

# Parnassus Value Equity Fund

The strategy pursues strong risk-adjusted returns by owning a concentrated portfolio of U.S. large cap stocks that are poised to rise but are temporarily out of favor relative to their history or peers.

## KEY TAKEAWAYS

- The Fund (Investor Shares) returned 10.17% for the quarter, outperforming the Russell 1000 Value Index's 8.99%.
- The outperformance was largely driven by stock selection in the Information Technology and Communication Services sectors. Our overweight in Financials and underweight in Real Estate also contributed.
- We have positioned the Fund for an environment in which inflation continues to moderate, economic growth stabilizes, unemployment remains low, and credit conditions gradually loosen.
- This confluence of factors should broaden stock market gains to more sectors, an expectation that drives our overweight allocations in Financials, Communications Services and Health Care.

## Market Review

U.S. equities surged in the first quarter of 2024 as the economy continued to perform above expectations. Large-cap value stocks underperformed the broader market but still advanced strongly, as the Russell 1000 Value Index gained nearly 9% versus more than 10% for the S&P 500. Analysts tempered their projections for the timing and number of interest rate cuts by the Federal Reserve this year as inflation estimates trended higher. Greater confidence in U.S. economic growth drove more demand for borrowing and improved the environment for lending, benefiting banks. Within the Russell 1000 Value Index, the rally broadened relative to 2023 as the Energy, Financials and Industrials sectors led their peers and only Real Estate posted a negative return. The artificial intelligence (AI) - related momentum and optimism that characterized much of 2023's market activity continued in the quarter, especially within the Semiconductor industry.

Fund Facts	Investor Shares	Institutional Shares
Ticker	PARWX	PPFWX
Net Expense Ratio <sup>1</sup>	0.88%	0.65%
Gross Expense Ratio	0.92%	0.72%
Inception Date	04/29/2005	04/30/2015
Benchmark	Russell 1000 Value Index	
Asset Class	U.S. large cap value	
Objective	Capital appreciation	

## Performance

Annualized Returns (%)

As of 03/31/2024	3 Mos.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
PARWX - Investor Shares	10.17	23.49	6.60	15.21	13.67
PPFWX - Institutional Shares	10.23	23.74	6.83	15.47	13.89
Russell 1000 Value Index	8.99	20.27	8.11	10.32	9.01

**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](http://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 1000 Value Index 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. The estimated impact of individual stocks on the Fund's performance is provided by FactSet.

## Performance Review

### Outperformance driven by Information Technology

The Fund returned 10.17%, better than the Russell 1000 Value's 8.99%. From the sector perspective, stock selection in Information Technology contributed the most to relative performance, followed by selection in Communication Services and Real Estate. Our overweight in Financials and underweight in Real Estate also contributed. Stock selection in Health Care, on the other hand, hindered relative results. The Fund's lack of exposure to Energy, the best-performing sector in the benchmark for the quarter due to a spike in oil prices, also detracted.

### Top Contributors

**Micron** shares soared as price increases in memory and storage end markets improved profitability. The semiconductor company remains well-positioned to capitalize on the surging demand for AI infrastructure.

**Progressive** shares appreciated as investors reacted well to the insurer's latest financials, including higher-than-expected-growth in net premiums. The company's consistently profitable underwriting, scale advantages and strong execution are becoming more evident to investors as it continues to gain market shares.

**Fidelity National Information Services**, a global financial technology company, issued an optimistic outlook for the remainder of 2024, buoying its stock. Improved cost management and completion of the Wordplay spin-off were additional positives.

**Cummins**, a leader in diesel and alternative fuel engines and generators, guided to a shallower-than-expected downcycle in 2024. New rules from the Environmental Protection Agency are expected to drive higher demand for the company's truck engines in the coming years.

**Western Digital** results surpassed expectations across the board, in earnings, revenues and outlook. The company is favorably positioned to capitalize on long-term growth opportunities in data storage.

### Bottom Contributors

**Intel**, one of the world's largest semiconductor chipmakers, reported strong results for the fourth quarter, but its sales outlook for the first quarter fell short of expectations. While demand for the company's central processing units may be temporarily weak, we believe the market for Intel's personal computer and data center chips will continue to grow.

**Biogen** lagged as the launch of its Alzheimer's drug is proving slower than expected. Management has taken steps to improve the global biotechnology company's financial position, including cost-cutting measures.

**Gilead Sciences**, a global biopharmaceutical company, saw its shares decline as a cancer drug failed to expand into additional lung indications, denting investor faith in the company's oncology franchise. We maintain confidence in Gilead's core HIV franchise and ability to expand into cancer treatment portfolios.

**Brookfield Renewable** shares were impacted by below-average generation within the renewable energy investment company's hydroelectric portfolio. Despite this short-term variation, the company remains well-placed to benefit from the growing demand for renewable power.

**S&P Global**, a leading financial information and data analytics services company, ended the quarter down after reporting mixed results, with revenue growth topping expectations but earnings and 2024 guidance falling short due to macro uncertainty around debt issuance volumes.

Security	Avg. Weight (%)	Total Return (%)	Allocation Effect (%)
Micron	3.24	38.28	0.80
Progressive	3.00	30.50	0.60
FIS Global	2.34	24.13	0.31
Cummins	2.35	23.78	0.31
Western Digital	1.64	30.30	0.31

Security	Avg. Weight (%)	Total Return (%)	Allocation Effect (%)
Intel	3.30	-11.84	-0.57
Biogen	1.70	-16.67	-0.45
Gilead Sciences	2.37	-8.64	-0.34
Brookfield Renewable	1.36	-13.37	-0.34
S&P Global	2.89	-3.22	-0.29

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

### Positioned for market gains to broaden

The Fund's most significant overweights relative to the benchmark as of March 31, 2024, were in Information Technology, Communication Services and Financials, while its three largest underweights were in Energy (a zero allocation for the Fund), Industrials and Consumer Staples.

We currently maintain a balanced positioning between offensive and defensive sectors, with a slight tilt to offense as we seek to capitalize on growing market breadth. Positions in payment processing companies and within the Semiconductors, Software and Capital Markets industries should do well if the market continues to rally and economic uncertainty resolves in a soft landing (modest growth with inflation trending lower) or no-landing (higher growth than anticipated with inflation above 2%) scenario. Positions in Communication Services, Health Care, Industrials and Utilities should fare well if a recession arises.

During the quarter, we added new positions in Pfizer, NICE and Charter Communications. We purchased Pfizer to capture the potential upside from any turnaround following the COVID-induced boom-bust cycle of the last few years. NICE is a leading cloud contact center software company. We believe its customers will increasingly adopt AI-enabled customer experience software, driving double-digit revenue growth. Charter's stock had fallen due to near-term concerns, which we believe will not have a major impact on the long-term value of the business.

We also closed out two positions, BioMarin Pharmaceutical and Amdocs, to invest in other opportunities with more potential upside.

## Portfolio Activity

Activity	Security Name	Ticker	Sector	Rationale
Bought	Pfizer inc.	PFE	Health Care	Pfizer's stock price sank by more than 40% in 2023 as COVID-19 vaccine revenues rolled off, providing an attractive entry point for us. The company completed its acquisition of Seagen, which should strengthen Pfizer's pipeline in antibody-drug conjugates (ADC). Pfizer also offers an attractive dividend yield.
Bought	Charter Communications Inc.	CHTR	Communication Services	Charter Communications has had several issues that created short-term uncertainty. We assessed that these issues have limited impacts on the long-term value of the business and initiated a position to take advantage of the stock's historically low valuation.

(Portfolio Activity continues on the next page)

## Outlook

### Finding bargain opportunities in a concentrated market

The first quarter of 2024 carried forward several macroeconomic trends witnessed in 2023. Gradual improvement in inflation and strong wage growth continued to offset the negative impacts of declining excess savings and tighter credit conditions.

Stocks have had a solid start to the year and the Fed's outlook for lowering rates in the coming quarters bodes well for further gains. While a handful of companies drove the majority of market returns in 2023, we believe strong consumer spending underpinned by low unemployment should support earnings growth for a broader set of companies in 2024. In the shadow of last year's concentrated returns, bargain opportunities began to emerge in other parts of the market overlooked by investors. Our time-tested bottom-up stock selection process, which emphasizes price discipline, business quality and sustainability characteristics, is designed to identify such bargains.

Moreover, risk management is integral to our investment process. We carefully assess scenarios that could result in permanent loss of capital and avoid placing undue reliance on optimistic long-term forecasts. Our track record since 2005 reflects this commitment to assessing both return and risk.

## Portfolio Activity (Cont'd)

Activity	Security Name	Ticker	Sector	Rationale
Bought	NICE Ltd. ADR	NICE	Information Technology	NICE has a strong moat with leadership in contact center software. Its stock was significantly down from its 2021 peak due to softening demand post-pandemic. However, the stock has sizable upside potential as enterprises continue to embrace AI and cloud-based solutions.
Sold	Amdocs Ltd.	DOX	Information Technology	Amdocs has performed above peers since purchase. We sold the profitable position for NICE, which we believe offers a higher risk-adjusted reward over the next few years.
Sold	BioMarin Pharm.	BMRN	Health Care	BioMarin's risk/return profile has become less attractive due to an ill-timed drug launch and increased competition. We sold our profitable position in BioMarin in favor of other higher-conviction positions in the portfolio.

## Sector Weights

As of 03/31/24

Sector	% of TNA	Russell 1000 Value
Information Technology	17.9	9.5
Communication Services	11.1	4.6
Industrials	9.0	14.0
Health Care	15.6	14.2
Financials	28.2	22.6
Consumer Staples	3.0	7.8
Materials	4.8	4.8
Real Estate	3.6	4.6
Consumer Discretionary	4.7	5.2
Energy	0.0	8.0
Utilities	1.3	4.7
Cash and Other	0.8	0.0

## Ten Largest Holdings

As of 03/31/24

Security	% of TNA
Micron Technology, Inc.	4.0
Verizon Communications Inc.	4.0
Bank of America Corp.	3.5
Ball Corp.	3.2
Intel Corp.	3.1
Sysco Corp.	3.1
Oracle Corp.	3.0
The Progressive Corp.	2.9
Global Payments Inc.	2.9
Deere & Co.	2.7

Holdings are subject to change.

## Portfolio Managers



**Billy Hwan, CPA, CFA**

Portfolio Manager,  
Senior Analyst

Experience: 23 years



**Krishna Chintalapalli**

Portfolio Manager,  
Senior Analyst

Experience: 12 years

## Glossary

**Earnings Growth** is the change in an company's reported net income over a period of time.

## Important Information

PIL-533923-2024-04-23

The Russell 1000® Value Index and the Standard & Poor's 500 Composite Stock Price Index (the S&P 500 Index) are widely recognized indices 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. The index is based on the performance of the largest publicly traded funds in the strategy group. The S&P 500 Index is an unmanaged index of 500 common stocks primarily traded on the New York Stock Exchange, weighted by market capitalization. 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. 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 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 © 2023 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](http://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.

1. As described in the Fund's current prospectus dated May 1, 2023, Parnassus Investments has contractually agreed to reduce its investment advisory fee to the extent necessary to limit total operating expenses to 0.88% of net assets for the Parnassus Value Equity Fund (Investor Shares) and 0.65% of net assets for the Parnassus Value Equity Fund (Institutional Shares). This agreement will not be terminated prior to May 1, 2024, and may be continued indefinitely by the investment adviser on a year-to-year basis. The net expense ratio is what investors pay.

**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](http://www.parnassus.com), or by calling (800) 999-3505.**