

2021

OVERVIEW

Domini Impact Investments has prioritized addressing the global challenge of deforestation and reforestation and the systemic risks it poses. Unsustainable dynamics can cause dire and unpredictable disruptions in the systems that underlie our investments and must be addressed at a systemic scale. Forest-related systemic risks and opportunities are key to our investments: they are directly related to our ability to address climate change as it is estimated that deforestation is responsible for 15 percent of all greenhouse gas emissions, while reforestation can be a major carbon sink.¹ We seek to improve current dynamics to create stable, prosperous conditions for our portfolios.

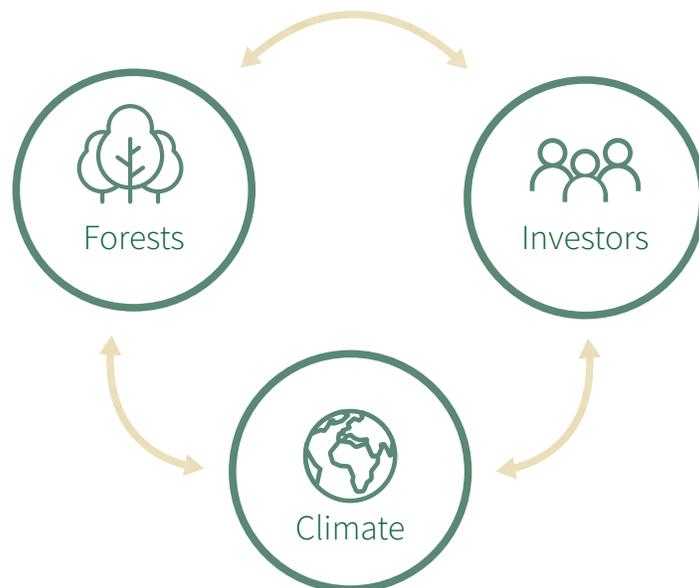
To account for and manage these potential risks and rewards, Domini is exploring an intentional, integrated program of solutions creation. The traditional tools of finance cannot contend with the current degree of disruption and uncertainty implicit in today's risks, which are without historical precedent, as discussed below. A systemic approach is necessary to comprehend the complexities of today's challenges.

In 2017, Domini began this pilot project because continued deforestation is becoming a macro-risk that affects investments across asset classes. Current investment practices have the potential to exacerbate these disruptions and adversely affect macro-systems. As part of the investor community, we can help address the dynamics causing deforestation and promote reforestation to augment the health of our portfolios and of these systems we rely on to create value.

GENESIS OF A NEW APPROACH

At Domini, we have always understood that our investments have impact and taken steps to create positive effects. Yet, as economies and societies become more complex and interconnected, so do macro-risks. Our management of these risks must therefore also evolve. As the financial crisis of 2008 demonstrated, management of portfolio-level risks are no longer enough in today's interconnected world. The financial crisis posed non-diversifiable risks that affected all asset classes. Climate change creates similar non-diversifiable systemic risks, as do other challenges such as rising inequality, technological disruptions, and biodiversity loss.

In 2018, as our initial foray into this territory, we created an Investment Belief Statement that delineated our understanding of investors' relationship to systemic risks such as climate change, water, community wealth creation and biodiversity. Initial work we did in these focus areas clarified our need to develop a robust theory of change and focus in-depth on a single area of systemic risk. Consequently, in 2019 we concentrated solely on forest-related risks and rewards to thoroughly develop our system analysis and action framework.



THEORY OF CHANGE

In our initial work, we found that a key source of unsustainable dynamics in forests-related investments is a focus on short-term value extraction at the expense of long-term value creation. Although investors can perpetuate this dynamic, they can also take responsibility for finding pathways to positive change. This approach to value is reflected in our policies and practices, including our Investment Belief Statement, investment standards, key performance indicators, engagements, and approaches to evaluation of investment risks and opportunities.

We believe that investors, including ourselves, can catalyze change in ways that supplement traditional investment practice through the intentional adoption of activities that seek to manage systemic risks and rewards. For forests, we have mapped a range of possible interventions based on tactics' potential effectiveness and impact targets.

Our tools broadly fall into the following categories:

- Allocation of assets
- Setting of investment standards and discussion of processes
- Communication of data and case studies of risks and reward opportunities
- On-going engagement with a broad range of corporations and providers of investment opportunities
- Collaboration with peers
- Support for public policy, governance, and enforcement
- Development and amplification of best practice
- Creation of metrics to measure and act on indicators of forest-system health

These tactics help to create alignment of interests among stakeholders within forest systems and creation of new linkages between these actors. Our project hypothesizes that interventions that do this will shift dynamics within the global forest system.

GOALS

Our overall goals for systems change, below, are based on our Forest Beliefs and Principles, found in **Report 2**.



GOALS FOR INVESTORS

Investors recognize, account for, and steward the forests as sources value in their portfolios and sources of climate stability.



GOALS FOR CORPORATIONS

Corporations steward and enhance forests to enhance the long-term stability of their own operations.



GOALS FOR THE GLOBAL FOREST SYSTEM

Sustainable and positive reinforcing dynamics exist between forest systems and investors and corporations, halting and reversing forest loss and degradation.

1. WWF Website, "Forest Habitat" Accessed at <https://www.worldwildlife.org/habitats/forest-habitat>. WWF (webpage). Accessed at <https://www.worldwildlife.org/habitats/forest-habitat> on September 11, 2020.

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