



## THIRD QUARTER 2012

### Taking a Stand against Bribery and Corruption

Since 1977, the U.S. Foreign Corrupt Practices Act (FCPA) has placed the United States in the forefront in the fight against bribery and corruption around the world. Nevertheless, corruption is still pervasive, with damaging impacts on commercial competition, economic development and the realization of human rights. Earlier this year, the New York Times published detailed allegations of a massive bribery scheme involving Wal-Mart\* in Mexico. Our research analysts pay close attention to these stories as part of their social and environmental evaluation of companies for our funds.

The U.S. Chamber of Commerce, a powerful business lobbying group, has proposed certain “clarifications” to the FCPA that many believe will weaken our government’s enforcement efforts. We felt that this was an important opportunity for investors to weigh in.

In May, we met with senior officials at the Securities and Exchange Commission and the Department of Justice – the two government agencies with joint authority over the FCPA – to express our strong support for the Act, and our concerns about any efforts to weaken it. Following our meeting, we worked with other investors to draft an investor statement in support of the FCPA, explaining in detail why strong enforcement is in the best long-term interests of investors, corporations and society. Domini then reached out to other investors for their endorsement. Expressions of support poured in from around the world. In mid-August we submitted the final statement to the SEC and DOJ, on behalf of **more than fifty institutional investors managing more than \$3 trillion**, in addition to several large investor networks.

### Protecting Freedom of Expression and Privacy

In recent years, the Internet and cell phones have proven to be powerful instruments for political speech, playing central roles in democratic movements such as the Arab Spring. These technologies have also proven to be powerful tools for censorship, surveillance and repression by governments around the world. Corporations like Google and Microsoft find themselves in the midst of these struggles for freedom and control. Domini is a founding board member of the *Global Network Initiative* (GNI), a human rights organization consisting of corporations, human rights groups, academics and investors working together to address government demands to Internet and telecommunication companies that interfere with basic rights of freedom of expression and privacy.

The GNI has published a set of principles and guidelines to help companies navigate this difficult terrain. In addition to agreeing to uphold these principles, the corporate GNI members agree to undergo independent assessments of their efforts to implement them.

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### Other Corporate Engagements

In addition to the companies discussed in this report, we also continued dialogue with the following companies during the quarter:

- **ABB\*** (anti-corruption measures, Sudan)
- **AMD** (sustainability strategy)
- **Anadarko** (hydraulic fracturing)
- **Apple** (supply chain human rights)
- **Bloomberg\*** (met with CEO and Chair to discuss sustainability strategy)
- **Coca-Cola** (Burma)
- **Costco** (sustainable seafood)
- **McDonald’s** (sustainable seafood)
- **Nintendo** (supply chain human rights)
- **Safeway** (Bisphenol-A)

### Update on Burma

Following a historic election that brought long-imprisoned democratic leader Aung San Suu Kyi to parliament, the US government has announced the lifting of long-standing sanctions on Burma, and corporations are announcing they will soon resume business there.

Last quarter, Domini participated in an in-person meeting with **National Security Council** (NSC) staff to share our concerns regarding the continued imprisonment of political prisoners, weak rule of law, including a weak judicial system, continuing violence against ethnic minorities, and the potential financing of notorious human rights violators. Following our meeting, we worked with other members of the Conflict Risk Network (CRN) to develop and submit concrete recommendations to the NSC. In September, we worked closely with CRN on detailed comments to the State Department in support of its proposal to require corporations investing in Burma to produce reports on their human rights policies. Early in October, Domini submitted its own letter to the State Department with our additional recommendations.

## Corporate Political Accountability

During the quarter, we joined other investors on letters to **Johnson & Johnson\***, **Merck**, **Bayer\*** and **Pfizer\***, asking why these companies provided campaign contributions to legislators fighting against the birth-control products they manufacture. The investor letter noted that each company “is financing candidates that are actively working against its shareholders’ interests.”

We were also a lead signatory on letters to more than 40 companies questioning their support for the Heartland Institute, a think-tank that continues to deny the reality of climate change, and ALEC (the American Legislative Exchange Council), a controversial lobbying organization that was responsible for the “Stand Your Ground” legislation that led to the tragic death of Trayvon Martin.

The GNI’s founding corporate members, **Google**, **Microsoft** and **Yahoo**, completed their first independent assessments earlier this year. During the quarter, we continued to develop the next phase of GNI’s independent assessment process, when assessors will look beyond policies and procedures, and evaluate actual cases.

## Accountability through Transparency

During the quarter, we worked on several initiatives to improve the quantity and quality of information corporations publish about their impact on society and the environment.

In 2002, we withdrew a shareholder proposal in exchange for an agreement by **Gap** to issue its first sustainability report – a report focused on its efforts to improve working conditions at factories around the world that manufacture Gap apparel. It was a groundbreaking report that set a new standard of transparency for the industry. Since then, we have participated as a member of the **Public Reporting Working Group (PRWG)**, a group of five investor organizations that has advised Gap on the development of each of its subsequent sustainability reports. The group serves as a sounding board, providing the company with independent advice on the direction and content of its public reporting. Each report also contains an unedited statement from the PRWG. In September, we had a full-day meeting with Gap executives to begin the planning process for Gap’s next report, to be issued in 2013.

In 2010, Domini reached agreement with **Nucor** on a landmark set of human rights policies to address slavery and deforestation in the production of Brazilian pig-iron, a key ingredient in the manufacture of steel. This quarter, we provided the company with our suggestions for its next public “progress report,” discussing implementation of these policies. We also signed on to the **Forest Footprint Disclosure Project’s** annual request for information on corporate impact on deforestation.

Last year, more than 6,000 companies around the world produced some form of sustainability report, up from only a handful in the early ‘90s. This is a significant development, but provides only a glimpse of where we need to be – mandatory, consistent reporting from all publicly traded companies. While we continue to work with companies like Gap that produce sustainability reports on a voluntary basis, we also remain strong advocates for a more systemic approach. For example, stock exchanges impose “listing standards” on companies that trade on their exchange, setting basic financial and corporate governance standards. Some exchanges, such as the **Johannesburg Stock Exchange**, require listed companies to produce sustainability reports. We are encouraging other stock exchanges to do the same. Last year, we met with **Deutsche Borse**, and this quarter we met with the Vice Chairman of the **Nasdaq OMX** exchange to discuss this concept, as part of a large coalition of investors that are members of the Investor Network on Climate Risk.

Our General Counsel is also a member of the Securities & Exchange Commission’s **Investor Advisory Committee (IAC)**, established under the Dodd-Frank financial reform act to provide the SEC with advice on its regulatory agenda. The IAC met at the end of the quarter to develop and announce its priorities, which include sustainability reporting.

\*Bloomberg is privately held, and is therefore not eligible for investment by the Domini Funds. ABB, Bayer, Johnson & Johnson, Pfizer, and Wal-Mart are not currently approved for Domini’s mutual fund portfolios.

As of September 30, 2012, these companies represented the following percentages of the Domini Social Equity Fund’s portfolio: Anadarko (<0.01%), Apple (7.05%), Coca-Cola (0.72%), Costco (<0.01%), Gap (0.72%), Google (1.50%), McDonald’s (<0.01%), Microsoft (4.00%), Nucor (<0.01%), Safeway (0.97%), and Yahoo (<0.01%). AMD and Nintendo were not held by any of the Domini Funds. The composition of the Funds’ portfolios is subject to change.

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