

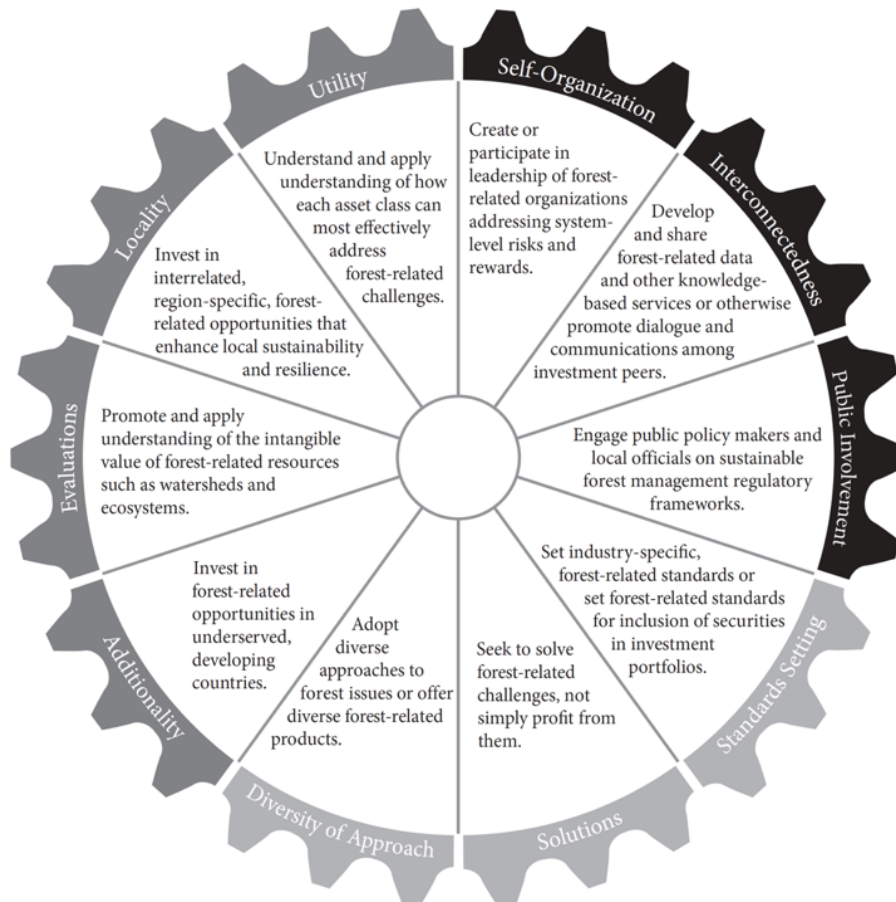
Domini Forest Project

System-level Advanced Techniques

December 2023

To implement our efforts to manage systemic investment risks Domini has drawn on the ten “advanced techniques” identified by The Investment Integration Project, of which we have used eight to date.¹ These techniques are designed to help investors minimize system-level risks that might impact the overall economy and consequently investors’ opportunities across asset classes.

The following graphic, *Application of Advanced Techniques*, provides a definition of each with an explanation of why it is suited for system-level risk management, along with an example of current or planned future use as part of the Forest Project.



¹ See William Burckart and Steve Lydenberg. *21st Century: Redirecting Financial Strategies to Drive Systems Change* (Oakland, California: Berrett-Koehler Publishers, Inc.) 2021:87-112). Steve Lydenberg is Founder and Chairman of The Investment Integration Project, a for-profit applied research and consulting firm. At Domini Impact Investments, where he is employed part time, he serves as Partner, Strategic Vision. Domini consults with TIIP on general matters relating to system dynamics in the investment process.

Three Field Building Techniques

Self-Organization

Definition: Creation or participation in the leadership of organizations addressing the system-level challenge in question. Self-Organization amplifies the voice, and hence the influence, of system-level investors seeking to influence a system toward generating positive outcomes.

Recent use: In 2022 and 2023, we took a leadership role in the creation of forest-related investor-led organizations. We were, for example, a founding member of the forest-related investor-led Nature Action 100 initiative and served as the vice-chair of Advisory Board of the Finance for Biodiversity Pledge Foundation.

Interconnectedness

Definition: Promotion of dialog, data sharing, and best practices among investment peers relating to the system-level issue in question. Interconnectedness helps establish a shared knowledge base and set of practices on which system-level investors can build toward common goals and creation of investment opportunities.

Recent use: In 2022, we posted on our website detailed background papers on our Forest Project, including our beliefs, justifications, definitions, goals, themes, and engagements. As such, we share with our peers, investors, and the public our approach to system-level investment in general and its practical implementation in the Forest Project. We plan to update and publish these and similar documents annually.

Public Involvement

Definition: Engagement with public policy makers and local officials on the potential risks and opportunities relating to the system-level issue in question. Public Involvement encourages targeted government actions that facilitate and support specific investor efforts at system-level risk management and opportunity creation.

Recent use: Ongoing participation throughout 2023 in the Investors Policy Dialog on Deforestation on the Brazil working group and its engagement with Brazilian governmental officials on deforestation and related environmental concerns. In 2021-2023, we also garnered investor support for proposed legislation directing California and New York state governments to give preference to “no-deforestation” and forest-positive purchases. We testified in support of the New York State’s proposed legislation, which passed both houses of the Legislature. The Governor will need to sign the legislation by year’s end for it to become effective. In 2022, we submitted comments to the U.S. Securities and Exchange Commission concerning proposed climate-risk disclosure requirements that, among other things, relate to forests.

Three Investment Enhancement Techniques

Standards Setting

Definition: Establishment and enhancement of industry-specific or issue-specific social and environmental norms in relation to the system-level issue in question. Norms of conduct, when properly conceived and rigorously implemented, can help guide corporations and their specific industries toward risk management and value creation that generate desirable system-related outcomes from the outset.

Recent use: Since 2022, we have engaged with the Forest Stewardship Council on its standards setting for sustainable forest certification. We previously engaged with the Roundtable on Sustainable Palm Oil as it was setting its initial certification standards. We have included in our research process Key Performance Indicators that draw on voluntary forest-related standards and certifications.

Solutions

Definition: Pursuit of solving the system-level challenge in question through changes in fundamental business models, not simply profiting from it. Solutions means addressing system-level challenge by seeking to resolve them through the changing of industry-wide business models and system dynamics while earning competitive returns. The alternative profiting from ongoing undesirable systemic outcomes in ways that may alleviate the current pain but do nothing to eliminate the underlying challenge at the system level itself.

Recent use: In 2023, as part of our Value Creators project, we initiated dialogues with six forest-product companies on four aspects of their business models where tensions exist between value creation and value extraction. These are conservation, supply chain management, relations with Indigenous Peoples, and use of alternatives to biomass and other carbon-based fuels. A mind-set that balances value creation and extraction can help resolve these tensions.

Diversity of Approach

Definition: The intentional application of a substantial number of advanced system-level techniques to a single system-level challenge of concern. Diversity of Approach enhances an investor's ability to manage investment risks and create opportunities with regard to a specific system-level challenge by using a multiplicity of techniques in a focused approach. This is more likely to be effective than a single, anecdotal effort.

Recent use: Since 2020, we have implemented a comprehensive set of eight "advanced techniques" to enhance positive influence and outcomes at a system-level and help manage forest-related systemic risks and opportunities. In 2024, we plan to extend our use of these tools to Locality and Utility.

Four Opportunity Generation Techniques

Additionality

Definition: Interaction with the system-level challenge in question in ways that enhance opportunities for underserved constituencies including low- and middle-income countries. Additionality as we define it refers to viable financial instruments and related initiatives specifically designed to create value for underserved communities when addressing global systemic challenges.ⁱ

Recent use: In April 2023, we gave a workshop to Indigenous Peoples’ representatives at the United Nations on use of shareholder dialogue and resolutions to communicate concerns directly to corporations. In addition, our 2023 engagement with forest-related companies supports the rights of Indigenous peoples to free, prior, and informed consent when corporations threaten access to their traditional lands and their ability to preserve their traditional cultures. Our engagement that year with one company resulted in the strengthening of its no-deforestation and FPIC language in its public policy statement.

Evaluation

Definition: Promotion and application of an understanding of the intangible value of the system-level issue in question. Evaluation’s emphasis on intangible value helps balance today’s sole focus on financial efficiency and its optimization of value extraction with investment opportunities for value creation. For example, arable soil has a difficult-to-calculate, intangible value as long as it remains healthy and resilient. If left to degrade, however, the “cost” of its loss becomes clearer. Investors can factor in such intangible values to avoid the surprises that come with loss of systemic resilience.

Recent use: Our 2023 elaboration of our Value Creators project acknowledges the role of the difficult-to-calculate intangible values of nature, biodiversity, healthy soil, ecosystem services, and in the creating of a mind-set that allows for a hybrid value creation/extraction business model. A transition to such a mind-set is necessary for the management of the systemic risks currently faced by forests and related lands.

Locality

Definition: Participation in interrelated, region-specific initiatives that enhance the sustainability and resilience of the local system in question. Locality applies goal setting and risk management to the subsystems of a given global systemic challenge. It is useful when investment risks and rewards derive from locally bounded systems.

Planned use: We plan to explore opportunities to promote the intentional cultivation of small green spaces by corporations and municipalities through the “signaling” devices such as Miyawaki “mini-forests.”ⁱⁱ

Utility

Definition: Understanding how the functions and characteristics of asset classes makes them more or less effective in addressing the specifics of different systemic challenges. Utility acknowledges

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that different system-level challenges can be met more or less effectively by use of certain asset classes rather than others.

Planned use: In 2024, we plan to initiate a program to assess the rigor and credibility of so-called “green” and “sustainability” bonds as well as carbon credit and offset programs relating to forest-positive outcomes. We are also in the process of adding a “deforestation” metric to our evaluation of issuers of sovereign debt.

ⁱ We recognize that there are various different definitions of “additionality,” particularly those used by Development Financial Institutions and those that have evolved to serve the “sustainability” bond and carbon credit/offset markets. We use the term here in a different sense with its implications for impact at a system level.

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

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