



Principles and Performance®

# Growth Investing 2024: Tapping Trends Beyond the Magnificent Seven

February 2024

---

## Key Takeaways

- *We believe innovation trends create opportunities for companies outside the Magnificent Seven mega caps that have dominated stock indexes lately.*
- *Promising secular trends in AI, cloud software, life sciences and digital payments give companies new ways to serve and grow their markets over the long term.*
- *We see companies beyond the Magnificent Seven that can benefit from future innovation and have the resilience to offer downside protection.*

Growth stocks gained a lot of attention in 2023 with the Magnificent Seven stocks delivering exceptional performance. Interest rate increases typically have a delayed effect on the economy, with rising borrowing costs making it harder for some companies to invest in capital spending. Given the uncertainty around interest rate moves going forward, where are the opportunities for growth stocks now?

At Parnassus, we believe there is still plenty of runway for growth companies based on promising secular trends that continue to open investment opportunities for long-term investors. Many of these trends have been around for years and should continue to propel companies forward for years to come. As an investor, we apply our highly selective

research process to identify companies that we believe are the leaders of tomorrow. Here are some of the themes we are considering as a backdrop to our growth portfolios:

**AI Upside.** The AI boom that has powered much of the Magnificent Seven rally is a long-term trend that will likely play out over years. We aim to avoid overpaying for AI upside in software, but still see opportunities in other beneficiaries like Salesforce (CRM) and Intuit (INTU), both incumbent leaders in their respective markets, with established scale and large user bases that are positioned to layer AI onto their products. We think semiconductor companies developing chips for AI-related innovations are also well positioned for growth, especially those that play a key role in datacenters running AI models, such as Advanced Micro Devices (AMD). Monolithic Power Systems (MPWR) is a mid cap maker of solutions that help manage power efficiency in the AI chips. Cadence (CDNS) not only makes the software that designs the semiconductors powering AI, they've incorporated AI into their tools. You also can't have AI without the equipment, manufacturing and testing required to fabricate the semi-conductors. Our funds own several stocks of companies with key roles in the semiconductor supply chain, including Applied Materials (AMAT), Taiwan Semiconductor (TSM), KLA Corp. (KLAC) and Teradyne (TER).

**Software Solutions.** The digital transformation that has shifted technology to the cloud to help companies manage their operations more efficiently is also far from finished. We believe corporate IT spending is picking up again, particularly in industries that have so far been laggards in moving onto cloud-based platforms. The added layer of AI capabilities will drive demand for cloud-computing performance monitoring systems like Datadog (DDOG). They are also integrating AI into their own product to make it even better. We also like human resources and financial management software

provider Workday (WDAY), which is a beneficiary of vendor consolidation when companies aim to simplify the systems that support hiring and managing employees as well as procuring vendors. Also promising in our view are software companies tailored to improving specific end markets, such as Guidewire (GWRE), which provides software and services to property and casualty insurers, and Procore (PCOR), a leading construction management software provider.

**Life Science Tools.** New methods of developing medicines to treat a wide range of diseases and conditions open up tremendous opportunities for pharmaceutical companies and the millions of patients who are being treated by their products. Precision medicine is an innovative approach to helping patients manage medical issues through information about their genetics, environment and lifestyle. There are innovative scientific techniques such as gene editing, cell therapy and biologics driving the research and product development of new products and treatment programs. We believe this important work may usher in a golden era of new medicines. Yet, finding the next blockbuster can be quite challenging.

From an investment perspective, we are drawn to companies that support scientific research and offer services to the healthcare and science markets. Companies that make the picks and shovels used in drug research can help reduce drug-development costs. The companies can benefit as drugmakers work on more complex therapies and as the rise in available drugs requires more quality control. Examples include Thermo Fisher Scientific (TMO), Danaher (DHR), Agilent (A) and Repligen (RGEN). Thermo Fisher, a leading global provider of products and services that support global life sciences research and improve patient diagnostics, has a large-scale distribution platform that has enabled them to see where the industry is going, allowing them to invest and innovate more profitably. Danaher

makes the complex machines to research new drugs. Agilent manufactures critical tools for the healthcare industry and benefits from increases in healthcare research and development spending. Repligen's picks and shovels, already used in biologics, are expanding into faster-growing markets such as cell-gene therapy and mRNA vaccines.

**Digital Payments.** The pandemic accelerated the frequency of online payments out of convenience and health concerns, a trend that continues as companies find ways to make digital commerce even more seamless in our daily lives. In fact, approximately two thirds of the world's consumers now make or receive digital payments, according to the World Bank. Three companies with leading edge offerings include Visa (V), Adyen (ADYEY) and Block (SQ). Visa's digital payments platform has durable competitive advantages that are hard to replicate. The company has a global presence in millions of consumers' daily lives, making the company an irreplaceable asset in the global payment system. Adyen offers a one-stop payments processing platform for cross-border transactions. As e-commerce continues to grow, Adyen is poised to grow along with it. With 85% of its revenue coming from e-commerce, Adyen is positioned to ride the continued trend of online shopping. Block (SQ) owns Cash App, the popular peer-to-peer consumer finance app, and the Square payment processor for small businesses. With its founder Jack Dorsey leaning

in to increase margins and improve collaboration across segments, we believe there is meaningful upside for the stock.

In a market where many investors are tempted to chase the usual suspects that capture the spotlight, our growth funds, Parnassus Growth Equity Fund (PFGEX/PFPGX) and Parnassus Mid Cap Growth Fund (PARNX/PFPRX), have exposure to different secular growth trends. But they are united in their strategy to invest in high-quality companies who are leading their categories. We see plenty of companies outside the Magnificent Seven that are positioned to benefit from future innovation, and from where we sit, the future looks bright.

#### **Andrew Choi**

Lead Portfolio Manager,  
Parnassus Growth Equity Fund

#### **Robert Klaber**

Portfolio Manager,  
Parnassus Mid Cap Growth Fund

#### **Ian Sexsmith**

Lead Portfolio Manager,  
Parnassus Mid Cap Growth Fund

#### **Shivani Vohra**

Portfolio Manager,  
Parnassus Growth Equity Fund

February 2024

Mutual fund investing involves risk, and loss of principal is possible. There are no guarantees any investment strategy, including a socially responsible (ESG) investment strategy, will be successful in any market environment. 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. The Fund invests in small and/or mid cap companies, which are generally riskier than larger companies, and the Fund's share price may be more volatile than funds that invest in larger companies. Past performance cannot predict future results. Dividends are not guaranteed and may fluctuate.

For the current holdings of the [Parnassus Core Equity Fund](#), the [Parnassus Growth Equity Fund](#), the [Parnassus Value Equity Fund](#), the [Parnassus Mid Cap Fund](#), the [Parnassus Mid Cap Growth Fund](#) and the [Parnassus Fixed Income Fund](#), please visit each fund's individual holdings page. Fund holdings are subject to change at any time.

© 2024 Parnassus Investments, LLC. All rights reserved. PARNASSUS, PARNASSUS INVESTMENTS and PARNASSUS FUNDS are federally registered trademarks of Parnassus Investments, LLC. The Parnassus Funds are underwritten and distributed by Parnassus Funds Distributor, LLC.

**Before investing, an investor should carefully consider the investment objectives, risks, charges and expenses of the Funds and should carefully read the prospectus or summary prospectus, which contains this information. A prospectus or summary prospectus can be obtained on the website, [www.parnassus.com](http://www.parnassus.com), or by calling (800) 999-3505.**