PARNASSUS INVESTMENTS®

Parnassus Fixed Income Fund Commentary

Fourth Quarter 2018

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

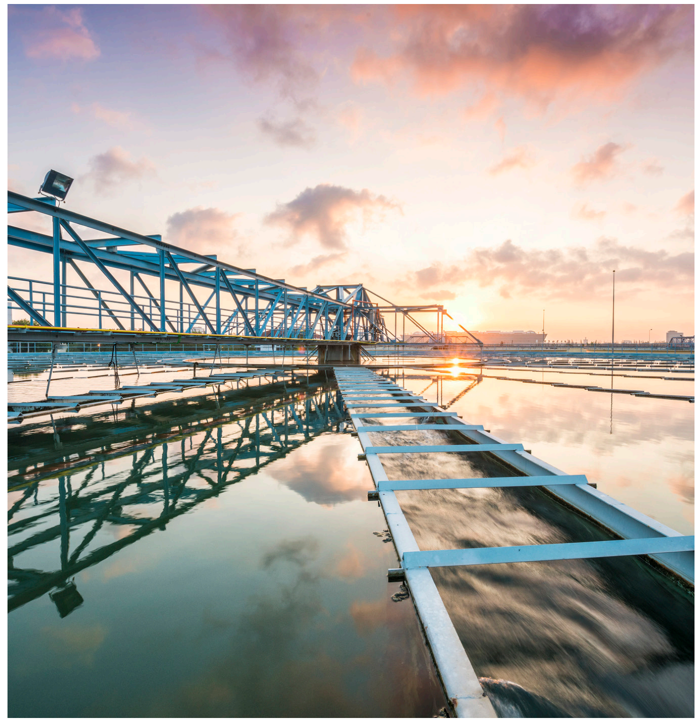
As of December 31, 2018, the net asset value ("NAV") of the Parnassus Fixed Income Fund - Investor Shares was $15.92, producing a loss for the year of 1.12% (including dividends). This compares to a gain of 0.01% for the Bloomberg Barclays U.S. Aggregate Bond Index ("Barclays Aggregate Index") and a loss of 0.69% 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").

Below 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 December 31, the 30-day subsidized SEC yield was 3.45%, and the unsubsidized SEC yield was 3.16%.

Average Annual Total Returns (%)[1]

	1Y	3Y	5Y	10Y	Gross Expense Ratio	Net Expense Ratio
PRFIX	-1.12	1.45	1.90	2.97	0.82	0.68
PFPLX	-0.89	1.66	2.05	3.05	0.49	0.47
Bloomberg Barclays U.S. Aggregate Bond Index	0.01	2.05	2.52	3.48	–	–
Lipper Core Bond Funds Average	-0.69	1.99	2.20	4.18	–	–

[1]As of December 31, 2018.
The average annual total return for the Parnassus Fixed Income Fund-Institutional Shares from commencement (April 30, 2015) was 1.26%. 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.



Year in Review

After two quiet years, the bond market delivered fireworks in 2018. Concerns about economic growth at the beginning of the year gave way to exuberance by summer and fall, as growth shot higher and unemployment fell. Four interest rate hikes by the Federal Reserve pushed the yield on the 10-year Treasury up from 2.41% at the beginning of the year to as high as 3.24% in November. While it ultimately settled at 2.69% by year-end, the fourth quarter was especially tumultuous. A realization that the expectations were perhaps too frothy, a slowdown of other important global economies and concerns about rising debt costs pushed interest rates lower and cooled expectations for 2019.

The Fixed Income Fund trailed the Barclays Aggregate Index for the year, with a loss of 1.12% versus a gain of 0.01%. The Fund also trailed its Lipper category, Core Bonds, as the peer set lost an average of 0.69%. The underperformance was driven by the Fund's substantial overweight allocation to corporate bonds. As of year-end, the Fund held 70% of assets in corporate securities versus 25% for the Index. Concerns about rising interest rates, slowing profit growth and the impact of tariffs pushed the value of corporate bonds lower, especially in the fourth quarter. While our selection of corporate bonds was good—our portfolio of bonds lost 1.28%

versus the Barclays Aggregate Index at a loss of 2.54%—the overweight position meant that corporate bonds removed 82 basis points from the total return. (One basis point is 1/100th of one percent.)

Corporate bonds issued by Pentair, Masco Corporation and Xylem outperformed the Index and contributed positively to the total return. Pentair, a company that provides water solutions for pools, municipalities and industrial operations, saw its bonds perform well as the company spun off its electrical business and substantially reduce debt. This means that the company is in much better financial condition and the bonds rallied to reflect this rosier picture. Pentair bonds held by the Fund gained 2.82% and added 5 basis points to the total return.

Bonds issued by Masco Corporation have been a solid performer all year and ultimately added 4 basis points to the total return. Masco owns home improvement brands including Behr Paint, Delta Faucets and Milgard Windows. It has benefitted from strong sales, as well as management's efforts to restructure and improve its windows and cabinets businesses. While we like the company's longer-term prospects and believe the company is much better positioned for an eventual recession than in prior years, we believe the bonds are close to fair value at this point in the economic cycle. For that reason, we trimmed the position in the fourth quarter.

Finally, bonds issued by Xylem added 4 basis points to the total return in the year. Xylem is the Fund's other water-focused company, providing highly engineered solutions to a wide range of industries, including agriculture, food and beverage, commercial buildings and waste treatment centers. The company's technologies facilitate the full cycle of water use, culminating with a return to the environment. The bonds benefitted from the company's strong performance in the year. As sales rose, margins improved and leverage declined.

Ten Largest Holdings[2,3]

Apple Inc.	2.6%
Sempra Energy	2.2%
Mastercard Inc.	2.1%
Microsoft Corp.	2.1%
Starbucks Corp.	2.0%
APTIV plc	2.0%
Autodesk Inc.	1.9%
VF Corp.	1.9%
Charles Schwab Corp.	1.8%
CVS Health Corp.	1.8%
Total	**20.4%**

[2]As of December 31, 2018.
[3]As a percentage of total net assets. Securities are grouped by issuer. The ten largest holdings excludes Treasuries, Mortgages, and Cash.

Several corporate securities meaningfully detracted from the total return, including those issued by Public Storage, Verisk Analytics and Zayo Group. The Fund's position in preferred stock issued by Public Storage declined 10.22% and removed 14 basis points from the total return. While the company is facing more competition from new storage facilities being built across the country, this was not the main driver behind the security's performance. Instead, the preferred stock was impacted by rising interest rates and declining appetite for corporate credit. Public Storage's preferred stock has the equivalent of an A-rating from Moody's and a high coupon, so we believe it will prove to be a good long-term investment.

Bonds issued by Verisk Analytics declined by 8.32% and removed 13 basis points from the total return. The company's performance has been excellent, with operating income increasing steadily the last few years. However, we own the company's long-dated bonds that mature in 2045. These bonds also have a long duration, which means they are especially sensitive to changes in both Treasury rates and credit spreads, or the premium corporations pay over Treasury bonds. Since interest rates rose and credit spreads widened in the year, these bonds were negatively impacted. We believe the company's balance sheet will continue to improve and that the services it provides are increasingly relevant, so we maintained our position at year-end.

Finally, bonds issued by Zayo Group, a leading provider of bandwidth infrastructure in North America and Europe, fell 6.24% and removed 11 basis points from the total return. The company missed bookings numbers significantly in the fourth quarter and announced a surprise decision to split the company into two independent entities. Management hopes the separation of the infrastructure unit from the managed services business will help improve execution, but we see this as a credit negative. We were disappointed by the news, especially since it was a new holding as of the third quarter, and sold the bonds.

Outlook and Strategy

While we don't make specific economic forecasts, we did take several steps in the second half of the year to position the Fund more conservatively. The intersection of exuberant expectations and the lapping of one-time events, like the corporate tax cut and a simulative federal budget, made us concerned about future growth expectations.

We reduced exposure to several BBB-rated companies, which sit at the low end of investment grade, as well as to some high-yield companies. Bonds issued by these companies are more volatile during times of economic uncertainty and carry more risk of a downgrade. Specifically, the Fund reduced its position in Sealed Air, a company with a high yield rating from S&P and Masco Corporation, as discussed above. Our position size increased in Microsoft, which is seeing solid growth in cloud computing and is one of the few companies with an AAA rating. We also added a position in Procter & Gamble. We believe P&G is making strides to improve the relevancy of their products as consumer preferences evolve, and we appreciate that its sales are relatively less sensitive to economic swings.

The Fund's position in supranational bonds also increased in the year, from 2% to about 4%. Though the numbers are small, our Supranational bonds did exceptionally well this year and contributed 12 basis points to the total return. Our bonds in this category have been issued by the World Bank and the International Finance Corporation, a member of the World Bank Group. These are both green bonds, which means the proceeds directly support climate-change-mitigating projects in developing countries. We are proud to have participated in the World Bank's special 10-year anniversary issue of the first-ever green bond, and even more pleased by these bonds' performance. Both carry excellent credit ratings and are fairly divorced from the political machines that influence Treasury bonds, so they make great investments.

Finally, the duration of the Fund increased in 2018, reflecting the more balanced nature of the interest rate market. As a reminder, duration is a measure of interest rate sensitivity. The longer the duration, the more the value of the Fund moves as interest rates move. The Fund had a shorter duration than the Index while rates were low, because rates were more likely to rise than fall, and the short duration helped protect the value of the Fund. Now that rates have risen considerably and economic data is mixed, there is less likelihood that interest rates will continue their upward trajectory.

Sector Weighting[4,5]

	PRFIX	Bloomberg Barclays U.S. Aggregate Bond Index
Corporate Bonds	66%	25%
Government Related Bonds	4%	6%
Preferred Stock	3%	0%
Securitized Bonds	9%	31%
U.S. Treasury Bonds	17%	38%
Short Term Investments	1%	0%

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

As of year-end, the Fund's duration is 6.48 years versus 6.09 years for the Barclays Aggregate Index. The bulk of the Fund's long duration comes from its positions in Treasuries and corporates. The duration of our Treasury portfolio is 6.45 years versus 6.04 years for the Index, though this is partially offset by our underweight allocation. By being long duration in Treasuries, the Fund benefits if rates stay the same or go down. While our corporate bond holdings have a duration of 6.60 years versus the Barclays Aggregate Index at 7.08 years, 6.60 years is considerably longer than the duration of the Index overall. Therefore, our overweight in corporate bonds pulls up the duration as well.

Thank you for your investment in the Parnassus Fixed Income Fund.

Sincerely,

Samantha Palm

Portfolio Manager