

# Domini Impact Bond Fund<sup>SM</sup>

## Investor Shares



The Fund is managed through a two-step process designed to capitalize on the strengths of Domini Impact Investments and Wellington Management Company. Domini sets social and environmental guidelines and objectives for each asset class, and develops an approved universe of companies, and Wellington utilizes proprietary analytical tools to manage the portfolio. Wellington Management Company has been serving as submanager of the Fund since January 7, 2015.

Total Returns as of June 30, 2017	Apr 2017	May 2017	June 2017	Second Quarter 2017	Year to Date	One Year	Three Year*	Five Year*	Ten Year*	Since Inception (6/1/00)*
DSBFX	0.89%	0.80%	-0.09%	1.61%	2.42%	0.37%	2.12%	1.60%	3.67%	4.27%
BBUSA**	0.77%	0.77%	-0.10%	1.45%	2.28%	-0.31%	2.48%	2.21%	4.48%	5.21%

### MARKET OVERVIEW

Global bond markets generated strong gains in the second quarter as bouts of elevated political uncertainty kept a lid on government bond yields. In the U.S., political controversies—in particular, the ongoing investigation into Russia’s meddling in the 2016 presidential election—led to a short-lived dip in risk assets. Elections in France and the UK presented potential sources of volatility, but proved benign in the aftermath. Most currencies strengthened versus the U.S. dollar as market participants seemed doubtful that the Federal Reserve (Fed) would deliver on its projected tightening path.

Monetary policy developments among developed markets turned marginally more hawkish during the period. The Fed hiked rates in June, projected an additional hike later in 2017, and laid out a plan for tapering its asset purchases. Comments from Bank of England Governor Carney indicated rate hikes may be looming in the UK. However, even as it noted improved Eurozone growth, the European Central Bank (ECB) lowered its inflation forecasts, triggering speculation that it might postpone the tapering of asset purchases that had been expected later this year.

U.S. GDP growth moderated to 1.4% in the first quarter, but housing and labor market data remained robust during the second quarter. Economic momentum built in Europe as political risk faded, with continued strength in both the services and manufacturing sectors. In Japan, data pointed to domestically-driven growth, including declining unemployment, rising consumer prices, and improving business and consumer confidence. While China’s official Purchasing Managers’ Index (PMI) data improved, other indicators pointed to weaker growth, notably slowdowns in construction activity and property sales. Despite continued labor-market strength, inflation data across developed market economies remained subdued. Oil prices declined over the quarter, as rising U.S. shale production and growing supplies from Libya and Nigeria continued to offset OPEC production cuts.

### PERFORMANCE COMMENTARY

The Fund’s Investor shares outperformed the Bloomberg Barclays U.S. Aggregate Bond Index for the second quarter, returning 1.61% vs. the benchmark’s 1.45% performance. The Fund’s exposure to mortgage-backed securities (MBS) and investment-grade credit represented the main contributors to outperformance, while its inflation positioning detracted from relative performance.

The Fund held an overweight to agency MBS, as its submanager, Wellington Management Company, saw evidence of lower interest-rate volatility and better visibility on the Fed’s balance-sheet intentions. A drop in bond-market volatility and increased clarity about the Fed’s plan to gradually taper its MBS reinvestments were generally positive for the sector, but the June rate rally had a greater influence on performance due to pre-payment fears. The Fund maintained an allocation to collateralized mortgage obligations (CMOs) and FNMA (Fannie Mae) Delegated Underwriting and Servicing (DUS) bonds, which the submanager believes have attractive income and convexity profiles. The Fund’s DUS exposure, as well as security selection within agency MBS, had a favorable impact on relative performance.

Based on attractive valuations, the Fund also held an overweight to high-quality commercial mortgage-backed securities (CMBS), which was also additive to relative performance. CMBS performance was positive despite negative headlines for retail companies, suggesting that the market has already largely priced in the weakness that has played out so far.

*(continued on next page)*

\*Average annual total returns.  
\*\*Bloomberg Barclays U.S. Aggregate Index

**Past performance is no guarantee of future results.** The Fund’s returns quoted above represent past performance after all expenses. Investment return, principal value, and yield will fluctuate. Your shares, when redeemed, may be worth more or less than their original cost. Call 1-800-762-6814 or visit [www.domini.com](http://www.domini.com) for performance information current to the most recent month-end, which may be lower or higher than the performance data quoted. A 2.00% fee applies on sales/exchanges made less than 30 days after purchase/exchange, with certain exceptions.

Expense Ratio – Gross 1.11% / Net: 0.85% (Per current prospectus. Domini has contractually agreed to cap Investor share expenses to not exceed 0.95% until 11/30/17, subject to earlier modification by the Fund’s Board of Trustees. See prospectus for details.)

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The Fund had an overall underweight position in investment-grade credit during the quarter, as the submanager believed there were better opportunities in other sectors. Within investment-grade corporate bonds, the Fund maintained overweight positions in U.S. financials, particularly large money center banks, and in taxable municipals. Despite concerns about prospects for retailers, particularly in the U.S., generally solid corporate earnings and continued demand for yield-producing assets supported credit markets and spreads tightened further. Overall, credit positioning was a positive contributor to relative results for the quarter, as a negative impact from an underweight to industrials was more than offset by positive impacts from security selection within the banking sector and the overweight to taxable municipals.

The submanager continued to favor bank loans based on attractive valuations and low default expectations, and maintained an allocation to BB-rated high-yield issuances. Additionally, the Fund's submanager used high-yield derivatives as a source of liquidity and to manage overall portfolio risk. High yield generated strong gains, as generally supportive economic and earnings data outweighed elevated political uncertainty and lower oil prices. Bank loans also generated a positive total return. Tighter U.S. monetary policy may benefit bank loans more than fixed-rate sectors, as bank-loan coupons reset higher given their floating-rate nature. High-yield positioning, including exposure to bank loans and high-yield bonds, was beneficial to relative performance overall.

The primary detractor from relative performance was the Fund's positioning within Government issues. The Fund was positioned for rising inflation expectations, as the submanager continued to believe the market was underpricing inflation expectations. However, this positioning detracted from relative performance amid growing doubts about fiscal stimulus prospects and three consecutive monthly readings of the U.S. Consumer Price Index (CPI) that were below markets expectations. The Fund also held modest opportunistic interest-rate positions that had a negative impact on relative performance.

### COMMUNITY & ENVIRONMENTAL IMPACT

In the second quarter, securities Domini characterizes as "high impact" represented 28% of the Fund's total portfolio. This allocation consists of holdings addressing the following issue areas:

- Low-income multifamily housing
- Economic development, public education and healthcare
- Climate change adaptation and mitigation.

During the second quarter, the Fund initiated a number of new investments in high-impact bonds, including a \$185,000 investment in a green bond issued by Kaiser Foundation Hospitals, a nonprofit hospital focusing on preventative healthcare with financial assistance programs for low-income patients. Proceeds from this new green bond will be used to help Kaiser become "carbon net positive" by purchasing clean energy and carbon offsets; supporting sustainable agriculture by purchasing food from local producers that use sustainable practices; reducing waste production by recycling, reusing or composting hazardous waste; and conserving water. Kaiser also reports that it is striving to purchase products and materials that meet international standards for environmental management, and that it is pursuing new collaborations to reduce environmental risks to food sheds, watersheds and air basins supplying its member communities. Together with an investment in a previously issued general obligation bond, the Domini Impact Bond Fund had investments totaling more than \$300,000 in Kaiser Foundation Hospital issuances as of June 30.

The Fund is not insured and is subject to market risks, including interest rate and credit risks. During periods of rising interest rates, bond funds can lose value. The 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 Fund's community development investments may be unrated and carry greater credit risks than its other investments.

The performance information quoted above does not reflect the deduction of taxes that a shareholder would pay on distributions or the redemption of Fund shares. Total return is based on the Fund's net asset values and assumes all dividends and capital gains were reinvested. You may lose money.

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 Fund's results.

The Bloomberg Barclays U.S. Aggregate Bond Index ("BBUSA") is an index

representing securities that are U.S. domestic, taxable, and dollar denominated and covering the U.S. investment grade fixed rate bond market, with index components for government and corporate securities and asset-backed securities. See the Fund's prospectus for more information. You cannot invest directly in an index.

Visit [www.domini.com](http://www.domini.com) or call us for the most current list of the Fund's holdings. The Fund's investments in Kaiser Foundation Hospitals' green bond and general obligation bond respectively represented 0.11% and 0.07% of the Fund's Portfolio, for a total of 0.18% in Kaiser issuances. The composition of the Funds' portfolios is subject to change. This information is provided for educational purposes only, and should not be considered investment advice with respect to any of the holdings listed.

Domini<sup>®</sup> is a registered service mark of Domini Impact Investments LLC ("Domini").



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**This material must be preceded or accompanied by a current prospectus. Please read it carefully before investing.**

DSIL Investment Services LLC, Distributor. 7/17