Parnassus Core Equity Fund Commentary

Fourth Quarter 2018

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

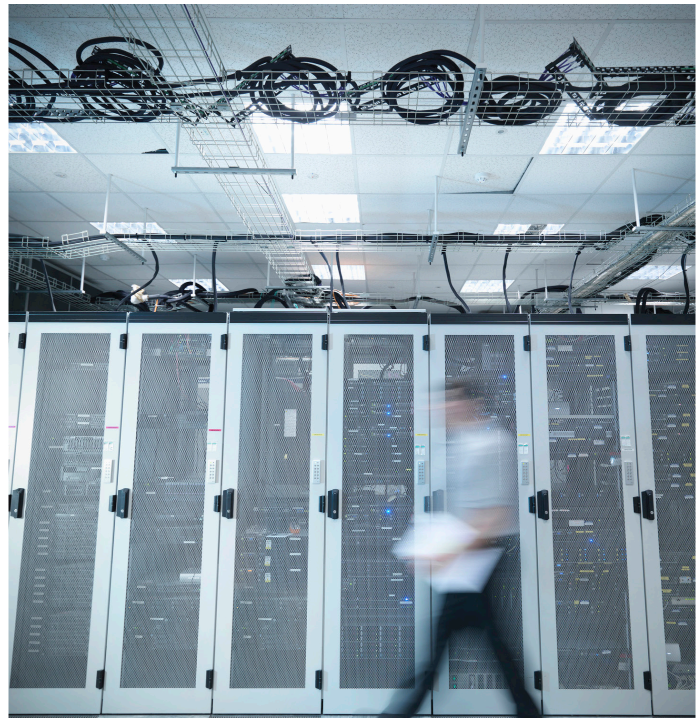
As of December 31, 2018, the net asset value ("NAV") of the Parnassus Core Equity Fund – Investor Shares was $38.99. After taking dividends into account, the total return for the fourth quarter was a loss of 9.61%. This compares to a loss of 13.52% for the S&P 500 Index ("S&P 500") and loss of 11.32% for the Lipper Equity Income Funds Average, which represents the average return of the equity income funds followed by Lipper ("Lipper average"). For the year, the Fund posted a loss of 0.18% versus a loss of 4.38% for the S&P 500 and loss of 7.25% 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 the Fund outperformed the Lipper average for all periods.

Average Annual Total Returns (%)[1]

	1Y	3Y	5Y	10Y	Gross Expense Ratio	Net Expense Ratio
PRBLX	-0.18	8.71	7.90	12.58	0.87	0.87
PRILX	0.05	8.94	8.13	12.80	0.64	0.64
S&P 500 Index	-4.38	9.26	8.49	13.12	–	–
Lipper Equity Income Funds Average	-7.25	6.89	5.44	10.61	–	–

[1]As of December 31, 2018
The average annual total return for the Parnassus Core Equity Fund – Institutional Shares from commencement (April 28, 2006) was 9.52%. 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.



Year in Review

The Parnassus Core Equity Fund – Investor Shares provided significant downside protection during 2018, reporting a loss of only 0.18%, which beat the S&P 500 by 420 basis points. (One basis point is 1/100th of one percent.) As bottom-up stock investors, we are very pleased that stock selection, as opposed to sector allocations, was the source of all of the Fund's outperformance in 2018.

The Fund's holdings in two sectors significantly outperformed the benchmark. Our consumer staples and industrials holdings each contributed more than 100 basis points of positive stock-selection effect. For instance, the Fund's investments in consumer staples rose more than 11%, while the average stock in that sector fell 8%. The only sector with significantly negative stock-selection effect was healthcare, which accounted for a 174 basis point headwind to our relative performance.

Only three stocks reduced the Fund's return by more than 40 basis points. National Oilwell Varco, a global supplier of equipment and technology for energy companies, shaved 56 basis points from the Fund's return, as its stock posted a total return loss of 28.3%. (For this report, we will quote total return to the portfolio, which includes price change and dividends.) Oil prices were down 24% for the year, having surged more than 20% through the first nine months before dropping 40% in the fourth quarter. Despite OPEC's announcement in December that they would support oil prices by curtailing production, investors' concerns shifted from excess oil supply to lower oil demand amid worries about a potential global growth slowdown. We continue to hold the stock, as we think that the company remains the industry's dominant equipment manufacturer.

Charles Schwab, the San Francisco–based bank and brokerage firm, returned a negative 18.4%, trimming our return by 45 basis points. While Schwab's earnings grew impressively during 2018, the stock fell significantly during the fourth quarter. The prospect of slower economic growth lowered the outlook for future interest rate hikes, which would limit the company's ability to increase the yield on its deposits. In addition, the fourth quarter stock market drop trimmed client assets, which will be a headwind to 2019 earnings growth. While 2018 was a tough year for the stock, we're holding our Schwab position because the company continues to gain market share due to its intuitive online platform and terrific client service.

UPS, the package delivery company, returned a negative 15.5%, reducing the Fund's return by 44 basis points. The company increased capital spending during the year and said that it will maintain an elevated level of spending over the next three years. In the short-to-medium-term, these investments in new sorting facilities, equipment, automation and technology will depress earnings and cash flows. Investors also remained cautious amid reporting that Amazon may introduce a competing delivery service. The risk of disruption from Amazon delivery seems relatively low for now because it is more likely aimed at supplementing rather than supplanting existing delivery networks. We think that UPS is undervalued, and that margin headwinds should fade with better pricing and continued network productivity.

Ten Largest Holdings[2,3]

The Walt Disney Co.	4.9%
Linde PLC	4.7%
CVS Health Corp.	4.6%
3M Co.	4.0%
The Clorox Company	3.8%
Starbucks Corp.	3.6%
Mastercard Inc. CL A	3.6%
Cadence Design Systems Inc.	3.4%
American Express Co.	3.3%
Synopsys Inc.	3.2%
Total	**39.1%**

[2] As of December 31, 2018
[3] As a percentage of total net assets

Despite a negative year for the S&P 500, we are pleased that the Fund held three stocks that boosted the Fund's return by at least 50 basis points. Mastercard, the leading payments company, had another terrific year, adding 70 basis points to the Fund's return as the stock gained 25.3%. The company continues to grow revenues and earnings at a strong clip due to payment volume growth and new partnerships.

Motorola Solutions, the largest provider of mission-critical communications solutions, added 58 basis points to the Fund's return with a 29.6% return for the stock. Motorola's stock moved higher as the company raised its 2018 earnings guidance three times over the year due to broad-based demand for land mobile radio systems and surveillance solutions from Avigilon, a recently acquired subsidiary. Motorola is gaining market share and expanding its addressable markets by providing the most innovative and complete communications solutions to its public safety and corporate clients.

WD-40, the global multi-purpose maintenance product company, increased the Fund's return by 52 basis points, as the stock gained 57.7%. The company's sales and earnings reached record highs during the year, as management continued its strategy to distribute its products into new markets. The company also plans to increase its capital investment to support new product innovation that will lower manufacturing costs and improve gross margins over the long term.

Outlook and Strategy

The headline for 2018 was a return of volatility and the first annual decline for the S&P 500 since 2008. After a strong first nine months supported by robust economic activity and earnings growth, the stock market plunged from a year-to-date gain of almost 11% as of October 1st to a loss of 10% by December 24th. Stocks went down as investors started worrying that earnings growth was unsustainably high due to factors such as the major tax cut, elevated government spending and stock buybacks. At the same time, interest rate hikes and wider credit spreads increased balance sheet risk for highly leveraged companies. In addition, we saw elevated political tensions during the fourth quarter, especially regarding trade wars and the government shutdown.

The key question we're focused on as we enter 2019 is which companies we should own when GDP growth is slowing and volatility is elevated. We think the answer is high-quality companies trading at reasonable valuations. Such companies have high recurring demand for their products and services, long-term secular growth drivers, sustainable competitive advantages and healthy balance sheets. This is the same approach that has historically led to strong relative performance for the Fund in times of decelerating growth and heightened volatility, for example in 2000–2002, 2008 and 2018.

During the fourth quarter, the Fund exited two holdings. We sold a leading semiconductor company, Intel, at $48 per share after a successful investment. Despite an expanding datacenter market, the company faces increasing competitive threats to its dominant position in server central processing units (CPUs). In addition, we are concerned that Intel's CEO search is a distraction that could impact results. We also exited Novartis, a large Swiss pharmaceutical and health care company. The stock reached our fair-value estimate after it rose 18.9% from $74 in mid-June to $88 in November, so we exited the position.

The fourth quarter decline for many stocks presented three new opportunities for the Fund, all of which should benefit from the ongoing digitization of the economy. The first of these is Digital Realty, a real estate company that owns scarce land and datacenters in strategic locations. The stock saw some weakness, as the company announced they were raising equity for development, and investors grew concerned about a slowdown in capital spending from their large "hyperscale" customers. We believe the company is uniquely positioned with a portfolio of irreplaceable internet gateways and unrivaled capacity for large-scale deployments. As cloud computing and artificial-intelligence adoption continue to grow, the company should benefit well into the future.

Sector Weighting[4,5]

Sector	PRBLX	S&P 500 Index
Communication Services	8%	10%
Consumer Discretionary	6%	10%
Consumer Staples	10%	7%
Energy	1%	5%
Financials	9%	13%
Health Care	16%	16%
Industrials	16%	9%
Information Technology	19%	20%
Materials	7%	3%
Real Estate	4%	3%
Utilities	2%	4%
Short Term Investments	2%	0%

[4]As of December 31, 2018
[5]As a percentage of total net assets

The second new holding is NVIDIA. This chip company is the leading provider of graphics processing units (GPUs), which have traditionally been used in gaming and professional visualization applications. Today, GPUs have also become critical for delivering accelerated computing power in applications such as machine learning and autonomous driving. We have long admired the company, and we bought shares after the stock fell almost 50% within eight weeks after a disappointing earnings report. The stock's plunge, largely related to temporary cryptocurrency-related channel issues, provided an attractive entry opportunity.

The last stock we added is Microsoft, the leading provider of business productivity software and the number two provider of cloud computing services. Microsoft has unrivaled enterprise relationships and a comprehensive portfolio of offerings across information technology, from infrastructure to software. The enterprise transition to the cloud is still nascent and, as it matures, Microsoft should become even more engrained in the digitized economy.

With the additions of NVIDIA and Microsoft, we reduced our underweight allocation to the information technology sector. The Fund's largest underweight at year-end was the financials sector. This is due to the heightened probability that the yield curve will invert, which would be a headwind for bank earnings. We are still significantly underweight energy stocks, as oil prices suffer from excess supply and weak demand. Our third significant underweight allocation is to the consumer discretionary sector, where valuations for many companies, especially Amazon, remain elevated relative to our appraisal of their fundamentals.

The Fund's largest overweight sectors are industrials and materials, where we own a basket of companies that feature high recurring revenues and increasingly relevant products for the global economy. We remain overweight the consumer staples sector, where we own solid franchises with defensive characteristics. Given these sector weightings and other portfolio characteristics, we think the Fund should perform well relative to the S&P 500, especially if volatility remains elevated throughout 2019.

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