

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

## Institutional 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 December 31, 2016	Oct 2016	Nov 2016	Dec 2016	Fourth Quarter 2016	Year to Date	One Year	Three Year <sup>1</sup>	Five Year <sup>1,2</sup>	Ten Year <sup>1,2</sup>	Since Inception (6/1/00) <sup>1,2</sup>
DSBIX	-0.86%	-2.36%	0.05%	-3.15%	3.66%	3.66%	2.44%	1.67%	3.51%	4.25%
BBUSA <sup>3</sup>	-0.76%	-2.37%	0.14%	-2.98%	2.65%	2.65%	3.04%	2.24%	4.35%	5.23%

### MARKET OVERVIEW

Bond markets suffered one their largest-ever quarterly losses in the fourth quarter. Global sovereign yields rose, led by US Treasuries, as expectations that then President-elect Trump's fiscal policies might prove expansionary bolstered inflation expectations. Credit markets gained and spreads tightened amid optimism regarding the prospect of an incoming US Administration and Congress promising to promote tax reform and deregulation.

During the fourth quarter, central banks adopted policy that was moderately less accommodative. The Fed hiked rates for only the second time in ten years and, while markets had largely anticipated the decision, the Fed's post-meeting statement and press conference proved more hawkish than expected. While the Bank of England maintained the pace of its asset purchase program and disappointed by moving from an easing bias to a more neutral stance, the Bank of Japan (BOJ) introduced no additional easing measures and affirmed its target of a zero yield on 10-year Japanese government bonds. The European Central Bank (ECB) indicated that it would reduce its bond purchasing by 20 billion euros per month after March 2017.

US economic data released in the fourth quarter signaled continued strength in the labor and housing markets, and domestic consumer spending increased. Even in the face of heightened political uncertainty, European data proved strong amid improved global growth and improving labor market conditions. The industrial cycle accelerated to its fastest pace in five years. Growth in the service sector slowed but remained high, pointing to still-solid domestic demand. In Japan, bank attitudes toward lending remained open, supporting domestic demand growth.

### PERFORMANCE COMMENTARY

In the fourth quarter, the Fund's subadvisor, Wellington Management, held modest opportunistic interest rate positions, which had a negative impact on the Fund's relative performance. The Fund was positioned for rising inflation expectations as the Fund's subadvisor believed that over the longer-term markets were pricing in unrealistically low inflation assumptions. This positioning benefitted relative returns, as inflation expectations rose sharply following Trump's victory, in light of his proposed expansionary fiscal policy at a time of full employment.

The Fund held neutral positioning in investment grade credit (corporate bonds) during the quarter as the Fund's subadvisor believed there were better opportunities outside the sector. Within investment grade corporates, the Fund continued to be positioned overweight to US financials, and the Fund also held an overweight to taxable municipals. The investment grade credit sector outperformed on an excess return basis for the quarter, with corporate spreads tightening amid optimism regarding proposed fiscal stimulus and corporate tax relief under a Trump administration. During the quarter, the Fund's positioning in credit detracted from relative results stemming from an underweight within the energy sub-sector. An overweight in the portfolio to taxable municipals was a positive contributor to relative performance.

Over the course of the fourth quarter, the Fund's subadvisor held an overweight to agency Mortgage Backed Securities (MBS), believing MBS

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<sup>1</sup> Average annual total returns.

<sup>2</sup> Institutional shares were not offered prior to 11/30/11. All performance information for the periods beginning prior to 11/30/11 is the performance of the Investor shares. This performance has not been adjusted to reflect the lower expenses of the Institutional shares.

<sup>3</sup> 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 1.22% / Net: 0.63% (Per current prospectus. Domini has contractually agreed to cap Investor share expenses to not exceed 0.65% until 11/30/17, subject to earlier modification by the Fund's Board of Trustees. See prospectus for details.)

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to be more attractively valued than US Treasuries. The Fund's subadvisor continued to favor FNMA Delegated Underwriting and Servicing (DUS) bonds. Agency MBS underperformed on an excess return basis due to a spike in interest-rate volatility. Additionally, lower coupons significantly underperformed higher coupons amid heightened extension worries and investors shedding duration into the back-up in rates. Ultimately, the Fund's overweight to MBS pass-throughs and exposure to FNMA DUS detracted from relative performance.

The Fund maintained a modest allocation to agency debt linked to residential mortgages (agency CRT Deals) based on an improving housing market, though the Fund's subadvisor reduced the Fund's allocation to agency CRT securities as valuations appeared rich after much of the sector was rated. The sector posted positive total returns for the fourth quarter—even as most other fixed-income sectors lost ground. Strong housing fundamentals and investors' drive for yield helped bolster returns in both the legacy and CRT markets during the quarter. The Fund's allocation to agency CRT deals had a neutral effect on relative performance. The Fund held an overweight to high quality Commercial Mortgage-Backed Securities (CMBS) based on positive commercial real estate fundamentals and attractive valuations. Like other credit sectors, CMBS benefited from the Trump-reflation rally and spreads tightened, led by lower rated (BBB) issuances. The Fund's positioning in high-quality CMBS was additive to relative results.

The Fund's subadvisor continued to favor bank loans based on attractive valuations and low default expectations and also maintained a modest allocation to BB rated high yield issuances. Additionally, the Fund's subadvisor used high yield derivatives as a source of liquidity and to manage overall portfolio risk. High yield outperformed most other fixed income sectors amid expectations that Trump's policy agenda would emphasize pro-growth fiscal stimulus and deregulation. Bank loans also generated a positive total return, benefitting from their floating rate structure amid rising government bond yields and expectations for additional Fed rate hikes. High-yield positioning was beneficial to relative performance as positive results from the Fund's exposure to bank loans and BB rated high-yield bonds were partially offset by the Fund's derivative hedges.

### COMMUNITY & ENVIRONMENTAL IMPACT

In the fourth quarter, securities Domini characterizes as "high impact" represented 20% of the Fund's total portfolio. This allocation within the portfolio consisted of holdings addressing the following issue areas:

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

The Fund has a commitment to assisting under-served communities through the purchasing of economic development municipal bonds. In the fourth quarter, we held an investment of over \$750,000 (0.5% of the Fund's portfolio) in a bond issued by the State of California that will be used to finance capital facilities or other voter-approved costs for a wide range of public purposes, including water conservation, coastal protection, children's hospitals, and public schools.

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. 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. 1/17