Impact Investment Standards

Domini®

Investing for Good℠

Thousands of starfish washed ashore.
A little girl began throwing them in the water so they wouldn't die. "Don't bother, dear," her mother said, "it won't make a difference." The girl stopped for a moment and looked at the starfish in her hand.
"It will make a difference to this one."

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INTRODUCTION

At Domini Impact Investments (Domini) we are committed to open communication with investors about the standards we use in choosing our investments. This booklet is part of that commitment. Our investors ask us to align their investment portfolio with their concerns for society and the environment. That process begins here, with our Impact Investment Standards. These standards guide our investments in both stocks and bonds in our funds.

Our Impact Investment Standards focus on two fundamental goals: the promotion of universal human dignity and ecological sustainability.

We view these twin goals as crucial to a healthier and more sustainable world.

Investors have an important role to play by ensuring that profit-making is consistent with our shared interests as a global community. We are pleased to offer this description of how we put these principles into action.

OUR INVESTMENT APPROACH

At Domini, we believe that investments made today will shape tomorrow. We therefore apply environmental and social standards to all our investments. In doing so, we seek to capture sources of opportunity and risk often overlooked by conventional financial analysis. Our evaluations also provide us with insight into the quality of corporate management teams, which is a key component of their future success.

We believe that our standards help identify:

- Issuer-specific implications that affect portfolio performance which can help us avoid certain risks, such as large environmental fines or discrimination lawsuits and can also identify more resilient investments.

- Systems-level factors that impact market performance. Through our investment strategy, Domini attempts to strengthen the large-scale environmental, societal and financial frameworks upon which we all depend for long-term success.

It is our conviction that this dual-level approach helps us identify opportunities to provide strong financial rewards while also helping to create a more just and sustainable economic system.

CORPORATE STAKEHOLDERS AND THEMES

We believe that corporations can play a positive role in our lives, but much depends on their specific actions. If they can channel their tremendous energy and resources to the betterment of all their stakeholders while operating profitably, they can create great value for society as well as for the corporation and its investors. We therefore use our investments to raise standards and explore themes that we believe will benefit all parties in the long run. Part of our obligation as owners of publicly traded corporations is to create a more just and sustainable economic system that will last well into the future.

Our Impact Investment Standards focus on key themes that we believe best capture the strength of a corporation's relationships with its stakeholders, who serve as valuable partners in the enterprise.

The word partners stresses the importance of cooperative and reciprocal relationships. Legal contracts can specify many particulars in these relationships – and are useful in doing so – but their strength ultimately depends on mutual trust and respect. Fairness, honesty in dealings, commitment to quality, and regard for the public interest cannot always be legislated, regulated, or assured by contract. Without the spirit of cooperation and understanding of mutual benefit that is achieved in strong partnerships, these more intangible factors so important to long-term corporate success cannot be realized. Corporations can also create substantial risks – financial, social, and environmental – when they fail to manage these partnerships appropriately. Our assessments of these relationships are therefore a vital part of our investment process.

Key Stakeholder Themes

We assess the strength of these relationships by evaluating key themes relevant to each stakeholder and believe that companies will succeed and prosper in the long run when they:

- Produce high-quality, safe, and useful products
- Enrich the ecosystems on which they depend
- Are transparent with their investors
- Invest in the health and development of their employees
- Strengthen the capabilities of their suppliers
- Contribute to the local communities in which they are located

We have selected these themes because we believe sufficient information is typically available to make judgments and that these goals are reasonably achievable. We also tend to focus more on results than on general corporate policies, although both policy and practice, and the interrelationship between them, are important. Today's forward-looking policies lay the foundation for tomorrow's improved practices.

These themes can also help us identify patterns of behavior that impose costs on the company's partners or, in the vocabulary of economics, externalize costs onto society. This kind of short-term profiteering undermines companies' relationships with their stakeholders, incurring burdensome costs that destroy the long-term wealth-creating potential of both companies and the societies in which they operate.

Managers all too frequently see extracting value from their stakeholders or the environment as the fastest and simplest road to financial success. Relationships where only one side extracts value do not last long. Our standards help to identify companies run by managers capable enough to operate profitably while taking into consideration multiple stakeholders and the environment. These managers recognize the importance of lasting relationships where mutual support helps assure long-term success.

Companies with Mixed Records

Not all companies we hold perform well on all our themes, and we don't expect them to. We recognize that relationships with partners are complicated and even the best of companies often run into problems. A mixed track record does not necessarily mean that progress has stalled, but it does require thoughtful decision-making on our part. We will invest in companies when we feel that, on balance, progress is being made toward long-term benefits.

We evaluate companies on a case-by-case basis, looking for signs of improvement and positive trends. Our standards can lead us to eliminate substantial numbers of companies in certain industries or countries where prevailing industry norms weight our evaluations toward the negative.

Excluded Industries

We exclude companies with significant involvement in the production of certain addictive products: tobacco, alcohol, and gambling. The more successful such companies are, the greater the cost they impose on society. This is not a business model we support.

The capital markets are highly effective mechanisms for raising funds for a wide variety of products and services, but we do not believe they are meant to deliver products that have the potential to cause incalculable harm. We therefore exclude corporations substantially involved in nuclear weapons production and military weapons and civilian firearms production, as well as the owners of nuclear power plants. The dangers of weapons of mass destruction and the international arms trade are among the greatest we face today, and we view the spread of nuclear power technology as tied to the proliferation of nuclear weapons, in addition to presenting significant risks to human health and the environment.

We exclude companies that are substantial owners and producers of oil or natural gas reserves and are included in the Integrated Oil & Gas or Oil & Gas Exploration & Production Industries as defined by the Global Industry Classification System (GICS), as well as companies significantly involved in coal mining. We have made this decision in light of the financial, environmental and moral concerns associated with fossil fuels and in recognition that an increasing portion of the responsible investment community has found divestment a productive avenue to further debate on this, one of the most important and difficult issues of our time.

Major producers of synthetic pesticides and agricultural chemicals are also typically excluded, as are for-profit companies substantially involved in the operation of prisons.

Our thresholds for exclusion are generally determined by such factors as percentage of revenues, magnitude of involvement (market leadership), or ownership. Companies with less significant involvement in these areas may also be considered ineligible for investment, but are evaluated case by case. In these cases, we consider the absolute size of the involvement, the trend of the company's involvement, and the prominence of the company's role in its subindustry, along with the company's overall social and environmental record in making our decision.

Overview of Stakeholders and Themes

Domini's standards are organized according to the following partners and themes. These themes are ones for which we believe sufficient information is generally available to make sound judgments, and represent goals that are reasonably achievable. By assessing companies' performance against these verifiable and achievable goals, we hope to create a forum for public discussion and debate that leads corporations to compete on the strength of their relationships with stakeholders, just as they already compete on efficiency.

Community – Local and National

- Generous and Innovative Philanthropy
- Community Partnerships and Trust

- Protection of Community and Public Goods
- Fair Tax Dealings
- Government Relations

Community – Global

- Geopolitical Stability, Nuclear Weapons, Nuclear Power, and International Peace
- Endorsement of International Norms and Standards
- Acknowledgement of Human Rights
- Respect for Indigenous Peoples and Local Cultures
- Anti-bribery, Anti-Money Laundering, and Anti-corruption Programs

Customers

- Harmful and Addictive Products: Tobacco, Gambling, Alcohol
- Commitment to Safety, Quality, and Customer Service
- Bridging the Divide in Access to Products
- Innovation and Creativity
- Marketing and Pricing Practices

Ecosystems

- Renewable and Alternative Energy Sources
- Eco-Efficiency and Resource Conservation
- Recycling, Safer Technologies, and Life-cycle Design
- Pollution Control and Abatement
- Long-Term Environmental Sustainability

Employees

- Continuous Improvement in Health and Safety
- Fair and Just Compensation and Benefit Programs
- Commitments to Diversity in the Workplace
- Empowerment and Investments in Training

- Solidarity with Unionized Workforce

Investors

- Accounting, Credibility, and Business Ethics
- Openness in Communications
- Commitment to Diversity of Representation
- Relationships with Controlling Owners

Suppliers

- Labor Practices and Other Human Rights
- Quality, Environment, and Other Issues
- Diversity Within the Supply Chain
- Empowerment and Viability

COMMUNITY – LOCAL AND NATIONAL

When companies treat their local and national communities fairly, enriching the communities upon which they depend, they are investing in their own long-term success. Creative and generous philanthropy, ongoing partnerships with community-based organizations, honest relations with government, and paying a fair share of taxes are among the ways companies can reinvest in their communities, strengthening the base from which they operate. Conversely, corporations that harm or exploit their communities may ultimately undermine their own long-term interests.

THEMES

Generous and Innovative Philanthropy

Traditionally, corporations have used philanthropy to give back to the local communities in which they operate. Too many of these programs, however, are little more than public relations campaigns. With corporate giving programs generally representing only a small fraction of pretax profits and many corporate initiatives focusing only on high-profile giving, many companies fail to identify those causes that solve communities' greatest challenges.

We look for companies that target their giving creatively, particularly those that assess the actual needs of their communities and, drawing on their own greatest strengths, work toward empowering local communities. Endowing a corporate foundation, which companies can do with their own stock, or giving generously from pretax earnings, demonstrates a willingness to allocate serious resources to enriching the more intangible aspects of the communities in which companies operate.

Community Partnerships and Trust

Communities and corporations often find themselves at odds over basic issues such as the location of a new plant or store, the effects of their pollution on the economically disadvantaged, their policies on layoffs or plant closings, or their use or abuse of local resources. Corporations should pro-actively seek collaborative partnerships with groups that represent the basic concerns of those in the community. True partnerships require considerable investments of time and a willingness to communicate openly – on both sides. The reward from such hard work, however, is a mutual understanding and trust that can keep problems from escalating into major controversies.

We look for companies that are willing to listen to their communities' opinions and act collaboratively to reach mutual understanding. These partnerships can address complicated environmental and natural resource challenges, issues of health and safety, matters of adequate housing or improved education, job training for the economically disadvantaged, or the legacy of racial or gender discrimination.

Protection of Community and Public Goods

The wave of privatization and deregulation that swept over the world as part of the globalization of national economies since the 1980s has prompted a global debate about the proper role of corporations in society. We believe that companies have an obligation to understand that a clear boundary often needs to be drawn between government and the private sector and to support government's responsibility to provide basic public goods such as healthcare, prisons, primary school education, and national security. We also understand that in other countries, historical and cultural differences have led to different decisions about which goods and services are best provided by government and which by the private sector, and we understand that these decisions are often part of complex political processes.

We look for companies that appropriately balance their efforts to innovate and experiment with respect for the role of government in assuring the availability of public goods. The market is not the solution to all problems and companies should not inappropriately interfere with the political processes by which local and national communities allocate responsibilities to the public and private sectors.

Fair Tax Dealings

Paying their fair share of taxes is a basic responsibility of corporations to society. Without the public services that a well-financed government can provide, corporations cannot operate successfully or generate the profits upon which their employees and stockowners depend. However, today's global economies combined with the complexity and sophistication of today's accounting principles often provide companies with a wide range of choices of how much in taxes they pay and where they pay them. Multinational corporations also have substantial opportunities to take advantage of differences in national tax rules, shifting profits from high tax jurisdictions to tax havens. The temptation to cut taxes to enhance profits is great and companies are often successful in this tactic. Without adequate tax revenues, society will suffer to the detriment of all participants, including corporations.

Judging the appropriateness of a specific company's tax payments is a difficult task and beyond the scope of our research. However, we look for broad indications of a corporation's willingness to pay its way and we take seriously disputes between government and companies over tax avoidance schemes and situations in which corporations appear to have inappropriately used their influence to obtain tax abatements by threatening to site or move their factories to other regions, have abused the trust of communities that have offered such abatements, or have played an important role in facilitating wide-scale tax avoidance.

Government Relations

The relationship between corporations and government is of great concern to Domini. The relationship is complex because government is sometimes a customer – and frequently a good one; sometimes a regulator – and potentially a strict one; sometimes an owner – and occasionally an involved one; and sometimes a financial partner – and often a generous one. Corporations simultaneously want as little contact as possible with governments when it comes to oversight by them and as much contact as possible when it comes to doing business with them; as small a role as possible when it comes to government participation in the marketplace and as large a role as possible when it comes to setting the rules for that marketplace. To complicate matters further, governments in Europe and Asia are often stockowners in the companies they contract with, regulate, and support.

For these reasons, we believe transparency and openness are crucial in dealings between companies and governments. We do not believe that public corporations should engage in electoral politics and encourage companies to adopt policies to refrain from political giving. We therefore look for disclosure and effective internal controls on lobbying, contributions to candidates or political groups, payments to government officials, hiring, and other interactions with government and public policy institutions.

We also believe that collusion and corruption are particularly serious when they involve government officials and corporate representatives. Corruption within the corporate world – whether through self-dealing, price fixing, or anticompetitive practices – is serious in and of itself. But when public officials are compromised by corporate misdeeds or actively collude with business to steal from the public, the resulting contamination of public trust in our local and national governments is of great concern.

In an economy where global transportation and communications, along with the international flow of funds, continually increase in ease and speed, corporations reap the benefits of international peace and security, free trade, and worldwide standards that allow them to move operations, resources, and assets quickly from region to region. International bodies, including the United Nations, the International Atomic Energy Agency, the World Health Organization, and many others help maintain a peaceful and orderly world within which companies can pursue their business opportunities. Because these international bodies have some, but often limited, powers to regulate corporations, corporate cooperation is of great importance. By acknowledging and enhancing the role of these organizations in creating the network of global public goods upon which they depend for their prosperity, corporations not only help assure a just and equitable world, but also increase their own ability to conduct business profitably.

THEMES

Geopolitical Stability, Nuclear Weapons, Nuclear Power, and International Peace

One of the greatest threats to humanity and the global environment today is that of nuclear accidents, terrorism and war. Although the nuclear arms race between the United States and the Soviet Union has now passed, the arsenals of nuclear weapons maintained by the world's superpowers have not been dismantled. Seven countries have publicly acknowledged that they possess nuclear weapons, and others are believed to be members of the "nuclear club."

In addition, military spending in general by major powers raises other threats to international peace. The thriving international trade in conventional arms helps fuel internal and regional conflicts around the world. Out-of-control spending on military systems and conflicts also diverts funds from much needed investments on the range of domestic public goods and international aid that are essential for the creation of prosperous, stable nations.

The achievement of nuclear disarmament and international peace is among the most difficult tasks that governments face today. We view the involvement of publicly traded corporations in the production of nuclear and conventional weapons as complicating these tasks, which should be left to government, and consequently we do not invest in companies deriving significant revenues from the manufacture of military weapons.

Similarly, we do not invest in companies that are significant owners or operators of nuclear power plants, the spread of which, in many experts' opinions, is difficult to divorce from the proliferation of nuclear weapons at the current time.

Endorsement of International Norms and Standards

In an increasingly global economy, the role of international standards-setting is of growing importance. Whether the issue is labor, health, climate change, ozone depletion, product quality, the environment, bribery, transparency, or children's rights, international standard-setting bodies play an important role in raising the standards of conduct and in promoting the provision of public goods essential for growing economies.

Companies that invest in their compliance with such norms help create a world of improved health, cleaner environments, more satisfying workplaces, and increased public and private goods. These investments accrue to the long-term benefit of all, including corporations. We view positively companies that recognize, support, and take concrete steps to adhere to these international standards.

Acknowledgement of Human Rights

As companies operate in an increasingly global economy, they face the challenge of accommodating their operations to the varying legal systems of the countries within which they operate, and ensuring that human rights norms are upheld, even when they may set a standard higher than local law. Where questions of human rights abuses by national governments arise, these challenges are particularly complex and may involve corporations in high-profile controversies – especially when the government is also a client. Whether the question is freedom of speech, the rights of minority groups, or abusive labor practices, corporations are often forced to make decisions that mix business and politics in complicated ways and for which few tested guidelines exist.

In 2011, the United Nations adopted its Guiding Principles for Business and Human Rights, outlining the respective responsibilities of governments to protect, and corporations to respect, human rights. Corporations are expected to be transparent about these efforts and, following governments' lead, to facilitate the remediation of human rights violations.

We seek companies that acknowledge the complexities of these situations and make concerted efforts to confront them in their operations, although we recognize that their decisions will not always leave them free of controversy. Not only can corporate actions make a substantial difference to the individuals their policies affect, but they can also set examples for others to follow. Corporations that neglect or remain indifferent to these questions not only open themselves up to public controversy, but fail to help the societies in which they operate achieve the stable and just social systems that are the foundation for prosperity (See Suppliers for a discussion of human rights issues in corporate supply chains).

Respect for Indigenous Peoples and Local Cultures

Few controversies are as damaging to the long-term reputation of corporations as those involving the rights and cultures of indigenous peoples. Moreover, these controversies can complicate relationships with local governments and populations, and jeopardize a corporation's ability to operate locally or regionally. Confrontations between large faceless corporations and often small and relatively defenseless communities can be avoided if companies show initial and ongoing sensitivities to the cultures of those around them. The value of the diversity that these groups bring is incalculable and its loss is irretrievable. Responsible corporations can help preserve unique cultural riches in our world that are all too easily destroyed in a rush to short-term profit.

We evaluate such controversies with care both because we respect the rights of indigenous peoples to preserve their cultures and because the effect of confrontations between companies and indigenous peoples can be harmful to corporate reputations.

Anti-bribery, Anti-Money Laundering, and Anticorruption Programs

Corruption in international trade has been called the Achilles' heel of capitalism. It costs hundreds of billions of dollars each year to governments in lost tax revenues, to honest businessmen in foregone opportunities, to whole economies in inefficient market operations, and to societies themselves in the loss of democratic freedoms and practices. Without honest and transparent markets, societies cannot reap the benefits that the business world creates – or spread them equitably among their citizens.

We consequently look for companies that have implemented strong ethics, anti-bribery, and anti-money laundering programs, paying particular attention to companies in industries with a history of scandal, such as the construction, banking, and natural-resources extractive industries, and companies with a significant presence in countries with a reputation for bribery and corruption.

CUSTOMERS

Customers look first and foremost to corporations for quality goods at a fair price. They can most easily reward or punish companies by remaining loyal customers or taking their business elsewhere. However, customers also have more at risk than the simple price of their purchase when they patronize a corporation. They risk their physical well-being when products are unsafe or unhealthy, their financial well-being when it comes to fraudulent services, and their peace of mind more generally when it comes to appropriate levels of customer service and satisfaction. Corporations that invest in long-term relations with customers through exceptional attention to innovation, product quality, and customer service can expect to be rewarded by increased market share and longer-lasting customer loyalty.

THEMES

Harmful and Addictive Products: Tobacco, Gambling, Alcohol

Certain products – such as tobacco, gambling, and alcohol – are both harmful and addictive. These products can play a useful role in society, providing individual pleasure, and in the case of alcohol even health benefits, if appropriately used. However, we believe that putting these products in the hands of large publicly traded corporations increases the potential for their abuse and their costs to society. Large public corporations are relentlessly driven to innovate and expand their reach, marketing their products aggressively to as many customers as possible. For these companies, effective marketing often means exploiting customers' addictions to these products or ignorance of their risks. For these reasons, we do not invest in companies that are significant manufacturers of alcoholic beverages or tobacco products, or significant providers of gambling goods and services.

Commitment to Safety, Quality, and Customer Service

The benefits to companies from providing their customers with quality goods and services are substantial and the costs from product safety lapses are high. Companies that are willing to invest in improvements in their manufacturing processes, and in the customer-service training of their employees, can look forward to long-term rewards in the marketplace. High-profile scandals from product safety issues can cost companies not only in short-term legal bills and loss of customer confidence, but in long-term damage to their public reputation that is particularly hard to undo. A company that handles a highly publicized product-safety problem well can enjoy decades of high esteem. One that handles such a problem poorly can be embroiled in equally long controversy. We consequently look for companies that understand the long-term benefits of investing in product safety, quality manufacturing processes and training, and company-wide commitments to customer service.

Bridging the Divide in Access to Products

All too often, companies neglect certain markets in the mistaken belief that customers cannot afford their products. Whether it is the poorer neighborhoods of urban centers or the rural regions of the developing world, potential markets are often neglected through ignorance, prejudice, or simple laziness. Yet investing in creative ways to serve these markets can not only provide companies with an expanding customer base, but speeds economic development and poverty alleviation around the world.

We therefore value companies that have, among other things, found ways to bridge the digital divide by making computing technology available around the globe, providing drugs at affordable prices and providing access to capital in poverty-stricken regions.

Innovation and Creativity

One of the great benefits of capitalism is its ability to drive companies to innovate. Such innovation, often with the support of government, leads to improvements in existing products or development of new products, the discovery of new technologies, or the application of old technologies to new purposes. True innovation and creativity can bring about transformative advances such as the Internet or mobile communications.

But a lack of attention to product testing and evaluation can lead to poor outcomes of innovation. Two areas of particular concern to us are proper procedures in the clinical trials for drugs and efforts to reduce the use of animals in product safety testing. Elaborate trials for approval of new drugs are a necessary part of our pharmaceutical industry. Their very complexity, however, opens them up to the possibility of abuse. Among other things, data can be faked, trials can be used as a covert form of marketing, and inappropriate procedures can be used to solicit human participants in these trials. We expect drug companies to minimize the risk of such abuses.

In addition, for these and other products, the use of animals may also be required. We look for companies that are not only minimizing their use of animals in all required safety tests, but also investing in, and advocating the use of, new testing technologies, so that adequate substitutes for animals can be found.

Companies' investments in innovation and testing must be judicious and effective, and management needs to take appropriate actions when evidence of harm is at hand. Firms that strike this difficult balance successfully have a higher probability of market leadership. We therefore look for companies that are committed to research and development, are effective in bringing innovative products to market, take due considerations in the management of their product safety testing, and appropriately recognize and manage the potential for failure or for harm of new products and technologies.

Marketing and Pricing Practices

Appropriate decisions about marketing and pricing are the daily bread and butter of well-run firms. These are the fundamental market mechanisms through which managers can learn what customers want and need, how their firms can best operate efficiently, and how best to allocate their capital. However, the pressures of the marketplace all too often lead weak management to abuse and distort these market mechanisms, harming customers and weakening markets. Although we do not typically consider the appropriateness of pricing practices of corporations, for certain industries at certain times, the issue can rise to a level of concern. For example, the pharmaceutical industry has historically been subject to controversies relating to the pricing of its drugs.

Price-fixing controversies are a frequent occurrence and we evaluate them on a case-by-case basis. In doing so we take into account the often effective role governmental regulators already play, the extent of the harm done to customers and other stakeholders, and the type of customer harmed. We usually do not take into consideration patent disputes and charges of unfair marketing practices so often made between business competitors. We view with concern, however, such disputes when they occur between corporations and communities, such as those concerning the rights to indigenous knowledge.

ECOSYSTEMS

The ecosystems upon which we all depend provide benefits of incalculable worth – including clean air and water, minerals, timber, oil, and fertile land. These natural resources are often available to companies at little or no cost. In addition, the extraction of these resources can threaten the viability of other environmental riches that may not be of immediate benefit to the corporation, such as biodiversity. Companies that fail to treat these environmental riches with due respect, and that jeopardize the long-term viability of the gifts that our ecosystems provide, can cause great harm. We believe that companies that, among other things, acknowledge the long-term environmental challenges of their industry, maximize energy efficiency, use alternatives to fossil fuels, use recycled materials, reduce use of toxic chemicals in manufacturing, and produce less solid and hazardous wastes will benefit the environment while increasing efficiency and reducing potential liability.

THEMES

Renewable and Alternative Energy Sources

One of the greatest and most difficult environmental challenges of our time is how to produce cheaply and efficiently the energy needed for economic development without harming the environment. Burning fossil fuels is ultimately unsustainable because it produces the greenhouse gases that are responsible for global warming. The future of life as we know it depends upon developing and bringing to scale truly renewable, sustainable alternatives.

Corporations have played a tremendous role in creating this problem and have the potential to play an equally large role in the solution. They have the resources to develop and market alternative clean-fuel technologies, and to utilize these technologies to power their own operations. We are particularly optimistic about wind, solar, and tidal power. We have serious concerns about clean-coal, nuclear power and first-generation bio-fuels as viable clean-fuel technologies.

Domini does not invest in companies that are significant owners or operators of nuclear power plants or uranium mines. Although some have extolled nuclear power as a safe and clean alternative to fossil fuels, major concerns remain in the areas of safety, transparency and storage. Nuclear power advocates often compare investments in nuclear with renewables, and point to the relative cost efficiency of nuclear power. However, these estimates rarely reflect the costs of the entire nuclear life cycle, including storage, maintenance, and the risk of catastrophic failures. Claims of nuclear power's "carbon neutrality" also fail to take into account the carbon footprint of the full nuclear power life cycle, from uranium mining to waste storage.

Increasing atmospheric concentrations of carbon dioxide attributable to the burning of fossil fuels pose financial, environmental and moral issues that must soon be addressed. Consequently, Domini no longer invests in companies that are substantial owners and extractors of fossil fuels—coal, oil and natural gas.

Corporations have the capability to set and implement carbon emissions reduction goals. We applaud the work of the CDP (formerly known as the Carbon Disclosure Project) and those companies that report their carbon emissions. They have created a framework for accountability that allows investors and corporate managers to quantify and reduce them. Companies can also play an important role in helping consumers increase their energy efficiency. We therefore look for companies that are aggressive about the energy efficiency of the products and services they provide.

In addition to the significant opportunities corporations have to be part of the solution to climate change and to benefit financially from the transition to an alternative fuel-based economy, companies that are inadequately prepared for the onset of a carbon-constrained world may face substantial financial risks.

We therefore seek corporations that are substantial users, producers, or developers of resources, products, and technology that reduce the risks of climate change and increase the use of sustainable alternatives to carbon-based fuels – and we avoid many of those whose products are contributing most heavily to climate change. At the same time, we recognize that government must play the central role in making a transition to sustainable energy sources and that corporations and the marketplace cannot solve this problem alone.

Recycling, Safer Technologies, and Lifecycle Design

Environmental organizations stress the necessity of incorporating recycling and reprocessing into the lifecycle of product design. Starting with the selection of environmentally benign materials, going through minimization of the environmental effects of product packaging and use, and ending with product take-back and recycling, lifecycle design can lighten the environmental footprint we all leave as consumers. For example, those companies willing to invest in the research and development necessary to eliminate toxics are providing a long-term benefit to workers and the environment. Companies have been notably successful in finding nontoxic alternatives to volatile organic compounds used as solvents. We believe that the long-term benefits of such decisions often outweigh short-term costs.

We therefore seek out companies that make substantial use of recycled materials in their manufacturing processes, that are working to solve the challenges of product takeback and recycling, that have found nontoxic substitutes for toxic chemicals used in manufacturing processes, and that are in other ways willing to invest in making their products and services compatible with the ecosystems they affect. We believe that these companies provide substantial long-term benefits to ecosystems, as well as to their employees, customers and investors.

Pollution Control and Abatement

A company's minimum obligation to its local communities and the natural environment is to assure that no substantial harm is done by its operations, including those of its supply chain. For industrial firms, for example, this means cleaning wastewater before it is discharged and capturing volatile organic compounds before they escape into the atmosphere. For electric utilities, this means installing scrubbers to prevent particulates and sulfur dioxides being released. For chemical companies and refineries, this means preventing spills and leaks, and disposing of hazardous wastes appropriately. These basic steps help prevent immediate harm and through today's investments avoid tomorrow's problems.

We recognize that pollution prevention often requires expensive capital expenditures that force management to make short-term financial sacrifices. We believe, however, that these investments can often pay long-term returns to communities, neighbors, and companies that compensate for their short-run costs. We therefore favor companies that have a record of handling today's pollution challenges effectively and without regulatory controversy, while developing more sustainable practices for tomorrow.

Long-Term Environmental Sustainability

Despite progress toward an increased awareness of the need for compatibility between society and ecosystems, a surprising number of corporations still deny or ignore the need to manage their long-term environmental risks appropriately. Some companies, for example, still deny the reality of climate change. Some forestry companies still destroy the rainforests of the world. Some manufacturers still build toxic chemicals into their products. It is of substantial concern to us when companies lag behind on such fundamental matters of long-term environmental sustainability.

On the positive side, a handful of companies have had the foresight to think systematically about their environmental footprint and to pioneer long-term sustainability models for their industries. A carpeting firm rethinks the fundamental environmental implications of its operations. A food retailer acts as a pioneer for the markets for organic or Fair Trade foods. A furniture manufacturer rethinks the environmental implications of the basic manufacturing materials it uses. We recognize these initiatives as having the paradigm-shifting implications necessary to achieve true long-term environmental stability.

EMPLOYEES

Employees are willing to invest themselves in the corporations for which they work and to put various aspects of their lives at risk. In certain industries this means risking their health and safety, in others it means investing time that they could otherwise share with their family, and in others it means investing intellectual capital and developing company-specific skills. By treating employees fairly, by investing in their personal health, safety, skills, and sense of self-worth, as well as by assuring a living wage and comfortable retirement, companies can go beyond their minimal contractual relations with employees to create a positive work environment. We believe that corporations that treat their employees well should, in the long run, attain high levels of employee loyalty, high levels of productivity, and low levels of turnover – all potentially substantial contributors to profitability.

THEMES

Continuous Improvement in Health and Safety

The health and safety of employees are among the primary obligations of employers. Commitments to perfection in workplace safety, proactive programs to improve physical fitness, and assistance to employees in dealing with personal or family problems are all investments that corporations can make in their workforce that are not only the right thing to do, but will increase worker productivity and loyalty. Cost cutting in these areas, we believe, can be a shortsighted approach to management and impose on society costs that companies have a legal and moral obligation to bear.

We therefore seek companies that have made substantial investments in health and safety programs that produce strong results. Conversely, we view with concern those that have a pattern of neglect, particularly those where neglect has resulted in fatalities or regulatory sanctions.

Fair and Just Compensation and Benefit Programs

Appropriate levels of compensation and benefits are a foundation upon which the relationship between corporate management and the average employee is built. Abuses of this relationship damage not only executives' credibility with workers, but undermine stockowners' trust in management and, more broadly, the public's trust in business itself. By contrast, companies that take steps to assure gender equity in pay, appropriate commitments to the financial well-being of their retirees, and a management bonus system that rewards implementation of social and environmental policies as well as financial goals build their credibility with their stakeholders and align their companies' reward systems with larger societal goals.

We understand that numerous complications can arise in these areas and focus our evaluations on the cases of most extreme abuse or notable success. On both the positive and negative sides we consider how a company handles these issues as a strong indicator – and indeed determinant – of corporate culture and the quality of management.

Commitment to Diversity in the Workplace

We believe that in a global economy diversity in the workforce is one of the hallmarks of a well-managed corporation. Definitions of diversity can include diversity related to gender, ethnicity or race, age, sexual orientation, disability, economic or class background, religion, and political opinion. Corporations benefit from a diverse workforce in many ways. A diverse workforce can help companies better understand the needs and desires of the full range of their current and prospective customers; anticipate new societal trends and emerging issues; foster understanding, mutual respect, and cooperation among their workforce; and improve a company's ability to recruit from the widest possible pool of talent. A diverse workforce, particularly among positions of authority, can indicate a corporate culture based on merit and open to new ideas and perspectives.

We therefore look for companies that have substantial representation of women and minorities among management-level positions, in particular among their senior line executives; companies that have created a notably open work environment for minority groups – for example, for gay and lesbian employees; and companies with strong programs for training on sexual harassment and respect for diversity. Conversely, we view with concern companies that have a record of diversity-related controversies and regulatory sanctions, including those related to sexual harassment and discrimination.

Empowerment and Training

In addition to the compensation and benefits employees are provided, companies can, and should, commit to investing in their workforce through employee involvement programs, skills training, support for general education, sharing in the financial success of the firm, or other programs that enrich employees' lives and empower them in the workforce. A company where employees work without passion, commitment, or creativity is a company that will struggle in the marketplace. Through such investments companies align employees' sense of personal growth and satisfaction with the growth and success of the firm, in a relationship equally beneficial to both parties.

In this regard, we look for companies that share their financial success through profit sharing, stock option plans, employee stock ownership, employee suggestion plans, or other forms of employee involvement and empowerment. In addition, we look for firms that invest substantially in employee training and skills development, provide substantial tuition reimbursement for education, and generally foster a culture of self-realization and growth.

Solidarity with Unionized Workforce

The acceptance of unions as a positive force in the workplace and the government protection for their activities that emerged through a series of hard-fought battles throughout the 20th century have made a major contribution to the stability of the capitalist system and addressed many of its worst abuses. The right to freely associate and form or join a union of one's choice and to bargain collectively for the terms of one's employment are among the core conventions of the International Labor Organization and are recognized as fundamental human rights. Healthy and vital unions play a crucial role in addressing the imbalances in power that often arise between corporate management and workers in their struggle for fair working conditions. Without unions, the possibilities for long-term equal partnerships between management and labor would be vastly diminished.

Managing union relations, however, is a difficult task. Antagonistic relations between unions and management can spiral downward out of control to the detriment of both parties, whereas independent but tough relations can be useful in confronting many of the challenges that businesses inevitably face. Moreover, overly aggressive efforts by management to stop drives to unionize non-union employees can lead to protracted battles that cause more harm than good for all parties.

We therefore seek to identify companies where management and unions work respectfully with each other in balancing the appropriate needs of both constituencies. We understand that negotiations between management and unions must necessarily be hard-fought at times, but view with great concern situations where relationships have deteriorated into fundamental mistrust and disrespect.

INVESTORS

Corporations depend on a variety of financial partners for their development and survival, including stockowners, bondholders, private investors, and, at financial services firms, depositors. Boards of directors, corporate managers, and those entrusted with the management of investors' funds act as fiduciaries and agents for others. As such, they bear a particular obligation to communicate clearly and transparently with these financial partners, to manage their assets with the utmost integrity, to act in the best interests of investors, and to maintain the highest levels of ethical responsibility.

This obligation can be subsumed under the rubric of good corporate governance. The term corporate governance is, however, often used narrowly, particularly in the United States, to assert an obligation on the part of boards of directors and corporate managers to maximize share price. Properly understood, we believe that corporate governance should encompass a responsibility to the corporation as a whole and includes a duty to understand and address the full range of social and environmental risks and long-term rewards that can accrue to investors as well as others.

Our positions on the more traditional measures of good governance (e.g., separation of the roles of chairman of the board and chief executive officer, staggered boards, independence of key board committees, and so on) are described in our Proxy Voting Guidelines. These structural mechanisms can help ensure that there are checks and balances in place, and create an environment where broader accountability is possible.

A company's financial partners play a crucial role in maintaining the credit, stock price, liquidity, and the financial viability of a firm and their good faith and trust are therefore vital to the firm. This reciprocal relationship is crucial to the long-term financial viability of the corporation, as it is to the long-term financial prospects of its various investors.

Accounting, Credibility, and Business Ethics

Markets cannot be efficient and effective unless they are honest. Financial regulators and legislators have devoted much attention to assuring the credibility of the financial accounting systems for publicly traded companies. In addition, an increasing number of companies have voluntarily implemented ethics programs to assure that employees conduct their affairs honestly. When companies lie outright about their financial condition, the cost to the public can be tremendous. Similarly, bribery scandals can cause firms major political and financial difficulties. Once this trust is broken, it is difficult to restore. At the same time, we recognize that accounting is a profession involving considerable judgment, and honest differences can arise between regulators and firms and the line between questionable payments and legitimate business practices is not always clear.

We look for companies that cultivate a culture of honest accounting and business practices throughout their operations, with adequate systems and safeguards in place to prevent systematic abuse, and view with concern those that have a pattern of accounting fraud or business scandals.

Openness in Communications

Markets also cannot be efficient and effective unless communications are open and free with stock and bond owners, and others who have invested in a firm. In our opinion, these communications should cover not only traditional financial indicators, but also nontraditional financial indicators such as social and environment factors. We believe that these social and environmental factors are relevant to investors' assessments of the competence and quality of management, and can have profound long-term (or even short-term) financial implications for firms that often go unrecognized by the mainstream financial community.

We therefore look for companies that communicate openly about the challenges they face, are willing to be thorough in the data they provide, and are willing to enter into ongoing dialogue with stakeholders with legitimate concerns in these areas. We do not, however, automatically take failure to communicate as a sign that a company has no positive initiatives, nor do we automatically take willingness to communicate as a positive indicator. It is the quality of these communications and the company's actual record that are our primary concern.

Commitment to Diversity of Representation

As with diversity among employees, diversity on a firm's board of directors can bring vitality and openness to a corporation. It is surprising to us, for example, when consumer products companies that serve primarily female consumers have boards consisting primarily of men. Similarly, in an increasingly diverse global economy, individuals with diverse ethnic and racial backgrounds can provide valuable insights about doing business in different countries, cultures, and economic environments. Moreover, as the pace of innovation increases, a culturally diverse board is likely to understand new trends, to innovate, and to seek changes that benefit society broadly. Finally, the public is generally well served by corporations that lead by example in giving equal opportunity to all segments of society in this strategically important and high-profile public role.

Relationships with Controlling Owners

Cross-ownership among companies or ownership by governments, foundations, or families can raise complicated questions for us in setting standards. If controlling interest rests with an organization other than the firm itself, we generally evaluate the company as if it were a wholly owned subsidiary of the controlling entity. When the controlling entity is a corporation, this process is fairly straightforward – a positive or negative record for the controlling company becomes the crucial factor in our decision-making.

When the controlling owner is a family or individual, a foundation, or a government, the situation becomes more complicated. We evaluate these situations case-by-case, but some general principles apply. When the controlling owner is an individual or family, we generally do not factor the family's reputation or politics into our analysis. However, if the owners have a record of public or political involvement that in our opinion threatens to cause conflicts of interest in the operation of the company or to harm the company's reputation, we will take these factors into account. Our sensitivity to such conflicts varies from industry to industry. For example, if a media company were controlled by an individual holding high public office, we would view this with concern.

In general, we regard ownership by foundations with a public service mission favorably. If, however, the foundation is simply a vehicle for family control, the same positives do not necessarily apply. Indeed, in family-controlled companies, whether the control is direct or through a foundation, the owners may on occasion have access to financial information not available to general investors in the marketplace that introduces conflicts and inefficiencies into stock pricing and even potentially into the management of the firm.

Finally, in the case of majority ownership by national governments, we evaluate such situations carefully. Although it can be argued that the state should logically be expected to play the role of an owner who takes the public interest to heart, in fact numerous possibilities for conflicts of interest exist under state control. We look to several factors in our evaluations, including the government's record of honesty and public service and the likelihood of the abuse of the company for purely personal or political purposes.

When third parties own 20% to 50% of a company's stock, we look for indications of whether these parties exercise significant or effective control. If they do, then we apply the same general principles as if these parties held a majority ownership. If they do not, we consider them passive investors, and do not take their ownership into account. The relationship between such owners and the companies in which they hold stock is often difficult to evaluate and considerable judgment is required on our part.

SUPPLIERS

Corporations and their suppliers can survive and thrive in a relationship of mutual benefit. Companies depend on reliable, high-quality goods and services from suppliers, and suppliers depend on corporate customers to pay a fair price in return. Companies can invest both figuratively and literally in their suppliers to assure the survival of long-term relationships, and suppliers often tailor their operations and products to the needs of specific clients.

Increasing specialization has driven many firms to outsource large portions of their business. Consequently, the reputations of companies increasingly depend on those of their suppliers. It is no longer acceptable for companies to say they didn't know or they have no influence when their suppliers become embroiled in controversy. Many corporations around the world now require their suppliers to meet standards in the areas of quality, environment, and labor rights, as a precondition to conducting business with them. We believe that companies that have developed relationships with their suppliers that enhance their mutual well-being and create complementary social and environmental programs will help both parties prosper and thrive in the long run.

THEMES

Labor Practices and Other Human Rights

Few issues are more important or more controversial in today's globalized economy than labor practices at the suppliers that international companies utilize in the developing world. Although business can naturally be expected to seek to lower its labor costs, the line between a reasonable approach and the abuse of labor is not always clear. Put differently, while most consumers are pleased with lower prices, few would say they want to buy goods produced by forced or child labor, or under abusive conditions. Corporations can play a valuable role in improving working conditions at their suppliers, and by doing so, not only raise living and working standards around the world, but strengthen their long-term ties to reliable suppliers.

Corporate supply chains often consist of multiple levels, with a number of substantial controversies, including forced and child labor and environmental degradation, occurring multiple steps away from the supplier with whom the company has contracted. Increasingly, companies are recognizing that they have an obligation to address these issues as well.

We therefore look for companies that have adopted comprehensive labor standards for their suppliers that incorporate the International Labor Organization's core conventions, recognize the potential pitfalls of outsourcing policies, have been effective in preventing labor abuse, monitor actual practices at their suppliers, and confront these issues honestly and openly with the public. Actual company practices can be difficult to research. We often rely on communications and engagement with corporations on this issue, seeking to increase mutual understanding of potential problems.

Quality, Environment, and Other Issues

Raising levels of awareness and performance on issues of corporate social responsibility at the huge number of small and medium-sized companies in the business world is a major challenge, which if met can do much to extend the reach of corporate social responsibility. Large companies have a particularly effective means of raising these standards through their subcontracting arrangements with these firms. Making contracts contingent on meeting quality standards was one of the first and most widely used such tactics. An increasing number of companies, however, are now requiring disclosure of subcontractors' environmental records as part of their requests for proposals, inserting human rights clauses into their contracts, and even requiring vendors to make similar requirements of their own suppliers. Such mutually beneficial arrangements can improve quality and reduce costs, while assuring investors and consumers of the integrity of their investments and purchases.

We view favorably companies that systematically communicate their concerns about quality, the environment, and human rights to their vendors, and look particularly favorably at firms that monitor and act upon these concerns.

Diversity within the Supply Chain

Local, small businesses are often the backbone of a thriving and independent middle class. By maintaining a diverse supplier base of smaller firms that build local communities and provide access to financial independence for those who might otherwise be shut off from financial success, large corporations can foster stable and just societies.

Within the United States, companies often pursue a commitment to diversity by contracting with vendors owned by women and minorities. Support for such businesses, often struggling to obtain a foothold in mature markets, provides groups that have historically been excluded from the business world with the opportunity for success. We believe that a diverse base of long-term suppliers benefits societies.

Empowerment and Viability

Large corporations can strongly affect, either positively or negatively, the viability of their suppliers and the quality of the lives of their suppliers' employees. On the positive side, for example, large corporations can invest in their suppliers to increase their technological capabilities and sophistication to meet quality, health, or environmental standards. Small suppliers often lack the resources, motivation, or training to make substantial and often costly upgrades. As long-term purchasers of commodities, large companies can also assure stable or preferential "fair trade" prices to protect their suppliers from the often devastating swings of the markets. These cooperative arrangements, which promote long-term, stable relationships, can work to strengthen and benefit both parties over time.

By contrast, large purchasers can impose oppressive financial and production conditions on small suppliers, driving suppliers to cut corners on safety or environmental compliance to maintain profitability. Such arrangements not only harm suppliers and their employees, but also weaken our economic systems.

Information on supplier contracts tends to be anecdotal and usually surfaces for a relatively limited number of corporations that are exceptional on either the upside or the downside. When available, we view positive or negative indicators in this area as particularly significant.

FIXED-INCOME INVESTMENTS

Introduction

Before making any fixed-income investment, we believe all responsible investors should ask two key threshold questions: To whom am I loaning my money and for what purpose? Answering these questions helps investors understand the direct impacts that fixed-income as an asset class can be particularly well-suited to achieve.

As described in the preceding pages, Domini evaluates potential corporate debt instruments against social and environmental standards based on:

- the businesses in which the issuer engages
- the quality of its relations with key stakeholders, including communities, customers, ecosystems, employees, investors, and suppliers

For non-corporate issuers, our standards focus on three key themes:

- Increasing access to capital for those historically underserved by the mainstream financial community
- Creating public goods for those most in need
- Filling capital gaps left by current financial practice

These three themes flow from our belief that sustainable and healthy societies and economies must be built on a strong foundation of fairness and opportunity for all. These themes also help us realize two of our fundamental investment objectives: the promotion of human dignity and the enrichment of our natural environment.

The need for access to capital arises when individuals, neighborhoods, or regions are poorly served by traditional financial institutions. Neglect can occur because traditional lenders or investors view potential clients as too risky, fail to understand their needs, have no experience in serving them, or allow discrimination or cultural dissimilarities to interfere with deal-making. We seek to increase access in these areas through our fixed-income investments.

Access to capital increases opportunities to grow long-term, inter-generational assets by, for example, making housing available to those with low and moderate incomes, providing financing to start small businesses for those who have not traditionally had access to the financial markets, offering credit at affordable rates to those who are otherwise considered high-risk borrowers, and educating those who have not participated in the mainstream financial systems due to a lack of experience with the basics of finance. Those who have the least access to mainstream financial services tend to be the most vulnerable in our society, whether individuals of lower income, the elderly, or recent immigrants. They can easily fall victim to predatory lending practices. We seek to identify fixed-income investments that can enhance access to these opportunities.

The need for additional public goods arises when communities or regions have historically been deprived of the resources to develop the basic infrastructure that assures, among other things, healthcare, education, sanitation, transportation, and personal security. A downward cycle of unmet needs and deteriorating infrastructure can be reversed through lending and investments that support the creation of these public goods. These goods help assure an equal footing to members of a community to participate in homeownership, job training, small business development, and economic revitalization projects. We look to identify opportunities where our fixed-income investments can help break these negative cycles.

The need to fill capital gaps in areas that have traditionally been unfunded or underfunded arises because, although the mainstream financial community often uses its resources and talents to innovate and create new financial products, it frequently fails to make a corresponding effort to find new ways to responsibly address overall societal needs, including infrastructure, public transportation and the environment. Yet, as recent successes in the growth of the markets for green bonds have shown, there is a world of socially and environmentally beneficial projects that have not been addressed by our financial institutions—whether through prejudices, lack of imagination, or simple inertia—but for which there is a clientele. We therefore seek out investments that serve these social and environmental purposes.

EVALUATION FRAMEWORK

In our standard-setting process for the Domini Impact Bond Fund we evaluate issuers, asset classes and individual securities. In general, we believe that the securities issued by governmental, quasi-governmental and nonprofit entities tend to have a broad public purpose and typically create public goods aligned with our Impact Investment Standards. In many cases we believe it is also important to examine the nature and purpose of specific issuers and securities before approving them for inclusion in our fund.

We will not generally invest in a fixed-income security where the issuer does not meet our investment standards. We may, however, approve such securities on a case-by-case basis when the security is designed to finance important social and environmental objectives.

STANDARDS BY ASSET CLASS

Fixed-income investments encompass a broad variety of asset classes each with its own particular purpose and characteristics. Consequently Domini applies standards specific to each of these asset classes.

Corporate Credit

Corporate credit includes debt issued by publicly traded and private corporations typically for general corporate purposes. For general obligation bonds (i.e., bonds where the purpose of the bond is not specified, but its proceeds may be used for any lawful purpose), we apply the same set of standards that we apply to our stock funds. When a company issues debt related to a specific project, we assess the project's alignment with Domini's Impact Investment Standards along with the more general alignment of the issuer.

Mortgage-Backed Securities

In keeping with our commitment to increasing access to capital for those historically underserved, we have maintained a substantial, long-term commitment to affordable housing, primarily through the purchase of securities backed by pools of residential mortgages.

Ginnie Mae, a government owned corporation, as well as Fannie Mae and Freddie Mac, which are government-sponsored entities, play a prominent role in ensuring access to affordable housing. Among the range of debt instruments they offer are those targeted to increasing liquidity in the housing markets for low income borrowers, in the development of multi-family housing and for a variety of community revitalization projects. In addition, these institutions have programs to help financially struggling homeowners stay in their homes or otherwise avoid foreclosure. These efforts play an important role in stabilizing neighborhoods, supporting affordable home prices, and promoting a healthy overall housing market.

Municipal Bonds

We generally consider municipal bonds – debt issued by states, cities, counties or other quasi-public organizations – to be closely aligned with our investment themes of creating public goods, particularly in jurisdictions with below-average resources. They help finance:

- Essential infrastructure and services such as buildings, roads, and power supplies
- Economic Development
- Healthcare facilities and services
- Educational facilities and services
- Other services needed to close the gap between these localities and the rest of society

Municipal bonds can also help to ensure broad access to environmentally beneficial technologies to all members of society. We therefore look to invest in municipal bonds that generate environmentally positive impacts for underserved communities. Municipal issuers have a key role to play in terms of:

- Low-carbon technologies
- Pollution control
- Climate adaptation, such as disaster prevention and recovery

We will seek to avoid purchasing the relatively few government-issued bonds that are explicitly issued to finance the development of projects, such as nuclear power plants or casinos, which are fundamentally misaligned with our investment objectives.

Sovereign Debt

National governments around the world issue bonds (debt) to finance a wide variety of public goods including education, infrastructure, national defense, the judiciary and social welfare. Although sovereign debt is issued to finance such public goods, debt raised by governments with a history of corruption can be misallocated and misused at the expense of the well-being of the nation and their own citizens.

Our standards emphasize three key issues—corruption, democratic governance and the dangers of nuclear weapons proliferation. We seek to exclude from our portfolios those countries with the worst records according to Transparency International’s Corruption Perceptions Index, and governments that are classified as “not free” by Freedom House. We also evaluate freedom of the press and significant human rights concerns, such as those reflected in U.S. State Department Trafficking in Persons reports. We do not invest in U.S. Treasuries or Russian government debt, as these instruments partially finance the maintenance of these countries’ nuclear weapons arsenals. The United States and Russia possess over 90% of the world’s nuclear warheads. We believe these countries carry a special obligation to eliminate this global threat.

Green Bonds

The proceeds of green bonds typically fund new or existing "green" projects. We define green projects as those that address climate change or other substantial environmental issues. This asset class of environmentally themed bonds is rapidly growing and issuers include supranational banks, governments, and corporations.

We are cautiously optimistic about the development of the green bond market. We are concerned, however, that an overly aggressive use of the word "green" could result in allocations of capital to environmentally questionable or harmful projects, threatening the credibility of this important avenue for financing critical unmet environmental needs. We have therefore developed our own guidelines for evaluating the social and environmental record of the issuer as well as the specific purpose of the bond.

The following are some of the key questions Domini asks when evaluating green bonds:

- *Can the proceeds from the bond contribute to innovations that address serious sustainability challenges?* We favor investments such as those mitigating the impacts of fossil fuels in energy-intensive industries, promoting energy efficiency, or otherwise addressing environmental and social justice issues.

- *Who benefits from the proceeds of the bond?* We favor investments that generate positive impacts for people and communities in need, with a special focus on vulnerable groups, including low-income populations, minorities, and immigrants.

- *What is the quality of the issuer's relations with communities, customers, employees, suppliers and the environment? Does the issuer maintain credible due diligence processes to address environmental and social risks?*

We seek to *avoid* the following:

- Bonds that finance projects with substantial sustainability concerns such as first-generation biofuels, waste-to-energy plants using toxic substances, or projects that prolong fossil fuel dependence such as carbon capture sequestration or refurbishment of coal power plants.

- Bonds issued to finance nuclear power, activities related to the mining of coal or uranium, or the production of weapons, tobacco, alcohol or gambling.

Other Asset-Backed Securities

Asset-backed securities (ABS) are created when an issuer bundles together numerous standardized loans from a single asset class with relatively predictable repayment cash flows. The types of loans most frequently used to create ABSs are residential and commercial mortgages, consumer credit card debt, auto loans and student loans (See “Mortgage-Backed Securities” for our approach to investing in housing).

The practices of those institutions issuing credit card debt, automobile loans and student loans are from time to time subject to controversies concerning abusive lending practices, particularly with regard to the economically disadvantaged. We evaluate these controversies as they arise and occasionally eliminate whole classes of asset-backed securities backed by such loans depending upon our assessments of the seriousness and extent of the controversies.

IN CLOSING

At Domini, we believe that investments made today will shape tomorrow. It is our conviction that applying social, environmental and governance standards to the investment process helps identify opportunities to provide strong financial rewards while also helping to create a more just and sustainable economic system.

Each investor should consider the Domini Funds' investment objectives, risks, charges, and expenses carefully before investing. Obtain a copy of each Fund's current prospectus for more complete information on these and other topics by calling 1-800-762-6814 or at www.domini.com. Please read the prospectus carefully before investing or sending money.

Past performance is no guarantee of future results. The Domini Funds are subject to market risks and are not insured. Investment return, principal value, and yield will fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost. You may lose money. Principal risks include foreign investing risk, information risk, market risk, mid- to large-cap companies risk, portfolio turnover risk, sector concentration risk, socially responsible investing risk and style risk.

The Domini Impact Bond Fund is subject to market risks, including interest rate and credit risks. During periods of rising interest rates, bond funds can lose value. The Domini Impact Bond Fund currently holds a large percentage of its portfolio in mortgage-backed securities. During periods of falling interest rates, mortgage-backed securities may prepay the principal due, which may lower the Fund's return by causing it to reinvest at lower interest rates. Some of the Domini Impact Bond Fund's community development investments may be unrated and carry greater credit risks than its other investments.

The Domini Impact Bond Fund may hold a substantial portion of its assets in the direct obligations of U.S. government agencies and government-sponsored entities, including Fannie Mae and Freddie Mac, and in the mortgage-backed securities of Government National Mortgage Association (Ginnie Mae), Fannie Mae, and Freddie Mac. Ginnie Mae is a wholly owned government corporation that guarantees privately issued securities backed by pools of mortgages insured by the Federal Housing Administration, the Department of Veterans Affairs, and the Department of Agriculture under the Rural Housing Service Program. Fannie Mae and Freddie Mac are government-chartered, but shareholder-owned, corporations whose mandate is to enhance liquidity in the secondary mortgage markets. (Ginnie Maes are guaranteed by the full faith and credit of the U.S. Treasury as to the timely payment of principal and interest. Freddie Macs and Fannie Maes are backed by their respective issuer only, and are not guaranteed or insured by the U.S. government or the U.S. Treasury.)

Investing internationally involves special risks, such as currency fluctuations, social and economic instability, differing securities regulations and accounting standards, limited public information, possible changes in taxation, and periods of illiquidity.

The composition of the Funds' portfolios is subject to change. Obtain a copy of the Funds' most recent Annual or Semi-Annual Report, containing a complete description of each Fund's portfolio at www.domini.com or by calling 1-800-762-6814.

Domini may, at its discretion, choose to change its social or environmental standards, add additional standards, or modify the application of the standards to a Fund at any time, without shareholder approval. This will impact investments held by a Fund, and may cause certain companies, sectors, industries, or countries to be dropped from or added to a Fund's portfolio. In addition, Domini reserves the right to vary the application of these standards to a Fund, depending, for example, on such factors as asset class, industry and sector representation, market capitalization, investment style, access to quality data on an issuer's social or environmental performance, and cultural and political factors that may vary by region or country.

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