

## THIRD QUARTER 2004



The issues we discuss today will shape the way business operates tomorrow. When we meet with the managers of the companies we own, we listen to each other's points of view, explore common ground, and build relationships. We may challenge old assumptions and press for change, but we strive to do so in a way that keeps lines of communication open.

Below are updates on ongoing conversations that took place during the past quarter. We hope these discussions will lead to exciting developments in the future.

### Your Dollars at Work for Change

We engage the companies held in our portfolio by writing letters, filing shareholder resolutions, and meeting directly with corporate management to discuss issues of concern. We also speak out on public policy issues where we believe we can bring a unique perspective as a socially responsible investment firm.

### Two Milestones

By the end of August, every U.S. mutual fund was required to reveal its complete proxy voting record for the previous year, under a rule that Domini petitioned for. And in September, **Procter & Gamble** began to sell Fair Trade Certified coffee in stores across the United States. P&G began selling Fair Trade Certified coffee online in 2003, after an extensive dialogue co-led by Domini.

### Continuing Dialogues

We are working on a joint project with **McDonald's**, **Walt Disney**, and a group of faith-based and socially responsible institutional investors to promote sustained compliance with the labor standards mandated by their codes of conduct for manufacturers. (Visit [www.domini.com](http://www.domini.com) to learn more.)

Our discussions on labor standards also continued with **Gap Inc.** and **Sears**.

**The Environment:** Coca-Cola has been accused by community activists of exploiting water resources needed by rural communities in India and elsewhere. We met with company executives to review their approach to water conservation, and continue to urge the company to consider the impact of its operations on watersheds as a routine part of its operations.

Early in the year, we withdrew a shareholder resolution in exchange for discussions with **Devon Energy** about its strategies to address climate change. In response, the company launched a new section on its website to report its environmental performance.

**Global Labor Standards:** Sweatshop labor is often associated with clothing and toy makers, but it is also a serious concern in the electronics industry. Recent reports have turned a spotlight on the global supply chain used to manufacture the computers, printers, and other electronic products we have come to depend on.

Like other leading companies, **Dell** and **Hewlett-Packard** are taking a fresh look at this issue and seeking to learn from the experiences of other industries. In recent corporate responsibility reports, both companies listed supply chain labor standards as a top priority. We shared some of our experiences in the field with both companies during the quarter.

**HIV/AIDS:** Sub-Saharan Africa, where **PepsiCo** has a substantial number of employees, is the global center of the AIDS epidemic. According to UNICEF, AIDS has orphaned more than 11 million African children, half of them between the ages of 10 and 14.

Corporations have an important part to play in combating AIDS in the most seriously affected regions. We encourage them to work with their supply chain to provide antiretroviral drugs, counseling, and testing, and to press governments to address the crisis. We met with PepsiCo to discuss how the company might mitigate the impact of HIV/AIDS on its employees and the societies in which it operates.

**Sustainability Reporting:** Our discussions with **Target** continued on how the company could best report on its social and environmental performance.

**Diversity:** Although **Emerson Electric** now discusses sexual orientation discrimination in training material distributed to all of its employees, we continue to press the company to explicitly prohibit sexual orientation discrimination in its formal equal employment opportunity (EEO) policy. Our resolution is scheduled to come to a vote in 2005.

For more information about our shareholder advocacy work, including a complete chart of all shareholder proposals filed and access to our current proxy voting decisions, please visit [www.domini.com](http://www.domini.com) and select "Shareholder Advocacy."

Social investors often collaborate with others on these campaigns. The following institutions are leading the campaigns noted above: Sears (Christian Brothers Investment Services), PepsiCo (MMA Praxis), Procter & Gamble (Domini and the Center for Reflection, Education and Action are co-leaders).

# 2003 Highlights

In 2003, Domini engaged companies making up 36% of the market capitalization of the Domini Social Equity Fund's portfolio on at least one social or environmental issue.

## 2003 ADVOCACY STATISTICS

Shareholder Resolutions Filed	26*
Additional Dialogues	10
Letters to Companies	25
<b>TOTAL</b>	<b>61**</b>

\*Includes resolutions coming to a vote in 2004.

\*\*Includes shareholder resolution filing, letter writing, or meeting(s) with company officials. Proxy voting and related correspondence is not included.

## SHAREHOLDER ADVOCACY

**Fair Trade Coffee:** In recent years, overproduction and falling prices have led to a crisis in the coffee market, leaving millions of farmers unable to feed, clothe, and educate their families. The Fair Trade certification system helps to alleviate poverty and suffering by guaranteeing farmers a minimum price of \$1.26 per pound, far above current market levels. In September, after months of dialogue with an investor group co-led by Domini, **Procter & Gamble** offered its first line of Fair Trade Certified® coffee.

**Women's Health:** Despite the epidemic of breast cancer among American women, there is still insufficient understanding of its causes. At **Avon**, Domini sponsored the first shareholder resolution ever filed regarding parabens, chemicals found in cosmetics that may be implicated in breast cancer.

## PUBLIC POLICY

**Proxy Voting Transparency:** Do you know how your mutual fund is voting? Domini has been disclosing its proxy voting guidelines since 1992, and its actual votes since 1999. In response to separate petitions from Domini, the AFL-CIO, and the Teamsters union, the Securities and Exchange Commission ruled that all mutual funds must disclose their proxy voting policies, procedures, and actual votes.

**Corporate Free Speech Rights:** When California activist Marc Kasky tried to hold Nike accountable for statements about its use of sweatshop labor, the company claimed these statements were protected as "noncommercial" or "political" speech. Domini filed an amicus brief with the U.S. Supreme Court, supporting Kasky and arguing that Nike's position threatens investors' ability to obtain information from corporations on a timely and accurate basis.

**A New Forum for Dialogue:** Domini Chief Investment Officer Steve Lydenberg helped launch the Institute for Responsible Investment, an affiliate of The Center for Corporate Citizenship at Boston College. The Institute provides a platform for dialogue on fundamental issues and theories underlying socially responsible investing and corporate citizenship. Visit [www.bc.edu/centers/ccf/Pages/cv\\_iri.html](http://www.bc.edu/centers/ccf/Pages/cv_iri.html).

Domini Social Investments manages more than \$1.8 billion in assets for individual and institutional mutual fund investors who wish to create positive change in society by integrating social and environmental criteria into their investment decisions. The Domini Social Equity Fund (NASDAQ: DSEFX) is the first and largest index fund managed according to social and environmental standards. Visit [www.domini.com](http://www.domini.com) or call 1-800-762-6814 to find out more.

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