

2021

Domini's forest focus seeks to address the challenge of global deforestation and reforestation. We answer two questions relating to factors that enable us to address this issue: consensus on its importance and our experience and expertise in this area.

 **Consensus** - Has this challenge been subject to widespread analysis resulting in a reasonable global consensus as to its importance in the maintenance a stable, sustainable, and productive environment and society?

 **Effectiveness** - Do we have the experience, expertise and resources to achieve material, positive impact?

 **Relevance** - Is this challenge material to our investment decision-making and returns across all asset classes?

 **Uncertainty** - Do this challenge's fundamental uncertainties require the application of tools beyond those of traditional risk management—i.e., beyond portfolio diversification, hedging techniques, etc.?

See Report Section 5 for the answer to the Relevance and Uncertainty questions

CONSENSUS

Has this challenge been subject to widespread analysis resulting in a reasonable global consensus as to its importance in the maintenance a stable, sustainable, and productive environment and society?

Forests are a valuable, indeed invaluable, resource for human well-being.

Forests are directly tied to global climate systems, serving as a carbon sink and regulating heat and moisture. Their loss is changing global rainfall and temperature patterns, with potentially dire consequences for agricultural productivity. Spurred by advancing climate change, investors, NGOs, corporations, and governments are seeking avenues to slow or reverse deforestation. The four forest-risk commodities, palm oil, cattle, soy, and wood and paper products, are primary targets for forest initiatives, as they contribute to forty percent of tropical deforestation.¹

Investors recognize that value and the need for its preservation. Investors have joined with others to help preserve the value that forests provide in assuring sustainable returns.

Although with little follow up in practice, fifty-three companies including institutional investors have pledged to eliminate deforestation in their operations and supply chains by 2020 as part of the 2014 New York Declaration on Forests. The declaration was signed by over 190 national and subnational governments, multinational companies, Indigenous communities, and nongovernmental organizations who seek to end forest loss by 2030.

A “no-deforestation” goal (#15) was adopted in 2015 as part of the UN Sustainable Development Goals (SDGs). This goal's underlying target number two stipulates that “by 2030, [countries should] promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally.”

Investors are increasingly aligning themselves with the SDGs. Forests' impact is explicit or implicit in seven of these 17 goals. This overlap highlights how crucial forests are to the attainment of the sustainable development necessary for a stable and prosperous 21st century. The following table highlights the many linkages between forests and the SDG.

SDG RELATIONSHIP TO FORESTS		
Forest Impact Area	Related SDG	
Forest cover and management as it relates to global biodiversity	Goal 15, Life on Land	
Carbon sequestration	Goal 13, Climate Action	
Protection of rural and Indigenous livelihoods and traditional ways of life	Goal 1, Reducing Poverty Goal 10, Reducing Inequalities	 
Biodiversity as a source of disease control and medically-useful compounds	Goal 3, Good Health and Well-being	
Impact on agricultural viability and food security and as safety net sources of food and nutrients	Goal 2, Hunger	
Increased resource efficiency, agricultural intensification and use of recycled materials	Goal 12, Responsible Consumption and Production	

An industry-led moratorium on soy associated with Amazon deforestation had success in reducing forest loss. Efforts now focus on soy-linked deforestation in the Cerrado biome. In March 2019, a coalition of investors representing \$6.3 trillion in assets under management signed a statement of expectations on deforestation in soybean supply chains, urging companies to consider deforestation in non-Amazon biomes, including the Cerrado and Gran Chaco. Work is underway to develop a mechanism to pay soy farmers to reforest or avoid deforestation on parts of their land. Considerable investor and consumer attention has also focused on the large-scale deforestation linked to palm oil plantations in Indonesia, contributing to momentum behind certification for palm oil under the Roundtable for Sustainable Palm Oil (RSPO).

EFFECTIVENESS

Does Domini have the experience, expertise and resources to achieve material, positive impact?

Domini has worked through multiple avenues to address forest-related issues over the past decade.

For more than two decades, Domini, alongside other investors and partners, has worked to mitigate deforestation through a variety of initiatives. These have given us the experience and expertise upon which to build in our current work.

APPLICATION OF FOREST-RELATED KEY PERFORMANCE INDICATORS

In our company analysis we include industry-specific, forest-related key performance indicators (KPIs). Our Forest Product, Pulp & Paper and our Packaging sub-industries, for example, include KPIs such as

- Percentage of forestland certified under such programs as the Forest Stewardship Council Stewardship Forestry Initiative (positive), Sustainable Forestry Initiative (neutral), and Programme for Endorsement for Forestry Certification (neutral).
- Numerous companies that perform poorly on various KPIs have been excluded from our approved universe of stocks for our US and International funds. A Japanese pulp and paper company, for example, was excluded for not banning use of High Conservation Value Forests leading to its sourcing of primary forest wood from Tasmania, Australia, for use in wood chips.

INFORMATION-SHARING THROUGH WHITE PAPERS, ISSUE BRIEFS, IMPACT REPORTING

We promote communications to other investors about tools that can help identify and support forest-related value creation. We have, for example:

- “In the Domini 2019 Impact Report, explained the Forest Project and rationale for our Focus on Forests. <https://domini.com/insights/domini-2019-impact-report-release/>
- Published an article, “Valuing Forests: why investors must wake up to deforestation” addressing investors and forest risk on CDP’s blog in February 2018.
- Spoken on panels at major industry events about forest risk and our work and tools to create value. In 2016, Domini gave the keynote address for the launch of CDP’s 2016 Global Forest Report at the London Stock Exchange and spoke about forestry crime at INTERPOL headquarters.

CORPORATE ENGAGEMENT THROUGH DIRECT DIALOGUE, PUBLIC SIGN-ONS, PROXY VOTING, AND SHAREHOLDER PROPOSALS.

We have collaborated with other investors in dialogues and filed shareholder resolutions with corporations on deforestation matters. For example, we have:

- Encouraged companies to source sustainable palm oil and filed shareholder proposals with companies that source palm oil and other forest-risk commodities, prompting them to update their supply chain policies, increase public reporting, and join certification bodies, including the Roundtable on Sustainable Palm Oil (RSPO). Several of these companies now have time-bound commitments to source 100% certified oil.
- Voted our proxies on forest-related issues in line with our proprietary proxy voting guidelines that support sustainable forestry practices.

VOLUNTARY INDUSTRY STANDARDS

We support other investors and non-profit environmental organization working to develop voluntary industry standards on sustainable forestry practices. We have, for example, worked with:

- RSPO to strengthen their standards, submitting comments on their 2018 Principles and Criteria review, which set its standards for the next five years.

- Rainforest Action Network and Green Century Capital Management to send a letter on behalf of 101 institutional investors managing more than \$3.2 trillion to RSPO's Complaints Panel, calling on RSPO to implement a more transparent and responsive complaints mechanism to properly uphold the credibility of its certification system. RSPO members voted overwhelming in favor to strengthen their standards.

AMPLIFICATION THROUGH COLLECTIVE ACTION.

We have worked in collaboration with coalitions of investors and civil society groups to facilitate development of best practice on forest-related challenges and increase impact. We have, for example, worked with:

- Rainforest Action Network and Friends of the Earth to engage in dialogue with a major beverage and snack-food company related to its palm oil sourcing practices. Prompted by our questions, the company amended its published list of suppliers to note that it had suspended purchases from one accused of human rights violations during 2017.
- Coalitions organized through the Interfaith Center on Corporate Responsibility and the UN Principles for Responsible Investment (PRI) on soy- and beef-related deforestation in supply chains, including signing investor statement of support for the Cerrado Manifesto, related to deforestation in that biome, an investor expectations statement on deforestation in soybean supply chains as part of the PRI and Ceres Investor Initiative for Sustainable Forests. Participation in the Finance for Biodiversity Pledge and the Investor Policy Dialogue on Deforestation.

These initiatives have laid the groundwork for our current initiative that builds on the knowledge and expertise we have gained over the years. With intentionally targeted initiatives. We hope to more rapidly address systemic risks and create desirable outcomes.

1. The State of the World's Forests 2020: Forests, Biodiversity and People. Rome: Food and Agriculture Organization of the United Nations, 2020. Accessed October 13, 2020. <https://doi.org/10.4060/ca8642en>.

For more information please visit domini.com

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