

Domini Funds Impact Update

Second Quarter 2018



Our New Citi View

Corporate sustainability performance changes over time. With the exception of certain industries that are categorically excluded from consideration for our funds, our decision to exclude a company is never final. We therefore regularly review all companies in our investment universe to ensure that our decisions reflect the most currently available information. This quarter, we upgraded **Citigroup**, making it eligible for investment by our Fund portfolios for the first time since 2009.*

Our decision was based on a number of strengths and a pattern of improvements over time. Last year, Citi was recognized as the largest affordable housing lender in the nation for the eighth consecutive year. During 2017, Citi lent more than \$4.7 billion for affordable housing. In addition, the company provided more than \$11 billion in lending to small and medium enterprises (SMEs).

Citi has set a \$100 billion target for environmental finance. Overall, between 2014 and 2017, the company provided \$57 billion in financing for projects that include renewable energy, energy efficiency, green buildings, sustainable transportation, clean technology, and water quality and conservation. At the same time, although the company still lends to the coal industry, it has committed to reducing its credit exposure to coal globally.

Over the years, we have also been impressed with Citi's approach to environmental and social risk management. Despite our exclusion of the bank, we have engaged in numerous conversations with Citi executives over the years about these policies and practices. Last year, for example, the bank sought our input on a draft human rights policy. We have always appreciated Citi's openness to dialogue on these difficult issues.

This year, Citi became the first bank in the United States to announce limits on its retail clients' firearm sales. We applaud the company's leadership on this critical issue, and hope to see other banks adopt similar measures. As reported last quarter, after a call with Citi to discuss its newly announced policy, we joined investors managing more than \$54.5 billion in a letter to 18 major banks and credit card companies raising concerns over their connections to firearm sales.

Additionally, since Citi was last eligible, it sold its student loan servicing unit, and recently announced it will exit its mortgage servicing unit by the end of 2018, thus eliminating our past concerns with these particular business areas.

While we still have concerns with some aspects of the company's relations with its key stakeholders, we have been impressed with these developments and welcome it back into our Funds' investment universe.

Visit www.domini.com to read past impact updates and download the **Domini Funds 2017 Impact Report**.

*Although Citigroup, Inc. is now eligible for investment by the Domini Funds, it was not held in any of the Fund portfolios as of June 30, 2018. The composition of the Funds' portfolios is subject to change.

Our mutual funds employ **three fundamental impact-investing strategies** to create positive change:



Setting Standards

As **investors**, we participate in capital markets using financial, social, and environmental standards in all of our investment decisions.



Advocacy

As **owners**, we engage with issuers, civil society organizations, and policymakers to create financial, environmental, and societal value.



Community Investing

As **neighbors**, we seek to help build strong, sustainable communities by directing capital to where it is needed most.



New Partnerships for Change

After nearly a year of discussion and planning, the Interfaith Center on Corporate Responsibility (ICCR), with funding from the Open Society Foundations, officially launched the **Investor Alliance for Human Rights** at an event in New York on May 24. The Alliance membership currently includes 125 institutional investors managing more than \$3 trillion. Domini's Managing Director of Corporate Engagement, Adam Kanzer, accepted an invitation to join the organization's steering committee and spoke at the launch event, which featured a keynote address from Professor John Ruggie, the creator of the United Nations' Guiding Principles on Business and Human Rights. Other speakers included the former chairman of the Standing Rock Sioux Tribe, Citi's Director of Environmental and Social Risk Management, Open MIC, Bloomberg and APG Asset Management. We also participated in several calls and meetings to help develop the Alliance's strategic focus.

Prior to the official launch, the Alliance published a statement voicing concerns over the increasing harassment and attacks on human rights defenders. In June, we worked with the Alliance Steering Committee on a letter to the UN Working Group on Human Rights and Transnational Corporations and Business Enterprises to inform its 2018 report to the UN General Assembly. The letter provides detailed recommendations on the practice of corporate human rights due diligence.

We also joined the new **Plastic Solutions Investor Alliance** organized by As You Sow. The Alliance launched with an Investor Declaration on Plastic Pollution, backed by 25 institutional investors with more than \$1 trillion in assets under management. The Alliance's initial focus will be to engage with companies on their use of plastic packaging. Examples of requests include: transitioning to recyclable, reusable, or compostable materials; disclosing annual plastic packaging use; setting plastic use reduction goals; and supporting public policy measures on reducing plastic waste and broadening producer responsibility.

Additional Engagements and Field-Building Collaborations

Climate Change and Biodiversity

- As members of the Investor Decarbonisation Initiative coordinated by ShareAction, a London-based charity working to advance responsible investment, we signed letters to **22 global companies** requesting the adoption of science-based greenhouse gas (GHG) reduction targets. Science-based targets are designed to deliver GHG reductions in line with climate science, which requires global temperature increases to remain below 2 degrees Celsius over pre-industrial levels to avoid catastrophic impacts. The Science-Based Targets Initiative lists 436 corporations that are taking action in line with climate science. You can learn more at www.sciencebasedtargets.org.
- We met with several Japanese organizations issuing green, social and sustainability bonds, including the **Japan International Cooperation Agency (JICA)**, the **Development Bank of Japan**, and **Sumitomo Mitsui Financial Group (SMFG)**.* We also opened dialogue with **Nippon Life Insurance** on climate-related risks, and discussed climate-related transition and physical risks with credit analysts at **Moody's**.
- We had a call with **PepsiCo** to provide feedback on its recently published Statement on Pesticides, guiding the use of pesticides in its global supply chain. The company committed to further dialogue. We are particularly focused on understanding the use of "systemic pesticides" that have been linked to pollinator declines.

Public Health and Safety

- We spoke with **Home Depot** regarding methylene chloride-based paint strippers and neonicotinoid pesticides. Home Depot recently announced a new chemicals management policy that will eliminate these paint strippers, which have been linked to numerous fatalities. We also raised this with **Lowe's**, which also recently announced a phaseout.
- As part of our collaboration with Farm Animal Investment Risk & Return (FAIRR), we signed letters to **Cheesecake Factory** and **Texas Roadhouse** on antibiotic use, and letters to **Ahold Delhaize**, **Costco**, **General Mills**, **Kraft Heinz**, **Kroger**, **Marks & Spencer**, **Mondelēz**, **Morrisons**, **Whole Foods**, **Sainsbury's**, and **Unilever** on the promotion of "sustainable protein."

* Not currently approved for investment by the Domini Funds.

Meeting with the Chairman of the SEC

We met with SEC Chair Jay Clayton to discuss a few key priorities for impact investors, including the shareholder proposal rule. We raised concerns over a controversial decision by SEC staff that prevented a shareholder proposal on climate change from going to a vote at the **EOG Resources*** annual meeting. Staff believed that the proposal, which asked EOG to set greenhouse gas reduction targets, inappropriately 'micromanaged' the oil and gas company's business. The proposal was submitted by our colleagues at Trillium Asset Management. We also discussed corporate sustainability disclosure with the Chairman, and shared evidence of the overwhelming demand by large institutional investors for SEC action in this area. Also during the quarter, we worked with colleagues to send a letter to the SEC on behalf of a large coalition of investors to express common concerns about the shareholder proposal process.

Human Capital Management

- As a member of the Human Capital Management Coalition (HCMC), we wrote to **Chipotle**, seeking a better understanding of the company's management of employee relations issues, including information about compensation and fair labor practices.
- We participated in a panel discussion on human capital management at the Society for Corporate Governance National Conference, along with BlackRock. Formerly known as the Society for Corporate Secretaries, the organization seeks to promote responsible corporate governance.



Digital Rights - Freedom of Expression and Privacy

- Following our recent downgrade of **Facebook**,* which we highlighted in our first-quarter Impact Update, we led a call with the company, joined by other investors. The call focused on the Cambridge Analytica events and Facebook's governance of privacy issues.
- We participated in a Global Network Initiative (GNI) board meeting in Toronto. GNI is a multistakeholder organization focused on threats to freedom of expression and privacy posed by government demands made upon internet and telecommunications companies.
- We signed a letter to **Amazon**, drafted by Harrington Investments, raising concerns about the company's facial recognition technology and its potential abuses.
- We participated in a meeting hosted by Article One and UNICEF to discuss UNICEF's newly released Industry Toolkit to help information and communications technology (ICT) companies protect children's privacy and freedom of expression online.

Human Rights in Supply Chains

- After a report issued by the Department of Labor found widespread wage theft in Los Angeles apparel factories, we reached out to **TJX** and **Ross Stores**, which both source from these factories. We had a follow-up call with TJX to discuss its response and learn more about its oversight of working conditions in its global supply chain.
- We met with the project manager of EIRIS Conflict Risk Network to discuss the investor perspective on ongoing human rights crises in Sudan, South Sudan, Burma and several occupied territories, including Palestine.
- We provided feedback on the development of the Association of Professional Social Compliance Auditors' (APSCA) ethics and integrity program. APSCA members, who are social compliance audit firms and auditors, are engaged to monitor labor conditions in factories around the world. APSCA is seeking to enhance the professionalism, consistency and credibility of the social compliance industry.



Investor Statements and Public Policy Letters

During the second quarter, we endorsed or contributed to the following statements and letters:

- Signatory to the Investor Alliance for Human Rights' "Investor Statement of Concern on the Increasing **Harassment and Attacks on Human Rights Defenders**" (signed by 68 institutional investors)
- Signatory to First Affirmative Financial Network's letter to 18 major banks and credit card companies regarding **concerns over firearms exposure** (signed by 43 institutional investors representing \$54 billion)
- Signatory to Sierra Club letter to oil and gas companies and the banks that fund them in **opposition to drilling in the Arctic National Wildlife Refuge** (signed by institutional investors representing \$2.52 trillion)
- Signatory to KnowTheChain Investor Statement, co-sponsored by the Investor Alliance for Human Rights, "Investor Expectations on **Addressing Forced Labor in Global Supply Chains**" (signed by investors representing \$3.4 trillion)
- Signatory to "2018 Global Investor **Statement to G7 Governments on Climate Change**," organized by Asia Investor Group on Climate Change, CDP, Ceres, Investor Group on Climate Change, Institutional Investors Group on Climate Change, PRI & the United Nations Environment Programme – Finance Initiative (signed by 319 institutional investors representing \$28 trillion)
- Signatory to "Investor Statement on **Supply Chain Modern Slavery Legislation in Canada**," organized by Shareholder Association for Research and Education, Church Investors Group, Church of Sweden & ICCR (signed by 129 global institutional investors representing \$2.3 trillion CAD)
- Signatory to Plastic Solutions Investor Alliance's "Investor Declaration on **Plastic Pollution**" (signed by 25 institutional investors representing \$1 trillion)
- Signatory to **letter to Amazon.com regarding privacy concerns related to facial recognition software** being sold to law enforcement agencies, drafted by Harrington Investments (signed by 19 institutional investors)
- Contributor to Investor Alliance for Human Rights Steering Committee letter to UN Working Group on Human Rights and Transnational Corporations and Other Business Enterprises to provide recommendations on the practice of **corporate human rights due diligence**

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Investing in Communities

Through fixed-income investments, we seek to **increase access to capital**, **create public goods**, and **fill capital gaps**. **The Domini Impact Bond Fund** addresses a broad range of impact areas, which we classify into themes and sub-themes. The Fund's allocations to those themes and sub-themes as of June 30, 2018 is below.¹



Housing (57.0%)

- FNMA DUS: Low- and Very Low-Income Housing (14.6%)
- Derivatives: TBA or When-Issued Affordable Housing Securities (14.5%)
- Affordable Housing Agency Obligations (14.4%)
- Affordable Housing Mortgage-Backed Securities (11.8%)
- Multi-Family Housing Mortgage-Backed Securities (1.9%)



Corporate Debt² (20.8%)

- Companies that Meet Impact Investment Standards (19.3%)
- Companies with Notably Strong ESG Profiles (1.5%)



Economic and Community Development (7.9%)

- Transportation (2.1%)
- Municipal General Obligations (2.0%)
- Farm Credit (1.9%)
- Nonprofit Education (1.5%)
- Community Development Financial Institutions (0.3%)
- Business and Job Creation (0.3%)



Health, Well-Being, and Aging Society (6.6%)

- Nonprofit Healthcare and Healthcare Education Facilities (4.6%)
- Continuing Care Retirement Communities (1.5%)
- Pensions (0.6%)



Non-Housing Asset-Backed Securities (4.9%)

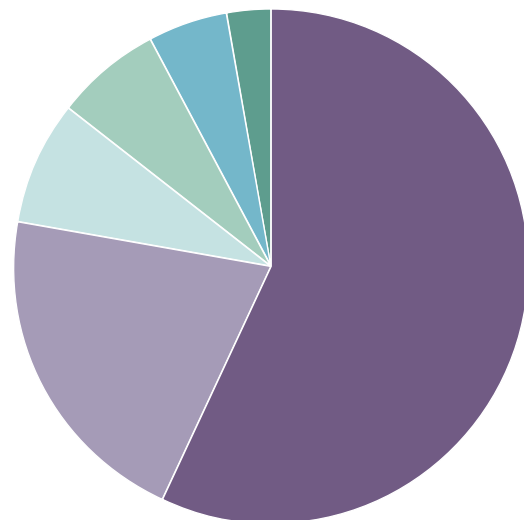
- Commercial Mortgage-Backed Securities (4.0%)
- Auto Loans (0.4%)
- Other Asset-Backed Securities (0.4%)



Environment (2.8%)

- Low-Carbon Transition (2.1%)
- Energy Efficiency (0.7%)

Numbers may not sum to 100% due to rounding.



Bond Fund Impact Highlights¹

\$26.8 million
invested in low- and very low-income housing, representing 3,958 units

\$8.2 million
invested in labeled and unlabeled green bonds

2 Certificates of Deposit
with Self-Help Credit Union and Self-Help Federal Credit Union

Investment Example: State of Oregon Sustainability Bond

This quarter, the State of Oregon issued its first series of Sustainability Bonds, which will help fund its Local Innovation and Fast Track (LIFT) Affordable Housing Program. LIFT provides financing for new affordable housing projects in the State's historically underserved communities and for households earning at or below 60% of Area Median Income.

The proceeds from this issuance—which, as of June 30, represent \$427,703, or 0.23%, of the Domini Impact Bond Fund's portfolio—will be used to develop 500 units of affordable housing statewide, with a focus on stimulating economic growth and revitalizing underserved communities. The program will target populations of families, homeless and formerly homeless, veterans and elderly, and agriculture workforce, as well as children and young adults under Department of Human Services programs, and those previously incarcerated or in alcohol and drug recovery programs.

1. Based on portfolio holdings as of 6/30/18, excluding cash & cash equivalents, cash offsets, futures and swaps, with the exception of short-term U.S. Agency bonds and Certificates of Deposit, which are reflected in this reporting.

2. "Corporate Debt" includes corporate debt and bank loans with the exception of corporate-issued green bonds, which are classified under "Environment." The composition of the Fund's portfolio is subject to change. Visit www.domini.com to view the most current list of the Fund's holdings.

Carefully consider each Fund's investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the Funds' current prospectus, which may be obtained 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 not bank deposits 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.

The Domini Impact Equity Fund and Domini Impact International Equity Funds are subject to market, market segment, foreign investing and style risks. 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. These risks are magnified in emerging markets.

The Domini Impact Bond Fund is subject to interest rate, liquidity, credit, and market 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.

Investments in derivatives can be volatile. Potential risks include currency risk, leverage risk (the risk that small market movements may result in large changes in the value of an investment), liquidity risk, index risk, pricing risk, and counterparty risk (the risk that the counterparty may be unwilling or unable to honor its obligations). TBA (To Be Announced) securities involve the risk that the security the Fund buys will lose value prior to its delivery, that the security will not be issued, or that the other party to the transaction will not meet its obligation, which can adversely affect the Domini Impact Bond Fund's results.

Although the U.S. government guarantees principal and interest payments on securities issued by the U.S. government and some of its agencies, such as securities issued by the Government National Mortgage Association ("Ginnie Mae"), this guarantee does not apply to losses resulting from declines in the market value of these securities. Some of the U.S. government securities that the Domini Funds may hold are not guaranteed or backed by the full faith and credit of the U.S. government, such as those issued by Fannie Mae (formally known as the Federal National Mortgage Association), Freddie Mac (formally known as the Federal Home Loan Mortgage Corporation) or the Federal Farm Credit Banks Funding Corporation, and no assurance can be given that the U.S. government will provide financial support.

The reduction of withdrawal of historical financial market support activities by the U.S. government and Federal Reserve, or other governments/central banks could negatively impact financial markets generally, and increase market, liquidity and interest rate risks which could adversely affect the Fund's returns.

As of 6/30/18, these securities represented the following percentages of the Domini Impact Equity Fund's portfolio: Amazon.com, Inc. (0.90%); Chipotle Mexican Grill, Inc. (0.38%); Costco Wholesale Corporation (<0.01%); General Mills, Inc. (<0.01%); The Home Depot Inc. (<0.01%); Koninklijke Ahold Delhaize N.V. (0.11%); The Kraft Heinz Company (<0.01%); The Kroger Company (1.28%); Lowe's Companies Inc. (<0.01%); Mondelēz International, Inc. (0.01%); and PepsiCo, Inc. (<0.01%). These securities represented the following percentages of the Domini Impact International Equity Fund's portfolio: J Sainsbury plc (1.33%); Koninklijke Ahold Delhaize N.V. (1.73%); Unilever plc (<0.01%); and Wm Morrison Supermarkets plc (1.02%). These securities represented the following percentages of the Domini Impact Bond Fund's portfolio: State of Oregon Sustainability Bond (0.23%); Self-Help Credit Union (0.1%); and Self-Help Federal Credit Union (0.1%). BlackRock, Inc.; The Cheesecake Factory, Inc.; Citigroup Inc.; Marks & Spencer Group plc; Moody's Corporation; Ross Stores, Inc.; Texas Roadhouse, Inc.; and The TJX Companies, Inc. were not held by any of the Domini Funds. EOG Resources, Inc.; Facebook, Inc. and Sumitomo Mitsui Financial Group, Inc. were not approved for investment and therefore not held by any of the Domini Funds. Whole Foods Market is a subsidiary of Amazon.com. Nippon Life Insurance Company is not publicly traded.

The composition of each Fund's portfolio is subject to change. The Domini Funds maintain portfolio holdings disclosure policies that govern the timing and circumstances of disclosure to shareholders and third parties regarding the portfolio investments held by the Funds. Visit www.domini.com to view the most current list of each Fund's holdings. Obtain a copy of the Funds' most recent Semi-Annual Report, containing a complete description of each Fund's portfolio, by calling 1-800-762-6814 or at www.domini.com.

This Impact Update is provided for informational purposes only. Nothing herein is to be considered a recommendation concerning the merits of any noted company, or an offer of sale or solicitation of an offer to buy shares of any Fund or company referenced herein. Such offering is only made by prospectus, which includes details as to the offering price and other material information.

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