



# Our Approach to ESG Integration

Investing for Principles *and* Performance® Since 1984



# ESG Integration Since 1984

**Parnassus Investments has integrated environmental, social and governance factors into its fundamental investment process since the firm was founded in 1984. We believe that high-quality companies with solid fundamentals and good valuations may offer compelling long-term investment opportunities and that that incorporating ESG research into the decision-making process improves both investment and societal outcomes. Parnassus defines high-quality companies as businesses that have increasingly relevant products or services, sustainable competitive advantages, quality management teams and positive ESG profiles.**

Our investment team views good ESG performance as an indicator of company and management quality. Integrating ESG research into the investment process allows our team to identify material risks and opportunities that may otherwise be overlooked. This comprehensive analysis of fundamental and ESG attributes in tandem results in a more complete view of company prospects that may also help reduce portfolio volatility and manage downside risk.



## What Makes Us Different

- Parnassus Investments has a unique storehouse of ESG investment insights developed from our experience investing for both Principles and Performance® for more than three decades.
- ESG analysis is fully integrated with our long-term, high-quality, high-conviction investment process. We take large stakes in companies and expect to hold them a long time, so developing the clearest possible view of the potential risks and opportunities of each holding is very important to us.
- Investors are not left to wonder about the depth of our commitment to social responsibility because ESG has been baked into all of our investment offerings since our founding in 1984.

## A Wide Range of Approaches to ESG Investment



### Exclusionary Screens

Potential investments, such as tobacco or fossil fuels, are excluded from investment consideration



### Thematic Investing

A specific ESG issue is the focus of the investment, for example microfinancing or alternative energy



### ESG Consideration

One or more ESG factors is added to the prospectuses of existing non-ESG funds that may then be considered in security selection, but ESG analysis does not necessarily influence investment decision-making in all cases



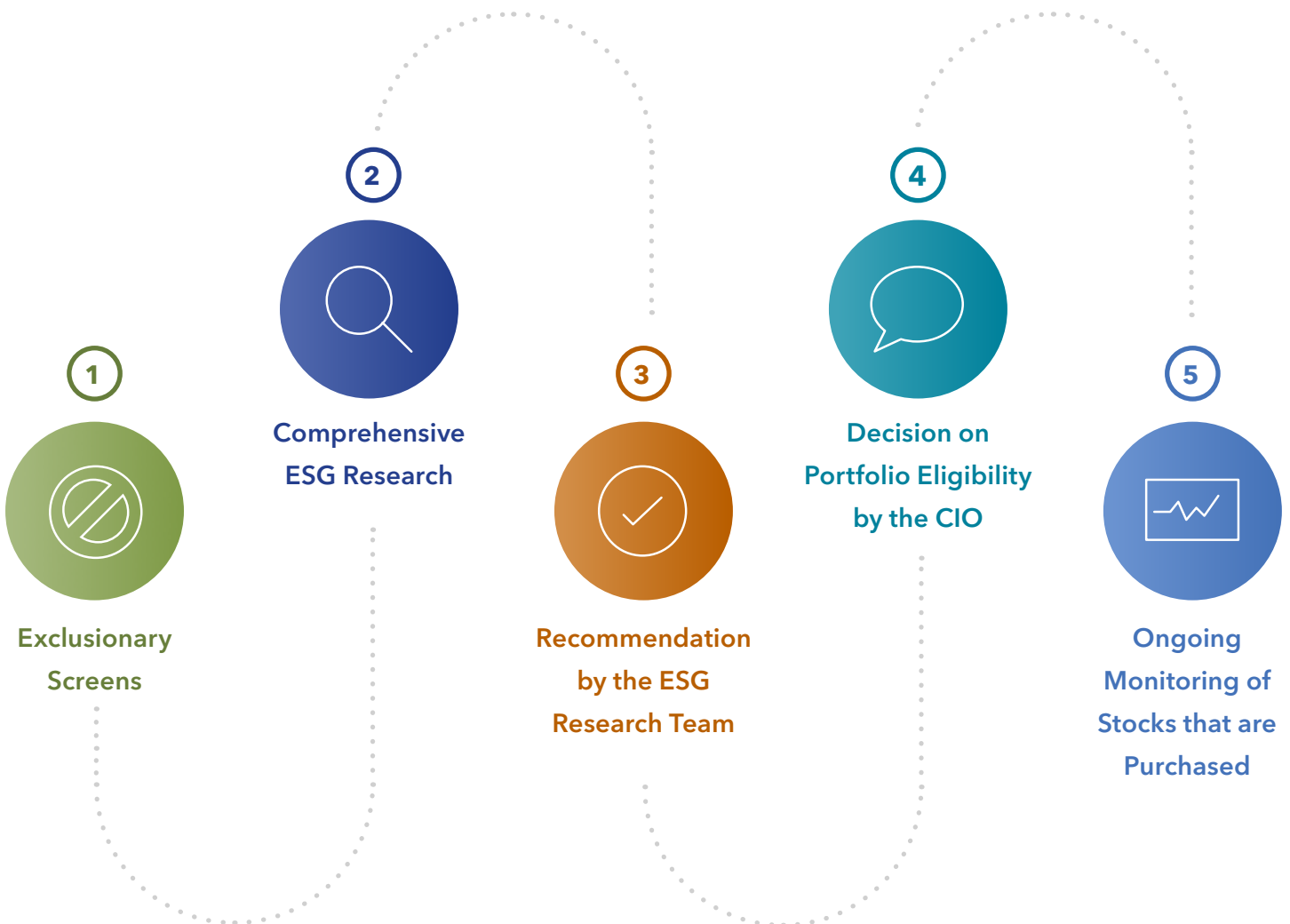
### ESG Integration

Broad-based ESG analysis is undertaken with the goals of identifying issues material to the investment outcome, managing risk and encouraging company progress on ESG issues

# Comprehensive ESG Research

The Parnassus research process starts with fundamentals. If a company shows promise, a deep dive into both its business prospects and ESG risks and opportunities is initiated. The first task of the ESG analysts is to evaluate potential investments to ensure that they are compliant with the firm's exclusionary screens. The ESG team then performs extensive research into the ESG profile of each potential holding, which culminates in a recommendation on the stock that is provided to the Chief Investment Officer. The CIO makes the final decision about whether the stock is eligible for inclusion in the Parnassus Funds.

## ESG Evaluation at Each Step of the Investment Process



## Exclusionary Screens Rooted in Our Values

Companies that derive 10% or more of their revenue from the following are excluded from investment:



Alcohol



Fossil  
Fuels



Gambling



Nuclear  
Power



Tobacco



Weapons

## Full ESG Evaluation of Each Potential Holding

Those companies that pass the exclusionary screens and have sponsorship by a portfolio manager undergo deep research by both the fundamental and ESG analyst teams to identify their risks and opportunities.

The ESG team analyzes each investment candidate's environmental, social and governance record, including:

- their environmental impact
- how they treat their employees
- the quality of their relationships with local communities, customers and the supply chain
- corporate governance policies and practices

This analysis emphasizes those issues that are most relevant and risks that are most material to the company and compares the company under review with their peers.

For example, ESG research on an industrial company may emphasize employee health and safety and environmental impact relative to others in the same industry, whereas ESG research on a technology company may emphasize workplace positives and data security. An important consideration is whether the company is moving in a positive or negative direction on these issues. Investments in companies with ESG performance that falls in the bottom quartile of the investment universe as assessed by our ESG analysts are generally avoided.

The ESG assessment results in a recommendation to the CIO, who makes the final decision on whether a company qualifies for investment. If the CIO passes the company, the ESG team's analysis is then incorporated into the portfolio managers' overall assessment of the company's quality as they consider whether to purchase the stock.

## Ongoing Monitoring

When a portfolio manager decides to buy an approved security, the ESG analysts review their initial research for updates. After a company is purchased, its ESG profile is re-reviewed at least every 12 months or more frequently if a controversy arises. In addition, the Parnassus Chief Compliance Officer periodically tests the research process to ensure that all of Parnassus's ESG policies are being followed.

A security will be sold if Parnassus determines that it no longer meets the firm's ESG or fundamental standards. Considerations in the timing of the sale include gains or losses, tax implications and market conditions. In any case, the security will not be retained in the Parnassus portfolios longer than six months after the sell decision has been made.

## Parnassus ESG Resources

Research Type	Examples
Corporate ESG reporting	Corporate sustainability report, website
Direct contact with the company	Management, board of directors
Government data	OSHA, EPA, state agencies
Media	Newspapers, press releases
SEC filings	Annual report, proxy
Sell-side research	JP Morgan, Sanford Bernstein
Third-party ESG research	MSCI, Sustainalytics, Bloomberg

### Parnassus Fixed Income Fund

The investment team uses the same screens and company evaluation process for corporate debt holdings in the Parnassus Fixed Income Fund as for companies in the firm's stock funds. Asset-backed securities with significant exposure to the firm's exclusionary screens or significant exposure to other ESG concerns are not included in the fixed income portfolio. The firm does not apply ESG restrictions to U.S. Treasuries.

## Focus on Materiality

Our ESG team concentrates their research on the most material ESG risks and opportunities for each company within the context of its sector and industry.

### Examples of Key Issues by Sector

	<b>Communications Services</b>	Content Management Data Security and Privacy
	<b>Consumer Discretionary</b>	Governance & Business Ethics Supply Chain Practices
	<b>Consumer Staples</b>	Labor Management Product Safety and Quality
	<b>Financials</b>	Governance & Business Ethics Societal Impacts of Products
	<b>Healthcare</b>	Access and Affordability Workplace
	<b>Industrials</b>	Environment Impacts Labor Management
	<b>Information Technology</b>	Competitive Behavior Workplace
	<b>Materials</b>	Climate-Related Risk Product Safety and Quality
	<b>Real Estate</b>	Climate-Related Risk Customer Relations
	<b>Utilities</b>	Environmental Impacts Impact on Community

*The Parnassus Funds do not invest in the Energy sector because of our fossil fuel screen.*

# Making an Impact with Engagement

Parnassus owns sizeable quantities of company stock, which opens up opportunities for us to make the voices of our investors heard by some of the most powerful companies in the world. In our experience, building positive relationships with management—which is more likely to happen when they know we are significant stockholders—is an impactful way to effect corporate change. When companies see that we are offering constructive suggestions, they sometimes also approach us for advice.

## How We Approach Engagement

Parnassus defines engagement as meaningful dialogue with company representatives for the purposes of better understanding the firm's operations and sharing our views about relevant ESG topics. Our approach is collegial, constructive and focused on the best interests of stakeholders. We seek an exchange of ideas to deepen our understanding of how the company operates, what management is thinking and the level of effectiveness of the board's oversight. Engagement formats may range from an introductory letter sent to the company when we purchase their stock that highlights our views about their ESG profile to in-depth telephone or face-to-face discussions with senior managers and board members. The ultimate goal of our engagements is to encourage positive action on matters that are important to investors.

## How We Address Company Controversies

If a significant controversy arises with a company held by Parnassus, we will engage with that company before divesting the holding. Our purpose is to learn management's explanation of the facts surrounding the controversy, why it happened and what company management is doing to prevent recurrence. Unless divestment is assured due to a violation of the firm's Responsible Investment Policy or a corporate action that results in a violation of the Parnassus Funds Prospectus, we will give the company an opportunity to explain before making a final decision on divestment.

### Active Ownership

More information on specific engagements and their outcomes is available in the Parnassus ESG Stewardship Report on [parnassus.com](https://www.parnassus.com)



## Industry Collaboration

Parnassus holds memberships in the following ESG organizations. We may collaborate with some of these organizations to further ESG goals from time to time.

- CDP
- Ceres
- Council of Institutional Investors (CII)
- Farm Animal Investment Risk & Return (FAIRR)
- Interfaith Center on Corporate Responsibility (ICCR)
- International Corporate Governance Network (ICGN)
- Investor Network on Climate Risk (INCR)
- Principles for Responsible Investment (PRI)
- Sustainable Accounting Standards Board (SASB)
- US Social Investment Forum (US SIF)

# The Power of Proxy Voting

We believe ESG investors can enhance the value of the companies in their portfolios over the long term by ensuring that their proxies are voted in accordance with their interests as shareholders. Proxy voting is an important element of Parnassus's engagement strategy, particularly because we hold large stakes in companies. We vote based on our guidelines and we are transparent with our complete voting record (see [parnassus.com](https://www.parnassus.com)).

## Why we vote

Voting has the power to influence corporate behavior, such as mandating progress on environmental goals or on the remediation of controversies facing the company. Knowing which resolutions are being raised by other shareholders at these meetings may also help us pinpoint emerging issues before they become major problems.

## How we vote

Parnassus's votes proxies based on the firm's values. The Parnassus investment team and proxy committee consider ISS (Institutional Shareholder Services) recommendations and study the proposals before each vote.

You can find more details about Parnassus's proxy voting record in the annual Parnassus ESG Stewardship Report on [parnassus.com](https://www.parnassus.com)

# Highlights of Parnassus's Proxy Voting Policies

## Environment

For increased disclosure, addressing climate change, eliminating toxins in products and reducing negative operational impacts

## Employees & Supply Chain

For increased disclosure, codes of conduct, fair wages, safe working conditions and the right to organize

## Corporate Governance

For independent boards, separation of CEO and Chairperson roles, increased diversity and engaged board members

## Diversity

For increased disclosure, nondiscrimination policies and improvements in diverse representation both within the workforce and at the executive level

## Community Relations

For good corporate citizenship and community sensitivity

## Ethical Business Practices

For promotion of ethical business practices

We look forward to working with you as you align your investments with your values and your financial goals.

**For our latest investment insights, sign up at [www.parnassus.com/subscribe](http://www.parnassus.com/subscribe).**

The Standard & Poor's 500 Composite Stock Price Index (also known as the S&P 500) and the Russell MidCap Index are unmanaged indexes 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 S&P 500 Index is a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by Parnassus Investments. Copyright © 2020 by S&P Dow Jones Indices LLC, a subsidiary of McGraw-Hill Financial, Inc., and/or its affiliates. All rights reserved. Redistribution, reproduction and/or photocopying in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. For more information on any of S&P Dow Jones Indices LLC's indices please visit [www.spdji.com](http://www.spdji.com). S&P® is a registered trademark of Standard & Poor's Financial Services LLC and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC. Neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors make any representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors shall have any liability for any errors, omissions, or interruptions of any index or the data included therein. Parnassus Investments is not affiliated with MSCI, Inc., Standards and Poor's, Inc, or Russell, Inc.

**Risks:** The Funds 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. In addition to large-cap companies, the Funds may invest 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 funds can vary significantly from broad market indexes. Bond fund values fluctuate in response to the financial conditions of individual issuers, general market and economic conditions, and changes in interest rates. In general, when interest rates rise, bond fund values fall, and investors may lose principal value. Security holdings in the fund can vary significantly from broad market indexes. There are no assurances the Parnassus Funds investment objectives will be achieved, and no guarantees the socially responsible investment strategies discussed will be successful.

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**Before investing, an investor should carefully consider the investment objectives, risks, charges and expenses of the fund and should carefully read the prospectus or summary prospectus, which contains this information. A prospectus or summary prospectus can be obtained on the website, [www.parnassus.com](http://www.parnassus.com), or by calling (800) 999-3505.**



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