

Parnassus Mid Cap Growth Fund

The strategy pursues long-term outperformance by owning a concentrated portfolio of 35 to 45 high-quality U.S. mid-cap stocks with the potential for long-term growth and business resiliency.

KEY TAKEAWAYS

- Parnassus Mid Cap Growth Fund (Investor Shares) returned -3.20% (net of fees) for the second quarter of 2024, approximately in line with the Russell Midcap Growth Index's -3.21% return.
- Stock selection in the Information Technology and Industrials sectors contributed to relative results, while selection within Real Estate and Health Care detracted.
- The portfolio position in Consumer Discretionary shifted from an overweight to an underweight during the quarter, while the overweight position in Information Technology increased.
- We remain enthusiastic about our portfolio's thematic overweights to advantaged industries like semiconductors, software, life sciences tools and housing.

Market Review

The Russell Midcap Growth Index posted a -3.21% return during the quarter. Markets declined in April as the likelihood of the U.S. Federal Reserve (Fed) enacting multiple rate cuts by year-end faded, overshadowing a generally positive earnings season. U.S. economic growth, as measured by GDP, decelerated to longer-term levels, and labor markets showed some moderate softening. Inflation remained above the Fed's target level although companies are finding it more difficult to pass price increases on to the consumer. Higher rates are beginning to impact interest-rate-sensitive companies and economically sensitive consumers, creating a bifurcated market and underpinning an increase in market concentration. Among mid cap growth stocks, Utilities and Communication Services were the top-performing sectors during the quarter, while Materials and Consumer Staples declined the most.

Fund Facts	Investor Shares	Institutional Shares
Ticker	PARNX	PFPRX
Net Expense Ratio ¹	0.80%	0.68%
Gross Expense Ratio	0.81%	0.71%
Inception Date	12/31/1984	04/30/2015
Benchmark	Russell Midcap Growth Index	
Asset Class	U.S. mid cap growth	
Objective	Capital appreciation	

Performance

As of 06/30/2024	Annualized Returns (%)				
	3 Mos.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
PARNX - Investor Shares	-3.20	19.29	-1.48	7.43	8.07
PFPRX - Institutional Shares	-3.17	19.44	-1.37	7.57	8.21
Russell Midcap Growth Index	-3.21	15.05	-0.08	9.93	10.52

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 Russell Midcap Growth 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.

Performance Review

Stock selection in Information Technology, the Fund's largest sector weight, aided relative returns

The Fund (Investor Shares) returned -3.20% (net of fees) for the second quarter of 2024, approximately in line with the Russell Midcap Growth Index's -3.21% return. Stock selection in the Information Technology and Industrials sectors contributed to relative results, while selection within Real Estate and Health Care detracted.

The top contributors to relative performance included Teradyne, Guidewire Software and KLA Corporation. Notable detractors include CoStar Group, Pool Corporation and Align Technology.

Top Contributors

Teradyne, a provider of advanced testing solutions for semiconductors, electronic systems and wireless devices, delivered first-quarter revenue and earnings per share that topped expectations. Management cited artificial intelligence-driven (AI-driven) demand in memory and computing as a significant performance driver.

Guidewire Software, the leading software provider for property and casualty insurers, reported strong fiscal-third-quarter earnings highlighted by accelerating growth in annual recurring revenue and structurally higher profitability. With demand increasing and a broad array of strategic partners to guide implementations and migrations, we see a long runway ahead.

KLA Corporation, a provider of process control and yield management solutions for the semiconductor and related nanoelectronics industries, continued its strong run. We expect KLA will continue to benefit from the increasing complexity of chip designs.

Monolithic Power Systems, a power management chip designer, rallied after its first-quarter revenue exceeded expectations on strong demand for AI servers. The company's fabless business model allows it to take advantage of increased AI spending without high capital expenditures.

Trane Technologies, a provider of heating, ventilation and air conditioning (HVAC) solutions, reported first-quarter earnings that topped estimates and provided strong full-year guidance. We believe that Trane's long-term growth prospects look promising because it provides innovative, energy-efficient solutions.

Bottom Contributors

CoStar Group, a leading provider of online real estate marketplaces, has been investing heavily in Homes.com, its residential marketplace, and 2024 is expected to be the peak investment year. We think the investments will pay off, as the company has followed a similar investment profile before, ultimately delivering strong returns.

Pool Corporation, a swimming pool supply distributor, lowered its full-year earnings estimates as demand for new pool construction fell more than expected due to high interest rates impacting big ticket purchases. Most of its revenue comes from maintenance of installed pools, which should be resilient.

Align Technology, the manufacturer of leading dental aligner Invisalign, logged solid first-quarter earnings. Yet shares fell over concerns of weakening consumer sentiment since orthodontic costs are often not covered by insurance. We believe that Align, a leader in the clear aligner category, will take market share from metal braces.

Adyen, a global payments processing solutions provider, detracted after the company reported earnings that met expectations on higher transaction volume but signaled increased competitive pressure in the U.S. We maintain our view that secular growth trends should support a continued rise in Adyen's transaction volume.

Workday, a cloud-native provider of human capital and financial management software, warned of slower growth in its subscription revenue this year even as first-quarter revenue and earnings topped expectations. We added to our position as it fell to an all-time-low valuation, which does not reflect its sustainable mid-to-high-teens revenue growth and increasing operating margins.

Security	Avg. Weight (%)	Total Return (%)	Allocation Effect (%)
Teradyne, Inc.	4.18	31.54	1.10
Guidewire Software, Inc.	4.78	18.15	0.96
KLA Corporation	3.16	18.26	0.62
Monolithic Power Systems, Inc.	2.65	21.48	0.36
Trane Technologies plc.	3.42	9.86	0.33

Security	Avg. Weight (%)	Total Return (%)	Allocation Effect (%)
CoStar Group, Inc.	3.55	-23.25	-0.68
Pool Corporation	2.39	-23.60	-0.43
Align Technology, Inc.	2.23	-26.38	-0.41
Adyen N.V. Unsponsored ADR	1.18	-29.80	-0.37
Workday, Inc. Class A	2.31	-18.03	-0.35

Return calculations are gross of fees, time weighted and geometrically linked. Returns would be lower as a result of the deduction of fees.

Portfolio Positioning

We continue to see opportunities in semiconductors, software, life science tools and housing

Our portfolio positioning remains consistent with last quarter, as we maintained our overweight position in the semiconductor, software, life sciences tools and housing industries.

Our semiconductor overweight was our most significant contributor this quarter, and our exposure increased as our holdings appreciated. We also re-initiated a position in Western Digital, a memory semiconductor and hard disk drive manufacturer, as we believe earnings expectations are far too low.

We increased our exposure to the software industry during the quarter, adding a new position in payments provider BILL Holdings (Bill.com). Some software stocks have underperformed due to concerns about slowing economic growth and enterprise technology spending on AI crowding out spending on software. However, we have high conviction in our software holdings because they provide mission-critical technology and we believe their network effects, high switching costs and culture of innovation will drive strong long-term performance.

We also increased our exposure to the life sciences tools industry, adding a new position in West Pharmaceutical Services, a leader in packaging for injectable therapies. The industry is going through a cyclical downturn, but drug development continues, ensuring quality control remains as important as ever; we think it's a matter of time before the cycle turns. We exited both of our biotech investments, BioMarin Pharmaceutical and Alnylam Pharmaceuticals, as we believe the life sciences industry offers more durable growth and wider competitive moats without the idiosyncratic risks of individual drug trials.

We maintained our overweight exposure to the housing market. While we haven't yet seen a recovery in the housing market, as existing home sales volume remains at multidecade lows due to a structural undersupply, we believe that we are well positioned to benefit when volumes improve. We own a number of best-in-class companies tied to the housing market, including Equifax, Sherwin-Williams and Pool Corporation.

Outlook

We maintain balanced positioning in an uncertain environment

While headline economic growth remains positive and the excitement of AI is pushing a concentrated group of stocks to all-time highs, we discern crosscurrents under the surface. Less affluent consumers are struggling with elevated prices, and persistently high interest rates are negatively impacting some consumers and small and medium-sized businesses.

However, the Fed is expected to cut interest rates later this year, and we expect fiscal spending to remain at elevated levels. Once the uncertainty of the election passes, "animal spirits" may return and help the economy to reaccelerate, potentially broadening the stock market's gains.

In this uncertain environment, we're retaining the portfolio's overall balanced positioning and focusing on our thematic overweights to semiconductors, software, life sciences tools and housing. Three of those four thematic overweights—software, life sciences tools and housing—are in industries that are out of favor with investors. We think each of them is a coiled spring. When demand in their end markets eventually improves, the upside for these companies should be meaningful.

Portfolio Activity

Activity	Security Name	Ticker	Sector	Rationale
Bought	Western Digital Corporation	WDC	Information Technology	Western Digital stands to benefit from the rapid growth of memory-hungry AI applications. Valuations for Western Digital were low relative to its peers, giving us a way to participate in AI via an undervalued stock.
Bought	BILL Holdings Inc.	BILL	Information Technology	BILL presented an opportunity to own a category-leading SMB-focused payments automation platform at a historically attractive valuation. We believe that the market had overextrapolated near-term cyclical growth headwinds and underestimated the company's long-term secular growth opportunity.
Bought	MSCI Inc.	MSCI	Financials	MSCI demonstrates leadership in its categories and has high margins, sticky customer relationships, and a history of operating leverage and sound capital allocation.
Bought	West Pharmaceutical Services	WST	Health Care	West has dominant market share in the rubber containment market (plungers/stoppers) for pre-filled syringes and vials, which gives it a wide and stable moat. West's long-term relevancy is strong thanks to a growing biologic market, increasing GLP-1 penetration and regulatory tailwinds out of Europe.
Sold	Lululemon Athletica	LULU	Consumer Discretionary	We sold Lululemon after it issued disappointing guidance. Growth in the U.S. has slowed as consumers stocked up on fitness apparel during the past few years, and the company now faces increased competition.
Sold	Block Inc.	SQ	Financials	We decided to exit Block due to regulatory concerns surrounding its Cash App business.
Sold	BioMarin Pharmaceutical	BMRN	Health Care	We exited BioMarin after being patient owners for a number of years. We sold due to our concerns around potential competition for its key Voxzogo therapy as well as the durability of its pipeline.
Sold	Copart Inc.	CPRT	Industrials	We exited Copart after a period of outperformance to redeploy into other opportunities that we believe have more upside potential.
Sold	Alnylam Pharmaceuticals Inc.	SLNY	Health Care	We sold Alnylam for other health care opportunities that we believe have more durable long-term upside.

Sector Weights

As of 06/30/24

Sector	% of TNA	Russell Midcap Growth
Information Technology	33.8	25.1
Communication Services	2.4	4.8
Industrials	17.4	19.0
Health Care	15.8	16.9
Financials	9.1	10.1
Consumer Staples	0.0	2.3
Materials	4.5	1.4
Real Estate	3.1	1.7
Consumer Discretionary	13.2	13.7
Energy	0.0	4.0
Utilities	0.0	1.0
Cash and Other	0.6	0.0

Ten Largest Holdings

As of 06/30/24

Security	% of TNA
Guidewire Software Inc.	5.5
Teradyne Inc.	4.9
Equifax Inc.	4.3
Trane Technologies plc.	3.6
KLA Corporation	3.6
Agilent Technologies Inc.	3.4
Ross Stores Inc.	3.4
CoStar Group Inc.	3.1
Monolithic Power Systems Inc.	3.0
Mettler-Toledo International Inc.	3.0

Portfolio holdings are subject to change.

Portfolio Managers

**Ian Sexsmith, CFA**Portfolio Manager,
Senior Analyst

Experience: 20 years

**Robert Klaber**Director of ESG
Research, Portfolio
Manager

Experience: 15 years

Glossary

Allocation Effect: The allocation effect measures the impact of asset allocation decisions on the active return. It reflects the difference between the portfolio weights and benchmark weights, multiplied by the benchmark returns.

Important Information

PIL-571105-2024-07-10

The Russell Midcap[®] Growth Index is a widely recognized index of common stock prices. The Russell Midcap Growth Index measures the performance of the mid cap growth segment of the U.S. equity universe. It includes those Russell Midcap[®] Index companies with higher price-to-book ratios and higher forecasted growth values. An investor cannot invest directly in an index. Index performance includes the reinvestment of dividends and capital gains. An index reflects no deductions for fees, expenses or taxes.

1. As described in the Fund's current prospectus dated May 1, 2024, the investment adviser has contractually agreed to reduce its investment advisory fee to the extent necessary to limit total annual fund operating expenses to 0.80% of net assets for the Parnassus Mid Cap Growth Fund (Investor Shares) and 0.68% of net assets for the Parnassus Mid Cap Growth Fund (Institutional Shares). This agreement will not be terminated prior to May 1, 2025 and may be continued indefinitely by the investment adviser on a year-to-year basis.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) 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.

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.

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Before investing, an investor should carefully consider the investment objectives, risks, charges and expenses of a fund and should carefully read the prospectus or summary prospectus, which contain this and other information. The prospectus or summary prospectus can be found on the website, www.parnassus.com, or by calling (800) 999-3505.