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Parnassus Investments: A Contrarian, Socially Responsible Mutual Fund Manager

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In early August 2017, Laura Clark's summer internship was coming to a close. She was preparing her second major presentation to the investment committee at Parnassus Investments. Laura had done well in the first year of the MBA program at NYU's Stern School of Business, and she had been thrilled to earn one of four spots in Parnassus's highly regarded internship program.

Parnassus Investments managed six mutual funds that adhered to environmental, social, and governance (ESG) investing principles. ESG had once been considered a niche for misguided idealists, rather than for serious, results-oriented investors. However, ESG investing was rapidly gaining credibility, and $1 of every $5 invested in U.S. mutual funds was invested in line with ESG principles.[1] Parnassus Investments' long-term record of outperforming most competitors, as well as the stock market averages, had played a part in this change.

Interns were expected to perform more sophisticated analyses than simply learning the Parnassus approach to selecting socially responsible investments. Parnassus adhered to contrarian investing principles, like those famously advocated by investing legend Warren Buffett and his teacher, Ben Graham. This required them to question commonly accepted views of a company's problems, strengths, and prospects. Contrarians often bought unpopular stocks and avoided popular ones. As Buffett put it, contrarians were "fearful when others are greedy and greedy only when others are fearful."[2]

Laura had been handed a particularly thorny investment to analyze: Wells Fargo & Co., one of the largest U.S. banking corporations and the subject of an ethics scandal that had taken down its CEO and other executives. Three Parnassus funds owned Wells Fargo shares – an investment that she was told had been a close call. Close call or not, the firm had invested a total of $750 million in Wells Fargo stock as of June 30, 2017.

The Parnassus funds had resisted calls to sell their Wells Fargo positions from shareholders who believed that the bank's unethical behavior made it ineligible for a socially responsible mutual fund. In fact, the Parnassus Endeavor Fund, the only fund still managed solely by Jerome Dodson, Parnassus's Founder and CEO, had actually increased its stake. Dodson's long-term performance was among the best in the mutual fund business. It had earned him and the company numerous awards and widespread recognition. The Endeavor Fund's increased commitment to Wells Fargo was a factor that Laura would have to reckon with in her presentation.

Laura knew that taking contrarian positions could lead to strong investment returns, if there was some aspect of the investment that most investors did not appreciate. She also knew that reacting emotionally to news, like the reports about Wells Fargo, was usually a formula for poor investment returns. Still, while she was impressed with Dodson's long-term investment returns, she also knew that he was capable of making mistakes from time to time – mistakes that Dodson himself highlighted in his letters to Parnassus investors.

Dodson wasn't Wells Fargo's only well-regarded fan. Warren Buffett's Berkshire Hathaway Inc. owned about 10% of Wells Fargo's stock – a $27 billion position. In May 2017, Buffett expressed the view that, despite the short-term damage, "the fundamental earnings power of the bank over a period of years has not been hurt in any material way."[3]

Despite Wells Fargo's popularity with these investing superstars, Laura wasn't convinced that it met Parnassus's ESG criteria and belonged in the company's portfolios. She particularly questioned the stake held by Dodson's Endeavor Fund. If she recommended against owning Wells Fargo, she would be telling her boss that he had made a $750 million mistake. Laura was beginning to appreciate how uncomfortable it could be to take a contrarian position – especially such a public one with large sums of money at stake.

Whatever recommendation she made, Laura would have to defend it in a no-holds-barred discussion with Dodson and other senior executives. As Ben Allen, Parnassus's President and an alumnus of the internship program, described it, "Interns at Parnassus play with live ammunition."[4] Laura wasn't sure that she looked forward to having Dodson, Allen, and their colleagues aiming their 'live ammunition' at her.

Socially Responsible Investing (Sri)

Modern socially responsible investing (SRI) got its start in the early 1970s, when a pair of Methodist ministers launched Pax World Fund, a mutual fund that served investors who didn't want to profit from the Vietnam War. Its prospectus and advertisements stated, "The Fund endeavors through its investment objectives to make a contribution to world peace" (Exhibit 1). Early SRI investors aimed to achieve competitive investment returns without supporting or benefitting from businesses that were deemed have a negative impact on the world, such as companies that produced weapons, tobacco, alcoholic beverages, gambling, mining, fossil fuels, and nuclear power, among others.

Out of the purely religious and ethical foundations of SRI, grew a more results-oriented focus on ESG. This approach connected poor ESG ratings with financial risks, and good ESG ratings with a company's ability to thrive in the long term. As Dodson put it:

> "Integrating ESG research into the fundamental investment process (both negative screens and qualitative assessments of each company) allows us to see risks and opportunities that may be overlooked by other investors.... Teams that take environmental and workplace factors into account are the kind of teams that have the ability to run a successful business. Firms that treat their employees well will have a more motivated, productive workforce. Companies that take environmental protection seriously are less susceptible to being fined and sued."[5]

Dodson believed that he could deliver above-average investment returns, not in spite of his socially responsible principles, but at least partly because of them.

In Parnassus's early years, the late 1980s and early 1990s, SRI and ESG methods were largely ignored and sometimes ridiculed. A 1991 article in *Forbes* magazine began, "The nuttiness of the age infects even Wall Street." It went on to describe "plenty of examples of socially out-of-favor stocks doing well," citing high returns from tobacco, oil, and defense stocks. The author highlighted recent below-average returns among SRI funds, including The Parnassus Fund, and argued that SRI was doomed to continue delivering below-average returns. According to the author, if enough SRI adherents sold the stocks of socially 'irresponsible' companies, the sales would depress the prices of those stocks, creating opportunities for other investors to buy them at bargain prices and capture better returns as their valuations returned to a more normal range.[6]

Critics of SRI regularly cited the prominent economist and Nobel laureate, Milton Friedman, who took the position that "the social responsibility of business is to increase its profits," and nothing more. According to Friedman, businessmen who espoused social or environmental responsibilities were "preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades."[7]

Given Friedman's renown and the widespread acceptance of his position on social responsibility in business, Dodson's early commitment to ESG was itself a contrarian position.

By 1995, the Parnassus Fund had been given the highest possible rating, five stars, by the investment analysis company, Morningstar. *Smart Money* magazine had also named the fund a 'Superstar Fund.' By 2017, all four of Parnassus's domestic equity funds had since gone on to outperform the market averages over the long term (Exhibit 2). In early 2017, *Fortune* magazine reported that "Parnassus Endeavor is not only the top performer among so-called sustainable and responsible funds, but it's No. 1 among all large-cap growth stock funds over every long-term period measured by research firm Morningstar, from one year to 10 years."[8]

The Growth Of Parnassus Investments

Parnassus Investments had come a long way since its founding in Dodson's basement in 1984. It had taken seven years to accumulate the relatively small stake of $30 million in assets under management – the point at which the company became cash-flow-positive – and almost 20 years to accumulate $1 billion, which it reached in 2003. Parnassus then reached the $10 billion mark in 2013, and now, four years later, was closing in on $25 billion under management. Dodson's brand of socially responsible, contrarian investing had gained a substantial following.

Dodson had been an early advocate of SRI. When he also insisted that social criteria had to be combined with an investing discipline that produced strong returns for investors, that belief was rooted in experience. As president of the San Francisco-based Continental Savings and Loan in the late 1970s, Dodson had created a certificate of deposit (CD) that was dedicated to funding early solar power projects and, at the same time, paid a competitive interest rate.

Dodson's Solar CD innovation was very popular, proving that there was a market for investments that adhered to socially responsible principles while producing competitive returns. He later said that the Solar CD "convinced me that if given the choice, people would invest their money for a positive social impact – as long as safety, liquidity and yield were not sacrificed."[9]

As a graduate business student at Harvard in the early 1970s, Dodson had discovered the contrarian approach to generating above-average stock market returns. He learned about Warren Buffett's value-investing principles and results, although Buffett was not widely known at the time. His interest in Buffett led him to the writings of Benjamin Graham, who had been Buffett's teacher, an early contrarian, and the 'father of value investing.'

Dodson founded Parnassus when he saw the opportunity to combine a Buffett-like contrarian value-investing discipline with ESG criteria. Following an inconsistent start in the 1980s, he delivered a 25-year streak in which not just the Parnassus Fund, but all of the firm's domestic equity mutual funds, outperformed the broad stock indexes (Exhibit 2).

Investment Selection At Parnassus

Laura and the other interns at Parnassus learned an investing process that began with all of the stocks in the Russell 1000 index of the one thousand largest companies by stock market valuation. They then distilled from that index a 'Focus Universe' of the 150 best investments based on value, ESG, and other criteria.

The first step in the Parnassus process (Exhibit 3) began with the Russell 1000 and identified the 400 most attractive companies that were:

1. High performers on ESG criteria;
2. Undervalued according to traditional value-investing criteria; and
3. Beneficiaries of external trends and internal competitive advantages that would serve as 'tailwinds' to drive higher-than-average growth and profitability at the company over the next 3 to 5 years.

The second step in the process evaluated these 400 stocks on four broad quality criteria that Parnassus linked to long-term outperformance in the stock market (Exhibit 4):

1. Competitive Moat: inherent competitive advantages that enable a company to outperform the competition over an extended period of time because of hard-to-copy product features (differentiation) or cost structure (low-cost).
2. Relevancy: companies that benefit from market and consumer trends or new and disruptive technologies.
3. Management: the quality of company leadership, measured by business expertise, long-term vision, and social ethics.
4. ESG Criteria: including environmental, community, workplace, customer, and company governance issues.

Parnassus believed that companies it rated above average on these four criteria demonstrated an ability to thrive in the face of change, competition, industry disruption, and economic cycles. Companies passing both steps made up the Focus Universe of roughly 150 companies from which Parnassus's portfolio managers could choose (Exhibit 3).

Investing In Great Workplaces

An early Parnassus shareholder, Milton Moskowitz, had developed a methodology for measuring employees' satisfaction with their employers. With coauthor Robert Levering, he published a book on the topic in 1993, "The 100 Best Companies to Work For In America." The book was so popular that *Fortune* magazine began publishing an annual list of the 100 best companies to work for, selected according to Moskowitz's and Levering's principles. Levering later formed a certifying organization, Great Place to Work^{R}, to evaluate companies and certify those that qualified as 'Great Places to Work.'

In the early 2000s, Russell Investments evaluated the stock performance of the public companies among the Great Places to Work and found that they consistently beat the Russell 1000 and the Russell 3000 indexes. Moskowitz shared this information with Dodson.

Workplace quality was a factor that had long interested Dodson and played a role in Parnassus investment analyses. It complemented the other ESG factors Parnassus used and, as important, there was objective evidence of its value in predicting companies' long-term outperformance. After confirming the Russell data, Dodson was inspired to start the Workplace Fund, later renamed the Endeavor Fund, in 2005.

In evaluating companies for the Endeavor Fund, Dodson used the factors that were used in creating the Focus Universe for other Parnassus Funds, with a stronger emphasis on workplace quality factors. Its multi-faceted selection process enabled the Endeavor Fund to outperform the broad stock market indexes, the other Parnassus funds (Exhibit 2), and the average stock of publicly held Great Places to Work companies (Exhibit 5). As noted above, it was the top-performing large-cap growth stock fund over the 10-year period from 2007 through 2016.

An Investment Process That Looked Deeper

Beyond screening for socially redeeming corporate behavior, or performing traditional value-investing assessments of what qualified as over- and undervalued stocks, Dodson created a culture that looked deeper. This sometimes led the firm to take contrarian positions that, on the surface, did not seem to align with its stated values. Wells Fargo was one of these. Another example was technology industry, which was perennially popular with investors and so did not attract the typical contrarian value investor.

<u>Embracing Certain 'Overvalued' Stocks</u>: The generally accepted view of technology firms was that they were riskier than average investments. Technology firms were often fast-growing companies, which usually sold at valuations that were too rich for most value-oriented investment managers. Given their high growth and investors' high expectations for them, when they inevitably stumbled or temporarily failed to meet inflated expectations, investors would sell in large numbers, and the companies' stock prices would collapse.

Parnassus looked beyond these temporary stumbles, buying when stock prices were temporarily depressed, and later benefiting when the long-term growth trends resumed. For the Endeavor

Fund, Dodson was particularly intrigued by how well many technology companies created workplaces that, whether certified or not, were obviously 'great places to work.' As one publication described it:

> "[T]he Best Companies list often points [Dodson] to pricier stocks that he wouldn't have considered otherwise. Dodson never gave a second look to Google – a technology stock that has historically traded at high valuations – until it debuted on the list at No. 1 in 2007. Within three months, he had bought the stock. After several visits to the Googleplex, Dodson was wowed by its lavish benefits, from free meals, massages, and dry cleaning to 18 months of paid maternity leave. As Silicon Valley companies compete more on office luxuries in their fierce war for talent, they have become prime candidates for Parnassus Endeavor, whose heavy helping of tech … has been a boon to performance in recent years."[10]

Parnassus was able to look past apparently high stock valuations, betting instead on longer-term growth fueled, in part, by great workplaces.

The Parnassus Internship Program

Laura was surprised to find that all of the analysts and portfolio managers at the firm – except, of course, Dodson – were graduates of the internship program. At first, she attributed this to the fact that, having learned the Parnassus process for evaluating stocks, interns had a head start in competing for full-time positions. But as the summer progressed, she came to believe that internalizing the analytical process was easy compared with demonstrating the judgment that, for example, would allow an analyst to buy apparently overvalued technology firms.

Dodson never set out to create an internship program. In fact, he resisted the idea because he assumed it would require more effort than it would be worth to train the interns. Then, in late 1986, he found himself on the phone with a very persistent young woman who needed an internship in order to meet her school's requirements. Dodson told her he was not interested several times, but she wouldn't take no for an answer. He recalled that, "the one way I could get her off the phone was to agree to give her a piece of research to do, and see whether she could do it or not. When she actually did a pretty good job, I was quite surprised, so I asked her to do a second one. Again, she did a good job and I said, 'All right, all right. I'll take you as an intern in January.' And so it was really not by design at all. As it turned out, the program was very productive and I appreciated the inexpensive research assistance, especially in the early days."[11]

The program became a source of employees, senior executives, and portfolio managers who outperformed the competition. It attracted top candidates because, as Dodson put it, "The best people want to work for companies that are doing something positive, and that respect them."[12] Ben Allen noted, "Great workplaces emphasize trust, not free granola."[13]

Todd Ahlsten, who later became lead manager of Parnassus's largest fund, the Core Equity Fund, remembers advocating for an investment in Southwest Airlines when he was an intern. At the time, Southwest's stock had declined when the much-larger United Airlines created a directly competitive unit. Ahlsten made a case for Southwest's long-term competitive potential, and was surprised when Dodson accepted his analysis and bought the stock. He remembered, "The trust that Jerry had in me as a 22-year-old was remarkable."[14]

Intern candidates were warned that the firm valued unfiltered debate, openness to criticism, and a willingness to criticize oneself. Interns who were sensitive to criticism, especially in presentations such as the one Laura was preparing, were not a good fit at Parnassus. Dodson embodied these characteristics himself. His shareholder letters often included self-criticism that was uncommon in the investment management world – but also, coincidentally, a hallmark of Warren Buffett's style.

Wells Fargo: A Tough Call

History: Wells Fargo was one of the largest U.S. banking companies. With headquarters in San Francisco, far from Wall Street, the company's business model relied on traditional banking activities like mortgage and small-business lending, rather on the riskier investment banking and proprietary trading activities of its New York-based competitors. This traditional orientation was a key reason that Wells Fargo weathered the 2008 financial crisis far better than many of its competitors (Exhibit 6). (The crisis also allowed Wells Fargo to acquire another large bank, Wachovia, at a bargain price, almost doubling its size.)

Over a long period of time, Wells Fargo had been able to attract deposits at lower costs than other banks, and then lend that money at higher interest rates. This larger 'spread' between its cost of funds and its returns on lending them was the key that made Wells Fargo a great investment. It enabled the company to post consistently higher returns on assets and equity than its peers, which was an important factor in its appeal to value investors like Buffett and Dodson.[15]

Wells Fargo was also able to grow its account base at a lower cost than competitors, a fact that it attributed to strong customer relationships. It leveraged those relationships through 'cross-selling,' a practice that aimed at maximizing the number of Wells Fargo accounts held by each household or business customer (for example, personal and business checking, savings, loans, insurance, investments, credit cards, and so on). Cross-selling additional products to existing customers was a less costly way to grow deposits than acquiring new customers. In its annual report for 2015, the bank reported an average of more than six accounts per customer. The CEO's letter that year proclaimed, "Relationships define Wells Fargo."[16]

Scandal: Wells Fargo's success in cross-selling was a result of its strong customer relationships. However, at some point, the bank lost its focus on serving customer needs. Its emphasis on expanding the number of accounts per customer led some managers to pressure employees so intensely that they felt driven to create accounts that customers had not requested. In September 2016, it was revealed that the bank's sales incentives and tactics had resulted in the opening of at least two million fraudulent accounts not requested by customers over the preceding five years, creating a misleading impression of growth.[17] In August 2017, the estimate of total fraudulent accounts was revised upward to 3.5 million.[18]

The scandal highlighted a sales culture out of control, and a management that seemed unwilling or unable to change it. Over the five-year period, 5,300 employees involved in creating fraudulent accounts had been fired[19], and still the problem persisted. In addition, reports surfaced about employee whistleblowers who had been fired for reporting the toxic, high-pressure sales culture.[20] One editorial in the *Wall Street Journal* noted that "management's response was to fire employees rather than re-examine the cause of the underlying systemic problems."[21]

Questioning Wells Fargo's CEO, John Stumpf, in public U.S. Senate hearings on September 20, 2016, Senator Elizabeth Warren highlighted the link between cross-selling and fraud:

> "Other big banks average fewer than three accounts per customer. But you set the target at eight. Every customer of Wells should have eight accounts with the bank. And that's not because you ran the numbers and found that the average customer needed eight banking accounts. It is because, 'Eight rhymes with great.' This was your rationale right there in your 2010 annual report. Cross-selling isn't about helping customers get what they need. If it was, you wouldn't have to squeeze your employees so hard to make it happen. No. Cross-selling is all about pumping up Wells' stock price. Isn't it?"[22]

Despite the damage to Wells Fargo's reputation, which risked undermining the customer relationships on which it depended, the evidence almost a year later seemed to show that Wells Fargo had been able to maintain strong customer relationships. According to Morningstar, the investment rating company, "Wells still maintains superior customer service ratings, for the most part, according to J.D. Power. In fact, many competitors experienced far more Consumer Financial Protection Bureau complaints per dollar of deposits than Wells Fargo."[23]

<u>Parnassus's Investments in Wells Fargo</u>: When the fraudulent account scandal broke, Wells Fargo's stock lost about 10% of its value. It then underperformed its peers over the next nine months (Exhibit 7). Parnassus portfolio managers had to decide whether to sell their stakes – which would lock in the loss for their shareholders – or hold on in the hope that the stock price would recover. More important, they had to ask themselves not just whether the stock price would bounce back, but whether Wells Fargo really met their ESG criteria after all.

Had the managers at Parnassus misjudged the bank? Could a sales culture that pressured employees to open millions of fraudulent accounts be considered socially responsible or a 'great place to work'? What other hidden risks might the bank be running to deliver its stellar returns? Did the scandal represent a company-wide problem that could create future risks, or was the problem was limited to a small number of managers?

The Parnassus team had decided to maintain their funds' investments in Wells Fargo. Dodson even increased the Endeavor Fund's position, believing that the post-scandal price decline was an opportunity to buy a good stock at a more attractive price. This position was not a popular one with some shareholders and corporate activists. Critics saw the firm as a self-proclaimed advocate for corporate responsibility that was not living up to its own values. But Ben Allen, President of Parnassus Investments and co-manager of the Parnassus Core Equity Fund, believed that "being a leader means being willing to take an unpopular stance." [24]

The company's contrarian point of view necessarily made its portfolio managers willing to take unpopular positions and endure criticism on account of those positions. In the company's public comments on Wells Fargo, it cited two main reasons for maintaining its sizeable investment:

1. The fundamental qualities that led them to invest were still in place. On ESG criteria, Parnassus published a statement saying, "the bank is the third largest corporate donor to charitable causes. Minorities and women are well-represented in its leadership. Wells Fargo also supports affordable housing initiatives that service low- and moderate-income households, including seniors, veterans and families, as well as access to capital for small businesses. The company has also committed to purchasing renewable energy for 100% of its operations by the end of this year." [25]
2. Parnassus's managers believed they could use their influence as a large stockholder to bring about positive change at the bank. Following through on this belief, in April 2017, Parnassus voted against re-electing five Wells Fargo board members on its risk committee, because their "oversight was lax and their remedies tardy." [26]

Dodson addressed the Wells Fargo situation right at the beginning of the funds' annual report dated December 31, 2016:

> "I'd like to give you an update on Wells Fargo and its unauthorized opening of accounts. While some of our shareholders have urged us to sell our shares, we believe that Wells Fargo is a far better bank than what is portrayed in the media, and that this is the most important time for an ESG investor to be involved. We met with CEO Tim Sloan in December and had a productive conversation about the bank's remedies for its customers and employees, discriminatory banking practices towards minority and low-income customers, as well as its financing of the Dakota Access Pipeline. We would not have been able to have this dialogue had we sold our position."[27]

Laura Digs In

As Laura began her research on Wells Fargo, she found good arguments both for and against maintaining the investment. Assuming the bank's management could fix its problematic sales culture and retain the positive ESG characteristics Parnassus saw in the bank, there were good reasons to believe it could resume growth on the same very favorable terms that originally attracted Dodson. On the other hand, the company had been trying to eliminate fraudulent account activity over a period of several years and had been unsuccessful. How could she assume that the problems were now solved?

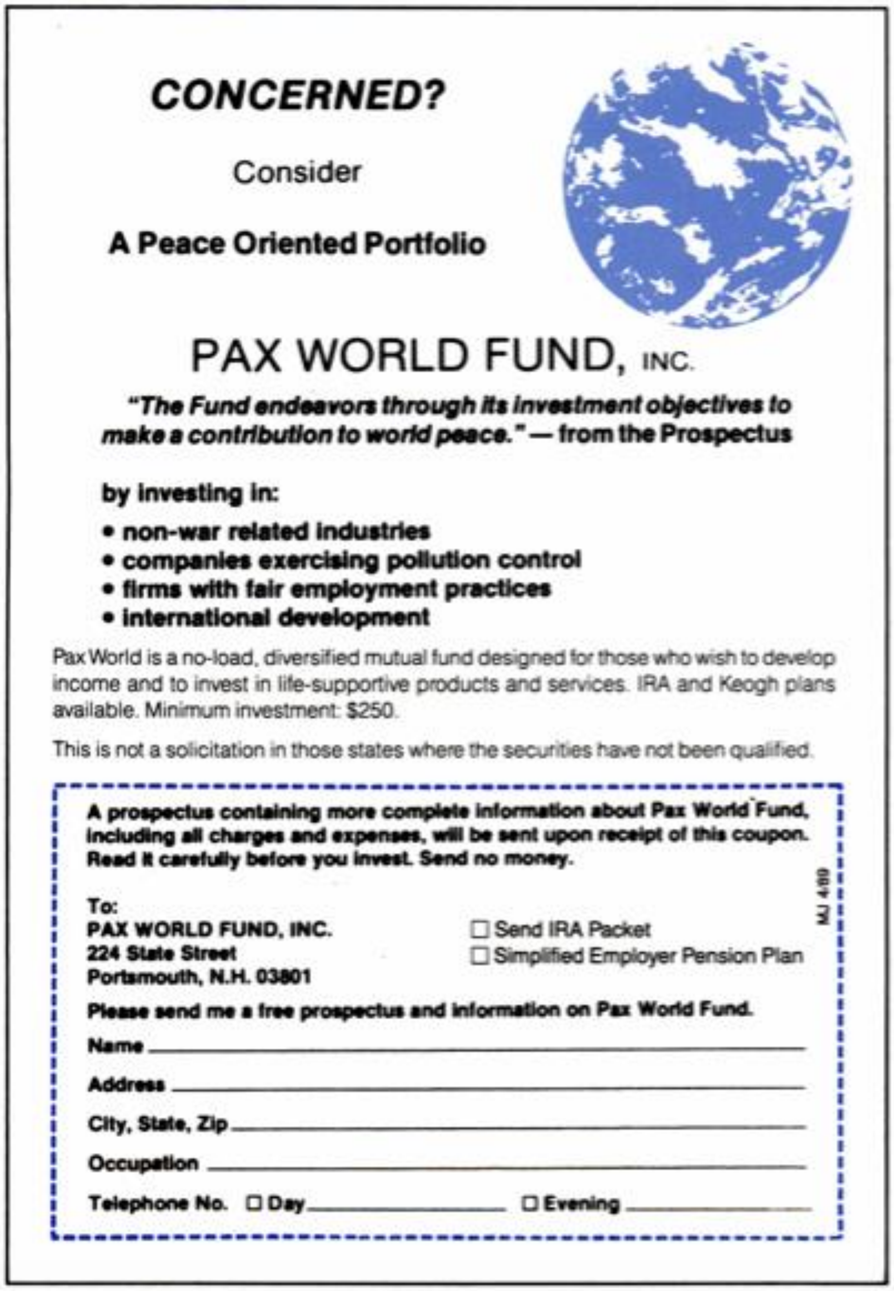
Laura's questions concentrated on several practical issues:

1. What was the real situation at Wells Fargo? Was the scandal a temporary setback for a company that was, as Parnassus believed, "far better than what is portrayed in the media"[28]? Or did it represent a more deeply dysfunctional culture that could not be easily cured?

2. Had Parnassus's belief in Wells Fargo blinded it to the real extent of the bank's problems? Laura was beginning to understand the deep conviction that was needed to be a contrarian investor. The ability to ignore temporary or superficial problems because one believed in a company's fundamental strengths could lead to high investment returns. However, it could also lead contrarian investors to dismiss problems that were more serious than they thought.
3. Were the positive ESG factors, which Parnassus had highlighted in defending its investment, signs of a bank with a deep commitment to the communities in which it operated, or were they window dressing?
4. And how could the Endeavor Fund, with its focus on 'great workplaces,' own a company that put such intense pressure on employees that they committed fraud in order to meet management's expectations?

Laura knew that whatever position she took, she was in for the toughest presentation of her relatively short career.

EXHIBIT 1. Advertisement for Pax World Fund



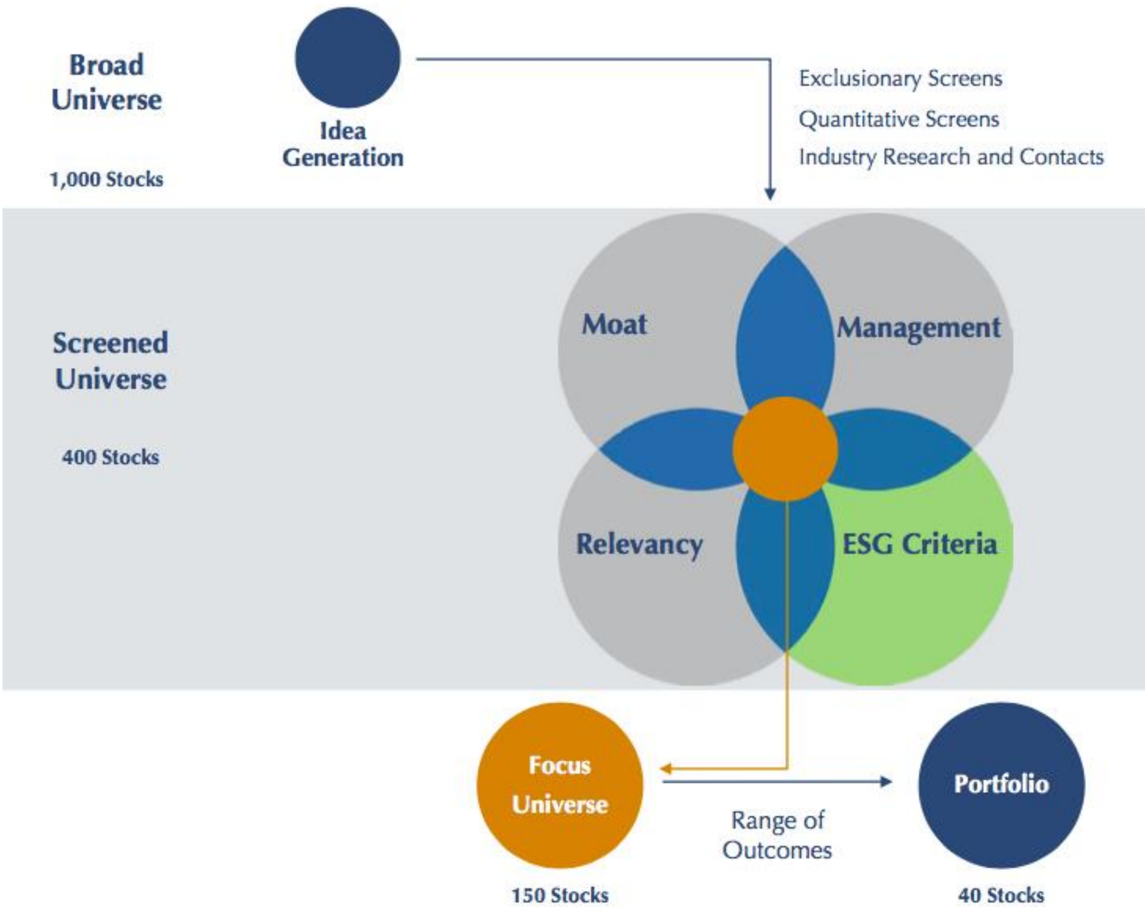
Source: Mother Jones Magazine, April 1989, p 20. Web. 17 Aug. 2017.
<https://books.google.com/books?id=HucDAAAAMBAJ&pg=PA20&lpg=PA20#v=onepage&q&f=false>

EXHIBIT 2. Performance of Parnassus Investments' Domestic Equity Funds

Annualized Total Returns (as of 6/30/2017)						
	1 Year	3 Year	5 Year	10 Year	15 Year	Fund Lifetime
INDEX: S&P 500	*17.9%*	*9.6%*	*14.6%*	*7.2%*	*8.3%*	
Morningstar Large-Cap Growth Category	*20.0%*	*8.8%*	*13.9%*	*7.5%*	*8.2%*	
Parnassus Fund	**26.3%**	**9.7%**	**16.7%**	**9.7%**	**8.7%**	**10.3%**
Parnassus Endeavor Fund	**31.0%**	**14.5%**	**19.1%**	**12.6%**		**12.4%**
Morningstar Large-Cap Blend Category	*17.2%*	*7.6%*	*13.4%*	*6.2%*	*7.7%*	
Parnassus Core Equity Fund	**14.2%**	**7.5%**	**14.3%**	**9.1%**	**9.7%**	**10.6%**
Morningstar Mid-Cap Blend Category	*17.4%*	*5.5%*	*13.0%*	*6.1%*	*8.7%*	
Parnassus Mid Cap Fund	**16.3%**	**9.2%**	**13.9%**	**9.0%**		**9.6%**

Sources: Morningstar.com, Parnassus.com

EXHIBIT 3. Stock Selection Process at Parnassus Investments



Source: Parnassus Investments

EXHIBIT 4. Environmental, Social, and Governance (ESG) Attributes in the Parnassus Investment Selection Process

Source: Parnassus Investments

EXHIBIT 5. Annualized Returns of Parnassus Endeavor Fund and ‘Best Places to Work’ List

Endeavor Fund vs. ‘100 Best Places to Work’ (as of 3/31/2017)			
		1 Year	Since 9/30/2005
Endeavor Fund		25.5%	12.5%
‘100 Best Places to Work’ *	No fees applied	14.8%	9.1%
	After 0.95% mgmt fee	13.9%	8.2%
S&P 500 Index		17.2%	8.1%

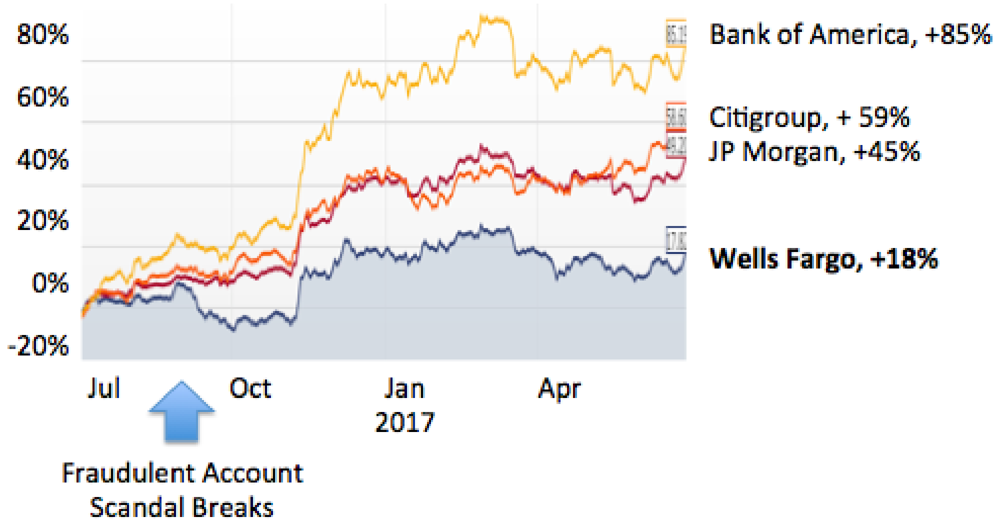
* Fortune 100 Best List is revised every January. Returns of Fortune list are calculated both (a) with no fees applied and (b) with a 0.95% management fee that is comparable to the Endeavor Fund’s annual expense ratio.

Source: Parnassus Investments

EXHIBIT 6. Wells Fargo Stock Performance vs. Peers – Impact of 2008 Financial Crisis

Source: Morningstar.com

EXHIBIT 7. Wells Fargo Stock Performance vs. Peers – Impact of Fraudulent Account Scandal



Source: Morningstar.com

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[10] Wieczner, J. “When the Best Workplaces are the Best Investments,” Fortune, 15 Mar. 2017. Web. 4 Jul. 2017.

[11] Case writer interview with Jerome Dodson, 9 Jun. 2017.

[12] Case writer interview with Jerome Dodson, 9 Jun. 2017.

[13] Case writer interview with Ben Allen, 12 May 2017.

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