdependent international economies, this is a real possibility. For example, Apple iPhones are made by a Taiwanese company, and an enormous percentage of them are manufactured in mainland China.

Our strategy has been to avoid the high fliers. While this helps us manage downside risk, it means that we will underperform somewhat in periods like this one. Over the long term, though, we have substantially outperformed the market.

Yours truly,

Jerome L. Dodson	Billy J. Hwan
Lead Portfolio Manager	Portfolio Manager