



# Parnassus View

## Revisiting Nuclear Energy: Why Parnassus Is Removing Our Exclusionary Screen on the Industry

- *We believe the time is now to support actions that move us forward toward a low-carbon economy. That’s why we are supporting the use of nuclear energy as an essential source of fuel in the transition to renewable sources of energy that have lower emissions than fossil fuels. And we have taken the significant step to change our investment process so that it no longer categorically excludes nuclear power companies from investment consideration.*
- *In practice, this means Parnassus Investments is removing its long-held exclusionary screens on companies that make more than 10% of their revenue from nuclear power generation and/or related activities. This move affects 19 companies, primarily utilities. There will be no immediate changes to our portfolios, and any investment we select will undergo a risk assessment to ensure it meets our high standards for quality.*

### A Natural Evolution

When Jerome “Jerry” Dodson founded Parnassus Investments in 1984, he became an early user of exclusionary screens against companies with controversial business practices so they could not be selected for his funds. Parnassus Investments was also one of the first asset managers to consider environmental impacts as a risk to a company’s future value.

As our nascent company was establishing its business in the mid-1980s, nuclear energy became a controversial issue following meltdowns at Three Mile Island and Chernobyl. Scientists were also starting to sound alarms on human-induced climate change. Anyone who remembers these incidents likely appreciates why there were significant concerns about safety and environmental

impacts. Nearly 40 years later, we have a different lens through which to evaluate nuclear power companies, which are subject to greater regulatory oversight and have stronger safety procedures in response to these tragic events.

We are now changing our investment process to remove the screen on companies that make more than 10% of their revenue from nuclear power generation and/or related activities so that we may consider these companies as part of our investable universe.

Our investment teams will continue to maintain a high bar for any investment we select for our high-conviction, high-quality portfolios. Beyond the rigorous fundamental and environmental, social and governance (ESG) research Parnassus applies to all potential investments, companies involved in nuclear power engineering and generation will undergo a suitability framework that considers factors such as:

- the robustness of their governance, oversight and safety processes;
- their historical record of safety and disclosures, including a review of the number and status of past controversies, fines and litigation;
- their risk assessments and preparedness concerning major climate, geologic or geopolitical events;
- the strength of their policies for nuclear-waste storage and disposal;
- their commitment to science-based emissions-reduction targets.

There are 19 impacted companies, primarily utility companies offering a mix of energy sources, that can now be considered part of the investable universe. However, there are no immediate changes to our portfolios, and as noted above, any investment we select will undergo a rigorous assessment of risks and opportunities to ensure the companies meet our high standards for quality.

## Why We Think the Time Is Right to Consider Nuclear Power

We are making this change now because we view nuclear energy as a necessary transition fuel to support a low-carbon economy. Nuclear energy is a low- to no-emissions option that can provide reliability in baseload energy while renewables and battery storage tech improve.

The impacts of a changing climate are growing stronger by the year, illustrating the sense of urgency about meaningful climate action. The Intergovernmental Panel on Climate Change (IPCC), a group of scientists advising governments on climate change, called for carbon emissions to be reduced by half by 2030 in order to limit or avoid the catastrophic effects that could follow if global average temperatures rise more than 1.5 degrees Celsius above pre-industrial levels.<sup>1</sup> The earth has already warmed 1.1 degrees Celsius since 1900, causing a dramatic rise in droughts, heat waves, floods, reduced air quality and disease outbreaks. Further warming would not only worsen these impacts, but could also have adverse effects on climate-exposed business sectors in agriculture, forestry, fisheries, energy, tourism and healthcare.<sup>2</sup> Individuals have experienced devastating losses from fires and floods, which have also taken a toll on insurance companies in the financial services sector.

To address the concerns about global temperature increases, the Environmental Protection Agency (EPA) highlighted five options to reduce carbon emissions from electric power generation<sup>3</sup> while mitigating negative economic and societal impacts, including transitioning to renewable and low-emission fuels; boosting energy conservation during peak times; implementing carbon capture and sequestration to help reduce the levels of carbon dioxide in the air; and generating power from nuclear energy by extending the life of existing nuclear power plants and building new nuclear generating facilities.

We will encourage and assist companies across our portfolios to adopt and meet science-based emissions-reduction targets using some of the EPA's strategies above (including nuclear power), to limit the rise in global temperatures to 1.5 degrees Celsius in the pursuit of a lower-carbon world.

## Prioritizing Safety and Quality

Importantly, Parnassus will continue to monitor developments in safety and environmental concerns. Measurable safety improvements have come from additional regulation and enhancements to reactor design, technology, maintenance, training and emergency-response procedures.

Investments in capacity expansion and facility upgrades are being made that help reduce the risk of errors, issues and accidents. Since 2021, new legislation<sup>4</sup> has allocated \$6 billion to upgrade aging nuclear plants and introduced tax credits<sup>5</sup> to support new and existing plants with new technology and expanded capacity. We are encouraged that a new generation of reactor designs and technologies such as molten-salt reactors (MSRs) and small modular reactors (SMRs) offer the potential for even higher safety standards and efficiency, as well as lower construction costs than previous generations of reactors.<sup>6</sup> We will consider these investment opportunities and assess whether they meet our standards for quality and safety. The Department of Energy is also reviewing options for long-term and secure underground storage of spent nuclear rods for the safe disposal of nuclear energy waste.

Over the past 50 years, nuclear energy has been one of the safest energy sources.<sup>7</sup> Nuclear energy has statistically been safer than oil and coal and comparable in safety to wind and solar power. No deaths resulted from the Three Mile Island accident, and the Fukushima meltdown caused

only one death. More than 4,000 are believed to have died from radiation from Chernobyl, mostly because of a delayed evacuation of the nearby population. By contrast, multiple studies indicate that, every single year, a million people die from breathing in particulate matter from fossil fuels such as oil and coal.<sup>8</sup>

## Our Hope for the Future

Advances in the technology and regulation of nuclear energy have enabled it to be part of the solution. Our hope is to do our part in addressing this generational issue—and by doing so, inspire others to join the effort for the benefit of future generations.

We at Parnassus believe firmly in a low-carbon future—and in supporting the companies that can realistically and responsibly bring us there. Since 1984, Parnassus has followed Jerry Dodson's original approach of finding overlooked opportunities for performance while considering material issues in our portfolios that can help us create wealth responsibly. The application of that approach has always evolved with the times, and this move reflects both the consistency and the flexibility of how Parnassus manages its investments.

To learn more, visit [www.parnassus.com](http://www.parnassus.com) or call (800) 999-3505.

## May 2023

### Endnotes

<sup>1</sup>Intergovernmental Panel on Climate Change (IPCC). AR6 Synthesis Report on Climate Change. March 20, 2023.

<sup>2</sup>Intergovernmental Panel on Climate Change (IPCC). AR6 Synthesis Report on Climate Change. March 20, 2023.

<sup>3</sup>United States Environmental Protection Agency (EPA). Sources of Greenhouse Gas Emissions update as of May 1, 2023.

<sup>4</sup>The Department of Energy. DOE Fact Sheet. November 9, 2021.

<sup>5</sup>Office of Nuclear Energy. "Inflation Reduction Act Keeps Momentum Building for Nuclear Power." September 8, 2022.

<sup>6</sup>Matt Fisher, International Atomic Energy Agency (IAEA) Department of Nuclear Energy. "Spotlight on Innovation: Molten Salt Reactors for a Sustainable Clean Energy Transition." August 24, 2020.

<sup>7</sup>Hannah Ritchie, Pablo Rosado and Max Roser. Our World in Data. "Nuclear Energy." April 19, 2023.

<sup>8</sup>Brandie Jefferson, Washington University in St. Louis. "New research finds 1M deaths in 2017 attributable to fossil fuel combustion." June 14, 2021.

### Important Information

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. There are no assurances the Funds will meet their investment objectives and or that their ESG strategies will be successful.

Mutual fund investing involves risk, and loss of principal is possible.

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.

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