



The Parnassus Fund Shift to a Mid Cap Growth Strategy

Frequently Asked Questions (FAQ) as of April 1, 2020

This document provides answers to frequently asked questions related to the transition of the Parnassus Fund to the Parnassus Mid Cap Growth Fund.

What's happening?

Effective May 1, 2020, Parnassus Investments will change the name of the Parnassus Fund (PARNX and PFPRX) to the Parnassus Mid Cap Growth Fund, and the investment strategy will shift to focus on U.S. mid cap growth stocks.

Why is Parnassus making this change?

We are making this change because we see compelling investment opportunities for our clients in mid cap growth companies. We believe mid cap growth companies are rapidly growing, and they have ample runways for continued growth. Our strategy is to invest in higher-quality companies within this segment by applying Parnassus's quality-driven investment process and striving to avoid unprofitable and highly leveraged firms.

When is the change taking place?

The change will be effective May 1, 2020. At that time, portfolio managers Ian Sexsmith, CFA, and Robert Klaber will begin transitioning to the new mid cap growth investment strategy. Until then, the Fund will continue trading within the guidelines of the existing Parnassus Fund multi-cap strategy. The transition to the mid cap growth mandate is expected to be complete on June 1, 2020.

When will I be able to review the new holdings and characteristics?

On June 10, we will update portfolio holdings through May on our website, and a few days later, we will upload portfolio characteristics to parnassus.com. On June 15, we will post a fact sheet and characteristics on the Parnassus Mid Cap Growth Fund page. All these items will again be updated through June on our regular quarterly schedule in July.

Can you tell me about expected changes to the risk/return profile of the Fund?

We believe the new strategy will improve the risk/return profile of the Fund. Mid cap growth companies as a group have historically been more volatile than large cap companies, and the Parnassus Fund has typically held a high percentage of large cap stocks.¹ However, the investment approach of the Parnassus Fund has emphasized deeply discounted holdings. This has led to higher-

¹Morningstar Direct, as of 12/31/19. Russell Midcap Growth Index standard deviation over the 1-, 3-, 5- and 10-year time period was 15.70%, 14.07%, 13.65% and 14.54%, respectively. Standard deviation for the S&P 500 Index over the 1-, 3-, 5- and 10-year time period was 12.89%, 12.10%, 11.98% and 12.46%, respectively. Standard deviation is the measure of the total volatility, or risk in a portfolio. Standard deviation tells how widely a portfolio's returns have varied around the average over a period of time.

than-typical volatility, because the outcome of each investment is likely to be either strongly positive or strongly negative.

In contrast, the Parnassus Mid Cap Growth Fund will put less emphasis on the level of valuation (although of course valuation is always an important consideration) and more emphasis on company quality. We believe that, by focusing the Parnassus Mid Cap Growth Fund on profitable, high-quality companies that are still in their growth phase and avoiding companies that are highly levered, we can maintain similar levels of portfolio volatility to those of the original Parnassus Fund in most market environments. In our view, there is also an opportunity to capture significant company growth within the mid cap growth category.

Will the expense ratio change?

No, the total and net expense ratio will continue to be 0.85% for investor shares, offering a good value for exposure to mid cap growth companies relative to the average net expense ratio of U.S. mid cap growth funds, which is 1.17%.²

What benchmark will the Parnassus Mid Cap Growth Fund use?

Effective May 1, the Parnassus Mid Cap Growth Fund will be benchmarked to the Russell Mid Cap Growth Index.

What will happen to the performance history of the Fund?

The Parnassus Mid Cap Growth Fund will retain the performance history of the Parnassus Fund since its inception in 1984. Over time, the performance history will be more reflective of the mid cap growth strategy. For example, the one-year return of the Fund through June 2021 will fully reflect the mid cap growth results, while the three- and five-year returns through June 2021 will still be more heavily influenced by the original Parnassus Fund's multi-cap results.

Will the Fund's Morningstar category change?

We expect that Morningstar and other fund reporting services will recategorize the Fund to a mid cap growth fund, although we do not know when that change will occur. The Morningstar star rating is likely to be based on the Fund's new peer group of mid cap growth funds soon, but the performance history will continue to include the results for the original all-cap strategy, which will likely influence ratings relative to mid cap growth peers for some time.

Will the new Fund continue to be an ESG (environmental, social and governance) fund?

Yes! All strategies at Parnassus are keenly focused on ESG. Every security is vetted to ensure that it meets our ESG investment standards. We have a dedicated team of ESG research analysts who perform due diligence on every stock in the portfolio on an initial and ongoing basis. We will also continue to constructively engage with companies held in the portfolio as opportunities arise.

²Morningstar Direct, as of 12/31/19.

What if I prefer to own a large-cap stock fund?

If you prefer to retain some or all of your assets in large cap stocks, we offer two large cap funds, the Parnassus Core Equity Fund and the Parnassus Endeavor Fund, for your consideration. [Please contact](#) Shareholder Services or your Client Services team to learn more about the available options at Parnassus.

Will I pay capital gains as a result of this change?

The tax impact of the portfolio turnover during the transition to a mid cap growth strategy will depend on the difference between the price at which the portfolio holdings are sold and the Fund's basis in such holdings. The severe market volatility has created a unique opportunity to make this transition with little or no capital gains generated by buys and sells to reposition the Fund. If there are any capital gains caused by the transition—or by normal trading before or after the transition—those gains would be paid out at the end of the year. To avoid these capital gains, investors would need to sell their shares of the Fund by November 18, 2020.

As a reminder, it is always the case that selling your shares in the Fund may result in capital gains. Please contact Shareholder Services or your Client Services team for more information.

Will I pay trading expenses to sell my Parnassus Fund shares?

If you purchased your shares directly from Parnassus, you will not pay trading fees. If you purchased your Parnassus Fund shares elsewhere, any trading fees charged by your dealer or trading platform will apply. Please consult your broker dealer for more information.

Can you tell me more about Ian Sexsmith and Robert Klaber?

Ian Sexsmith has been managing the Fund since 2013. Robert Klaber became a portfolio manager for the Parnassus Fund in 2016. They have both built their careers at Parnassus. Ian joined the firm in 2011, and Robert joined in 2012. Together, they have 25+ years of investing experience, and they have a well-defined partnership as co-portfolio managers of the Parnassus Fund. You can view their biographies [here](#).

What resources does Parnassus have to support this new mid cap growth investment strategy?

Ian and Robby will continue to be fully supported by the firm's 15-person research team. Our research team is highly collaborative and regularly meets to review investment opportunities.

What other information is available now?

On April 1, we published a press release and prospectus sticker on our website.

What additional information will be available to me?

- Shareholders of the Fund will be mailed a prospectus supplement and a letter from our CEO.
- We will be hosting a conference call on April 8 with our portfolio managers to review the new portfolio strategy and to answer questions you may have. You can register for the conference call [here](#). For those unable to join the call, we will publish a recording on the Parnassus Fund page of our website.

Past performance is not a guarantee of future results. Mutual fund investing involves risk, and loss of principal is possible.

The Parnassus Funds are underwritten and distributed by Parnassus Funds Distributor, LLC.

The Fund will invest primarily in mid-capitalization companies, and may also invest in small-capitalization companies, both of which can be particularly sensitive to changing economic conditions since they do not have the financial resources or the well-established businesses of large-capitalization companies. Both small- and mid-cap companies can be more volatile than large-cap companies.

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, or by calling (800) 999-3505.