



Exploring the Parnassus Endeavor Fund



The Parnassus Endeavor Fund is a core large cap value environmental, social and governance (ESG) fund that is typically suitable as a long-term investor's primary allocation in large cap value stocks. As a "clean value" fund, it avoids investing in controversial companies and carbon-intensive industries. The portfolio manager employs a quality-biased relative-value approach to select stocks that the team believes are temporarily undervalued by the market. They undertake comprehensive research to identify potential opportunities with the goal of understanding the risk and reward profile of each holding. The resulting high-conviction, high-active-share portfolio is a collection of approximately 40 deeply researched, diversified stocks.

The Endeavor Fund's Value Approach

The Parnassus Endeavor Fund portfolio manager believes that undervalued companies with strong or improving fundamental and ESG profiles provide long-term investors with a differentiated opportunity to make "clean" investments without sacrificing returns. Throughout the investment process, the investment team evaluates each business's relevancy, moat and management to develop a high-conviction, high-active-share portfolio. 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. Parnassus assesses company management to determine whether executives and board members are good stewards of investor capital and prioritize long-term success.

The result of the team's assessment is a relative-value portfolio consisting of contrarian picks and quality compounders that the portfolio manager believes are currently undervalued. The team views contrarian picks as temporarily undervalued stocks with improving relevancy, moat and/or management profiles, whereas quality compounders are temporarily undervalued stocks with well-defined and durable moats, relevant products or services and effective management

practices. The manager holds minimal cash and considers tax lots when trimming positions. The team believes being fully invested in a deeply researched and quality-biased portfolio should result in asymmetric returns with full participation in the Russell 1000 Value Index upside and the potential for lower downside than the benchmark over the long term.

Key Differentiators

- The Parnassus Endeavor Fund is the leading "clean-value" mutual fund
- The portfolio manager constructs a high-conviction and high-active-share portfolio of about 40 deeply researched and diversified stocks
- The team employs a relative-value approach and comprehensive risk management
- Parnassus Investments is a pure-play investment ESG firm and has over 35 years of sustainable investing experience
- The portfolio manager is deeply committed to value investing and is supported by a team of seasoned investment professionals

Value Investing and ESG

Large cap value stocks are highly concentrated in “dirty,” or carbon-intensive and controversial industries, so the Endeavor Fund holdings may differ significantly from those of other value strategies. To ensure that the team selects companies that fit Parnassus’s ESG standards, the worst ESG performers are eliminated from the Russell 1000 Value Index as a first step in the investment process. Companies with controversial business activities or poor management of ESG risks are removed from the investment universe. Businesses that violate the firm’s exclusionary screens are also deemed ineligible for investment. The screens prohibit investing in companies that derive significant revenue from fossil fuels, alcohol, gambling, nuclear power, tobacco or weapons.

Once a promising company is identified from the focus universe, the team reviews the material and reputational ESG risks that are most impactful to its sector and industry. Material risks are concerns that may impact a company’s financial performance in the short term, whereas reputational risks represent the potential for bad publicity that may lead to revenue loss over the long term. The team evaluates both the company’s current profile on these issues and whether that profile is improving or deteriorating. This analysis 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.

Constructing the Endeavor Fund

When stocks pass the team’s fundamental and ESG assessments and are deemed eligible for purchase, the portfolio manager may initiate a position in those he believes are undervalued. When a company faces temporary headwinds, such as an overreaction to recent news, it may become undervalued, so the team aims to determine its

intrinsic, or fair-market, value. To determine a company’s intrinsic value, the portfolio manager looks closely at its multiples rather than its potential future revenue growth. The manager reviews several metrics depending on a company’s sector, including price-to-earnings, price-to-book and price-to-cashflow ratios, dividend yield and EBITDA.

If the portfolio manager decides to buy, he will choose an entry point based on his view about when a stock’s price is likely near a bottom, which of course cannot be predicted with certainty. The portfolio manager’s temperament is crucial. When a company’s stock falls further after the initial allocation, he will continue to fill the position if his conviction is unchanged.

Position sizing is generally based on a company’s risk/reward profile, so larger positions have more attractive risk/reward profiles, but if a stock’s profile degrades, its position in the fund may be trimmed. When building the portfolio, the portfolio manager limits position sizes to about 5% of the portfolio at purchase, with most positions being approximately 2.5%. In addition, if a stock’s price continues to fall after the purchase, the team may strategically deploy additional capital. Final position sizes reflect the portfolio manager’s conviction in a stock, as well as its role in the portfolio.

The portfolio manager regularly monitors company fundamentals, and when a stock reaches fair market value, he will exit the position. A number of valuation metrics are considered to determine when to sell, including the price-to-earnings and price-to-book ratio. If there is growth in a company’s valuation, particularly if it surpasses its five-year average return, the portfolio manager may sell the holding. The portfolio manager will also sell a holding if the company’s moat, relevancy and management profile or ESG profile materially declines.

Parnassus's Premiere Value Investor



Billy Hwan
Portfolio Manager
(since 2018)

Billy Hwan joined Parnassus in 2012 and has managed the Parnassus Endeavor Fund since 2018. He is committed to value investing and has over 20 years of investment experience, including conducting equity research at Dodge & Cox and the Government of Singapore Investment Corporation. Mr. Hwan worked alongside industry pioneer Jerome Dodson to manage the Parnassus Endeavor Fund prior to Mr. Dodson's retirement from the Fund. The two share a common investment philosophy and goal to build wealth for long-term investors by purchasing what they believe are undervalued stocks. After collaborating with Mr. Dodson for three years, Mr. Hwan was named the sole portfolio manager of the Fund in 2021. He is supported by a large investment team, consisting of analysts and portfolio managers who closely collaborate as a research team.

Mr. Hwan received his bachelor's degree in engineering from Stanford University and a master's degree in accountancy from the University of Houston. He then continued his education, graduating with honors from the University of California, Berkeley, with his master's degree in business administration. Mr. Hwan holds the CPA and CFA designations and was a former Blakemore Freeman Fellow.

Our Three-Tiered Approach to Risk Management

Throughout the entire investment process, the team employs a comprehensive approach to risk management at the stock, sector and portfolio levels.

At the stock level, fundamental risks are documented alongside an ESG risk report for each holding. Analyzing a company's fundamentals and ESG profile allows the team to determine its intrinsic value and the likelihood of it facing the permanent impairment of capital.

At the sector level, the investment team identifies relevant macro trends, fundamental and ESG risks and potential unintended bets. All investment team members participate in Parnassus's GICS-based sector teams. The sector team meetings focus on how a company's fundamental and ESG profiles compare to others in the same industry or sector.

At the portfolio level, the manager aims to deliver a product with low- to mid-single digit tracking error and high active share. To achieve this goal, the manager monitors factor exposures and the portfolio's predicted beta. The team prioritizes style purity and monitors for style drift using Axioma for risk management.

Key Fund Facts

Tickers	Benchmark	Holdings	Inception
PARWX/PFPWX	Russell 1000® Value Index	~40	04/29/2005

To Learn More

<https://www.parnassus.com/contact-us>

Effective September 30, 2021, the benchmark for the Parnassus Endeavor Fund changed from the S&P 500 to the Russell 1000 Value Index.

Mutual fund investing involves risk, and loss of principal is possible. The Fund's 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 Fund may invest in small and/or mid cap companies, which can be more volatile than large cap firms. Security holdings in the fund can vary significantly from broad market indexes.

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.

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index. **Beta** is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. A beta of 1.00 means that the share price moves exactly in line with the market. A beta over 1.00 suggests that the share price will typically be more volatile than the market, and conversely, a beta below 1.00 indicates that the share price will typically be less volatile than the market. **Dividend Yield** is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. **EBITA** is an acronym that stands for earnings before interest, taxes and amortization. It is a measure of company profitability. **Price/Book (P/B) Ratio** is the ratio of a stock's latest closing price divided by its book value per share. **Price-To-Cash-Flow Ratio** is a measure of the market's expectations of a firm's future financial health. Because this measure deals with cash flow, the effects of depreciation and other non-cash factors are removed. Similar to the price-earnings ratio, this measure provides an indication of relative value. **Price/Earnings (P/E) Ratio** is a ratio of a stock's current price to its per-share earnings over the past 12 months (or "trailing" 12 months); whereas, a **Forward Price/Earnings (PE) Ratio** is calculated using forecasted earnings. **Tracking Error** is the standard deviation of the difference between the portfolio return and the desired investment benchmark return. **The Russell 1000®** Value Index is a widely recognized index of common stock prices. The Russell 1000 Value Index is a market capitalization weighted index that measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth rates. Index performance includes the reinvestment of dividends and capital gains. An individual cannot invest directly in an index. An index reflects no deductions for fees, expenses or taxes.

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There are no assurances the Funds will meet their investment objectives and or that their ESG strategies will be successful. 20211104-0866

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.