

Parnassus Mid Cap Fund

The strategy pursues strong long-term returns by holding 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 Fund (Investor Shares) returned 1.17% (net of fees) for the quarter, outperforming the Russell Midcap Index's 0.16% return. This marks four consecutive quarters of outperformance.
- The Fund's outperformance was again driven primarily by holdings in the Information Technology sector. Holdings in the Utilities sector also contributed, while positions in the Industrials and Consumer Discretionary sectors detracted.
- In the fourth quarter, as we saw the market begin to broaden out of the artificial intelligence (AI) theme, we added three new stocks and exited six to further broaden the exposures in the portfolio with high-quality businesses poised for a cyclical upturn.
- We're excited for 2026. We believe mid cap stocks could lead the market higher if economic growth continues to broaden outside of AI. If the market falls, we expect our portfolio of industry leaders with strong financial positions to help protect on the downside.

Market Review

The Russell Midcap Index ended a strong year, offering double-digit returns for the year despite finishing the fourth quarter nearly flat. The Index hit a record high in December as investors continued to focus on the ongoing AI megatrend, while other sectors started to join the rally. The Federal Reserve (Fed) cut interest rates for the third time in 2025 against the backdrop of a relatively steady economy with modest GDP growth, a relatively strong labor market and moderating inflation, although the benefits weren't felt equally across the economy. These conditions helped to boost markets and support smaller to midsize businesses. During the quarter, the best-performing sectors in the Russell Midcap Index were Health Care, Materials and Information Technology, while the Communication Services, Real Estate and Utilities sectors finished the quarter with losses.

Fund Facts	Investor Shares	Institutional Shares
Ticker	PARMX	PFPMX
Net Expense Ratio ¹	0.95%	0.75%
Gross Expense Ratio	0.95%	0.78%
Inception Date	04/29/2005	04/30/2015
Benchmark	Russell Midcap Index	
Asset Class	U.S. mid cap blend	
Objective	Capital appreciation	

Performance

Annualized Returns (%)

As of 12/31/2025	3 Mos.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
PARMX - Investor Shares	1.17	12.85	11.83	5.01	9.01
PFPMX - Institutional Shares	1.21	13.08	12.06	5.22	9.24
Russell Midcap Index	0.16	10.60	14.36	8.67	11.01

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). 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 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. Mid cap companies can be more sensitive to changing economic conditions and have fewer financial resources than large cap companies. The Parnassus Mid Cap Fund - Institutional Shares were incepted on April 30, 2015. Performance shown prior to the inception of the Institutional Shares reflects the performance of the Parnassus Mid Cap Fund - Investor Shares and includes expenses that are not applicable to and are higher than those of the Institutional Shares.

Quarterly Performance Review

Exposure to the AI megatrend aided relative results

The Fund (Investor Shares) returned 1.17% (net of fees) for the quarter, outperforming the Russell Midcap Index's 0.16% return. Our holdings in Information Technology significantly helped relative performance as a result of our exposure to the ongoing AI megatrend, primarily through semiconductor companies. Utilities also contributed, primarily due to the outperformance of Brookfield Renewable, as did holdings in the Utilities sector.

Conversely, holdings in the Industrials and Consumer Discretionary sectors detracted, due to out-of-favor defensive stocks as well as the portfolio's exposure to the sluggish housing market.

Top Quarterly Contributors

Sandisk, a global leader in flash memory solutions, saw its shares surge higher as the AI megatrend boosted demand for memory and storage.

Lam Research, a designer and maker of semiconductor processing equipment, continues to see strong demand for its industry-leading process tools and equipment to support semiconductor manufacturing driven by the AI megatrend.

Western Digital, a leading data storage products maker, continued to advance after another strong earnings report. The AI megatrend is fueling demand for high-capacity, cost-effective storage.

KLA, a provider of process control and yield management semiconductor equipment, also benefited from another strong earnings report. The company enables and supports the AI infrastructure build-out.

Brookfield Renewable is another beneficiary of the AI build-out. The stock was supported during the quarter due to an \$80 billion strategic partnership that Westinghouse, a majority-owned investment of Brookfield, signed with the U.S. Department of Commerce to build nuclear reactors for data centers.

Security	Avg. Weight (%)	Total Return (%)	Allocation Effect (%)
Sandisk	1.46	111.57	1.32
Lam Research	4.12	28.05	1.00
Western Digital	1.37	43.60	0.53
KLA	4.16	12.84	0.49
Brookfield	3.26	12.39	0.34

Bottom Quarterly Contributors

O'Reilly Automotive shares declined due to a slowdown in the do-it-yourself market.

D.R. Horton, one of the largest U.S. homebuilders, declined due to continued pressure from housing market weakness in an environment of elevated interest rates.

CoStar Group shares detracted due to investor concerns over increased competition from Google in the home-listing market, a weak housing market and substantial investments in its Homes.com business.

Brown & Brown, an insurance brokerage, declined as organic growth slowed due to the property and casualty insurance pricing cycle turning down.

Workday, a leading provider of cloud-based finance and HR software, experienced investor concerns over the company's slowing core growth and around the company's AI strategy.

Security	Avg. Weight (%)	Total Return (%)	Allocation Effect (%)
O'Reilly Auto	2.09	-15.40	-0.36
D.R. Horton	2.25	-14.74	-0.32
CoStar	0.99	-19.62	-0.31
Brown & Brown	1.71	-13.38	-0.27
Workday	2.05	-10.78	-0.25

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

Annual Performance Review

The strong AI megatrend aided relative results throughout 2025

For the year-to-date period, the Fund (Investor Shares) returned 12.85% (net of fees), outperforming the Russell Midcap Index's 10.60% return. Our holdings in the Information Technology sector significantly boosted performance. Holdings in the Consumer Staples and Real Estate sectors also contributed.

Conversely, holdings in the Industrials, Communication Services and Health Care sectors detracted. Within those sectors, the upturn in the freight cycle didn't materialize as we expected. In addition, the sluggish housing market was a headwind, while defensive stocks in general underperformed for much of the year.

Top Annual Contributors

Sandisk, a global leader in flash memory solutions, saw strong AI-driven demand for NAND flash storage while industry supply growth remains constrained.

Lam Research, a designer and maker of semiconductor processing equipment, continues to be a big beneficiary of the AI megatrend.

Western Digital, a leading data storage products maker, has continued to experience strong demand for high-capacity, cost-effective storage.

KLA, a provider of process control and yield management semiconductor equipment, continued to see earnings growth driven by AI infrastructure build-out.

Bank of New York Mellon, the largest financial custodian in the world, advanced amid strong earnings results. America's oldest bank is an early leader in the adoption of AI, with a multiyear partnership with OpenAI.

Bottom Annual Contributors

Trade Desk stock dropped after management released sluggish revenue guidance, sparking concerns that its growth may be secularly slowing as Amazon's aggressive pricing tactics have increased the competitive intensity of the industry.

Fidelity National Information Services shares detracted due to concerns that its growth rate is declining due to rising price intensity and fewer bank account openings.

Atlassian, which sells tools to software developers, underperformed amid concerns that AI automation could disrupt the software engineering space.

J.B. Hunt Transport Services shares weighed on performance during the year as the downturn in the freight market continued and the company's margins deteriorated.

Brown & Brown, an insurance brokerage, declined as organic growth slows due to the property and casualty insurance pricing cycle turning down.

Security	Avg. Weight (%)	Total Return (%)	Allocation Effect (%)
Sandisk	1.04	371.27	3.08
Lam Research	2.92	139.15	2.77
Western Digital	1.85	289.29	2.19
KLA	3.33	94.49	2.09
Bank of NY Mellon	4.02	54.45	1.28

Security	Avg. Weight (%)	Total Return (%)	Allocation Effect (%)
Trade Desk	1.36	-54.73	-2.07
Fidelity	3.01	-21.69	-1.07
Atlassian	1.45	-39.83	-1.02
J.B. Hunt	2.08	-19.38	-0.91
Brown & Brown	1.84	-20.42	-0.79

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

Broadening the portfolio's exposures

The signs of market and economic broadening led us to adjust the portfolio by increasing exposure to non-tech areas. We added three new stocks during the fourth quarter that reflect our focus on high-quality businesses positioned for improving fundamentals over our multiyear investment horizon. We remain overweight the AI theme, although we reduced the magnitude of our overweight during the fourth quarter given the stocks' outperformance.

The first newcomer is Ingersoll Rand, a manufacturer of compressed air systems and fluid management products. The U.S. manufacturing industry has endured a down-cycle for several years, and we believe that Ingersoll Rand is well positioned for an inflection that we expect to happen within our investment horizon.

We also added Michigan-based utility CMS Energy, which operates in a constructive regulatory backdrop and offers clear visibility to long-term growth. Our third addition was Chipotle Mexican Grill, the fast-casual restaurant chain. The company's growth stalled in 2025 in part due to inflationary pressures on its price-sensitive customers and a lack of new initiatives to drive growth. We think 2026 will be a better year for the company as new menu items have been introduced, its marketing message is evolving and inflationary pressures could subside.

We exited six stocks during the quarter. We sold FIS, the provider of bank processing systems due to our concerns around its long-term structural growth rate. We exited insurance broker Brown & Brown to reduce our overweight exposure to the property and casualty insurance industry, given uncertainty around the the duration and depth of the current downturn. We exited Atlassian due to AI-related uncertainty, as its predominantly seat-based pricing model and focus on developers leave it exposed to potential disruption from "vibe-coding" start-ups.

We exited three stocks as we felt their valuations were too high for their expected growth rates. We sold Guidewire, the insurance software provider, after the company's outperformance stretched its valuation. We moved on from Pool Corp., the leading pool supplies distributor, as the stock's valuation continues to be higher than other distributors' despite the prolonged downturn in the pool market. We also sold CoStar Group, as the company's valuation will remain high until it's able to monetize its significant investments in Homes.com.

Overall, our fourth-quarter activity reflects a disciplined approach to portfolio construction as market leadership broadens and valuation dispersion increases. We continue to focus on owning high-quality businesses with durable competitive advantages while actively managing exposures where valuations or fundamentals no longer support our investment thesis. We believe these adjustments position the portfolio well to navigate near-term uncertainty while remaining aligned with our long-term investment objectives.

Outlook

AI leadership, awaiting economic breadth

The market's returns were concentrated in 2025, with many of the top-performing stocks tied to the growth of AI. Growth for the rest of the economy was sluggish, leading many strategists to describe the economy and market as "K-shaped." The market's sharp drop from February until early April seems like a distant memory, but many stocks didn't recover and ended the year with negative returns. Given this volatility and the concentration of returns, we were especially pleased to outperform the index for each quarter during the year.

Going forward, investors face two key questions. First, can the AI data center build-out continue at the scale now expected by investors? We see no signs of a slowdown yet. In fact, our Information Technology holdings continue to be supported by accelerating demand for AI models and cloud computing.

The second question is whether economic growth continues to broaden beyond AI. Elevated inflation made the past year difficult for all but the most affluent consumers, and companies were forced to adjust their supply chains to incorporate tariffs. Conditions may improve in 2026 if inflation moderates, the Fed lowers interest rates and tax refunds increase meaningfully as a result of the One Big Beautiful Bill Act. A more stable trade policy and full expensing of research and development could boost business investment. Given this backdrop, we increased exposure to high-quality businesses with the potential for a cyclical upturn.

We're relatively optimistic heading into 2026. If economic growth broadens beyond AI, an area dominated by the world's largest companies, we believe that mid-caps could continue to lead the market higher. If the market falls, we expect our diversified portfolio of high-quality industry leaders with strong balance sheets and attractive returns on capital to provide some downside protection.

Quarterly Portfolio Activity

Activity	Security Name	Ticker	Sector	Rationale
Bought	Chipotle Mexican Grill Inc., Class A	CMG	Consumer Discretionary	Chipotle is a leader in the fast-casual dining category, bolstered by strong brand affinity, popularity with Gen Z, and the growing trend toward healthy eating. We think the company's value proposition is unique and store operations are attractive, giving the company a long runway for growth.
Bought	CMS Energy Corp.	CMS	Utilities	CMS Energy is a stable, well-managed utility with a strong track record of consistent growth, supported by a highly constructive regulatory environment in Michigan. The company's current capital investment plan and other initiatives are expected to modestly accelerate earnings growth. Adding CMS Energy enhances the portfolio's defensive positioning and reduces the portfolio's underweight to Utilities.
Bought	Ingersoll Rand Inc.	IR	Industrials	Ingersoll Rand is a global industrial company that manufactures essential equipment, including air compressors, pumps and power tools. We anticipate a recovery in industrial activity as the Fed lowers interest rates and as the large pipeline of construction megaprojects are built as planned. In that scenario, Ingersoll Rand could see accelerating revenue growth.
Sold	Atlassian Corp., Class A	TEAM	Information Technology	We sold Atlassian, which produces collaboration software, to help diversify towards non-tech exposures, as we felt that AI has widened its range of outcomes.
Sold	Brown & Brown Inc.	BRO	Financials	We sold our position in insurance broker Brown & Brown, which has been affected by softer pricing for property and casualty insurance.
Sold	CoStar Group Inc.	CSGP	Real Estate	CoStar Group is a leading provider of online real estate marketplaces, information and analytics in the commercial and residential property markets. We felt the stock's valuation was high given its continued significant investments in Homes.com have an uncertain payoff.
Sold	Fidelity National Information Services Inc.	FIS	Financials	Fidelity National offers a comprehensive suite of technology and outsourcing services to facilitate financial transactions and operations. We exited Fidelity National given our reduced conviction in its long-term structural growth prospects.
Sold	Guidewire Software Inc.	GWRE	Information Technology	We exited Guidewire because it had fulfilled our investment thesis and return target and we saw opportunities to redeploy the capital.
Sold	Pool Corp.	POOL	Consumer Discretionary	Pool Corp. distributes supplies, equipment and machinery for swimming pools. We exited Pool Corp. as we felt its valuation was too high for its growth profile due to sluggish end-market demand for new pools.

Sector Weights

As of 12/31/25

Sector	% of TNA	Russell Midcap
Communication Services	N/A	4.1
Consumer Discretionary	8.0	11.6
Consumer Staples	2.5	4.6
Energy	N/A	5.6
Financials	16.3	14.9
Health Care	8.7	10.0
Industrials	26.6	18.3
Information Technology	24.1	13.0
Materials	2.4	5.0
Real Estate	5.6	6.8
Utilities	5.2	6.1
Cash and Other	0.7	N/A

Ten Largest Holdings

As of 12/31/25

Security	% of TNA
The Bank of New York Mellon Corp.	4.6
Lam Research Corp.	4.5
KLA Corp.	4.3
CBRE Group Inc. Class A	4.2
Cboe Global Markets Inc.	3.3
TransUnion	3.1
Brookfield Renewable Corp.	3.1
Ferguson Enterprises Inc.	3.1
Hubbell Inc., Class B	2.9
Synopsys Inc.	2.7

Holdings are subject to change.

Portfolio Managers

**Lori Keith**Director of Research,
Portfolio Manager

Experience: 31 years

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

Experience: 21 years

Glossary

Allocation Effect: the allocation effect in performance attribution measures how much of a portfolio's outperformance or underperformance against a benchmark comes from the manager's decision to overweight or underweight specific sectors or asset classes, rather than from picking individual stocks within them.

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

Important Information

The Russell Midcap® Index is a widely recognized index of common stock prices. The Russell Midcap Index is a market capitalization-weighted index that measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index. 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.

1. As described in the Fund's current prospectus dated April 28, 2025, as Amended and Restated September 22, 2025, Parnassus Investments has contractually agreed to reduce its investment advisory fee to the extent necessary to limit total operating expenses to 0.95% of net assets for the Parnassus Mid Cap Fund (Investor Shares) and 0.75% of net assets for the Parnassus Mid Cap Fund (Institutional Shares). This agreement will not be terminated prior to May 1, 2026, 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 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.