PARNASSUS INVESTMENTS®

Parnassus Fixed Income Fund Commentary

Third Quarter 2018

Ticker: Investor Shares - PRFIX
Ticker: Institutional Shares - PFPLX

As of September 30, 2018, the net asset value ("NAV") of the Parnassus Fixed Income Fund – Investor Shares was $15.92, producing a gain for the quarter of 0.29% (including dividends). This compares to gains of 0.02% for the Bloomberg Barclays U.S. Aggregate Bond Index ("Barclays Aggregate Index") and 0.12% for the Lipper Core Bond Fund Average, which represents the average return of the funds followed by Lipper that invest at least 85% of assets in domestic investment-grade bonds ("Lipper average"). Through the first three quarters of 2018, the Parnassus Fixed Income Fund – Investor Shares posted a loss of 1.77%, as compared to losses of 1.60% for the Barclays Aggregate Index and 1.58% for the Lipper average.

Average Annual Total Returns (%)[1]

	1Y	3Y	5Y	10Y	Gross Expense Ratio	Net Expense Ratio
PRFIX	-1.71	1.09	1.61	3.30	0.82	0.68
PFPLX	-1.49	1.32	1.75	3.37	0.49	0.47
Bloomberg Barclays U.S. Aggregate Bond Index	-1.22	1.31	2.16	3.77	–	–
Lipper Core Bond Fund Average	-1.23	1.44	2.04	3.99	–	–

[1]As of September 30, 2018.
The average annual total return for the Parnassus Fixed Income Fund-Institutional Shares from commencement (April 30, 2015) was 1.14%. Performance shown prior to the inception of the Institutional Shares reflects the performance of the Parnassus Fixed Income 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 cost. Returns shown in the table do not reflect the deduction of taxes a shareholder would pay in fund distributions or redemption of shares. The Bloomberg Barclays U.S. Aggregate Bond Index (formerly known as the Barclays U.S. Aggregate Bond Index) is an unmanaged index of bonds, 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.
As described in the Fund's current prospectus dated May 1, 2018, Parnassus Investments has contractually agreed to limit total operating expenses to 0.68% of net assets for the Parnassus Fixed Income Fund-Investor Shares and to 0.58% of net assets for the Parnassus Fixed Income Fund-Institutional Shares. This agreement will not be terminated prior to May 1, 2019, and may be continued indefinitely by the Adviser on a year-to-year basis. The net expense ratio is what investors pay.

To the left is a table comparing the performance of the Fund with that of the Barclays Aggregate Index and the Lipper average. Average annual total returns are for the one-, three-, five- and ten-year periods. For September 30, the 30-day subsidized SEC yield was 3.03%, and the unsubsidized SEC yield was 2.75%.

Third Quarter Review

The third quarter was an exceptional one for the U.S. economy. Growth was robust, job gains consistent and both wages and inflation ticked higher. The Federal Reserve hiked its Federal Funds Rate during the quarter, a reflection on the strength of the economy, and interest rates rose. Despite an environment that's usually negative for bonds, the Parnassus Fixed Income Fund did very well in the quarter.

The Parnassus Fixed Income Fund – Investor Shares outperformed in the quarter, gaining 0.29% versus 0.02% for the Barclays Aggregate Index and 0.12% for the Lipper average. The Fund benefitted from its substantial overweight allocation to corporate bonds. Credit spreads fell, and so corporate bonds rallied, reflecting the strength of the economy and the acceleration of corporate profits. This performance is in contrast to the first two quarters of the year, when credit spreads rose, and demonstrates how the Fund performs in a strengthening economy.

The top two performing bonds over the quarter were two of our longest bonds, both having maturities in the 2040s. Declining credit spreads have an outsized impact on these bonds, given the cumulative impact of lower interest rates over many years. Bonds issued by National Oilwell Varco returned 3.43% and added 4 basis points to the total return. (One basis point is 1/100th of one percent.) These bonds not only benefitted from declining spreads overall, but also from increasing strength in the oil market. The company creates products that make drilling more efficient, and therefore less damaging on the environment, as well as safety tools. Demand for its products increased as the price of oil rose.

A long-dated bond issued by Apple returned 2.00% and added 3 basis points to the total return (for this report, we will quote total return to the portfolio, which includes price change and dividends). The Fund also holds a green bond that was issued by Apple and matures in 2023. Together, the two bonds added 4 basis points to the total return. Similar to National Oilwell Varco, this bond benefitted from both general market trends and strength at the company level. Sales of iPhones continue to surpass expectations and the company's services business, which includes Apple Pay, Apple Music and iTunes, has seen excellent growth. Apple is a top position in the Fund and it serves two purposes: its excellent credit quality provides price consistency and its excellent growth prospects provide opportunity for upside.

Bonds issued by Masco Corporation returned 1.67% and added 3 basis points to the total return. As the parent company for brands including Behr Paint, Delta Faucets and Milgard Windows, we expected the company to benefit from this year's strong economic growth. Profitability and cash flow have improved nicely, and with the gains this quarter, we felt that the bonds were getting closer to full value. While we still have a core position in the bonds, Masco is no longer one of our top holdings.

Ten Largest Holdings[2,3]

Apple Inc.	2.6%
Sempra Energy	2.3%
Mastercard Inc.	2.1%
APTIV PLC	2.0%
Starbucks Corp.	2.0%
Microsoft Corp.	1.9%
Autodesk Inc.	1.8%
VF Corp.	1.8%
CVS Health Corp.	1.8%
Charles Schwab Corp.	1.8%
Total	**20.1%**

[2] As of September 30, 2018.
[3] As a percentage of total net assets.
The ten largest holdings excludes Treasuries, Mortgages, and Cash.

Only two positions meaningfully detracted from performance and both are preferred stock holdings. As a reminder, preferred stock is a fixed income security, despite its name. The shares pay a regular, fixed dividend and that dividend is prioritized over dividends to holders of regular stock. Our positions in Public Storage and Sempra Energy both shaved 5 basis points from the total return. When interest rates rise, the value of preferred stock falls, because the coupon is fixed. Our preferred stock positions were impacted by these market fundamentals as well as by company-specific issues in the quarter.

Preferred stock issued by Public Storage fell 3.33% over the quarter, fueled by concerns about falling same-store sales. There has been a building boom in storage facilities, and not only did this new competition push Public Storage's same-store sales down to 1.5%, there is concern it might turn negative. We continue to believe Public Storage's preferred stock is a good fit for the Fund, as its facilities are concentrated in high-value markets, it has an excellent balance sheet and the shares have an attractive coupon.

Preferred stock issued by Sempra Energy fell 2.3% in the quarter. The stock fell principally due to the market movements discussed above, though there is also an overhang on the utility due to last year's wildfires in Napa and Sonoma counties. Those fires were caused by faulty equipment from a different utility company, and while Sempra was not involved, investors continue to be concerned about how future wildfire liabilities will be treated. We appreciate those concerns, but also believe that Sempra has best-in-class technological capabilities to monitor weather and ground conditions near its equipment and to proactively address any issues.

Outlook and Strategy

In the quarter, we added positions in three new corporations. First, Mondelez, the owner of snack brands including Oreo, Ritz and Cadbury, returned to the portfolio. We owned the bonds between 2013-2015 because we believed in the company's plan to improve margins and reduce debt, but were not a holder in the interim due to concerns about declining revenues. After meeting with the new CEO, Dirk Van de Put, we regained confidence that the company will return to growth and meet our cash flow expectations.

Within our high-yield portfolio, we reduced our position in Nielsen Holdings and added a position in Zayo Group. The operating environment for Nielsen, the ratings company, has changed substantially over the past few years, as consumer purchasing and viewing preferences have evolved. Unfortunately, the company has struggled to adapt to those changes. Companies must have strong or increasing relevancy to the economy to be included in the Fund, and we felt that the case for Nielsen was fading. On the other hand, the Zayo Group owns internet infrastructure, principally fiber networks. This is an increasingly relevant asset that's difficult to replicate. While the company has a "B" rating from S&P, we believe some of the credit risk is offset by its recurring revenue and, coupled with its excellent yield, we think the bonds provide a great investment opportunity.

Finally, we initiated a position in Cadence Design Systems, a company that sells hardware and software to semiconductor companies to design integrated circuits and electronic products. This BBB-rated company has an attractive yield, but also a net cash position and increasingly relevant products, so it's a great fit for the Parnassus Fixed Income Fund.

We no longer hold FedEx or UPS in the portfolio as of this quarter, as both bonds were sold on valuation concerns. We continue to believe that prospects are bright for FedEx, as the company proactively began modernizing its fleet and facilities in 2013, putting it several years ahead of UPS, and we hope to own the bonds again in the future.

Several economic indicators were exceptionally high this quarter, including consumer confidence and ISM Non-Manufacturing, which is a measure of business activity at companies outside of the manufacturing sector. The ISM data showed that, in September, business activity outside of manufacturing was at its highest level in 21 years. Consumer confidence is at a level seen in only 11 other months since 1967, and those other 11 months were all in 1999 or 2000.

A hot economy usually means that interest rates are rising, and they did so in the third quarter. We've also heard from many of our portfolio companies that they expect to raise prices in the fall, which means that inflation is likely to continue moving higher as well. While that's typically negative for bond holders, our substantial overweight to corporate bonds helps cushion the impact. Corporate bonds have higher yields and corporations themselves benefit from a strong economy as credit worthiness improves.

Sector Weighting[4,5]

	PRFIX	Bloomberg Barclays U.S. Aggregate Bond Index
U.S. Treasury Bonds	17%	38%
Government Related Bonds	2%	7%
Corporate Bonds	65%	25%
Preferred Stock	3%	0%
Securitized Bonds	9%	30%
Short-Term Investments	4%	0%

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

The economy could certainly stay strong for years to come, as the Federal Reserve expects, but typically such high levels of business activity indicate that parts of our economy are overheating. Because of our large focus on corporate bonds, we continually assess the risk to the portfolio from a slowing economy. We do this by assessing the range of outcomes for each of our holdings, which includes analyzing the bond's yield, cash flow and cash reserves, leverage, and margin characteristics. Because we hold bonds issued by only 42 companies, we are able to look beyond the credit rating and into the core operations of the business to determine the risks to profitability and cash generation.

The bonds in the portfolio have a mix of credit qualities, but all are backed by durable assets or increasingly in-demand services, so we expect them be excellent investments over the long term.

As always, thank you for your investment in the Parnassus Fixed Income Fund.

Yours truly,

Samantha D. Palm

Portfolio Manager