

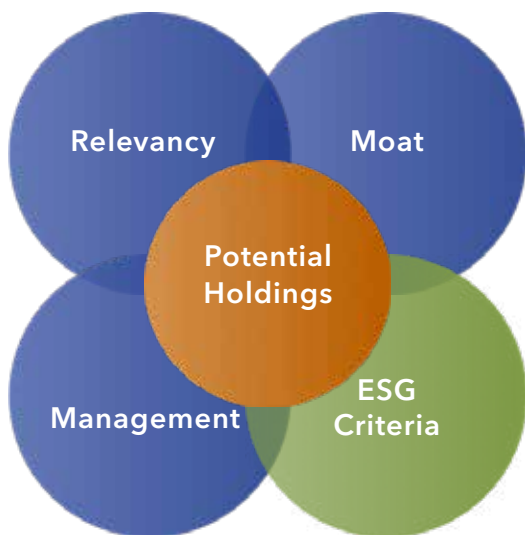


Our Approach to Environmental, Social and Governance Integration

Investing for Principles *and* Performance® Since 1984

Fully Integrated ESG and Fundamental Investment Process

Parnassus Investments has integrated environmental, social and governance factors into its fundamental investment process since the firm's inception. We believe that high-quality companies with solid fundamentals and good valuations can offer compelling long-term investment opportunities, and 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 believes that 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 for a long time, so developing the clearest possible view of the potential risks and opportunities of each holding is very important to us.
- Broad-based ESG analysis is performed with the goals of identifying issues material to the investment outcome, managing risk and encouraging company progress on ESG issues.
- 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.

Our ESG Guardrail: The Restricted List

Parnassus's ESG research process begins with the construction of a list of companies that do not meet our ESG standards. We take a systematic approach to eliminating the worst ESG performers from the investment universe. The restricted list includes two groups of companies: those that have been deemed ineligible for investment due to controversial business activities, poor management of ESG risks or other factors, and those that are not compliant with the firm's exclusionary screens. An example of a company that engages in controversial business activities is one with a business model that conflicts with the best interests of its customers.

Severe Risks or Controversies

All companies in the investment universe are evaluated using the investment team's accumulated institutional ESG knowledge and Parnassus's framework for prioritizing the most salient ESG issues within each sector. Those companies that face severe levels of material or reputational ESG risks or controversies are added to the restricted list. Not coincidentally, these companies also face elevated economic and financial risks as a result of their poor ESG

profiles, making them unattractive investments from both a fundamental and an ESG vantage point. This component of the restricted list is developed by the firm’s research management team (CEO, CIO, deputy CIO and director of research) in collaboration with the ESG stewardship team.

Exclusionary Screens

Companies that derive 10% or more of their revenue from alcohol, fossil fuels, gambling, nuclear power, tobacco or weapons are excluded from investment by prospectus. Parnassus believes that these companies, for example, tobacco manufacturers, don’t provide a net-positive contribution to society. The ESG stewardship team is responsible for maintaining this exclusionary-screens list.

The CIO makes the final decision on which companies are included on the restricted list. Names on the restricted list are reviewed at least quarterly and on an ad-hoc basis.

Focus on Materiality

Our investment team concentrates their research on the ESG risks and opportunities that are most impactful for each sector and industry.

Examples of Key Issues by Sector



Communications Services

Content Management
Data Security and Privacy



Consumer Discretionary

Governance and Business Ethics
Supply-Chain Practices



Consumer Staples

Labor Management
Product Safety and Quality



Financials

Governance and Business Ethics
Societal Impacts of Products



Healthcare

Access and Affordability
Workplace



Industrials

Environment Impacts
Labor Management



Information Technology

Competitive Behavior
Workplace



Materials

Climate-Related Risk
Product Safety and Quality



Real Estate

Climate-Related Risk
Customer Relations



Utilities Ex-Energy

Environmental Impacts
Impact on Community

The Role of ESG Research in Security Selection

Any company that is not on the restricted list may be selected for deeper ESG and fundamental research. The covering analyst leverages the expertise of Parnassus's dedicated ESG stewardship team throughout the ESG assessment of potential holdings. The analyst leads research on company-specific ESG risk, while the ESG stewardship team contributes research on risks that are most important for the sector. This relationship exemplifies the close collaboration across the investment team that is a hallmark of Parnassus.

The covering analyst looks for material ESG and reputational risks that could impact the range of outcomes for the security over time. Material risk is likely to move the stock or bond price over the next few years. An example is environmental risk that will create stranded

assets. Reputational risk may move the stock in the future. A company with controversial data-privacy practices that haven't yet impacted the investment, but could be impactful in the future, is facing reputational risk.

These two types of risks are interconnected because strong management of material risk often results in a positive reputation, and vice versa. The covering analyst summarizes the risk scores and other relevant information about the company's ESG profile in a one-page risk report with a rating from 1 to 4, with a plus if the company's ESG performance is trending up or a minus if it is trending down. The analyst provides a recommendation to Parnassus's CIO, who makes the final decision about portfolio eligibility.

Sources of Research

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, ISS

Monitoring the ESG Profiles of Holdings

After a security is purchased, the analyst regularly reviews their initial research for updates. Each holding's ESG risk profile is re-reviewed at least every 12 months, or more frequently if a controversy arises. In addition, the five companies in each strategy with the highest ESG risks receive extra attention from the covering analyst and the ESG stewardship team. The highest-risk companies are identified by the ESG stewardship team based on their material and reputational risk scores and a review by the ESG stewardship team that takes into consideration whether the company's risk-management practices are improving or worsening. The list of highest-risk companies in the portfolios is reviewed for updates weekly. These companies are also considered for individual engagements led by the ESG stewardship team.

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.

Reviewing Key Issues at a Glance

Dashboards allow the investment team to easily monitor the profile of each strategy for key ESG thematic risks, such as climate change. As such, they provide an important framework for monitoring the impact of thematic risks in the portfolios. These dashboards also facilitate comparisons between companies within portfolios, and help the team pinpoint those businesses that could benefit from pursuing opportunities to improve, which could lower their costs and ultimately improve profitability. Finally, the dashboards are used by the sector teams in their evaluations of potential investments relative to alternatives in the same sector or industry.

Parnassus Fixed Income Fund

The Fixed Income Fund invests in corporate bonds, green bonds, supranational bonds, corporate sustainability bonds and U.S. Treasuries. The investment team uses the same ESG and fundamental research process to evaluate corporate debt for inclusion in the Parnassus Fixed Income Fund as they use for vetting companies held by the firm's stock funds. Asset-backed securities with significant exposure to the firm's exclusionary screens or to ESG risks or controversies are not included in the fixed income portfolio. The firm does not apply ESG restrictions to U.S. Treasuries.

Parnassus shares our research team's views on the ESG profiles of companies held in our portfolios on [parnassus.com](https://www.parnassus.com).

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.

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. The goals of the firm's stewardship activities are to enhance our investors' responsible-investing experience by encouraging positive changes in the ESG practices, policies and performance of portfolio companies.

Impact Engagements

The ESG stewardship team focuses the majority of its efforts on in-depth engagements that may involve urging companies held by Parnassus to act on an important issue. For these engagements, we advise management to adopt specific measures to address some of the most impactful ESG issues, for example, climate change or workplace diversity.

High-Risk Company Engagements

The ESG stewardship team also leads focused engagements with the five highest-risk companies in each strategy to encourage improvements in their management of risks.

Company Controversies

If a significant controversy arises with a company held by Parnassus, we will engage with that company. 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 improve before taking action.

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 Climate Change
- Ceres
- Council of Institutional Investors (CII)
- Farm Animal Investment Risk & Return (FAIRR)
- Interfaith Center on Corporate Responsibility (ICCR)
- International Corporate Governance Network (ICGN)
- 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).

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 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 learn more about our proxy voting activities on 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.

**For our latest investment insights, sign up at
www.parnassus.com/subscribe.**

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE 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 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. 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. © 2021 Parnassus Investments. All rights reserved. Mutual fund investing involves risk and loss of principal is possible. 20210727-0748. The Parnassus Funds are underwritten and 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 contains this information. A prospectus or summary prospectus can be obtained on the website, www.parnassus.com, or by calling (800) 999-3505.



1 Market Street, Suite 1600 San Francisco, CA 94105 | (800) 999-3505 | www.parnassus.com

