



## THIRD QUARTER 2007

### *Groundswell of Support for Shareholders' Rights:*

As an investor, you have real power to change corporate behavior. On issues from climate change to sweatshops, from toxic chemicals to CEO compensation, Domini Funds shareholders have helped us use that power to tell companies what their owners expect of them, and to help build a fairer and more sustainable world.

In our last Social Impact Update, we reported on our efforts to protect one of our most important tools: the right to place shareholder resolutions on corporate proxy statements to be voted on by all company shareholders. We were concerned when the Securities and Exchange Commission (SEC) advanced ideas during public roundtable discussions that would restrict or eliminate the right of shareholders to file nonbinding resolutions. These ideas were later included in two SEC proposals on procedures for electing boards of directors.

Our Action Alerts on the subject, issued in July and September, generated more than 2,000 responses. Other social investors, unions, foundations, and pension funds also responded. In the end, the SEC received more than 22,000 comments on its proposals — reportedly more responses than any proposal has ever prompted.

In a letter to the SEC, we focused our criticism on three specific concerns:

- The SEC raised the possibility of allowing companies to “opt out” of the resolution process, insulating the most nonresponsive companies from their shareholders’ concerns.
- The SEC discussed raising the percentage of the vote that a shareholder resolution must receive in order to be resubmitted the following year. Because shareholder resolutions often receive low votes when they are first introduced and gradually build support over time, many emerging issues would be effectively eliminated from consideration.
- The SEC considered replacing nonbinding resolutions with electronic forums, so that a proposal would no longer appear on a company’s proxy statement or be presented at the annual meeting.

Domini also drafted a comment letter that was submitted on behalf of 47 institutional investors and service providers from ten countries — all signatories of the Principles for Responsible Investment — representing approximately \$1.4 trillion under management. The letter pointed out that shareholder resolutions have served a critical role in protecting the long-term value of investments by addressing previously unrecognized risks.

**Conventional Mutual Funds Still Voting No:** The latest data from FundVotes.com confirmed that U.S. mutual fund companies overwhelmingly side with management when voting their proxies. The 54 fund groups surveyed supported 90.7% of management proposals during the year ended June 30, 2007, but only 35.2% of shareholder proposals. By contrast, Domini supported 66% of management proposals and 63% of shareholder proposals for the same period, making it one of the most activist fund groups surveyed.

### **New and Continuing Dialogues:**

During the third quarter, we met with 16 companies in person or by phone, including **Hershey’s** to discuss labor standards in the company’s supply chain, **McDonald’s** and **Disney** to continue work on a multi-year project on factory working conditions, and **Timberland** to discuss the company’s efforts to reduce its carbon footprint.

We wrote to an additional 212 companies, including 196 companies in North America, Europe, and Asia that did not respond to the Carbon Disclosure Project, an annual survey of greenhouse emissions data that is sent to the world’s largest companies on behalf of institutional investors with \$41 trillion under management.

Domini refiled a resolution with **Becton Dickinson**, asking the company to report on the use of brominated flame retardants in the healthcare supplies that it sells. The most common brominated flame retardants disrupt the endocrine systems of rats and mice and may pose a risk to human health. The resolution was first filed in 2005, but withdrawn in 2006 when the company appeared to be making progress on the issue. We refiled the resolution after progress stalled.

### MODERN SLAVERY

Many investors concerned with human rights are aware that slaves are still used as domestic servants or plantation labor in parts of Africa. Relatively few are aware that Latin America has nearly one million slaves as well. Living and working in brutal and unsanitary conditions, where they suffer from heat, malaria, and intestinal parasites, slaves in Brazil labor in logging camps and gold mines, and make charcoal that is used to produce pig iron. Much of that pig iron is used to make steel that is sold to U.S. companies for use in sinks, appliances, and auto parts.

Together with nonprofit organizations, Domini is investigating the use of slavery in Brazil and elsewhere. We are currently in contact with companies whose supply chains may be involved with slave labor. As this issue develops, we’ll provide more details in future Social Impact Updates.

# 2006 Highlights

## ANNUAL ADVOCACY STATISTICS

Action	2005	2006
Resolutions Filed*	20	16
Additional Dialogues	22	35
Additional Companies Contacted	2	211
<b>TOTAL**</b>	<b>44</b>	<b>262</b>

\* Count includes proposals filed during the calendar year for the following year's proxy season.

\*\* Includes filing of a shareholder proposal, writing a letter to the company, or holding at least one teleconference or meeting with company officials. Proxy voting and related correspondence are not included.

As a shareholder in the Domini Funds, you make a difference in the world. Below are highlights of how you made a difference in 2006. To read our quarterly Social Impact Updates and find out more about the shareholder advocacy efforts we conduct on your behalf, visit the Shareholder Activism section of our website, [www.domini.com](http://www.domini.com).

**"Most Activist":** Domini was one of four mutual fund families rated "most activist" by The Corporate Library, a respected information resource on corporate governance. This meant we were least likely to support management, and most likely to support shareholder resolutions on corporate governance and social and environmental issues in our proxy voting. (Interested in how your other mutual fund companies rated? See [www.fundvotes.com](http://www.fundvotes.com).)

**Human Rights:** Coca-Cola has been accused of draining aquifers in a drought-stricken region of India, and of complicity in the deaths of trade unionists in Colombia. As part of our ongoing dialogue, we met with Coke's new CEO and asked the company to address human rights in a more comprehensive way.

**Freedom of Expression and the Internet:** Domini achieved a significant vote of 29% for a resolution calling on Cisco Systems to report on its involvement with repressive regimes seeking to "balkanize" the Internet through censorship. Domini also joined a multi-stakeholder group working to address violations of fundamental human rights, including freedom of expression and privacy. The group includes Microsoft, Google, Vodafone, and Yahoo! in addition to a range of human rights groups and academics.

**Climate Change:** Following a shareholder resolution filed (and later withdrawn) by Domini, Devon Energy committed to measure and publicly report its greenhouse gas emissions. As part of this agreement, Domini also hosted a meeting with Devon's president. Devon is the largest U.S.-based independent oil and gas producer. Working with the Carbon Disclosure Project, we wrote to more than 200 U.S. and European companies asking them to disclose their greenhouse gas emissions and climate change policies.

**Forestry Practices:** After discussions with Domini, Kimberly-Clark commissioned a study to evaluate the feasibility of phasing out its use of wood fiber from sources not certified by the Forest Stewardship Council (FSC). Also following discussions with us, Limited Brands, the parent company of Victoria's Secret, agreed with the nonprofit ForestEthics that it would use more wood certified by the FSC, increase the recycled content of its paper, and reduce the use of paper in catalogs.

**ABOUT DOMINI SOCIAL INVESTMENTS** Domini Social Investments manages more than \$1.6 billion in assets for individual and institutional mutual fund investors who wish to create positive change in society by integrating social and environmental standards into their investment decisions. Visit [www.domini.com](http://www.domini.com) or call 1-800-762-6814 to find out more.

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You should consider the Domini Funds' investment objectives, risks, charges, and expenses carefully before investing. Obtain a copy of the Funds' current prospectus for complete information on these and other topics, by calling 1-800-582-6757 or online at [www.domini.com](http://www.domini.com). Please read it carefully before investing or sending money. DSIL Investment Services LLC, Distributor (DSILD). 08/07

## YOUR DOLLARS AT WORK FOR CHANGE

**Domini can help you bring about positive change in three ways:** by applying social and environmental standards to our holdings, by engaging the companies we invest in, and by directing capital to communities where the need is greatest. Domini also speaks out on public policy issues where we believe we can bring a unique perspective as a socially responsible investment firm.

By creating and applying standards of corporate behavior, we encourage transparency, spur demand for more information, and reshape the way the world thinks about corporations and their role in our lives.

By writing letters, meeting directly with corporate management, filing shareholder resolutions, and actively voting our proxies, we make the voices of our shareholders heard on a wide range of issues.

And by investing in underserved communities, we help low-income people buy homes, start businesses, and revitalize their neighborhoods.