PARNASSUS INVESTMENTS®

Parnassus Mid Cap Fund Commentary

Fourth Quarter 2022

Ticker: Investor Shares – PARMX
Ticker: Institutional Shares – PFPMX

As of December 31, 2022, the net asset value ("NAV") of the Parnassus Mid Cap Fund – Investor Shares was $33.88, so after taking dividends into account, the total return for 2022 was a loss of -21.56%. This compares to a loss of -17.32% for the Russell Midcap Index ("Russell"). For the fourth quarter, the Fund was up 8.65%, behind the Russell's 9.18% gain.

Below is a table comparing the Parnassus Mid Cap Fund with the Russell for the one-, three-, five- and ten-year periods.

Average Annual Total Returns (%)[1]

	1Y	3Y	5Y	10Y	Gross Expense Ratio
PARMX	-21.56	1.60	4.74	9.13	0.96
PFPMX	-21.41	1.82	4.98	9.32	0.75
Russell Midcap Index	-17.32	5.88	7.10	10.96	–

[1]As of 12/31/22.

The average annual total return for the Parnassus Mid Cap Fund – Institutional Shares from commencement (April 30, 2015) was 7.14%. 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 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 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.

The estimated impact of individual stocks on the Fund's performance is provided by FactSet.

Year in Review

The Russell plunged -17.3% in 2022, its worst annual return in over a decade. This marked a significant performance shift from the preceding three years, when the benchmark yielded investors a cumulative return of greater than 70%. With a backdrop of soaring inflation, Federal Reserve rate increases, incrementally more attractive returns on less risky investments, the prospect of a recession and geopolitical tensions, investors lost much of their appetite for equities, particularly non-earning tech stocks.

The Fund's 2022 loss of -21.6% was greater than the benchmark's loss. From a sector allocation perspective, our overweight position relative to the Russell in the Information Technology sector, the second-worst performing sector in the benchmark, subtracted 73 basis points from the Fund's return. The Fund's underweight position in Utilities stocks, one of the Russell's best-performing sectors, took 46 basis points from the Fund's return (one basis point is 1/100th of one percent). The Fund's underweight position in the heavily battered Communication Services sector helped the Fund by 65 basis points, and our overweight positions in the Industrials and Consumer Staples sectors helped the Fund by 39 and 33 basis points, respectively.

The Energy and Utilities sectors were the only two market sectors that generated positive returns in 2022. We do not invest in the Energy sector due to our focus on responsible investments, and this decision cost the Fund 2.42% of return. Energy stocks benefitted from a surge in crude and natural gas prices, as a result of the Russia/Ukraine war and reduced capital spending by drillers. Additionally, we have limited exposure in the Utilities sector due to our avoidance of nuclear generation, so this underweight was a material headwind. Together these allocations reduced our ability to provide the accustomed downside protection for our investors.

The other factor in our performance relative to the benchmark was negative stock selection. The Fund had positive stock selection in the Information Technology, Consumer Staples, Consumer Discretionary and Health Care sectors, but poor stock selection in the Materials and Financials sectors more than offset good stock selection elsewhere.

Avantor, a leading provider of products and services to the life sciences and applied materials industries, dropped -49.9%, slicing the Fund's total return by -2.13%. Although the company's core business performed well, disappointing sales of recently acquired companies Masterflex and Ritter prompted management to lower its overall annual revenue growth expectation. Avantor also faced challenges with inventory destocking in certain lab consumables, currency headwinds due to a depreciating euro and slowing demand in its European markets. However, we believe Avantor has strong long-term prospects due to an attractive valuation, favorable biopharma industry trends, a mix shift toward high margin proprietary products and strong free cash-flow generation.

Ten Largest Holdings[2,3]

Hologic Inc.	4.7%
Otis Worldwide Corp.	4.3%
Cboe Global Markets Inc.	4.0%
Sysco Corp.	3.9%
CNH Industrial NV	3.9%
Verisk Analytics Inc.	3.7%
C.H. Robinson Worldwide Inc.	3.7%
O'Reilly Automotive Inc.	3.5%
D.R. Horton Inc.	3.3%
Workday Inc., Class A	3.2%
Total	**38.2%**

[2]As of 12/31/22.
[3]As a percentage of total net assets. Holdings and allocations are subject to change.
*For this report, we quote total return to the portfolio, which includes price change and dividends.

Another big loser was Signature Bank, a New York-based commercial bank and wealth manager, which saw its stock fall -64.0%, leading to a -2.2%* reduction in the Fund's total return. This was due to rising interest rates, which prompted the bank to increase its deposit rates to retain its customers, as well as declining profitability resulting from narrowing net interest margins. The bank's decision to reduce its exposure to digital asset customers by exiting about $10 billion of deposits, or 10% of the bank's overall deposit base, led to further stock declines. We believe the decision will improve profitability as high-cost, volatile deposits run off. When the Federal Reserve pauses its rate hikes, Signature's profitability should improve meaningfully as its deposit costs stabilize and its loans gradually reprice at higher rates. Over our investment period, Signature's unique performance-driven and autonomous culture should allow the bank to grow faster than its peers. We believe the stock has far greater upside than downside at this level, so we are holding onto our position.

VF Corporation, a clothing and footwear company with global brands such as North Face, Timberland and Vans, saw its shares plummet -62.3% in 2022, leading to a negative impact of -1.6% on the Fund's total return. The company experienced its worst annual performance in more than two decades due to a series of missteps, including lowering their outlook three times due to declining domestic sales, weak demand in Europe and decreased sales in China due to COVID-19 lockdowns. In addition, an inventory glut, unfavorable currency rates and an impairment charge on the company's purchase of streetwear brand Supreme all contributed to declining profits, culminating in the retirement of the company's long-time CEO. Despite these headwinds, the company is working to revitalize Vans and address issues related to inventory, freight and inflationary costs, leading us to hold onto our shares.

Shifting to our winners, Jack Henry & Associates, a leading provider of core account processing and related services to regional banks and credit unions, rose 6.2%, adding 0.2% to the Fund's total return.

Jack Henry exceeded investor expectations with strong earnings throughout the year, thanks to new customer additions, particularly within credit unions, and an expansion of operating margins. We believe the company's durable and subscription-based business model will continue to thrive with the increasing customer adoption of its cloud-based processing platform solutions, market share gains and the company's disciplined capital allocation strategy.

O'Reilly Automotive, the largest auto parts retailer, motored 19.5% higher and added 0.7% to the Fund's total return. After tremendous growth in 2020 and 2021, O'Reilly was able to maintain its high level of execution and grow at a solid mid-single-digit clip in 2022. The company is benefiting from strong pricing power, a favorable industry backdrop and elevated new car prices. O'Reilly continues to gain market share, which speaks to its exceptional service levels and advantaged distribution network.

Cboe Global Markets, a leading market exchange and trading platform, added 0.2% to the Fund's total return, as we trimmed our position on the stock's outperformance.

For the full year, the stock fell -2.2%. Cboe experienced healthy index option volume growth and robust demand for its Data and Access solutions, leading to higher-than-expected earnings in the beginning of the year. In the third quarter, management increased its outlook for annual organic revenue growth from 5%-7% to 9%-11% due to the strength in its Data and Access Solutions business. We believe Cboe is poised to benefit from uncertain market conditions and volatility, thanks to its high-margin proprietary index option products and new product launches.

Outlook and Strategy

As we enter 2023, we believe the Federal Reserve's actions will be the main factor influencing investor sentiment and market direction. We say this because the Fed's decisions reflect nearly all the factors that investors are considering, such as inflation trends, unemployment rates, the target terminal interest rate and associated hurdle rates. In 2022, we saw how stocks were negatively affected when the Fed started to wind down its decades-long accommodative policy, so in 2023, we expect investors to adjust their sentiment based on Fed policy direction.

Given the current economic outlook, which includes an expected growth rate of only 0.4% in the U.S. for 2023 and a 70% chance of recession within the next year according to Bloomberg economists, our perspective on equities is cautious. Inflation, which reached a peak of 9.1% in mid-2022, has declined to 7.1% as of November, but it remains above the Fed's target. While goods and services inflation may decrease over the next year, there is no guarantee the Fed will pause or cut rates. If inflation remains above the Fed's 2% target or the Fed raises rates too aggressively, we could see the economy fall into a recession and put pressure on corporate earnings.

At the same time, mid cap stocks are attractively valued relative to historical measures, with the Russell entering 2023 at a forward price-to-earnings multiple of 15.4 times. This is lower than the 20-year average of 16.4x and the 20-year high of 24.0x, but higher than the 20-year low of 9.0x. Not all stocks are cheap, but there are certainly attractive opportunities in our investable universe.

With this backdrop, our portfolio is carefully balanced with both defensive and opportunistic, high-quality offensive holdings. This approach should help us protect against potential market downturns, while also allowing us to capitalize on growth opportunities. Our investments are centered around resilient companies with competitive advantages, multi-year growth drivers, comfortable capital positions and attractive valuations. These include

Sector Weighting[4,5]

	PARMX	Russell Midcap Index
Industrials	25%	16%
Information Technology	23%	16%
Health Care	16%	11%
Consumer Discretionary	11%	12%
Financials	7%	14%
Consumer Staples	6%	3%
Materials	5%	6%
Real Estate	4%	8%
Utilities	2%	6%
Communication Services	0%	3%
Energy	0%	5%
Short-Term Investments, Other Assets & Liabilities	1%	0%

[4]As of 12/31/22.
[5]As a percentage of total net assets. Portfolio characteristics and holdings are subject to change periodically. For purposes of categorizing securities for diversification requirements under the Investment Company Act, the Fund uses industry classifications that are more specific than those used for the chart.

steady Industrials firms like Otis, Verisk and Republic Services, as well as depressed Staples companies like Ball Corporation and Sysco. These two sector exposures provide defensiveness, while our mature growth service-related Technology holdings, including Autodesk and Workday, offer offensiveness, given their growth prospects, profitability and reasonable valuations. Finally, we hold positions in innovative health care companies like Agilent, IQVIA and Avantor, which offer offensive and defensive attributes due to their exposure to stable and healthily growing areas of the health care sector.

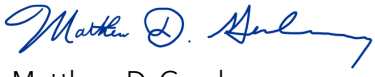
Moving to our sector weightings, we have underweights relative to the Russell in Financials, Real Estate, Materials, Communication Services and Consumer Discretionary sectors. These sectors tend to be vulnerable to negative economic surprises. On the other hand, we are overweight relative to the Russell in the Information Technology, Industrials, Health Care and Consumer Staples sectors. Our holdings here should do well in any market environment and offer attractive valuations with material upside over the long term. In general, though, as bottom-up stock pickers, we are always on the lookout for high-quality companies with asymmetric risk-reward profiles regardless of sector.

We initiated a position in Lam Research in the fourth quarter. Lam produces innovative semiconductor equipment, which will be essential for the next wave of semiconductor chip development and the construction of new semiconductor fabrication plants. The stock recently fell due to concerns about export controls on equipment sales to China and weak memory chip sales. We believe these issues are reflected in the current stock price and expect Lam to benefit as memory spending recovers and as it gains share in advanced logic and foundry applications. To make room for this new holding, we sold First Horizon due to its acquisition by TD Bank, as well as Cable One and Americold due to concerns with slowing sales in exchange for higher-quality names with more upside.

The portfolio owns a collection of well-managed, increasingly relevant businesses with sustainable competitive advantages that should grow earnings and cash flows over the long term. We are confident that this strategy should enable the Fund to potentially outperform the market over the full market cycle.

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

Yours truly,



Matthew D. Gershuny
Lead Portfolio Manager

Lori A. Keith
Portfolio Manager

Earnings growth is not representative of the fund's future performance.

Mutual fund investing involves risk, and loss of principal is possible. The Fund's share price may change daily based on the value of its security holdings. Stock markets can be volatile, and stock values fluctuate in response to the asset levels of individual companies and in response to general U.S. and international market and economic conditions. The Fund invests in small and/or mid cap companies, which are generally riskier than larger companies, and the Fund's share price may be more volatile than funds that invest in larger companies. Security holdings in the fund can vary significantly from broad market indexes.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) GUIDELINES: The Fund evaluates financially material ESG factors as part of the investment decision-making process, considering a range of impacts they may have on future revenues, expenses, assets, liabilities and overall risk. The Fund also utilizes active ownership to encourage more sustainable business policies and practices and greater ESG transparency. Active ownership strategies include proxy voting, dialogue with company management and sponsorship of shareholder resolutions and public policy advocacy. There is no guarantee that the ESG strategy will be successful.

The Parnassus Funds are fossil fuel free-funds, meaning they do not invest in companies that derive significant revenues from the extraction, exploration, production or refining of fossil fuels; the Funds may invest in companies that use fossil fuel–based energy to power their operations or for other purposes.

Cash Flow (free cash flow) is a measure of the amount of money coming into and going out of a company. **Earnings Per Share** is a company's net profit divided by the number of common shares it has outstanding. **Price/Book (P/B) Ratio** is the ratio of a stock's latest closing price divided by its book value per share. **Price/Earnings (P/E) Ratio** is a ratio of a stock's current price to its per-share earnings over the past 12 months (or "trailing" 12 months); whereas, a F**orward Price/Earnings (PE) Ratio** is calculated using forecasted earnings.

The Russell Midcap® Index is a widely recognized index of common stock prices. The Russell Midcap Index is a market capitalization-weighted index that measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index. Index performance includes the reinvestment of dividends and capital gains. An individual cannot invest directly in an index. An index reflects no deductions for fees, expenses or taxes.

Before investing, an investor should carefully consider the investment objectives, risks, charges and expenses of a fund and should carefully read the prospectus or summary prospectus, which contain this and other information. The prospectus or summary prospectus can be found on the website, www.parnassus.com, or by calling (800) 999-3505.