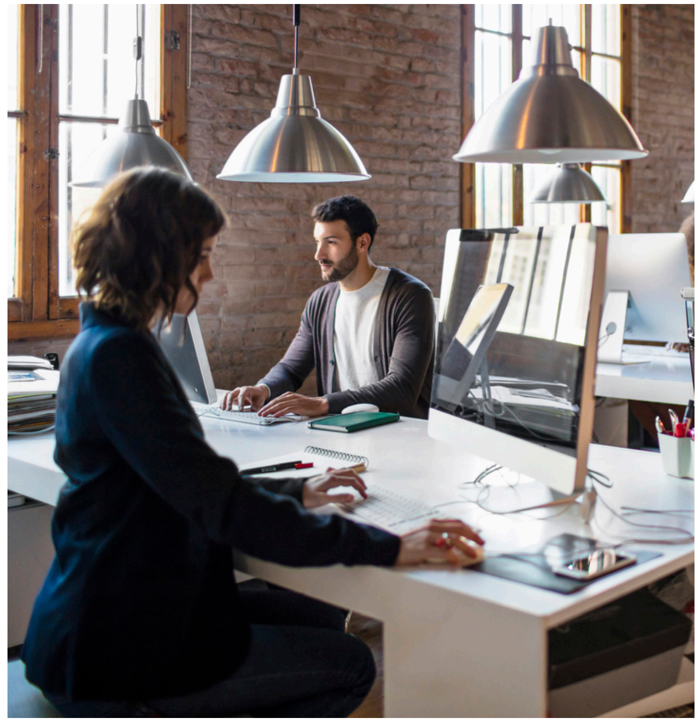
Parnassus Endeavor Fund Commentary

Fourth Quarter 2018

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



As of December 31, 2018, the net asset value ("NAV") of the Parnassus Endeavor Fund – Investor Shares was $28.87, so after taking dividends into account, the total return for the year was a loss of 13.49%. This compares to a loss of 4.38% for the S&P 500 Index ("S&P 500") and a loss of 7.88% for the Lipper Multi-Cap Core Funds Average, which represents the average return of the multi-cap core funds followed by Lipper ("Lipper average"). Clearly, it was a tough year for the Endeavor Fund. After averaging over 18% per year for the previous five years, the Fund experienced its biggest drop since the 2008 financial crisis. Both of our benchmarks (Lipper and the S&P500) also posted losses, but much less than the Fund.

Below is a table comparing the Parnassus Endeavor Fund with the S&P 500 and the Lipper average over the past one-, three-, five- and ten-year periods. You'll notice that while we're way behind our benchmarks for the one-year period, the Fund is ahead of the Lipper average for the three-year period, and a little over one percent behind the S&P 500. We're ahead of all the indices for the five- and ten-year periods.

Average Annual Total Returns (%)[1]

	1Y	3Y	5Y	10Y	Gross Expense Ratio	Net Expense Ratio
PARWX	-13.49	7.97	9.02	16.08	0.92	0.92
PFPWX	-13.25	8.21	9.18	16.17	0.72	0.72
S&P 500 Index	-4.38	9.26	8.49	13.12	–	–
Lipper Multi-Cap Core Funds Average	-7.88	6.58	5.52	11.61	–	–

[1]As of December 31, 2018.
The average annual total return for the Parnassus Endeavor Fund – Institutional Shares from commencement (April 30, 2015) was 6.60%. 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.

We're very disappointed with our performance this year; it's the first time in the 13-year history of the Fund that we've underperformed the market by such a large margin. Our goal is to do much better in 2019, and we'll work hard to give you the kind of returns we've had through most of our history.

Year in Review

There were five stocks that each sliced more than 100 basis points from the Fund's return. (A basis point is 1/100th of one percent.) There was no stock that added 100 basis points to the net asset value ("NAV"). (There was, however, one issue that contributed 98 basis points.)

Our worst performer was toy manufacturer Mattel, which sliced 199 basis points from the Fund's performance, as its stock dropped a total return of 35% from $15.38 to $9.99 during the year. (For this report, we will quote total return to the portfolio, which includes price change and dividends.) As the saying goes, bad luck comes in threes, and this unfortunately held true for Mattel in 2018. Toys"R"Us, the largest U.S. toy-store chain, announced the liquidation of its domestic stores in March, which reduced toy revenues across the industry. In July, the company revealed it had overestimated demand in China, and in December, the company lost part of the DC Comics toy contract to competitor Spin Master. 2018 was a difficult year for Mattel, but we remain optimistic about the company's future. Key brands like Barbie and Hot Wheels are growing, and the company is repositioning itself to drive overall revenue growth through its new film and franchising divisions. Mattel's 2018 corporate restructuring plan has significantly reduced its operating costs, and we expect the combination of growing revenue and falling expenses to boost the stock.

Hanesbrands, a leading manufacturer of undergarments and athletic apparel, reduced the Fund's return by 170 basis points, as its stock went from our average cost of $20.67 to $12.53 for a loss of 39.1%. Retail store bankruptcies and inventory reductions by key customers, such as Walmart and Target, led to lower sales for its basics and innerwear products in the U.S. Target also announced that it will discontinue the C9 Champion apparel brand when the exclusive contract ends in January 2020. Despite the lost future revenue, management remained confident in the long-term potential of the Champion brand, with continued double-digit growth in all regions. Within the challenging intimates category, management commented on market share beginning to stabilize after multiple quarters of decline, as the company introduced new product designs and innovation.

Ten Largest Holdings[2,3]

Applied Materials Inc.	5.9%
Lam Research Corp.	5.5%
Micron Technology Inc.	5.5%
Cummins Inc.	5.4%
Mattel, Inc.	5.3%
Starbucks Corp.	5.2%
Gilead Sciences Inc.	5.1%
Celgene Corp.	4.9%
American Express Co.	4.6%
Hanesbrands Inc.	4.1%
Total	**51.5%**

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

Alliance Data Systems, the leading private-label credit card issuer, cut 162 basis points from the Fund's return, as the stock fell from $253.48 to $150.08, for a loss of 40.2%. The shares fell as the company's credit delinquency rates remained above management's expectations, while its loan growth decelerated. We were disappointed with Alliance Data's performance, but we're holding onto our position because the management team is taking action to right the ship. The loan portfolio is being repositioned by discontinuing partnerships with struggling mall-based apparel retailers and focusing on growing industries like hospitality, home furnishings and e-commerce. Alliance Data has also commenced a sale process for its marketing segment, Epsilon, which should sell at a higher valuation than the stock's current multiple. As the loan portfolio repositioning bears fruit and the company repurchases stock with proceeds from the Epsilon sale, we expect 2019 will be a better year for shareholders.

Perrigo, the leading producer of store-brand generic drugs, subtracted 138 basis points from the Fund's return, as its stock declined from $87.16 to $38.75, for a loss of 55.1%. The company's board surprised investors by appointing a new CEO to replace the person it had selected only 10 months earlier. New management subsequently lowered the company's financial forecast due to price erosion in its prescription topicals business, which has been marked for sale. The stock took another blow after the Irish government assessed a €1.6 billion tax bill on one of Perrigo's subsidiaries. We expect the stock to rebound, as management focuses on stabilizing the consumer health business, divesting underperforming assets and appealing the tax ruling.

Micron Technology sliced 129 basis points from the Fund's performance, as its stock sank from $41.12 to $31.73 for a loss of 22.8% for the year. Prices for Micron's dynamic random-access memory chips (DRAMs) declined this year, 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 personal computer demand, higher inventory with customers and the potential impact of the U.S.-China trade dispute. We think Micron's shares have sold off too much, however, as strong demand from datacenters and the Internet of Things (IoT) should increase sales of memory chips for years to come.

The big winner for the year was Autodesk, the leading software provider for architects, engineers and designers. Its stock soared from $104.83 to $128.61, yielding a total return of 22.7% for the year and increasing the Fund's return by 98 basis points. Surging demand for its cloud-based products increased revenue and earnings, while the number of subscribers moved higher. The company also gained share in the construction lifecycle-management market with the acquisitions of three fast-growing companies. We believe profits will continue to grow as customers adopt Autodesk's software tools in the design process.

Sector Weighting[4,5]

	PARWX	S&P 500 Index
Communication Services	4%	10%
Consumer Discretionary	15%	10%
Consumer Staples	0%	7%
Energy	0%	5%
Financials	9%	13%
Health Care	24%	16%
Industrials	9%	9%
Information Technology	38%	20%
Materials	0%	3%
Real Estate	0%	3%
Utilities	0%	4%
Short Term Investments	1%	0%

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

Outlook and Strategy

2018 was a challenging year for stock markets around the world and for the Endeavor Fund. The S&P 500 broke its nine-year streak of annual gains with its first money-losing year since the end of the global financial crisis. Investor sentiment, which rode high for the first three quarters of the year, abruptly soured in the fourth quarter. What changed? For one thing, the U.S. trade war with China accelerated a slowdown already underway in one of the world's largest economies. The U.S. economy also cooled due to rising interest rates and the fading effect of last year's tax cuts. These factors reached a breaking point in early October with a sell-off in high-flying technology stocks.

While we can't predict every threat to stocks, we do spend a lot of time thinking about downside risk. There are three main ways we try to protect ourselves. First, we look for stocks that are trading at a significant discount to their intrinsic value, and only buy stocks that are cheap compared to the company's own history or its industry. We also check for strong balance sheets that can help a company weather a variety of storms. Lastly, we want companies that generate excess profits and use them to reward shareholders and employees alike. These measures are by no means foolproof. In the short term, the stock market can ignore our assessments of quality and value, as it did this year, and cause the Fund to underperform. We're confident our holdings are worth more than what we paid for them, and at some point, our stocks should move higher. In the meantime, our short-term performance can vary widely from the overall market.

We're not changing our approach, because we know that it works. The Endeavor Fund's long-term track record is excellent and includes periods of temporary underperformance such as this one. When we're in it, the rough patches are extremely painful, to be sure, but they're also opportunities to stock up on companies that will roar back when investor worries abate. Unfortunately, there's no way of knowing how long that will take. Experience gives us the confidence that buying high-quality companies at bargain prices will eventually reward the patient investor.

Thank you for investing in the Endeavor Fund.

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

Mutual Fund investing involves risk, and loss of principal is possible.

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