Parnassus Fund Commentary

Third Quarter 2018

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

As of September 30, 2018, the net asset value ("NAV") of the Parnassus Fund – Investor Shares was $50.11, resulting in a gain of 6.39% for 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").

Below is a table that summarizes the performance of the Parnassus Fund, the S&P 500 and the Lipper average. The returns are for the one-, three-, five- and ten-year periods that ended September 30, 2018.

Average Annual Total Returns (%)[1]

	1Y	3Y	5Y	10Y	Gross Expense Ratio	Net Expense Ratio
PARNX	8.71	12.32	11.36	12.34	0.84	0.84
PFPRX	8.86	12.47	11.45	12.40	0.69	0.69
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 Fund-Institutional Shares from commencement (April 30, 2015) was 8.93%. 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.

Third Quarter Review

The Parnassus Fund – Investor Shares gained 6.39% for the quarter, trailing the S&P 500 by 132 basis points. (One basis point is 1/100th of one percent.) Sector allocation helped our relative performance, with the most beneficial effects coming from our underweight positions in two underperforming sectors, energy and communication services. However, the negative impact of our stock selection outweighed the positive impact of our sector allocation. Our biggest loser was New York City–based Signature Bank, which subtracted 31 basis points from the Fund's return, as its total return was a negative 9.7% (for this report, we will quote total return to the portfolio, which includes price change and dividends). The stock fell after the interest rate spread between the bank's loans and deposits contracted more than expected, and management said the spread would contract further next quarter. While spread compression is a concern, there were some bright spots in the quarter. Signature received regulatory approval to expand into California, which has the potential to meaningfully increase its earnings. The bank also announced its first-ever quarterly dividend, and is utilizing its excess capital to repurchase up to $500 million of stock at its currently depressed valuation.

Public Storage, the largest owner of self-storage facilities, hurt the Fund's return by 30 basis points, as its total return was a negative 10.3%. The stock dropped after the company's same-store sales growth decelerated to 1.5%, as new supply is 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 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.

eBay, best known for its global online marketplace, subtracted 25 basis points from the Fund's return, as its total return was a negative 8.9%. The stock slumped after management lowered the company's full-year revenue growth outlook from 7%–9% to 6%–7%, due to a deceleration in its core Marketplace segment and weaker ticket sales at its StubHub segment. Despite the recent weakness, we remain optimistic that eBay's new marketing and platform enhancements, including its own payments service, will drive earnings higher.

Our best performer was luxury hotelier Belmond, which contributed 128 basis points to the Fund's return, as its stock earned a total return of 63.7%. The shares jumped after the company announced that it will review strategic alternatives to enhance shareholder value, including a possible sale. We're pleased that Belmond's board of directors is undertaking this review, and we believe there is significant underlying value in the company's collection of timeless hotels.

Drug store chain CVS Health increased the Fund's return by 104 basis points, as the total return of the stock was 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, but management disclosed 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. The announcement boosted investors' confidence that CVS's proposed acquisition of Aetna would gain regulatory approval as well.

Thomson Reuters provides information and data for professionals in the legal, tax, accounting and financial sectors. Its stock generated a total return of 14.2%, adding 78 basis points to the Fund's return. The shares rose as revenue growth accelerated in its Legal segment. The shares continued to move higher after the company launched a $9 billion share repurchase offer, using some of the $17 billion in proceeds it will receive from the sale of a 55% interest in its Financial segment to Blackstone.

Ten Largest Holdings[2,3]

Thomson Reuters Corp.	6.1%
Alliance Data Systems Corp.	5.8%
CVS Health Corp.	5.3%
Nielsen Holdings PLC	5.0%
Mondelez International Inc., Class A	4.0%
Motorola Solutions Inc.	3.7%
Allergan PLC	3.7%
Alphabet Inc., Class A	3.6%
Hologic Inc.	3.3%
Belmond Ltd.	3.2%
Total	**43.7%**

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

Outlook and Strategy

The S&P 500 soared 7.71% during the third quarter, the index's best quarterly return since 2013. Investors cheered strong U.S. economic data, surging consumer confidence and the stimulative effect of low long-term interest rates. Growth stocks continued their amazing run, as the S&P 500 Growth Index gained 8.9% compared to 5.2% for the S&P 500 Value Index, marking an abnormal seventh consecutive quarter of Growth outpacing Value. As a result, our contrarian investing style continued to be out of favor, and we lagged the S&P 500.

We don't know exactly when Value stocks will rotate back into favor, but history suggests we're getting close. In the past 25 years, Growth's current seven-quarter streak of outperformance has only been matched once, and it has never reached eight consecutive quarters. We see two outcomes that could improve sentiment toward Value stocks.

The first outcome is that long-term interest rates could rise. The combination of higher wages from the historically tight labor market, escalating oil prices due to global supply disruptions and tariffs on Chinese imported goods seems likely to cause an acceleration in inflation, which would push long-term bond yields up. Since investors are paying up for future growth in Growth stocks, higher long-term interest rates mean that the discounted present value of this growth would be worth less.

The second outcome that could cause a rotation in sentiment towards Value would be an economic slowdown. While the stock market is hitting all-time highs, bond investors don't share the same rosy outlook. The difference between the 10-year U.S. Treasury yield and the 2-year U.S. Treasury yield, known as the yield curve, indicates the additional compensation that bond investors are demanding to protect against inflation. When the yield curve flattens, it's signaling that bond investors expect economic growth to slow. The yield curve ended the quarter at a meager 25 basis points, its narrowest reading since 2007. If bond investors are right and economic growth slows, the stock market would likely fall. In this case, we expect that Value stocks would decline less than Growth due to their significantly lower valuations.

Despite the market hitting all-time highs, we identified an attractive opportunity and initiated a new position in Trimble. Trimble is the leading provider of GPS positioning and precision-measurement products that increase the efficiency of construction workers, farmers and truck drivers. We believe the company's innovative new products and software offerings should drive earnings growth for many years.

We sold two stocks during the third quarter. We decided to harvest our gains on truck broker C.H. Robinson after the stock soared along with truckload rates over the past year. We also sold renewable energy financier Hannon Armstrong, because we became concerned about the sustainability of the company's dividend. Given the equity market's huge rally since March of 2009, and the warning signal the flattening yield curve is sending, we've been increasing our concentration in our favorite stocks. Our top 10 holdings now represent 44% of the Fund, and we've pared our number of holdings to 32.

Sector Weighting[4,5]

Sector	PARNX	S&P 500 Index
Communication Services	8%	10%
Consumer Discretionary	11%	10%
Consumer Staples	4%	7%
Energy	0%	6%
Utilities	0%	3%
Financials	16%	13%
Health Care	18%	15%
Industrials	14%	10%
Materials	7%	2%
Information Technology	17%	21%
Real Estate	2%	3%
Short-Term Investments	3%	0%

[4]As of September 30, 2018
[5]Percentage of total net assets

We're stock pickers, not macro-economists, so we focus on the business prospects for each of our companies. We believe our concentrated portfolio of socially responsible companies with sustainable competitive advantages is well-positioned to outperform, regardless of whether equity or fixed-income investors are proven correct during this 10th year of the current bull market.

Yours truly,

Robert J. Klaber — Portfolio Manager

Ian E. Sexsmith — Portfolio Manager