

## Second Quarter 2016

Investing for Good<sup>SM</sup>  
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### A Season of Accountability

If you sit on the board of a publicly traded company, there is only one time of year when you must face your shareholders. For most companies, that time is at the spring annual meeting. Since the 1960's, shareholders have raised key issues of concern at these meetings, from napalm production to racial discrimination to climate change. On behalf of our fund shareholders, we have submitted more than 250 shareholder proposals over the past 22 years, ensuring that your voice is heard.

The shareholder proposal is a tool to help us persuade companies to see our point of view. They are conversation starters that get executives' attention, and hold it long enough for us to make our case and, hopefully, effect change. This year, these conversations led to agreements with **Best Buy**, **First Solar**, and **Target**. We also worked with our colleagues at Clean Yield Asset Management to withdraw our proposal at **Whole Foods**. You can read more about these agreements in our Social Impact Update for the First Quarter.

When we are unable to reach agreement, the process reaches a public stage. Our proposal is published in the corporate proxy statement and then put to a vote at the annual meeting. There, we are provided the opportunity to share our views with shareholders, senior management and the board of directors in a brief speech. This season, seven of our proposals went to a vote.

The **Chipotle** annual meeting was a lively one, following a nationwide rash of e-coli and norovirus outbreaks that has battered confidence in the brand. Our speech began with a reminder that issues of sustainability, including decent working conditions and healthy ecosystems, are key to the long-term success of this company. After several years, however, the company still fails to provide comprehensive information to help us understand how it is managing its key sustainability risks. Chipotle says they'd rather do the work than tout their successes. Our speech sought to educate the Board about the critical importance of sustainability reporting to risk management:

*Sustainability reporting is about accountability, not marketing.  
It is a key part of getting the job done.*

We were told that Chipotle will be releasing more information around sustainability and that we will be happy with the results. Our proposal's strong 43% vote should send a strong signal that our message resonates with the company's shareholders.

### Domini Proposal Vote Results

<b>3M</b>	De-link executive compensation incentives from share buybacks	6%
<b>AT&amp;T</b>	Indirect political contributions disclosure	29%
<b>Chipotle</b>	Sustainability reporting	43%
<b>Nucor</b>	Political lobbying disclosure	32%
<b>Verizon</b>	Indirect political contributions disclosure	30%
<b>Amazon*</b>	Sustainability reporting	27%
<b>UPS*</b>	Political lobbying disclosure	23%

\*Domini is serving in a supporting role in these engagements.

For a complete list of proposals submitted this proxy season, visit [www.domini.com](http://www.domini.com).

(continued on reverse)

### Additional Dialogues

In addition to those discussed in this Update, we also engaged with the following companies during the quarter on these issues:

#### **Best Buy, Home Depot, HP, Starbucks, United Parcel Service**

Signed investor letters regarding share buybacks and capital allocation decisions

#### **Coca-Cola**

Public Health

#### **Home Depot**

Pesticides, organics and pollinator health

#### **Pfizer\***

Sustainability performance and disclosure

As a member of the UN Principles for Responsible Investment's Investor Taskforce on Tax, we participated in a roundtable discussion with **five Canadian companies** about their global tax practices.

We participated in a **Morgan Stanley Stakeholder Engagement Roundtable** on the intersection of financial services and climate-related issues, and in a workshop organized by the Natural Capital Declaration, **Citigroup\*** and UNEP about the Financial Risks from Water Supply-Demand Dynamics.

\*Not currently approved for investment by the Domini Funds.



In *The 100 Most Overpaid CEOs: Are Fund Managers Asleep at the Wheel?*, a new report by the As You Sow Foundation, the **Domini Social Equity Fund** was identified as most likely to oppose pay packages for the 100 most overpaid CEOs in the S&P 500.<sup>1</sup> The report found that mutual funds are far more likely to rubber stamp these pay packages than pension funds, but found wide variation in practices among funds.

## Protecting Freedom of Expression and Privacy on the Internet

Internet and telecommunications companies receive thousands of requests per year from governments around the world to censor content or divulge information about their users. Many of these requests violate international human rights principles. For the past ten years, Domini has helped to build the Global Network Initiative (GNI), an organization focused on protecting freedom of expression and privacy from improper government intrusion. The GNI has established a set of principles and guidelines for companies to follow when receiving these requests and also engages in public policy and shared learning on these issues. The GNI includes prominent human rights groups, including Human Rights Watch and the Committee to Protect Journalists.

GNI maintains the only independent assessment process of its kind, ensuring that its corporate members, **Microsoft, Google, Yahoo, LinkedIn** and **Facebook**, undergo regular independent evaluations of their commitments to the organization's human rights principles. The GNI recently completed independent assessments of each of these companies and produced a public report describing the process and its findings, available at [www.globalnetworkinitiative.org](http://www.globalnetworkinitiative.org). After serving as a founding board member, Domini is currently an alternate member of the GNI Board, and was directly involved in the design of the assessment process and the recent evaluations of each company. Earlier this year, the GNI welcomed seven telecommunications companies as "observers," in the hope that they will ultimately become full GNI members.

## Public Policy

### Mandatory Sustainability Reporting

In April, the Securities and Exchange Commission (SEC) issued a historic Concept Release, seeking comments on a wide range of rules that require publicly traded companies to disclose information to their investors. We were very pleased to see the inclusion of a series of questions about sustainability information among the Release's more than 300 pages.

The last time the SEC took a hard look at sustainability reporting was 1975. The world has changed dramatically since then. At that time, very few investors used social and environmental factors to make investment decisions, or to vote their proxies. Today, however, investors managing \$60 trillion have endorsed the United Nations-supported Principles for Responsible Investment, which includes commitments to use environmental, social and governance factors in the investment process and to engage with companies on these issues. The CDP gathers information from corporations about climate change, deforestation and water usage on behalf of investors managing \$100 trillion.

During the second quarter, Domini worked closely with other responsible investors and NGOs to seek consensus, and were pleased to share our views as a panelist on several webinars to help get the word out about this important opportunity. We also provided comments to letters submitted on behalf of large investor coalitions. In July, we submitted our own letter, expressing our strong support for mandatory sustainability reporting, including specific indicators on climate change, human rights, employee relations and more. We also signed a letter submitted by Ceres on behalf of 45 institutions representing \$1.15 trillion, addressing climate change disclosures. As a member of the UN PRI's Investor Taskforce on Tax, we also ensured that the SEC received our report on international corporate tax practices.

Although we do not expect immediate action by the SEC, we hope to ensure that it no longer ignores investors' need for comprehensive, reliable sustainability information.

<sup>1</sup> As You Sow (AYS) found Domini to have a 100% rate of opposition to "overpaid CEO pay packages," based on 27 votes we cast, out of a universe of 100 companies selected by AYS (The Fund did not hold the remaining 73 companies). Mutual fund voting data was sourced from Fund Votes, which covers approximately 110 fund families, including the largest fund groups by assets under management, well-known brand names, and a number of SRI mutual fund families. Funds that had less than 25 votes at the representative companies were excluded from the list.



## **Fiduciary Duty**

Last year, after roughly six years of engagement by Domini, Trillium Asset Management, US SIF: The Forum for Sustainable and Responsible Investment, and our allies, the U.S. Department of Labor withdrew a legal bulletin that discouraged fiduciaries from considering the social or environmental impacts of their investments. During the quarter, we were pleased to participate in an invitation-only roundtable discussion at the White House with **Secretary of Labor Thomas Perez**, to discuss what the Department could do to further the practice of responsible investment. At the meeting, we reiterated our request that the Department withdraw an additional bulletin which placed improper obstacles in the way of responsible proxy voting and corporate engagement by investors. Secretary Perez assured us that he is working on it.

## **Fossil Fuel Divestment**

Last year, we published on our website our policy on fossil fuel production companies, in light of the significant moral and financial questions raised by climate change.\* This year, we took a step further, encouraging several public pension funds to follow suit. We traveled to Albany to testify in support of the Fossil Fuel Divestment Act (S.5873/A.801 I), which would require the **New York State Common Retirement Fund** to divest from fossil fuel companies, provided testimony to a subcommittee of the **Vermont Pension Investment Committee** on the topic of fiduciary duty and fossil fuel divestment, and testified before the **Somerville Retirement Board**, Somerville, Massachusetts, in support of divestment.

## **Climate Change**

In conjunction with the annual US SIF conference, we participated in a small meeting at the **Council on Environmental Quality** to discuss the Obama administration's progress and priorities on climate change and how investors could support those efforts.

## **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](http://www.domini.com) or call 1-800-582-6757 to learn more.

\*We exclude companies that are substantial owners and producers of oil or natural gas reserves and are included in the *Integrated Oil & Gas or Oil & Gas Exploration & Production* Industries as defined by the Global Industry Classification System (GICS), as well as companies significantly involved in coal mining. Visit [www.domini.com](http://www.domini.com) for more information.

Domini Social Investments LLC, Clean Yield Asset Management and Trillium Asset Management are unaffiliated.

As of June 30, 2016, these companies represented the following percentages of the Domini Social Equity Fund's portfolio: 3M Co. (<0.01%), Alphabet Inc. (Google) (3.08%), Amazon Inc. (3.39%), AT&T Inc. (0.56%), Best Buy Co. Inc. (<0.01%), Chipotle Mexican Grill Inc. (1.11%), Coca-Cola Inc. (<0.01%), Facebook Inc. (1.55%), First Solar Inc. (<0.01%), Home Depot Inc. (<0.01%), HP Inc. (0.53%), Microsoft Corp. (4.65%), Morgan Stanley (<0.01%), Nucor Corp. (0.35%), Starbucks Corp. (<0.01%), Target Corp. (<0.01%), United Parcel Service (<0.01%), Verizon Communications Inc. (2.25%), Whole Foods Market Inc. (<0.01%), and Yahoo Inc. (<0.01%). LinkedIn Inc. was not held by the Fund. The composition of the Fund's portfolio is subject to change.

The Domini Social Equity Fund is not insured and is subject to market risks, such as sector concentration and style risk. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. You may lose money. This information is provided for educational purposes only, and should not be considered investment advice with respect to any of the holdings listed.

**You should consider the Domini Funds' investment objectives, risks, charges, and expenses carefully before investing. Obtain a copy of the Funds' current prospectus for complete information on these and other topics, by calling 1-800-582-6757 or online at [www.domini.com](http://www.domini.com). Please read it carefully before investing or sending money.**