



Domini Forest Project

Goals by Themes and Leverage Points

December 2022

This document provides a summary of seven themes that Domini believes lie at the heart of the current dynamics that are contributing to systemic risks for forests and related lands, risks that can impact investors across their asset classes. Each of these themes centers around a challenge requiring a change in mindsets that is necessary for current forest-related systems to generate more desirable outcomes. In seeking to manage these systemic risks, we have identified leverage points within the system that we believe can facilitate changes in thinking and set aspirational goals for steps that we as investors might take to exercise influence at these leverage points.

Theme One

Responsibility for Long-term System Health

The Challenge

Forests and related lands can play a crucial role in addressing global systemic challenges such as climate change, biodiversity loss, soil degradation, and abuses of the rights and cultures of Indigenous peoples. Investors' policies and practices have potentially positive or negative impacts when confronting issues such as these that can in turn favorably or adversely impact their investment opportunities. Preserving and enhancing the health, stability, and resilience of foundational systems such as these can play an important role in confronting these challenges.

Theory of Change

A change in mindset is necessary if the systemic risks and rewards of forests and related lands are to become a part of investors' best practice. To begin with, investors will need to acknowledge the general usefulness of a systemic approach. In addition, although acknowledging the need to address climate change as a systemic risk, relatively few consider the role of forests and related lands.

Approach and Leverage Points

Among the leverage points that can help address this challenge are the following.

- Promotion of awareness among institutional investors of the importance of managing system-level risks and rewards generally and of forest-related lands specifically.
- Encouragement of a similar shift in perspective in the corporate world.

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Short- and Medium-term Goals

In its approach to these leverage points, Domini has two short- and medium-term goals.

- Acknowledgement of our own commitment to a system-level approach with a specific focus on forest-related lands through our communications on our website, impact reports, and public speaking.
- Support of the work of organizations committed to building the field of system-level investment and of those incorporating forests and related lands into that approach.

Long-term Goal

In the long term, our goal is to see public commitments by both investors and corporations to a system-level approach in general and to forest-positive initiatives in particular.

Theme Two

Metrics, Measurement and Intangible Value

The Challenge

Investors and corporations typically fail to account for the intangible value of forests and related lands and conversely for the difficult-to-quantify costs of large-scale deforestation, loss of biodiversity, global erosion or degradation of arable soils, and abuse of Indigenous peoples' rights and cultures. Accounting for the current and future value of these lands is therefore a challenge, given their varying use and the imprecise and uncertain nature of measurements and metrics in the evaluation of these long-duration services.

At the same time, the short-term market value of these lands can often be precisely determined. Balancing short-term price-based valuations against the long-term intangibles provided by these lands can be difficult. Frequently, decision-making tips in favor of the short term in such situations, giving short shrift to those intangibles often essential to system-level health and resilience.

Theory of Change

A greater knowledge of and appreciation for the intrinsic value of forests and related lands to the health and preservation of foundational systems can help tip the scales back toward more evenly balanced approaches by investors and corporations. Although the intrinsic value of these systemic elements can be difficult to assess, dramatizing the great uncertainties and potentially devastating impacts of their total loss may help in this regard. In addition, continuing efforts to assign at least broad ranges of market-based value to intrinsic natural capitals and imprecisely definable ecosystem services can also be useful.

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Approach and Leverage Points

Among the leverage points that can help address this challenge are the following:

- Acknowledgement of the importance of “unpricable” intrinsic worth of forests and related lands and the importance of that worth despite the difficulties in translating it into market price.
- Scenario building and analysis in which the potential impacts of the future total loss of forests, biodiversity, arable soil, and the ways of life of Indigenous peoples are taken into account.
- Development of examples of best practice in decision making in situations when the intrinsic value of forests conflicts with their market value.

Short- and Medium-term Goals

In its approach to these leverage points, Domini has three short-term goals.

- Deepen our knowledge of best practices regarding current valuation methods involving ecosystem services and intrinsic value regarding forests and related lands.
- Collaborate with or otherwise support organizations working on these valuation methods.
- Share our understanding with our peers in the investment community as well as the corporate world.

Long-term Goal

In the long term, our goal is to contribute to the development of a consensus around best practice in valuation methods for the intrinsic and ecosystem values of forests and related lands.

Theme Three

Transparency and Disclosure

The Challenge

Recent years have seen a rapid increase in the disclosure of data relating to the policies and practices of investors and corporations in regard to forests and related lands. Organizations such as CDP, Global Reporting Initiative, Sustainability Accounting Standards Board, Global Canopy, and others have become sources of important forest-related data. The availability of such data is a prerequisite for action ending the current trend toward deforestation and for promoting reforestation and the restoration of degraded lands.

Progress has also been made in persuading investors and corporations to pledge to eliminate deforestation from their operations and those of their suppliers. Challenges remain, however, in translating this data and these pledges into effective action. For example, the 2014 New York Deforestation Pledge was launched with endorsements from corporations, governments, non-governmental organization, and alliances of Indigenous peoples. These signatories set goals of

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cutting the rate of deforestation in half by 2020 and eliminating it by 2030. The results were disappointing.¹

Theory of Change

Advocates of voluntary initiatives to correct market failures have long viewed disclosure as an effective alternative to government regulation. In theory, when markets are fully informed, they will incorporate data into market prices. Markets, now correctly priced, will find a new equilibrium that addresses their initial failures.

In practice, achieving disclosure is often the starting point not the finishing line in addressing those systemic social and environmental challenges of the magnitude of climate change and biodiversity loss, among others. The challenge here is understanding how transparency and disclosure can be put to practical use. Overcoming the obstacles to desirable outcomes for these systems requires sophisticated practical and political knowledge in addition to reliable data.

Approach and Leverage Points

Among the leverage points that can help address this challenge are the following.

- Support for the uses of data currently available to identify corporations substantially involved in deforestation and similar value-extraction activities.
- Identification of best practices by those using data currently available to bring about the protection and enhancement of forests and related lands and the management of their systemic risks.

Short- and Medium-term Goals

In its approach to these leverage points, Domini has two short- and medium-term goals.

- Use the data and guidelines developed by Global Canopy to identify deforestation risks related to four agricultural products often associated with deforestation.
- Use the data currently available to identify best practices among financial institutions and corporations in other relevant industries that can lead to value-creation with respect to forests and related lands. This effort is a continuation of our Value Creators project started in 2019.

Long-term Goal

Domini's long-term goal is that adequate amounts of forest-related data becomes the basis for effective actions by the financial industry for the slowing and reversing of forest loss, the increased percentage of agricultural lands managed according to regenerative agricultural principles, and the protection of the rights and cultures of Indigenous peoples historically associated with such lands.

Theme Four

Sustainable Supply Chains and Demand

The Challenge

The demand by a large, prosperous, global consumer base for affordable food is driving deforestation into the supply chains of agricultural-products firms around the world. Raising cattle for beef and planting soy for the feedstocks of chickens, cattle, and hogs are in large part responsible for this phenomenon. A third driving force is the use of palm oil in food and other consumer products. This demand generates the need for more land cleared from existing forests and exacerbates agricultural practices threatening soil health and creating other environmental damage. The challenge is how to provide an adequate supply of affordable food without continuing deforestation and degrading healthy soils.

Theory of Change

Moderating demand would help, particularly demand for meat. Approximately half of the Earth's habitable land is now devoted to agriculture. Of that land, just over three-quarters is taken up by livestock and the crops that feed them.² Deforestation could be reduced if land currently devoted to livestock could be devoted to other food crops less demanding of lands than livestock.

Approach and Leverage Points

Among the leverage points that can help address this challenge are the following.

- Lessening of demand from consumers and institutions for deforestation-related food products. An increasing world population with a rising standard of living is a formidable obstacle to this approach, although a general reduction of per capita meat consumption is possible.
- Increasing the yields of lands devoted to regenerative agriculture. This approach could capture the benefits of healthy soil, carbon sequestration, and biodiversity without requiring conversion of additional forest lands.
- Pressuring commodity traders to address deforestation among their suppliers.
- Supporting legislation that mandates governments give preference in purchasing to suppliers with no-deforestation policies and practices.

Short- and Medium-term Goals

In its approach to these leverage points, Domini has five short- and medium-term goals.

- Raise awareness current patterns of land use in food production and the predominance of land used for livestock.

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- Engage with commodity traders to eliminate deforestation from their supply chains.
- Support government preferential purchasing programs.
- Promote regenerative agriculture practices, including those by small landholders.
- Advocate for continuation of the low-impact subsistence living of Indigenous peoples who make up five percent of the world's population.

Long-term Goal

Increased demand for products from sustainably managed lands.

Theme Five

Due Diligence in Lending, Underwriting, and Insurance

The Challenge

Growing numbers of financial services companies in banking, insurance, and investment recognize the need to incorporate climate-related assessments in their due diligence and credit analyses. One indication of the strength of this trend is the success of the Glasgow Financial Alliance for Net Zero (GFANZ) with its more than 500 financial services members. At the same time, these companies recognize that meeting their “net-zero” targets is a complex and challenging task. In particular, it will require changes not only in certain of their fundamental business practices but also in those of many of the industries to which they provide financial services.

Forests and related lands can play an important role in sequestering carbon and supporting biodiversity. The challenge for those in the financial community is how to encourage the transition to viable new business models that address climate risks, biodiversity loss, degradation of soil, and the abuse of Indigenous peoples and small landholders.

Theory of Change

Acknowledgement by the financial industry of the crucial role that forests play in climate and related risks is a crucial first step in transitioning their own business practices as well as those of their clients. Once recognized, this factor can then be incorporated into their due diligence and credit analysis for forest-risk and forest-positive lending. In addition, the underwriting standards by investment banks and the premium setting by the insurance industry can then incentivize value-creating forest-related policies and practices.

Approach and Leverage Points

Among the leverage points that can help address this challenge are the following.

- Delineation and quantification of financial risks associated with climate change and biodiversity loss, degradation of arable soil, and abuse of Indigenous peoples' rights and culture.

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- Expectation that best practice in the financial industry includes due diligence on these risks and incorporates forest-positive factors.

Short- and Medium-term Goals

In its approach to these leverage points, Domini has three short- and medium-term goals.

- Identify best practices in due diligence specific to banks, insurance companies, and investors regarding forest and related lands.
- Promote examples of best practices in action and the rewards that can stem from these practices.
- Encourage consensus in financial community on the importance of these best practices.

Long-term Goal

Domini's long-term goal is that the financial services industry adopts as general practice the incorporation of forest-related factors—especially with regard to climate- change risks—into its due diligence assessments. In addition, we hope to see a financial industry that confronts the difficult questions of need for business-model changes in the face of climate- and forest-specific risks.

Theme Six

Government Regulation and Enforcement

The Challenge

Through legislation and regulation, governments can encourage forest-positive projects and discourage value-destroying practices. Because of the vagary of political processes, governments' support for and enforcement of forest-positive measures can be neglected or undone once enacted. In addition, investors and corporations, failing to recognize an alignment of interests, can react negatively to perceived governmental interference in their affairs. Strong, ongoing, well-implement and rigorously enforced forest-positive laws and regulations can help investors reach forest-positive goals including those relating to climate change, biodiversity loss, soil erosion and degradation, and the rights of Indigenous people and small landholders.

Theory of Change

Acknowledgement by investors and corporations of the case for strong forest-positive governmental policies and enforcement can facilitate the protection and enhancement of forests and related lands. In certain circumstances, new regulations may not even be needed. Well-conceived regulations can contribute to the resilience of environmental systems and to their long-term stability and wealth-creation potential. Investors and corporations can play a positive role in encouraging effective laws and regulation.

Approach and Leverage Points

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One leverage point that can help address this challenge is the following.

- Intervention in the legislative or regulatory process when forest-positive policies and their enforcement are at stake.

Short- and Medium-term Goals

In its approach to this leverage point, Domini has two short- and medium-term goals.

- Understand and promote governments' ability to address systemic risks relating to climate change, biodiversity, and forests.
- Work in coalitions of our peers to express our concerns to government in these areas.

Long-term Goal

Ultimately, our goal is to see the strengthening of forest-positive legislation and regulation become a norm.

Theme Seven

Alignment of Interests

The Challenge

Laws and regulation are not sufficient to change practice if the interests of key stakeholders are in conflict. Misaligned interests can arise between investors and corporations, big government and local communities, the disenfranchised and those in power, value-creators and wealth extractors. These conflicts can lead to political disruption and legislative paralysis. They can derail attempts to address climate change and to confront forest-related challenges.

Theory of Change

Aligning interests across stakeholder groups—including investors, corporations, environmental advocates, government, communities, labor organizations, and Indigenous peoples—requires communications that foster mutual understanding and trust. Reaching agreements on contentious issues among key stakeholders may be difficult, but it helps ensure the viability of undertakings requiring compromise and concern for others.

Approach and Leverage Points

Among the leverage points that can help address this challenge are the following.

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- Identification of key stakeholders in situations of conflicting interests involving forests and related lands.
- Reasonable expectations for the outcomes from dialogs among these stakeholders.
- Trust built through the resolution of conflicting interests in specific, limited situations.

Short- and Medium-term Goals

In its approach to these leverage points, Domini has two short- and medium-term goals.

- Understand how and when alignment of interests has and has not previously been achieved in situations of conflict centered on forests and related lands.
- Determine what role, if any, we might usefully play in such situations in the light of these past experiences.

Long-term Goal

In the long run, Domini would like to participate in the process of, or otherwise support, the alignment of interests in select cases involving forests and related lands.

¹ NYDF Assessment Partners (Climate Focus, editor). *Protecting and Restoring Forests: A Story of Large Commitments yet Limited Progress. New York Declaration on Forests Five-Year Assessment Report* (2019).

² Our World in Data website page “Land Use” Accessed at [Land Use - Our World in Data](#) on July 29, 2022.

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