

FIRST QUARTER 2012



Sustainable Forestry

This spring, we asked other investors to join us in seeking public reports from several major corporations that would allow shareholders, consumers, and communities to evaluate the impact that these companies have on society and the environment.

Among the companies we reached out to were **Kraft**, **Lowe's**, and **RR Donnelley**, submitting shareholder proposals asking for reports detailing each company's efforts to address global deforestation. All three companies were willing to talk to us about our concerns.

Lowe's adopted a sustainable forestry policy in 2000, addressing its purchases of wood for sale in its home improvement stores. From 2006-2008, we filed shareholder proposals asking the company to report on these efforts. Ultimately, the company did publish a report, but then chose to remove it from its website. Without regular reporting, it is impossible for investors and other stakeholders to determine whether Lowe's is living up to its stated commitments to protect forests. This quarter, we successfully convinced the company to work with us on a public report discussing its progress in implementing its wood purchasing policy, and Lowe's has agreed to include quantitative metrics in this report. In exchange, we were pleased to withdraw our proposal.

Kraft purchases a number of commodities for its products that have been identified as key drivers of deforestation in various parts of the world. These include paper products, beef, soy, sugar and palm oil. Of these commodities, to date, the company only provides quantitative reporting on its Palm Oil purchases. We would like to see consistent quantitative reporting for each commodity, with sufficient detail to allow us to evaluate Kraft's efforts to reduce its impacts on deforestation. Over the past several months, we had several constructive conversations with Kraft about its efforts to improve the environmental footprint of its global purchases.

RR Donnelley is a leading financial printing firm with a strong commitment to providing its clients with a full range of sustainable paper choices. We applaud the company for these efforts, but continue to encourage them to publish more detailed information on the sustainability characteristics of the paper it purchases for its clients.

In response to our proposal, the company amended its public reporting regarding their purchases of sustainably sourced paper. In addition to a range of recycled papers, RR Donnelley offers its clients a range of "sustainable" paper, certified to one of three independent forestry certification schemes. Although we support these efforts, we believe that additional information would provide investors with a better understanding of the company's actual impact on forests. We would like to understand what percentage of their paper purchases meet acceptable sustainable forestry standards, and how these trends change over time. We are also questioning whether it is possible for all of the company's paper purchases – certified and uncertified – to meet certain baseline environmental standards. Our proposal received a 26.7% vote at the company's annual meeting, representing very strong support from shareholders. The dialogue will continue.

Public Health and Safety: Chemicals in Aluminum Cans

We resubmitted a shareholder proposal for the third consecutive year with **Coca-Cola**, seeking a report on how the company is addressing the public policy challenges associated with the use of bisphenol-A (BPA), a chemical used in the lining of its aluminum cans to guard against contamination and preserve shelf-life. Although the science is far from settled, BPA has been connected to a variety of health concerns, and a number of groups are seeking to ban its use. During the summer, Coke published a report on BPA, defending its safety and explaining that it is seeking alternatives. The Company then sought permission from the SEC to exclude our proposal from its proxy materials. Although we disagreed with the company, and vigorously defended our proposal at the SEC, the company's request was ultimately granted. Despite this setback, however, Coca-Cola has always been a company that is open to constructive dialogue, and we look forward to continuing our discussions.

New and Continuing Dialogues

Domini also engaged with the following companies during the quarter:

- **AMD** (sustainability reporting)
- **Anadarko** (hydraulic fracturing)
- **CA Inc.** (CEO pay, CSR efforts)
- **Deutsche Telekom*** (CSR efforts, union relations)
- **ExxonMobil*** (oil sands)
- **Family Dollar Stores** (toxins in consumer products)
- **Gap** (political contributions)
- **Fujifilm Holdings** (supply chain management)
- **Hewlett-Packard** (supply chain labor standards, sales to foreign governments)
- **HTC Corporation** (sustainability reporting)
- **McDonald's** (sustainable fisheries)
- **Novo Nordisk** (CSR efforts, public reporting)
- **Nucor** (human rights, climate change)

Board Diversity in Japan

Domini has a long-standing policy to vote against boards of directors if they do not include at least one woman or minority director. Outside of the United States, this policy is focused on gender diversity. In Japan, very few women rise to the level of director. In recognition of this serious problem, each year for the past several years, the Domini International Social Equity Fund has voted against virtually every Japanese board in its portfolio. We have also taken the additional step of writing to these companies to explain the reason for our vote, and the importance of the issue. This year, we sent letters to 24 Japanese companies, citing the UN Guiding Principles on Business and Human Rights as support for our commitment to gender diversity.

*Deutsche Telekom and ExxonMobil were not approved for Domini's mutual fund portfolios.

As of June 30, 2012, these companies represented the following percentages of the Domini Social Equity Fund's portfolio: Anadarko (<.01%), CA Inc. (1.3%), Coca-Cola (0.7%), Gap (<.01%), Google (1.4%), Hewlett-Packard (<.01%), Kraft (<.01%), Lowes (<.01%), McDonald's (<.01%), Microsoft (4.4%), Nucor (<.01%), RR Donnelley (0.2%), and Yahoo (<.01%). These companies represented the following percentages of the Domini International Social Equity Fund's portfolio: Fujifilm Holdings (1.7%), HTC Corporation (0.4%), and Novo Nordisk (2.6%). AMD and Family Dollar Stores were not held by any of the Domini Funds. The composition of the Funds' portfolios is subject to change.

Human Rights: Censorship and Surveillance

Around the world, governments are utilizing the Internet, telecommunication networks and other technologies to fight crime and international terrorism, and maintain public order. In many cases, however, these efforts cross the line, resulting in censorship and violations of privacy. Corporations that provide these technologies must comply with the law, but also have obligations to respect fundamental human rights. What should they do?

Domini is a founding board member of the **Global Network Initiative (GNI)**, a human rights organization addressing threats to freedom of expression and privacy on the Internet and other communication technologies. The GNI's membership includes human rights organizations, academics, investors, and corporations. In addition to publishing principles and guidelines for companies that face these government requests, one of the most important and unique elements of the GNI is the process of independent assessment each member company commits to undertake. How can investors and citizens be assured that companies are actually upholding these commitments?

Google, Microsoft and Yahoo, the GNI's three founding company members, have now completed the first independent assessment ever undertaken of corporate policies regarding freedom of expression and privacy rights in the ICT (Information & Communication Technologies) sector. Following the GNI's established process, each company hired an independent firm to assess whether they have the appropriate policies and procedures in place to implement the GNI Principles. Each assessor concluded that each company has put in place appropriate policies and procedures to implement its GNI commitments. The GNI's public annual report, discussing the results of these assessments, was launched at the Stockholm Internet Forum on April 18.

As a member of the GNI's board's Governance and Accountability subcommittee, Domini helped develop the key documents guiding the assessment. We are now working on the development of the next phase of the GNI assessment process, where assessors will look at specific cases and actual data.

The GNI also offers participants the opportunity to band together to oppose nascent threats to these fundamental human rights. During the quarter, the GNI issued a public statement encouraging companies not to respond to the government of Pakistan's RFP for censorship services. For more information on the GNI, visit www.globalnetworkinitiative.org.

ABOUT DOMINI SOCIAL INVESTMENTS Domini Social Investments manages mutual funds for individual and institutional investors who wish to create positive change in society by integrating social and environmental standards into their investment decisions. Visit www.domini.com or call 1-800-582-6757 to find out more.

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