



Domini Forests Project  
Forest Engagement Overview  
June 2023

Healthy forests play a key role in our global ecosystem, climate stability, biodiversity, human health, and the rights and dignity of Indigenous Peoples. The world's forests also store approximately 861 gigatons of carbon.<sup>1</sup> They can serve as an important carbon capture and sequestration technology to reach net-zero (carbon neutrality) goals, if restored and managed appropriately.<sup>2</sup> Despite their global importance, forests are facing increasing threats through deforestation for key agricultural commodities (e.g. palm, soy, paper, pulp, cattle), mining and oil and gas exploration and production, and forest fires, among other things. Since 2018, Domini has had a Forest Project focused on strategic priorities for addressing deforestation and most recently the related challenges of agricultural land use and biodiversity loss.

As owners of the securities of publicly traded companies, we engage with issuers, civil society organizations, and policymakers to create financial, environmental, and societal value. We use our role as investors to encourage improved company policy and practice aligned with our Impact Investment Standards, which help us to identify companies with aligned business models and positive relationships with stakeholders. Our engagements focus on a range of issues to support ecological sustainability and universal human dignity, which are inextricably linked. Our engagement work is achieved through a combination of direct dialogue with companies, the filing of shareholder proposals, the principled use of proxy voting, collaboration on public sign-on letters, and by speaking out on public policy issues related to our investment practices and expectations of companies around deforestation. These different interventions can create positive change, as they have in our prior work. Our Forest Project uses systems analysis to find effective leverage points at which to deploy these tactics. While we and other investors have had successes in this work, deforestation continues and is even accelerating in many regions, requiring continued monitoring and engagement.

In the Forest Project, our objectives are to promote forest-positive business-model transitions in order to reduce deforestation, encourage more sustainable forest and agricultural practices, and support implementation of meaningful voluntary and mandatory standards, including the adoption of forest-positive public policies. Engagement on forest-positive business-model transformation includes encouraging the sustainable management of forest resources and adoption of regenerative agricultural practices, while aligning business models and capital allocation with climate targets, community needs, the rights and dignity of Indigenous Peoples, and other forest-positive goals. These engagements take a systemic stewardship approach to encourage actions that improve climate

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1 World Resources Institute. "Forest Carbon Stocks" Web page Indicators of Biodiversity and Ecological Services. Accessed at <https://research.wri.org/gfr/biodiversity-ecological-services-indicators/forest-carbon-stocks> on April 12, 2023.

2 University of Oxford. "Nature Based Solutions" Web page Net Zero. Accessed at <https://netzeroclimate.org/innovation-for-net-zero/nature-based-solutions/> on April 12, 2023.

performance and resilience, while improving the lives of stakeholders. We seek to build meaningful collaboration with impacted stakeholders, civil society, experts, and other investors and to mobilize collective action.

### ***Accelerating Forest-Positive and Business Model Transitions***

Through our ongoing forests work, we are seeking not only to reduce the harm caused to forests through deforestation and biodiversity loss, but are also encouraging companies and financial institutions to create forest-positive solutions that are regenerative. The interdependence of our forest system with our collective climate objectives has never been clearer. The decline in biodiversity has serious negative impacts across systems including on the health of species; the livelihoods and well-being of Indigenous Peoples and local communities; and the ecosystem services biodiversity provides, such as pollination and clean water, as well as its contributions to the resilience of the life-sustaining systems upon which our investments ultimately depend.

Our engagements on forest-related issues have spanned a range of strategies over the years. They have included:

- Engagements with specific companies;
- Participation and leadership in collaborative initiatives;
- Raising awareness about biodiversity loss;
- Support for public policies; and
- Promotion of voluntary standards.

### **Engagement with Specific Companies**

Our early work related to forests began with a focus on paper sourcing, and we gradually expanded our engagement efforts to address the impacts that palm oil, soy and cattle operations have on forests and local communities, often focusing on a region where there is biodiverse primary forest at risk of deforestation. From 2003 to 2016, Indonesia experienced high rates of deforestation, culminating in the loss of more than 900,000 acres of humid primary forests in 2016 alone. From 2017 to 2021, that rate declined substantially with approximately 200,000 acres deforested in 2021.<sup>3</sup> These deforestation rates are now at their lowest in decades thanks in part to strong government oversight, environmental activism, and leadership from consumer goods companies in establishing stronger standards in their supply chains. Nonetheless, tropical forests in Indonesia are still being cleared for palm oil plantations, with their output sold to global companies.

Deforestation risks exist, for example, in the rich Leuser ecosystem in Sumatra, Indonesia, that is home to some of the world's largest intact forests and vital habitats for endangered species including orangutans, rhinos, elephants, and tigers, in addition to forest-rich areas in Central and

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<sup>3</sup> Global Forest Watch. *Dashboard: Indonesia* Website. Accessed on May 18, 2023.

West Sulawesi Indonesia. Much of this land has allegedly been taken from Indigenous and local communities that have rights to these lands. People who try to protect their land and resist displacement—known as environmental human rights defenders—are at the forefront of the movement to protect global biodiversity. They have called for accountability from the local suppliers that sell palm oil to global food and beverage companies.

We have 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 palm oil.

For over a decade, we have maintained a sustained engagement with companies on Indonesia deforestation and palm oil. Our engagement with one major food company, for example, extends back to 2012—a dialogue that continues today with the firm through mergers and corporate changes. We made significant progress in 2017 when, after we submitted a shareholder proposal on deforestation, the firm adopted policies on sustainable palm oil and significantly improved its disclosures. We led an investor call with the company to discuss these policies and its approach to other key commodities contributing to deforestation. Later in the year, the company published its first sustainability report, including a section outlining its commitments to responsible palm oil sourcing. In 2021, we filed a proposal with regard to the company’s climate transition plan—it then pledged to achieve net zero by 2050 and set science-based greenhouse gas reduction goals, with 50% reductions by 2030.

In 2019 and 2020, we engaged with a number of other firms on various aspects of deforestation: how they value forests, the link between soy cultivation and deforestation, bank exposure to deforestation, and about a forest-product company’s green bond offerings and how they work to steward local ecosystems.

In 2020, our forest project surveyed 143 companies, focusing on the banking, diversified financial, and insurance industries to discuss how they approach the forest risks in their financial activities. These engagements led us to identify forest value creators and emergent best practices to support a forest positive economy.

In addition to encouraging companies to adopt commitments and policies, we want to understand how they work in practice. In 2022, we engaged with three major food companies on how they are fulfilling their commitments to protect forests and communities. Two subsequently agreed to stop sourcing from suppliers associated with a major controversy, and the third agreed to engage with the supplier. We will encourage each company to consider what more they could do to stop land grabs, end deforestation, and ensure respect for Indigenous and local communities. It is important that they respond to requests from advocates by, for example, returning land to communities, making payments to communities, or otherwise making financial reparations, as well as protecting environmental human rights defenders.

We continue to work on additional collaborative efforts in these areas, for example as a signatory to the Financial Sector Commitment on Eliminating Commodity-Driven Deforestation, with commitments to address commodity-driven deforestation in our portfolio through 2025. We are focused on assessing how companies in our portfolios may be at risk and are encouraging companies to commit to and work toward ending tropical deforestation related to paper, soy, palm oil, and cattle. We also urge the adoption of best practices and emerging nature-based solutions that can reduce our dependence on agriculture responsible for deforestation and land conversion, while also supporting smallholders in the transformation of supply chains. In 2023, we led engagements with six firms and supported engagements six others. We also participated in engagements with the Ceres Food Emissions 50 focused on science-based targets, regenerative agriculture, and sustainable business model transitions.

## **Participation and Leadership in Collaborative Initiatives**

We have a long history of working in coalitions of investors and civil society groups to advance industry-wide standards, facilitate knowledge-sharing, and increase impact.

Since 2021, we helped lead the development of a new collaborative investor initiative to address biodiversity, the Nature Action 100. Since 2022, we have been active in the Finance Sector Deforestation Action coalition. For many years, Domini has also worked in coalitions like those organized through the Interfaith Center on Corporate Responsibility (ICCR), Ceres and the Food Emissions 50 initiative, and the UN Principles for Responsible Investment (UN PRI). We are signatories to the Finance for Biodiversity Pledge, serve on its Advisory Board, and participate in several of its working groups.

We have partnered with several leading NGOs working on forest issues: Rainforest Action Network (RAN), Friends of the Earth (FOE), and First Peoples Worldwide. Working with RAN, we had several dialogues with a major food products company related to its palm oil sourcing practices, prompting it to amend its published list of suppliers to note that it had suspended purchases from one accused of human rights violations during 2017.

In addition, we have participated in investor coalitions working on soy- and beef-related deforestation in supply chains, including signing an investor statement of support for the Cerrado Manifesto related to deforestation in that biome in Brazil, an investor expectations statement on deforestation in soybean supply chains as part of the Principles for Responsible Investment and the Ceres Investor Initiative for Sustainable Forests, and a statement on sustainable protein sourcing with the Farm Animal Investor Risk and Return (FAIRR) group. These initiatives mobilized and amplified the voices of investors with combined assets under management of several trillion dollars.

## ***Raising Awareness about Biodiversity Loss***

In 2022, the United Nations' COP 15 summit on biodiversity, delivered a sweeping international agreement, the Kunming-Montreal Global Biodiversity Framework, to protect 30 percent of the planet's land and oceans by 2030 and to take other rapid measures to address biodiversity loss.

Our CEO, Carole Laible, and our Engagement Director, Mary Beth Gallagher, went to Montreal for the summit. They took part in key conversations, speaking on behalf of the Finance for Biodiversity Foundation and the newly launched Nature Action 100 initiative. In advance of COP 15, as global leaders gathered in New York for the UN General Assembly during Climate Week in 2022, our CEO spoke at a UN General Assembly side-event on biodiversity alongside heads of state, Indigenous leaders, and experts. Representing the Finance for Biodiversity Pledge, Laible encouraged the adoption of a strong global biodiversity framework and emphasized the important role of the financial sector. Our Director of Engagement has since then spoken on several panels about our work on deforestation before different audiences—strengthening partnerships and collaborations with civil society partners, Indigenous leaders, and investors, among other stakeholders.

### ***Support for Public Policies***

Strong, effective public policy and investment from government at the international, national, and state level are essential to address the climate crisis.

We organized investor support in favor of the passage of the FOREST Act in the United States at the national level, the New York Tropical-Deforestation Free Procurement Act, and the California Deforestation Free Procurement Act in 2021, 2022 and 2023, and continue to mobilize investor support for deforestation-free policies at the state and federal level. In 2023, with the backing of institutional investors representing \$2.5 trillion in assets, we co-led an investor letter that we brought to New York State legislators. It documented how a well-designed forest policy that prohibits deforestation in state purchasing could be crucial to economic resilience and our climate response.

We have been active in the Investor Policy Dialogue on Deforestation (IPDD), which was established in July 2020 as a collaborative platform for global investors to work together to engage with governments in relevant countries on halting deforestation. We are engaging with the Brazilian government around deforestation risk, encouraging a public policy environment that gives a clear path forward.

Behind many of these efforts lies a need for investors to have comprehensive and comparable information about companies' governance and action on climate change. Furthermore, we believe biodiversity, land use change, just transition, and respect for the rights and dignity of Indigenous Peoples and local communities are inseparable from climate issues. In 2022, we submitted a comment to the U.S. Securities and Exchange Commission (SEC), relating to its development of new rules for companies' required disclosure of climate-related information, supporting the SEC's current proposal, and explaining how we use relevant climate information in our investment analysis, engagement work, and proxy voting.

### ***Promotion of Voluntary Standards***

We extend engagement from a specific company to encouraging best practices for specific system-level issues to an industry level, including voluntary standards setters, like the Forest Stewardship Council (FSC) and Roundtable on Sustainable Palm Oil (RSPO).

The FSC certification is part of our research process, so we have a stake in understanding how it works, how it is addressing these critiques, and how we can encourage improvements. In 2022, we engaged directly with the FSC to understand and strengthen its criteria, and recognized its leadership in expanding its impact on forest management, ecosystem services, and communities.

In the past, we have actively worked with RSPO on strengthening its standards, submitting comments on its 2018 Principles and Criteria review, which established standards for the next five years. Working with Rainforest Action Network (RAN) and Green Century Capital Management, we sent 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, including on child labor and ethical recruitment. RSPO members voted overwhelming in favor of the strengthened standards.

### ***Effectiveness and Transparency***

We will continue to define appropriate methods to evaluate the effectiveness of our efforts and to prioritize how we exercise our leverage for impact at the company, portfolio, and systems level. Such assessments of our potential effectiveness are useful in that they can assure us that our time and resources can help tilt forest-related systems toward positive outcomes and away from those that are negative. Through our regular impact reporting and website, we will continue to share updates about this work and its progress over time.

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