PARNASSUS INVESTMENTS®

Parnassus Mid Cap Fund Commentary

Third Quarter 2018

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

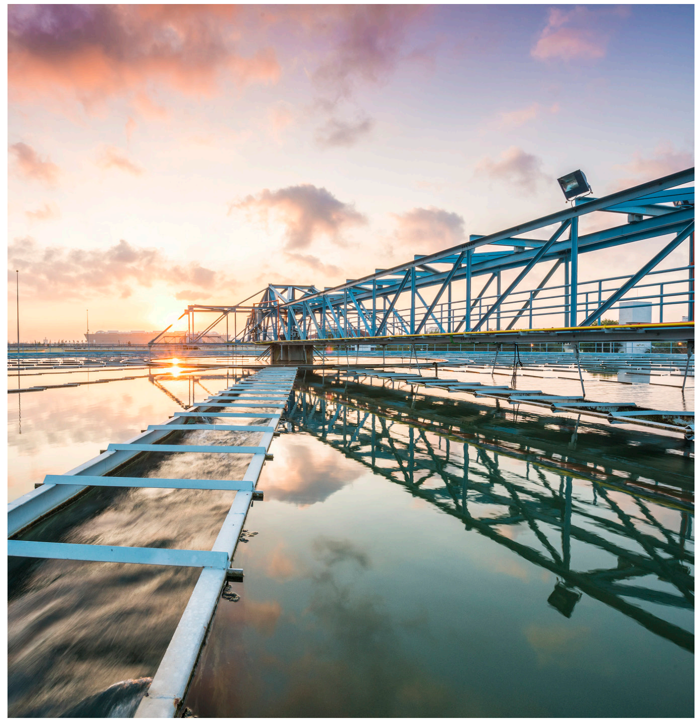
As of September 30, 2018, net asset value ("NAV") of the Parnassus Mid Cap Fund – Investor Shares was $33.71, so the total return for the quarter was 3.53%. This compares to a gain of 5.00% for the Russell Midcap Index (the "Russell") and 3.86% for the Lipper Mid-Cap Core Fund Average, which represents the average mid-cap core funds followed by Lipper (the "Lipper average").

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.

Average Annual Total Returns (%)[1]

	1Y	3Y	5Y	10Y	Gross Expense Ratio	Net Expense Ratio
PARMX	9.40	14.06	10.92	11.94	1.01	0.99
PFPMX	9.66	14.29	11.08	12.02	0.75	0.75
Russell Midcap Index	13.98	14.50	11.65	12.31	–	–
Lipper Mid-Cap Core Fund Average	10.83	12.53	9.38	10.42	–	–

[1]As of September 30, 2018.
The average annual total return for the Parnassus Mid Cap Fund-Institutional Shares from commencement (April 30, 2015) was 10.40%. 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 represents 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, 2018, 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, 2019, and may be continued indefinitely by the Adviser on a year-to-year basis. The net expense ratio is what investors pay.



Third Quarter Review

Stock investors kept cool heads this past quarter, ignoring international and domestic political spectacles as well as the recent rate hike. They instead focused on the strong domestic economy to drive U.S. stocks to near-record highs. The S&P 500 gained nearly 7.71% during the quarter, and the Russell wasn't too far behind, posting a gain of 5.00%.

The Parnassus Mid Cap Fund – Investor Shares returned 3.53% during the third quarter but trailed its surging benchmarks. The Fund trailed the Russell by 147 basis points and the Lipper average by 33 basis points over the quarter. (One basis point is 1/100th of one percent.) As a result, for the year-to-date, the Parnassus Mid Cap Fund – Investor Shares is up 5.11%, 235 basis points behind the Russell and 23 basis points behind the Lipper average.

From an allocation perspective, the Fund was hurt because of overweight positions in the consumer staples and materials sectors, two of the worst-performing sectors in the Russell. On the flip side, the Fund benefitted from having an underweight position in the real estate sector, because this sector also performed poorly.

As usual, stock selection had a much greater impact on performance than our allocation decisions. Poor performance in our healthcare, utilities and consumer discretionary stocks hurt performance relative to the Russell by almost 200 basis points, while good stock picking in the consumer staples, industrials and materials stocks helped the Fund's performance relative to the Russell by 125 basis points.

The biggest loser was Hanesbrands, a leading manufacturer of undergarments and athletic apparel. The stock subtracted 59 basis points from the Fund's return, as its stock yielded a total negative 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 retailer Target's decision to discontinue the exclusive "C9 Champion" apparel brand in 2020. The "C9 Champion" program was in place for 15 years and contributed roughly 5% to annual sales. Despite the expected revenue loss, management is confident in the long-term growth of the Champion brand. During the second quarter, Champion global sales increased 18%. Outside of the U.S. mass channels, Champion activewear grew 70%. Strong consumer demand, space gains in specialty channels and continued online penetration contributed to the impressive growth.

MDU Resources, a diversified conglomerate with operations in electric and gas utilities, pipelines and construction materials and services, subtracted 30 basis points from the Fund's return, as the total return of its stock was negative 9.8% for the quarter. The stock fell after the company delivered disappointing earnings results, driven by an unfavorable rate-case outcome in its gas distribution segment and weaker-than-expect results in its construction materials business. We continue to see upside in the stock as the company benefits from a robust construction backlog and strong customer and capital expenditures growth in its utility segments.

eBay, best known for its global online marketplace, subtracted 30 basis points from the Fund's return, as the total return of its stock was negative 8.9%. The stock slumped after management lowered its outlook for annual revenue growth from 7%–9% to 6%–7% due to a deceleration in gross merchandise volume growth in its core Marketplace segment and weaker ticket demand in its StubHub segment. Despite the recent weakness, we remain optimistic that eBay's new marketing and platform enhancements, along with its initiatives to offer its own payments service, will drive higher earnings.

Our biggest winner was Xylem, a global industrial company providing a complete set of products for the water industry, including pumps and filtration and measurement equipment. The company contributed 61 basis points to the Fund's return, as the total return of the stock was 18.9%. Following margin pressures from higher material costs and unfavorable foreign exchange in the previous quarter, the company successfully navigated these headwinds with recent price increases and ongoing operational improvements. Sales in the quarter also benefited from improved water treatment activity and continued strong demand in utilities and commercial and industrial end markets.

Integrated Device Technology, Inc., a leading provider of high-performance analog mixed signal solutions, contributed 58 basis points to the Fund's return, as the total return of its shares was 47.5%. The shares jumped after the company announced an agreement with Renesas Electronic Corporation to be acquired for $49 per share in an all-cash transaction. We're sorry to lose this high-quality business after such a short period of time in the portfolio, but we're pleased about the gain the transaction provided for our shareholders.

Motorola Solutions, the largest provider of mission-critical communications solutions, added 48 basis points to the Fund's return, as its total return was 12.3%. The stock moved higher after the company raised its full-year earnings guidance for the second consecutive quarter due to broad-based demand for Motorola's land mobile radio systems and surveillance solutions from its recent acquisition of Avigilon. The shares rose again after Motorola reached an agreement with the United Kingdom to extend the company's Airwave

Ten Largest Holdings[2,3]

Motorola Solutions Inc.	4.2%
Hologic Inc.	4.0%
Teleflex Inc.	4.0%
Fiserv Inc.	3.8%
First Horizon National Corp.	3.7%
Xylem Inc.	3.7%
Verisk Analytics Inc.	3.5%
The Clorox Company	3.2%
Iron Mountain Inc.	3.2%
Hanesbrands Inc.	3.1%
Total	**36.4%**

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

nationwide digital radio network for three more years. We trimmed our position in response to the recent share price appreciation.

Outlook and Strategy

The Russell delivered a hefty gain during the third quarter, and mid-cap stocks are now up an amazing 340% since this long-tenured bull market began over nine years ago. The Russell climbed higher given continued corporate earnings momentum and the strong economy, specifically strong GDP growth, rising consumer confidence, record-low unemployment and controlled inflation. Federal Reserve Bank of Chicago President Charles Evans recently summarized the environment well, commenting that "the U.S. economy is firing on all cylinders."

At the same time, we are concerned about the sustainability of corporate earnings growth, one of the core drivers of stock market performance. Corporate earnings were boosted this year due to the significant reduction in the corporate tax rate and increased share buybacks driven from the resulting cash flow. On top of this, it's likely that the Fed will continue to raise rates as the economy heats up, causing borrowing costs to go up and the economy to cool. Tariff wars are also expanding the range of outcomes for many companies and could materially dent corporate profits. Our cautious stance is further supported by our view that stocks are trading at high valuations.

One of our greatest sector exposures is in information technology. The Fund's 16% exposure is below the Russell's 19% weight, but it's still a large percentage of the portfolio. We are attracted to companies in this sector that exhibit good growth, recurring revenue, wide moats, solid potential returns on capital, disciplined managers and manageable leverage. We believe these qualities will enable the companies to do well regardless of the economic environment.

One company that exhibits these qualities is Trimble Inc. We initiated a position during the quarter in this leading provider of global positioning system (GPS) data collection products for agricultural applications. The company is also expanding its platform to include application software and laser and optical sensing solutions for the construction and industrial markets. Trimble's industry-leading products are benefiting from long-range, secular demand trends such as increasing use of software and automation in its end markets. We also believe its business model shift toward software and subscription should support years of margin expansion.

Sector Weighting[4,5]

	PARMX	Russell Midcap Index
Communication Services	4%	3%
Consumer Discretionary	8%	12%
Consumer Staples	8%	4%
Energy	3%	5%
Utilities	6%	6%
Financials	12%	14%
Health Care	9%	10%
Industrials	16%	14%
Materials	8%	5%
Information Technology	16%	19%
Real Estate	5%	8%
Short-Term Investments	5%	0%

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

We added a small position in Nielsen Holdings, a leading provider of performance measurement and data analytics used by television networks, digital media, social media and consumer packaged goods (CPG) companies. The stock reached $56 just two years ago and recently traded in the low-$20s due to weakness in its Buy segment, which provides measurement solutions to CPG companies. This created an attractive opportunity for us to initiate a position in the stock, as we believe management has a clear path to unlock value, and the risk-reward for the stock is highly favorable.

Finally, we added shares of communication services company Zayo Group Holdings, a leading provider of bandwidth infrastructure in North America and Europe. Zayo owns a dense network of data centers and fiber optic cable that is used by its customers for connectivity solutions. As demand for bandwidth and data consumption continues to grow due to strong secular trends related to cloud computing, autonomous vehicles and next-generation wireless networks, Zayo's unique, hard-to-replicate assets should become increasingly relevant. The stock recently sold off due to near-term concerns over quarterly bookings, creating an asymmetric risk-reward opportunity. As the company benefits from an attractive highly recurring revenue model, improved sales force execution and unrelenting growth in data consumption, we expect bookings performance to improve and the market to better appreciate Zayo's advantaged assets.

We're limiting the Fund's exposure in sectors that would be most negatively impacted if the economy slows down. Compared with the Russell, we have fewer energy, consumer discretionary, financial and real estate stocks. We believe these sectors generally possess a wider range of outcomes, less defensible moats and a higher potential for permanent capital loss. Our largest concentration of stocks as of the quarter-end was in the information technologies and industrials sectors, where we've focused on companies with multi-year secular growth drivers and strong cash flows, which should enable them to weather more challenging economic times.

Our portfolio is currently made up of 39 well-managed, attractively valued businesses with products and services that have competitive advantages and are increasingly relevant to customers. We believe that these businesses collectively will outperform the market in varied economic conditions over the long run.

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

Yours truly,

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