Inside the Parnassus Fixed Income Fund: A Focus on ESG Integration and Corporate Bonds
Fortify Your Practice with ESG Investments for Your Clients

As ESG issues like the environment, diversity, workplace policies and corporate governance become more prominent, many people are becoming increasingly interested in aligning their investments with their values. One ESG fund you may consider recommending to your clients is the Parnassus Fixed Income Fund (PRFIX/PFPLX).

The Parnassus Fixed Income Fund is a high-quality intermediate ESG fund with a keen focus on fundamentals and risk. These features make the fund a compelling choice for a core fixed income holding, especially for your clients who are interested in environmental, social and governance investments. Offered by a pioneer in socially responsible investing, the fund emphasizes corporate security holdings.

Why ESG Is Important for a Fixed Income Fund

Parnassus believes that ESG investing is particularly beneficial for fixed income because these investments are typically included in a portfolio to help reduce downside risk. Repayment and default risks are important concerns of fixed income investors, and including ESG analysis alongside traditional financial research may add critical information about risks. Strong ESG performance is also a good indication of operational excellence, which results in a lower cost of capital for companies. On the other hand, poor governance and high levels of risk may lead a company to take on a significant acquisition that could materially change the composition of the balance sheet.

Fixed Income Investment Process Overview

The Parnassus Fixed Income Fund holds two primary asset classes, corporate bonds and Treasuries, with smaller allocations devoted to government-related securities, convertibles and preferred stock. The firm’s Fixed Income Committee establishes estimated ranges for yields and spread levels over the next twelve months for Treasuries and corporate securities with a high degree of confidence in each range. The committee projects these outcomes by reviewing opportunities for income generation and principal appreciation relative to risk.

Top Reasons to Invest

1. The Parnassus Fixed Income Fund is an investment-grade ESG fund with approximately 80 deeply researched holdings.

2. The fund’s holdings are easy to understand and do not include leverage or derivatives.

3. Parnassus’s large investments allow our fixed income team to engage companies at the executive level before investing and if an ESG issue arises after investing.

4. The fund emphasizes corporate securities that have a significant overlap with the companies held in the firm’s stock funds.
Firmwide Focus on ESG

Across all its strategies, Parnassus Investments takes large stakes in companies and expects 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. Parnassus has integrated ESG 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 better long-term investment opportunities, and that incorporating ESG research into the decision-making process can improve both investment and societal outcomes.

When Parnassus’s fundamental research team identifies a company that shows promise, a deep dive into both its traditional financials and ESG risks and opportunities is initiated. The first task of the ESG analysts is to ensure that potential investments are compliant with the firm’s exclusionary screens. Companies are excluded if they

What Are Green Bonds?

Parnassus is a proponent of the green and sustainable bond market, and the Parnassus Fixed Income Fund has purchased green bond new issuances that the team believes are good investments for nearly a decade. Typically, the fund has about 10% of its net assets invested in green corporate bonds, green supranational bonds and corporate sustainability bonds, all of which may offer downside protection.

Corporate green bonds are issued by companies solely for the purpose of raising funds to advance environmentally sustainable projects. Examples include energy efficiency and sustainable practices related to land, water and waste management. The use of proceeds is audited and reported to investors. These bonds, like any other corporate bond, are backed by the credit of the company. Green bonds are typically issued by higher-quality companies that are interested in addressing ESG issues.

Sustainability bonds are a newer type of corporate bond that may be issued to fund a combination of environmental and social goals. Proceeds may be used for projects such as educational opportunities for employees or funding affordable housing in the community.

Supranational green bonds are AAA credits that can serve as a less volatile alternative to Treasury debt. These bonds are usually issued by the World Bank or another supranational bank to fund work on climate change projects in areas of the world that don’t have the local capital to address environmental concerns. Supranational bonds may offer a higher yield and lower volatility than Treasuries.
generate significant revenue from alcohol, tobacco, weapons, gambling, nuclear energy or the extraction, exploration, production or refining of fossil fuels.

Those companies that pass the exclusionary screens and have sponsorship by a portfolio manager then undergo deep research by both the fundamental and ESG analyst teams. The ESG team assesses each company’s environmental impact; treatment of employees; relationships with local communities, customers and the supply chain; and corporate governance policies and practices. This research emphasizes those issues that are most relevant and risks that are most material to the company and compares the company under review with its 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. The team evaluates both the company’s current profile on these issues and whether that profile is improving or deteriorating. The ESG team’s research culminates in a recommendation to the chief investment officer, who makes the final decision about whether the company is eligible for inclusion in the Parnassus Funds.

**Firmwide Fundamental Research**

While the ESG team is reviewing the ESG profiles of a potential investment, Parnassus’s fundamental analysts focus on evaluating each business’s relevancy, moat and management. The goal of evaluating relevancy is to ascertain whether a business is gaining or losing market share to help gauge its likely future relevance to customers. The team evaluates the strength and persistence of each potential investment’s moat, or competitive advantages, to determine how likely it is to ward off competitors for an extended time. The assessment of company management is undertaken to determine whether executives and board members are good stewards of investor capital and are incentivized to prioritize long-term success.

**Fixed Income Investment Committee Members**

- **Samantha D. Palm**  
  Fixed Income Portfolio Manager *since 2013*  
  Chair of the Fixed Income Committee

- **Todd C. Ahlsten**  
  Chief Investment Officer *since 2008*

- **Minh Bui**  
  Fixed Income Portfolio Manager *since 2020*  
  Senior Research Analyst *since 2005*

- **Matthew Gershuny**  
  Deputy Chief Investment Officer (2020)  
  Portfolio Mgr. of the Parnassus Mid Cap Fund (2008)

- **Isaac Macieira-Kaufmann**  
  Research Analyst *since 2018*

**Key Fund Facts**

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<tr>
<th>Tickers</th>
<th>PRFIX/PFPLX</th>
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<tbody>
<tr>
<td>Asset Class</td>
<td>U.S. investment grade fixed income</td>
</tr>
<tr>
<td>Benchmark</td>
<td>Bloomberg Barclays U.S. Aggregate Bond Index</td>
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<tr>
<td>Holdings</td>
<td>~130</td>
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<tr>
<td>Inception</td>
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Corporate Bond Analysis

All of the companies determined by Parnassus’s firmwide research team to be eligible for investment in the Parnassus equity funds are also available for investment in the Fixed Income Fund. However, while a company’s equity and bond prices will move together over a very long period of time, that is not necessarily the case over a three-to-five-year investment horizon. For this reason, fixed income securities face additional hurdles.

The Fixed Income Fund portfolio managers review the balance sheet with an emphasis on cash flows and how management is incentivized to handle cash. On the income statement, the portfolio managers focus on revenue growth, operating margin expansion and new business opportunities. The fixed income portfolio managers may also bypass companies that are eligible for the equity funds due to merger and acquisition activity, share buybacks or the valuation of the company’s debt.

Furthermore, although there is one equity security available for most companies, businesses often issue multiple bonds with differing structures and pricing. The fixed income portfolio management team monitors each issue of a company they are interested in holding before deciding which security will be purchased for the fund.

To Learn More
https://www.parnassus.com/contact-us

There are no assurances the Funds will meet their investment objectives and or that their ESG strategies will be successful.

Risks: 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. The Bloomberg Barclays U.S. Aggregate Bond Index is a widely recognized index of fixed-income security prices. An individual cannot invest directly in an index. An index reflects no deductions for fees, expenses, or taxes. Returns shown for the fund do not reflect the declaration of taxes a shareholder would pay on the fund distributions or the redemption of fund shares.

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

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 contain this information. A prospectus or summary prospectus can be obtained on the website, www.parnassus.com, or by calling (800) 999-3505.