PARNASSUS INVESTMENTS®

Parnassus Fund Commentary

Fourth Quarter 2018

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

As of December 31, 2018, the net asset value ("NAV") of the Parnassus Fund – Investor Shares was $40.54, resulting in a loss of 9.73% for 2018. 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"). For the fourth quarter, the Parnassus Fund – Investor Shares fell 13.04%, which compares to a loss of 13.52% for the S&P 500 and a loss of 14.41% for the Lipper average.

Below is a table that summarizes the performance of the Fund, the S&P 500 and the Lipper average. The returns are for the one-, three-, five- and ten-year periods ending December 31, 2018.

Average Annual Total Returns (%)[1]

	1Y	3Y	5Y	10Y	Gross Expense Ratio	Net Expense Ratio
PARNX	-9.73	5.94	6.45	14.26	0.84	0.84
PFPRX	-9.57	6.09	6.56	14.32	0.69	0.69
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 Fund – Institutional Shares from commencement (April 30, 2015) was 4.27%. 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.

Year in Review

The Fund declined 9.73% on the year and trailed the S&P 500 by 5.35%. Sector allocations had a positive impact on our relative performance, with the most meaningful contributor being our lack of exposure to Energy, as falling oil prices caused the sector to underperform the market. We expect the Energy sector to underperform over the long term, as our society becomes more energy-efficient and better utilizes alternative energy sources. Poor stock selection, however, overwhelmed the benefits of our sector allocations.

Our worst performer was Alliance Data Systems, the leading private-label credit card issuer. It subtracted 242 basis points (one basis point is 1/100th of one percent) from the Fund's return, as the stock's total return was a loss of 40.2%. (For this report, we will quote total return to the portfolio, which includes price change and dividends.) 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 verticals 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 much better year for shareholders.

Patterson Companies, a distributor of dental and animal health products, cut 93 basis points from the Fund's return, as the stock's total return for our Fund was negative 34.1%. The company experienced a sharp decline in demand for its dental consumables and equipment due to the loss of exclusivity with its largest manufacturing partner, Dentsply Sirona. Additionally, Patterson experienced disruption from internal sales-force changes and greater competition from online players such as Amazon. We sold the stock during the year after we lost confidence in management's turnaround plan.

First Horizon National, a Tennessee-based regional bank, reduced the Fund's return by 91 basis points, as its stock yielded a negative total return of 32.3%. The shares fell after loan growth came in below expectations when it took longer than expected to integrate its acquisition of Capital Bank. With the integration now complete, loan growth should accelerate in 2019. We believe that First Horizon's dominant position in Tennessee, its diversified, low-risk loan book, and its new growth markets in the Carolinas and South Florida from the Capital Bank acquisition position the bank to outperform going forward.

Ten Largest Holdings[2,3]

Thomson Reuters Corp	4.6%
Alliance Data Systems Corp.	4.5%
Mondelez Int'l Inc., Class A	4.0%
Hologic Inc.	4.0%
Motorola Solutions	3.9%
CVS Health Corp.	3.9%
Signature Bank	3.8%
Alphabet Inc., Class A	3.7%
Starbucks Corp.	3.7%
Novartis AG (ADR)	3.3%
Total	**39.4%**

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

Moving on to happier subjects, luxury hotelier Belmond was the Fund's biggest winner, contributing 172 basis points to the Fund's return, as its stock generated an amazing total return of 104.3%. The shares soared when the company announced it was selling itself for $25 per share to Paris-based luxury goods conglomerate LVMH. We've owned Belmond since 2013, and we remained confident that the stock price would eventually rise to reflect the value of the company's iconic hotels. We're happy that our patience was rewarded.

Motorola Solutions, the largest provider of mission-critical communications solutions, added 105 basis points to the Fund's return, as its total return was 29.6%. The stock moved higher as the company raised its full-year earnings guidance three times during the year due to broad-based demand for its land mobile radio systems and surveillance solutions from Avigilon, a recent acquisition. Motorola is winning market share and expanding its addressable markets by providing the most innovative and complete communications solutions to its public safety and corporate clients.

Thomson Reuters provides information and data for professionals in the legal, tax, accounting and financial sectors. The stock generated a total return of 14.3% and contributed 79 basis points to the Fund's performance. The shares declined at the beginning of the year, as investors were initially disappointed by the company's decision to sell a 55% interest in its financial segment to Blackstone. We added to our position on the weakness, because the sale allows Thomson Reuters to focus on its higher-growth and higher-margin segments. Investors eventually came around to our perspective and the stock rebounded, then continued to move higher as revenue growth in its legal segment accelerated.

Outlook and Strategy

After posting positive returns for nine consecutive years, the S&P 500's return was negative in 2018. It was a rollercoaster ride from start to finish. The market dropped at the beginning of the year and then rallied during the second and third quarters to reach all-time highs toward the end of September. The S&P 500 then finished the year with a vicious 20% drop. There are several explanations for the market's abrupt drop: trade tensions have escalated between the U.S. and China; global economic growth is beginning to slow, particularly in Europe and China; and there is concern that the U.S. Federal Reserve's fourth interest rate hike of 2018 could hamper growth in the U.S.

As we turn the page to 2019, a slowdown in U.S. growth seems likely. However, given still strong economic data, a recession does not seem to be right around the corner. The unemployment rate remains below 4%, interest rates are still low by historical standards and the consumer remains confident. In fact, Mastercard recently reported that consumers drove the best holiday sales season in six years. These data points are not typical of impending recessions.

Our credit-sensitive stocks fared poorly in 2018, as their valuations fell to levels last seen during the Great Financial Crisis of 2008–2009. Alliance Data and First Horizon were two of our worst performers, while air lessor Air Lease and New York–based Signature Bank didn't fare much better. We have confidence in the credit quality and the capitalization of these companies, so we added to our positions in all four stocks. The valuation of transportation provider FedEx also fell to recession levels, due in part to the cyclicality of its air freight segment, so we added to FedEx as well. If we're right and the economy slows but doesn't decline, all five stocks should move meaningfully higher. And if the economy does decline, since these stocks are already trading at recession-level valuations, we think they can still outperform.

Warren Buffet likes to say that you should be greedy when others are fearful. We took advantage of the fear in the market during the fourth quarter and went bargain hunting, finding five new companies to invest in. All five are secular winners with attractive growth opportunities and pristine balance sheets. We initiated a position in Old Dominion Freight Lines, the country's fourth largest less-than-truckload (LTL) carrier. Old Dominion consistently gains market share due to its best-in-class service, which provides the company with access to more profitable freight. Old Dominion reinvests the profits in newer trucks, better technology and higher compensation, which improves the quality of the company's service...and the virtuous cycle continues.

Sector Weighting[4,5]

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

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

Emerging technologies like artificial intelligence and autonomous driving are becoming increasingly relevant, so we were excited to have the opportunity to invest in two companies empowering this future after their stocks fell for short-term reasons. NVIDIA is the leading provider of graphics processing units (GPUs). GPUs were traditionally used in gaming and professional visualization applications, but have also become critical for delivering accelerated computing power in data centers, autonomous driving and machine learning. We believe the company is uniquely positioned to take advantage of these large and rapidly growing markets. We also initiated a position in Cadence Systems, which sells design hardware and software to semiconductor companies. Cadence is benefitting from an expanding customer base, increasing chip complexity and emerging technologies, all of which are creating exponential growth in data processing and storage needs. We think that earnings growth could meaningfully accelerate over the next few years, so we're excited to own Cadence in the Fund.

In addition, we added Cerner, the largest publicly traded healthcare information technology company. Cerner has a history of innovation, providing a wide range of software, hardware and services that are used across hospitals, pharmacies and physician practices. The company recently signed a 10-year, $10 billion contract with the United States Department of Veterans Affairs, the largest health system in the world. Going forward, we believe Cerner has several exciting growth opportunities and the ability to expand margins.

Our last new holding is Adobe, inventor of the PDF file format and a leading software-as-a-service provider of creative and digital marketing solutions. Adobe's products are mission critical in creating digital content, which is becoming increasingly relevant in today's digital economy.

To make room for these positions, we sold three stocks during the fourth quarter. We exited eBay due to our concern that online niche marketplaces have disrupted its broad marketplace, which will result in slower growth. We sold Intel after generating a solid profit because we believe it's losing market share in its important data center business. Finally, we exited long-term holding Redwood Trust for valuation reasons, as the stock was trading at book value.

At year-end, we believe that our portfolio is well positioned to deal with lower, but still positive, economic growth in 2019. We took advantage of the market's swoon in the fourth quarter to add to our favorite cyclical names and pick up five new secular winners, so we're excited about the Fund's prospects.

Thank you for your investment in the Parnassus Fund.

Yours truly,

Robert J. Klaber	Ian E. Sexsmith
Portfolio Manager	Portfolio Manager