Domini

Domini Impact Investments

Investment Policy Statement: Eliminating Commodity-Driven Deforestation

May 2023

This Investment Policy Statement on Eliminating Commodity-Driven Deforestation provides details on our policies and practices concerning certain commodity-related risks and opportunities for our portfolios as well as at a system level. It complements our Impact Investment Standards that guide our overall investment analyses and processes and helps us address the challenges of deforestation.

We manage these risks and opportunities through two broad strategies. First, at a portfolio level we seek to limit the direct material deforestation risks of our holdings. Second, at a system-level we seek to influence industry and societal norms and practices so as to generate forest- and nature-positive outcomes from the start.[1]

Our portfolio-level goal is to invest in companies free of the greatest material exposures to deforestation risks as well as firms with forest-positive practices. At a system level, our goal is to undertake a comprehensive range of initiatives that positively influence the system of the global management of forests and related lands in ways that generate positive outcomes.

Historically, we have tended to avoid inclusion of companies with the most direct, substantial material deforestation business-model risks in our portfolios, although involvement in deforestation does not automatically trigger exclusion. In addition, for those firms with indirect risks—i.e., risks not in their primary business model but in their supply chain—we have historically used engagement to address substantive controversies or to identify and encourage best practices that can set high standards for their industries.

In 2018, we initiated our Forests Project through which we seek to deepen our forest-related research, enhance our engagement with specific firms, and increase our use of techniques designed to exercise positive influence at system levels. We believe that we can strengthen our long-term investment opportunities by doing so. Specifically, healthy, resilient forests are an important part of our broader strategies for contending with the impacts of climate change and biodiversity loss on land, which are systemic risks increasingly faced by our investments across asset classes. Forests can moderate climate-related extremes, provide a crucial store of and sink for carbon, and are the site of many of the most biodiverse regions on land.

[1] By forest-positive outcomes we mean those that preserve or enhance the tangible and intangible value of forests and forest-related lands. We group these lands in six categories: Intact Forests; Planted Forests—Mixed Species; Planted Forests—Monoculture Plantations; Agricultural Lands; Green Spaces—Large; and Green Spaces—Small. By nature-positive outcomes we mean those that enhance the often difficult-to value natural capitals of forests and related lands as a result of investors' intentional initiatives.

In keeping with these goals, we became a signatory of the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation ("CL") along with over 30 other financial services firms in November 2021.

Our policies for managing portfolio risks and for influencing current societal and environmental norms at a system level are described here. Part One addresses those at the portfolio level. Part Two provides details on techniques we believe can be effective at a system level. As of 2023, these policies apply to all our equity funds but not our fixed income fund.

Part One: Portfolio-level Tools for Management of Risks and Opportunities—Domini Domestic and International Equity Funds

Goals for management of portfolio-level risks and opportunities. Consistent with the forest-related priorities outlined in our Impact Investment Standards, we have twin forest-related goals for our equity funds.

We seek to maintain portfolios that limit our holdings in companies with business models that expose them to substantial material deforestation risk without having taken credible steps to address those risks.

In addition, we seek to hold companies that have credible forest-positive initiatives in place that address direct or indirect forest-related risks to their business models and in their supply chains.

By companies whose business models pose substantial direct deforestation risks we mean those that depend on forest-related lands to execute their daily operations and simultaneously have business practices that negatively impact the viability of these same lands. We call these "impact-and-depend" companies. Failure to manage their direct deforestation risks can negatively impact these firms' businesses and hence can be of material concern to investors such as ourselves.

Companies may also be exposed to human rights challenges related to forests and land use including those of labor rights, child labor, and migrant workers' conditions. Consequently, we seek to avoid those firms that we believe are not making credible progress toward managing these risks through adoption of policies and practices impacting their direct operations and supply chains.

Among firms that have substantial direct deforestation risks are those that produce the four agricultural commodities addressed in the CL: beef, palm oil, soy, and pulp and paper. We also are concerned with the forest-related risks of those producing rubber, cocoa, coffee, tea, timber, lumber, leather, and the like, as well as food crops in general. Of additional concern are deforestation and land-use risks related to natural resource extraction firms—primarily mining and fossil-fuels extraction.

Other companies may have indirect deforestation risks. By indirect we mean one of two things. First, they may source from "impact-and-depend" firms. In this case, they can potentially influence the policies of impact-and-depend firms, directing them toward forest-positive goals.

Among those firms involved in sourcing are some whose business models are so closely associated with those of direct producers that we also consider them high risk and hence of “direct” concern. These include food commodity traders, distributors, and retailers.

Second, they may be financial services firms in the insurance, banking, or investment industries whose products and services support the activities of impact-and-depend firms. We typically focus on these firms’ lending and other financial-product policies in our considerations of the extent of their exposure to commodity-driven deforestation risk and the extent to which it may influence our decisions as to their approve for possible inclusion in our portfolios or to engagement with them.

Engagement strategies for managing portfolio-level deforestation risks. We may engage with companies among our holdings that have direct or indirect exposure to deforestation risks, including those sourcing from or financing impact-and-depend firms. We adopt three primary strategies in engaging with these companies.

First, we focus engagement on companies among our holdings that we believe may make credible progress toward adoption and implementation of effective no-deforestation policies.

Second, as of 2023 we have joined with other CL signatories as part of the Financial Services Deforestation Action (FSDA) working group to address these risks among our holdings. We may lead or support in these in-depth engagements. Domini has long collaborated in similar stockowner dialogues and the filing of shareholder resolutions through efforts coordinated by the Interfaith Center on Corporate Responsibility, Ceres, and the like. We believe collaborative engagement of this sort strengthens our voice in addressing company-specific deforestation risks.

Third, we may also identify for engagement additional companies on our approved list that we believe are well-positioned to implement credible and substantive forest- and nature-positive policies and practices.

In addition, we consider our proxy voting policies and practices as a potentially effective engagement tool. We therefore regularly review our forest-related guidelines to reflect new concerns and in certain cases communicate with management on the reasons for our specific votes.

Timelines

We have aligned certain of our timelines with the following as specified in the CL

- By year-end 2023, we will report on our assessment of the direct and indirect exposure to deforestation risks among our holdings. These will include those companies exposed to the forest-risk agricultural commodities: beef, palm oil, soy, and pulp and paper.
- By year-end 2024, we will report on our deforestation risk and mitigation activities, including due diligence and engagement. By that time, we will also report on forest-positive best policies and practices among our companies, with an emphasis on companies in the finance, food, and forest products industries.
- By year-end 2025, we will report on our efforts to ensure that those companies among our holdings exposed to direct deforestation risk through their business models have made

credible progress toward management of those risks. We will similarly report on our efforts to ensure that those companies on our approved list exposed to direct deforestation risk through their supply chains or financing activities have made credible progress in management of those risks as well.

Part Two: System-level Techniques for Management of Risks and Opportunities

Goals for management of system-level risks and opportunities. We believe that system-level risks and opportunities have an impact on our portfolios and that, through non-portfolio-related initiatives, we can contribute to the overall management of those systemic risks and to the enhancement of the opportunities they can create.

For example, in the context of forest-related lands, systemic destruction or degradation of arable lands impacts companies in the agricultural products industries and their supply chains, adversely affecting the economy as a whole. At an ecosystem level, degradation of forest lands' ability to sequester carbon can increase the risks of climate change that in turn impact and disrupt our economy. In addition, biodiversity loss due to the destruction or degradation of forest or agricultural lands diminishes the resilience and adaptability of these lands in the face of external shocks. Forest management practices and agricultural land-use may impact the rights and dignity of Indigenous Peoples, local communities, environmental defenders, small landholder farmers, and other stakeholders, leading to legal, regulatory, or reputational risks for specific firms or entire industries.

Consequently, we seek to manage such risks and enhance investment opportunities for these lands using a variety of techniques designed to address issues including the sequestration of carbon, climate change, and biodiversity loss at a system level. To categorize these techniques, we draw upon The Investment Integration Project's descriptions of ten "advanced techniques" for exercising system-level influence.[2] They fall into three broad categories (field building, investment enhancement, and opportunity generation) and consist of ten techniques (interconnectedness, polity, self-organization, diversity of approaches, solutions, standards setting, additionality, evaluations, locality, and utility).

Field Building

Interconnectedness
Definition—Promotion of dialogue and data sharing and best practices among investment peers relating to the system-level issue in question.

Dialogue and sharing of data and best practices.

[2] Burckart, William and Steve Lydenberg. 21st Century Investing: Redirecting Financial Strategies to Drive System (Oakland, California: Berrett-Koehler) 2022.

- Rationale: We believe that dialogue and the sharing of system-level data and best practices among investment peers strengthens the focus and the impact of their collective ability to promote positive, forest-related outcomes at a system level.
- Initiatives: Therefore, we pursue opportunities to participate as members of such organizations as the Financial Services Deforestation Action working group composed of signatories to the CL. Members of the FSDA publish and share with peers their beliefs and approaches to the management of deforestation risks.

Polity
Definition—Engagement with public policy makers and local officials on the potential risks and opportunities relating to the system-level issue in question.

Participation in engagements with government.

- Rationale: We believe that governmental policies and regulations can be an effective means of bringing about change when deforestation and related challenges become systemic risks.
- Initiatives: Therefore, we pursue opportunities to participate in peer-group public-policy-oriented efforts such as those of the Investors Policy Dialog on Deforestation which seeks to increase its understandings of the nature of governmental policies on deforestation in Brazil, Indonesia, and consumer countries (e.g. U.S., U.K., China).

Support for Indigenous Peoples.

- Rationale: We believe that Indigenous Peoples can be effective stewards of nature and live in harmony with forest lands. At approximately six percent of the world's population, they have legal ownership of ten percent of the world's land and occupy about 20 percent.[3] Their traditional lands contain 80% of the world's biodiversity. They have been identified as stewards of such lands who are as effective or better than government or others.[4] As a consequence, their dignity and rights should be respected and supported in this role.
- Initiatives: We therefore seek opportunities to support the rights of Indigenous Peoples to free, prior, and informed consent when corporations threaten their access to their traditional lands and their ability to preserve their traditional cultures.

Support for preferential purchasing.

- Rationale: We believe that deforestation is frequently driven by demand for agricultural commodities and natural resources. Governmental policies can limit this demand by

[3] Peter Viet and Katie Reytar. "By the Numbers: Indigenous and Community Land Rights". World Resources Institute web page. Accessed at https://www.wri.org/insights/numbers-indigenous-and-community-land-rights#:~:text=Indigenous%20Peoples%20hold%20an%20estimated,largest%20area%20located%20in%20Africa on March 9, 2023.
[4] Ibid. See also The Editors. "Biodiversity's Greatest Protectors Need Protection" Scientific American Editorial October 1, 2021. Accessed at https://www.scientificamerican.com/article/biodiversitys-greatest-protectors-need-protection/#:~:text=The%20home%20ranges%20of%20Indigenous,300%20trillion%20tons%20of%20carbon; on February 16, 2023.

giving preference to the purchasing of products and services from companies addressing deforestation risks.

- Initiatives: We therefore seek opportunities to support proposals for legislation directing local and national governments to give preference to “no-deforestation” and forest-positive purchases.

Self-Organization
Definition—Creation or participation in the leadership of organizations addressing the system-level challenge in question.

Leadership in the creation of forest-related investor-led organizations.

- Rationale: We believe that investor-led organizations seeking to address deforestation risks and enhance forest-positive opportunities can increase the chances of positive systemwide outcomes.
- Initiatives: We therefore pursue opportunities to participate in the conceptualization and founding of investor-led initiatives, such as Nature Action 100 and the Finance for Biodiversity Pledge.

Investment Enhancement

Diversity of Approach
Definition—Application of a variety of system-level tools and techniques to a single system-level challenge of concern.

Application of system-specific tools and techniques.

- Rationale: We believe that the use of a comprehensive set of forest-related tools and techniques can increase the chances of positive outcomes at the system-level.
- Initiatives: We therefore seek to implement a comprehensive set of “advanced techniques” to enhance positive influence and outcomes at a system-level to help manage forest-related systemic risks and opportunities.

Communications of Domini’s full range of forest-related initiatives.

- Rationale: We believe that by communicating the full range of our forest-positive initiatives we can contribute to a culture in which forest-positive beliefs and actions become the norm not only among investors and corporations but also among consumers, policy makers, and society in general.

- Initiatives: We therefore seek effective means of communicating the story of our system-level management of forest risks and opportunities to our investors through quarterly and annual impact reporting and via our website.

Solutions
Definition—Pursuit of solving the system-level challenge in question through changes in fundamental business models, not simply profiting from it.

Business model considerations.

- Rationale: We believe that the management of systemic forest-related risks and opportunities can require changes in the fundamental business models of corporations including those in the financial industry. These business model transitions can be difficult, in part because their initial stages can be costly, but their forest-related value creation can lead to long-term reduction in systemic risks and enhancement of investment opportunities.
- Initiatives: We therefore find it useful to analyze business models, in particular those of the financial, food, and forest industries, to determine what transitions might be implemented to enhance their value creation activities with respect to forests and agricultural lands while still maintaining long-term profitability.

Standards Setting
Definition— Establishment and enhancement of industry-specific social and environmental norms in relation to the system-level issue in question.

Monitoring of and engagement with forest-related standards-setting organizations.

- Rationale: We believe that, given the range of voluntary standards and certification schemes for sustainable forest, agricultural, and related lands, the identification and strengthening of those that have the potential for systemic sustainability impact can be useful.
- Initiatives: We therefore seek better understanding of these voluntary standards and certification processes and the opportunity to provide input into their creation and updating. Examples of such programs include the Forest Stewardship Council, the Roundtable on Sustainable Palm Oil, and those addressing the beef, soy, rubber, cocoa, and other agricultural and natural resource-extraction industries.

Additionality.
Definition—The intentional decision to invest in underserved people and address unmet environmental or social needs or markets.

Establishment of mechanisms to promote effective forest-positive and regenerative-agriculture initiatives that are currently unmet by today's markets.

- Rationale: We believe that, although carbon credit and offset programs have proven controversial and require careful design and monitoring, their potential for positive impact is nevertheless substantial and they can support forest- and nature-positive initiatives.
- Initiatives: We therefore seek to assess the viability and effectiveness of various carbon credit and offset standards relating to forest-positive, regenerative-agriculture, and agroforestry outcomes.

Evaluation.
Definition—Promote and apply understanding of the intangible value of the system-level issue in question.

Inclusion of measurements and metrics that capture the intangible value of forests and biodiversity.

- Rationale: We believe that, although the "business case" for assessing the value of forest-related lands for corporations and financial institutions may be useful for portfolio management, it can be difficult to apply to assessments involving the intangible and difficult-to-price benefits that forest-related lands provide at a system level through carbon sequestration, climate stabilization, and prevention of biodiversity loss.
- Initiatives: We therefore seek to better understand how we might assess the value of these intangibles and promote a culture in which they factor into system-level evaluations. In doing so we may collaborate with academic or non-profit organizations addressing this evaluation challenge, such as the Sustainable Investment Research Initiative at the School of International and Public Affairs at Columbia University.

Promotion of the importance of small green spaces.

- Rationale: We believe that the effective management of small green spaces by corporations and municipalities can play a role in signaling the important but nevertheless intangible value of nature as part of a forest-positive culture. Such a culture can help reduce forest-related risks and enhance investment opportunities.
- Initiatives: We will therefore seek positive opportunities to promote the intentional cultivation of small green spaces by corporations and municipalities as a means of

creating such a culture through "signaling" devices with intangible value such as Miyawaki "mini-forests."[5]

Locality
Definition—Participation in interrelated, region-specific initiatives that enhance the local sustainability and resilience of the system in question.

Exploration of an alignment-of-interests exercise focusing on regenerative agriculture.

- Rationale: We believe that addressing conflicts in alignment of interests among stakeholders when addressing system-level challenges relating to forest lands and biodiversity loss is an often-necessary prerequisite to effective action or regulation. Aligning such interests frequently takes place at local levels and includes stakeholders impacted by the activity. Successful models for such alignments are few and far between.
- Initiatives: We will therefore explore the feasibility of contributing to such alignment exercises. They might, for example, relate to progress in transitioning to regenerative agriculture, just transitions in business models, protection of biodiversity, support for community-driven forest-related sustainability initiatives, and the like.

Utility
Definition—Application of an understanding of how each asset class can most effectively address the system-level challenge in question.

Monitoring and engagement with standards-setting bodies for "green bonds."

- Rationale: We believe that the increasingly popular fixed-income products generally termed "green" or "sustainability" bonds can play a useful role in the funding of corporate, regional, and local nature-positive initiatives.
- Initiatives: We therefore seek to understand what makes for the most credible and effective design of, and standards for, such products with relation to forests and agricultural lands and to communicate that understanding to the submanager of the Domini Impact Bond Fund.

[5] See Mini-Forest Revolution: Using the Miyawaki Method to Rapidly Rewild the World. Hannah Lewis (White River Junction, Vermont: Chelsea Green Publishing) 2022.

Before investing, consider each Fund's investment objectives, risks, charges and expenses. Contact us at 1.800.582.6757 for a prospectus containing this and other important information. Read it carefully.

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