

Responsible Investing Notes

Fourth Quarter 2020

2020 was a turbulent year. Climate and digital human rights, including surveillance, artificial intelligence, and data privacy and security, were expected to be the primary responsible investing themes as the year began. However, the COVID-19 pandemic, the racial justice movement and climate events in fact dominated the year.

By December 4, the United States had recorded approximately 13.8 million COVID-19 cases and more than 400,000 deaths. Governors and county officials repeatedly shut down, then reopened non-essential businesses as the numbers of cases ebbed and flowed.

Congress and the Federal Reserve responded with unprecedented actions to help the tens of millions of unemployed. Congress passed the CARES Act in March, a \$2.2 trillion relief package for individuals and businesses requiring assistance due to the pandemic, with another \$900 billion added in December to continue the relief. The Federal Reserve reopened its Financial Crisis playbook, keeping interest rates low and purchasing United States Treasuries and government-guaranteed mortgage-backed securities at the cost of hundreds of billions of dollars. The Federal Reserve opened two new facilities to provide direct lending to corporations through corporate bond purchases, loans and investment-grade corporate bond ETFs. Initially, the two new facilities backstopped up to \$100 billion. Then, in April, the amount was expanded to \$750 billion. These extraordinary actions were taken to keep the economy afloat and buy time for companies to develop vaccines, new medicines and protective equipment to stave off COVID-19.

Multiple companies held by the Parnassus Funds pitched in. Danaher's Beckman Coulter Diagnostics



created assay tests to help determine patients' antibody load. Hologic developed a diagnostic test using its Panther Fusion system to detect COVID-19 genetic material. Beckton Dickinson released the BD Veritor, a 15-minute rapid detection test, and Gilead contributed Veklury, an antiviral drug used to help patients recover from the virus.

Racial justice also became a dominant theme in 2020 that led to many companies to ask how they could do better. I wrote extensively about the killings of George Floyd, Breonna Taylor and Ahmaud Arbery, as well as how our companies responded as protests of their tragic deaths surged, in the second quarter's Responsible Investing Notes. Investors will look for progress on the commitments that companies announced in 2020; and accountability will be a topic of discussion in the new year.

I reported on the massive wildfires in the third quarter's Responsible Investing Notes, which were only one of the numerous ongoing effects of climate change. Several of our large cap communication services and

technology companies made significant commitments to decarbonize their operations in 2020. Their peers will take notice, and other companies will begin to pursue meaningful targets of their own that will further reduce CO2 in our atmosphere.

Verizon Communications released its first Taskforce on Climate-Related Financial Disclosure (TCFD) report. The report outlined the governance, risk management, strategy, metrics, and targets the company has established to address the short-term and long-term operational risks of climate change. Verizon also committed to carbon neutrality in its direct (Scope 1 and Scope 2) emissions by 2035.

Apple, with direct emissions that are already carbon neutral, took the additional step of planning to achieve 100% carbon neutrality for both its supply chain and products by 2030. In other words, every Apple device sold will have a net-zero climate impact by 2030. To help achieve this milestone, Apple will continue increasing the use of lower carbon and recycled materials in its products. The company will also invest \$100 million in energy-efficient projects for its suppliers, forests and other solutions to remove carbon from the atmosphere. Apple will also secure commitments from its suppliers to move toward 100% renewable energy use.

Alphabet announced plans to achieve carbon neutrality by 2030. Like Apple, Alphabet is already neutral with respect to its direct emissions. The company also announced in 2020 that it had secured enough carbon offsets to neutralize all of its emissions since its founding in 1998. Alphabet issued \$5.75 billion in sustainability bonds to finance initiatives such as clean energy, green buildings, clean transportation, circular design systems and various social issues. The company is also incorporating its commitments to reducing its carbon impact into its product design. Alphabet's Nest thermostats have helped customers save 50 billion kilowatt-hours, and Google Flights has

helped disclose CO2 emission estimates for flights in Europe.

Not to be outdone, Microsoft pledged to become carbon negative by 2030 by removing the equivalent of all the carbon it has emitted, directly or through electricity purchases, since its founding in 1975. To reach this goal, the company implemented an internal carbon tax of \$15 per metric ton for its Scope 3 emissions. Internal business divisions will pay the internal tax, while Microsoft will use the proceeds to fund sustainability improvements. The company aims to achieve its carbon-negative goal by creating a portfolio of negative emission technologies, including afforestation (tree planting outside of forested areas), reforestation, soil carbon sequestration (which improves soil), bioenergy with carbon capture and direct air carbon capture.

2020 was a rollercoaster year for people, communities and governments—including investors and many other stakeholders. Looking ahead to 2021, we anticipate the rollout of safe and effective vaccines produced in large enough quantities to enable the global economy to fully reopen and function normally. Of course, we will continue to encourage our holdings to improve their sustainable and responsible practices, because there are many unfinished challenges to tackle: climate-related physical and transition risks, digital human rights issues, discriminatory pay gaps, board diversity, racial equity and more.

Thank you for your investment in the Parnassus Funds. It is a privilege to have you as an investor.

Sincerely,



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Director of ESG Research

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