PARNASSUS INVESTMENTS®

Parnassus Core Equity Fund Commentary

Fourth Quarter 2019

Ticker: Investor Shares - PRBLX
Ticker: Institutional Shares - PRILX

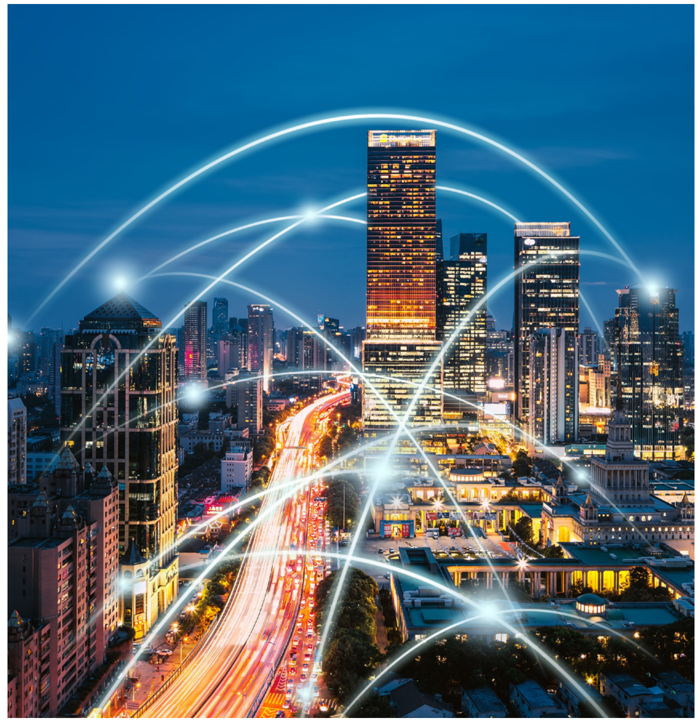
As of December 31, 2019, the net asset value ("NAV") of the Parnassus Core Equity Fund – Investor Shares was $47.03. After taking dividends into account, the total return for the year was a gain of 30.69%. This compares to a return of 31.49% for the S&P 500 Index ("S&P 500") and a gain of 24.40% for the Lipper Equity Income Funds Average, which represents the average return of the equity income funds followed by Lipper ("Lipper average").

Below is a table that summarizes the performances of the Parnassus Core Equity Fund, the S&P 500 and the Lipper average. The returns are for the one-, three-, five- and ten-year periods. We are pleased to report that the Fund outperformed the Lipper average for all periods.

Average Annual Total Returns (%)[1]

	1Y	3Y	5Y	10Y	Gross Expense Ratio	Net Expense Ratio
PRBLX	30.69	15.00	10.80	12.75	0.87	0.87
PRILX	30.96	15.24	11.03	12.97	0.63	0.63
S&P 500 Index	31.49	15.27	11.70	13.56	–	–
Lipper Equity Income Funds Average	24.40	10.13	8.05	10.70	–	–

[1]As of December 31, 2019.
*For this report, we quote total return to the portfolio, which includes price change and dividends.
The average annual total return for the Parnassus Core Equity Fund – Institutional Shares from commencement (April 28, 2006) was 10.96%. Performance shown prior to the inception of the Institutional Shares reflects the performance of the Parnassus Core Equity 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, and 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.



Year in Review

We are pleased that the Parnassus Core Equity Fund – Investor Shares had a total return of 30.69% in 2019, which represents 98% of the 31.5% gain for the S&P 500 Index. Overall, sector allocation had a slightly negative effect. Our overweight positions in two underperforming sectors, consumer staples and materials, were the biggest headwinds.

As for individual stocks, there were two significant losers in 2019. Transportation provider FedEx reduced the Fund's performance by 84 basis points, as its total return from our average cost was negative 17.4%.* (One basis point is 1/100th of one percent.) The stock fell because the expectation for the company's current fiscal-year earnings dropped by a shocking 30%. FedEx's earnings suffered as the company ended its relationship with Amazon, underestimated the cost to roll out seven-day shipping, and lost market share in Europe. At the same time, falling global air freight volumes, caused by the U.S.-China trade dispute, reduced the company's highest incremental margin business. Despite these challenges, we're holding on to our shares. We believe the upside for the stock will be significant, as management resolves its company-specific issues and global air freight volumes improve from their worst year since 2009.

Industrial conglomerate 3M reduced the Fund's 2019 performance by 21 basis points, as the total return to our average selling price was negative 12.1%. We sold the stock during the second quarter, after the company reported weak earnings and significantly reduced its guidance for the full-year earnings. As we re-evaluated our investment, we became concerned that more aggressive restructuring may be required to improve the company's performance. We were also concerned that 3M's environmental liabilities related to its historical production of per- and poly-fluorinated substances (PFAS) could be significant.

The Fund had four stocks that rose at least 50% in 2019, each adding more than 190 basis points to the annual return. Microsoft, the leading business productivity software and cloud computing provider, was the biggest winner, with a gain of 57.6% and a 228-basis-point boost to the Fund's return. Microsoft's stock moved higher as the company beat earnings expectations for each of the past three quarters by more than 10%. Even with high expectations and positive investor sentiment, the company continued to outperform by executing well across some of the largest, fastest-growing markets in enterprise software. Microsoft's Commercial Cloud business, which includes Office 365 and Azure, exhibited strong growth. Microsoft Azure is gaining market share and technical validation, and the company remains in the early innings of capturing the cloud computing opportunity.

Ten Largest Holdings[2,3]

Microsoft Corp.	6.3%
The Walt Disney Co.	4.9%
Danaher Corp.	3.6%
Verizon Communications Inc.	3.5%
American Express Co.	3.3%
CME Group Inc.	3.3%
Costco Wholesale	3.2%
Linde plc	3.2%
The Clorox Company	3.2%
Bank of America Corp.	3.2%
Total	**37.7%**

[2]As of December 31, 2019.
[3]As a percentage of total net assets. Holdings and allocations are subject to change.

Our investments in leading electric design automation ("EDA") companies Cadence Design Systems and Synopsys together contributed 395 basis points to the Fund's return. Cadence added 200 basis points to the Fund's return with a 59.5% gain, while Synopsys climbed 65.2% and contributed 195 basis points. These companies provide tools for designing semiconductors. Several broad-based factors are supporting EDA industry growth, including increased demand from traditional semiconductor companies and diversification into new markets. Demand for EDA companies' software and hardware solutions is accelerating as their customers continue to design increasingly complex chips and devices.

Mastercard, the global payments network company, added 191 basis points to the Fund's return, with a 59.2% gain for the stock. Mastercard's stock increased as the company beat earnings expectations in every quarter of 2019. Management also made strategic acquisitions and positioned the company to capture new payment flows. The stock should continue to do well over time as the company benefits from the transition from cash to cashless payments.

Outlook and Strategy

The S&P 500 bull market will celebrate its 11th anniversary in 2020, making it the longest bull market since 1900. Low interest rates from the Federal Reserve and the emergence of a trade truce will likely keep investors upbeat about the market in the near term. However, the recent rebound in global growth looks more cyclical than secular to us. We think high valuations combined with expected moderate revenue and earnings growth have caused elevated downside risk for stocks in 2020.

Nearly 80% of 2019's equity performance was driven by multiple expansion, as profit growth was generally subdued. In fact, earnings growth remained elusive for the past three quarters, and this trend was even worse for small- and mid-cap companies. One of the key downside risks to earnings comes from margin pressures, with potential headwinds from renewed trade tariffs, rising input costs and bipartisan support for new regulations on U.S. tech companies, where profit margins are particularly high.

As a result, the Fund is more defensively positioned heading into 2020 than it was a year ago. While the Fund has significant exposure to the technology sector (approximately 20% of the portfolio), we are underweight relative to the S&P 500. Within the technology sector, the Fund has low exposure to hardware and semiconductors because they seem fully valued after significant gains in 2019. In contrast, the Fund is overweight software companies like Microsoft, Cadence and Synopsys, which benefit from growth in cloud computing, analytics and chip design complexity.

The Fund is underweight the consumer discretionary and financials sectors. We don't own Amazon.com, by far the index's largest weighted stock in the consumer discretionary sector, due to its high valuation. In financial services, the Fund's exposure is mostly in disruptive and growth-oriented companies such as American Express, Charles Schwab and CME Group. We also have a significant investment in Bank of America, because of its relatively conservative lending approach and attractive valuation.

Moving to health care, the Fund is underweight mainly due to having no exposure in the pharmaceutical sector. We are concerned that drug pricing will remain under scrutiny, and at the same time we believe that the overall return on investment for drug development will continue to decline. Our largest position in the sector is Danaher, a diversified holding company with attractive diagnostics and analytics franchises.

Rounding out our underweight sectors, the Fund does not own any energy companies due to our fossil fuel free mandate. We are pleased that the Fund's carbon emissions are 49% less than the S&P 500, as measured by the portfolio on July 31, 2019. This is important given the potential long-term cost of externalities related to climate change. Additionally, we have no exposure to the utilities sector due to high valuations.

The Fund's largest overweight sector is consumer staples. Our largest investment in the sector is retail titan Costco, which has a best-in-class cost structure and a valuable membership base. We also have significant exposure to food company Mondelez and high-quality household products companies Clorox and P&G. We believe these holdings offer an attractive combination of growth through innovation and stability due to dividends.

We are overweight the industrials and materials sectors with two major themes. First, we have significant investments in competitively advantaged, recurring revenue businesses like Waste Management, Verisk Analytics and Linde. Second, the Fund has positions in cyclical businesses like Federal Express and John Deere, which have low expectations and valuations entering 2020, but still maintain solid long-term business prospects.

Sector Weighting[4,5]

	PRBLX	S&P 500 Index
Information Technology	20%	24%
Consumer Staples	15%	7%
Industrials	14%	9%
Communication Services	13%	10%
Financials	11%	13%
Health Care	11%	14%
Materials	6%	3%
Consumer Discretionary	4%	10%
Real Estate	4%	3%
Energy	0%	4%
Utilities	0%	3%
Short-Term Investments	2%	0%

[4]As of December 31, 2019.
[5]As a percentage of total net assets.

Finally, the Fund is now overweight the communications services sector. Disney, which was a strong performer in 2019, is our largest investment in the sector. During the fourth quarter, we added Verizon and Comcast to the portfolio.

Verizon is the country's largest wireless carrier, and has a leading brand due to its superior network. The company's massive network represents a high barrier to entry, while its long-term relevancy is solid due to growing mobile data consumption. Verizon's valuation is attractive at 12x next year's earnings. It also currently offers a compelling 4% dividend yield, which is supported by strong cash flows and a solid balance sheet.

Comcast is a best-in-class cable company that also owns media assets such as NBC, Sky and Universal Studios. We think that investors are overly focused on the threats to Comcast's media segments. Specifically, the company's broadcast assets are experiencing weakness due to cord cutting. At the same time, Comcast plans to spend at least $2 billion over the next two years on Peacock, its direct-to-consumer ("DTC") streaming business. On the positive side, Comcast's crown-jewel cable business generates almost 40% of the overall company's revenues and over 70% of earnings before interest, taxes, depreciation and amortization ("EBITDA"). We think the cable business is a very attractive and valuable franchise, and since it represents such a large proportion of the company's overall value, we're willing to accept the risks associated with the media assets.

Thank you for your confidence and investment in the Parnassus Core Equity Fund.

Sincerely,

Todd C. Ahlsten	Benjamin E. Allen
Lead Portfolio Manager	Portfolio Manager