

Sustainability in Capital Markets

Financing the transition to a sustainable
low-carbon economy

Asset Managers Case Study – Domini Impact Investments



Domini Impact Investments

Domini Impact Investments is a women-led investment adviser, with assets under management (AUM) totaling \$2.1 billion as of February 2024, that focuses exclusively on impact investing. Domini leverages finance to drive positive outcomes for people and planet while seeking competitive financial returns. Domini manages five funds, each guided by the same standards, but with a slightly different focus:

- 1. Domini Impact Equity Fund:** Universal human dignity and ecological sustainability focus.
- 2. Domini International Opportunities Fund:** Global sustainability focus.
- 3. Domini Sustainable Solutions Fund:** General sustainability focus.
- 4. Domini Impact International Equity Fund:** International corporate responsibility focus.
- 5. Domini Impact Bond Fund:** Additionality focus, directing capital where it is needed most.

The Domini logo is displayed in a dark blue, sans-serif font. The word "Domini" is followed by a registered trademark symbol (®). The logo is centered within a light gray rectangular background.

Domini has always incorporated environmental and social factors into its investment approach. In 2018 it decided to focus on forests and land use.ⁱ Domini has placed particular emphasis on researching the implications of deforestation and agricultural land use for the companies in its funds and identifying climate and biodiversity-related risks and opportunities. A driving force behind Domini's system-level philosophy is Steve Lydenberg, a foremost figure and leading thought-leader of system-level investing and Strategic Advisor at Domini.

System-level investing strategy related to climate change

Since it was founded in 1991, Domini has invested under the belief that strong financial markets are only possible with healthy supporting environmental and social systems. In 2016, Domini committed to taking a system-level approach and introduced the concept and accompanying techniques to the firm.

Between 2016 and 2018, Domini developed its Investment Beliefs Statement and began issuing public reports on its system-related activity. Its investment process is guided by its two overarching goals:ⁱⁱ

- 1. Universal Human Dignity:** Domini seeks “investments that promote universal values of fairness, equality, justice and respect for human rights.”
- 2. Ecological Sustainability:** Domini seeks “investments that promote long-term environmental sustainability.”

In line with these goals, Domini also focuses on systemic issues. Initially, Domini chose nine areas of focus. However, from 2016 to 2018, Domini realized that tackling nine systemic issues was too wide of a scope, as each focus area demanded more attention than anticipated. In an effort to increase its potential impact on a given system, Domini chose to focus exclusively on forests and land use. Bringing the findings from a previous survey of its shareholders that identified the environment as a top priority together with the awareness that many investors were already focused on climate change more broadly, Domini determined that forests were a fitting focus area. Forests and land use are

an important component of climate change mitigation and adaptation, and they are also a more digestible product with which to envision a system—and envision ways to mend that system.ⁱⁱⁱ Domini used a framework developed in partnership with The Investment Integration Project to justify its new singular focus on forests and land use.^{iv} The framework addressed themes of consensus, relevance, effectiveness, and uncertainty. Following this process, Domini surveyed 18 different stakeholders with an interest in forests to identify key leverage points for addressing this systemic issue.^v



Consensus

There is general global consensus among scientists, investors, corporations, policymakers, and the public about the need for effective action to halt deforestation. Such consensus was reflected in a 2014 pledge by national and subnational governments and multinational companies, indigenous communities, and nongovernmental organizations to end forest loss, and in the United Nations Sustainable Development Goals, which highlight the importance of sustainable forest management and reversing deforestation.

Relevance

To determine its exposure to, or dependency on forests, Domini calculated the percentage of its holdings linked to forests (see image below). Its analysis showed multiple types of links to forests within its holdings. The two most noteworthy were holdings with a direct link, a link that demonstrates a need for forests while simultaneously contributing to their destruction; and holdings with a macro link, a link describing companies that will be meaningfully impacted by the loss of forest ecosystem services, particularly with regard to climate change. Domini views a focus on forests as a prudent financial decision that supports its goal of sufficiently monitoring risk and creating value for its investors.

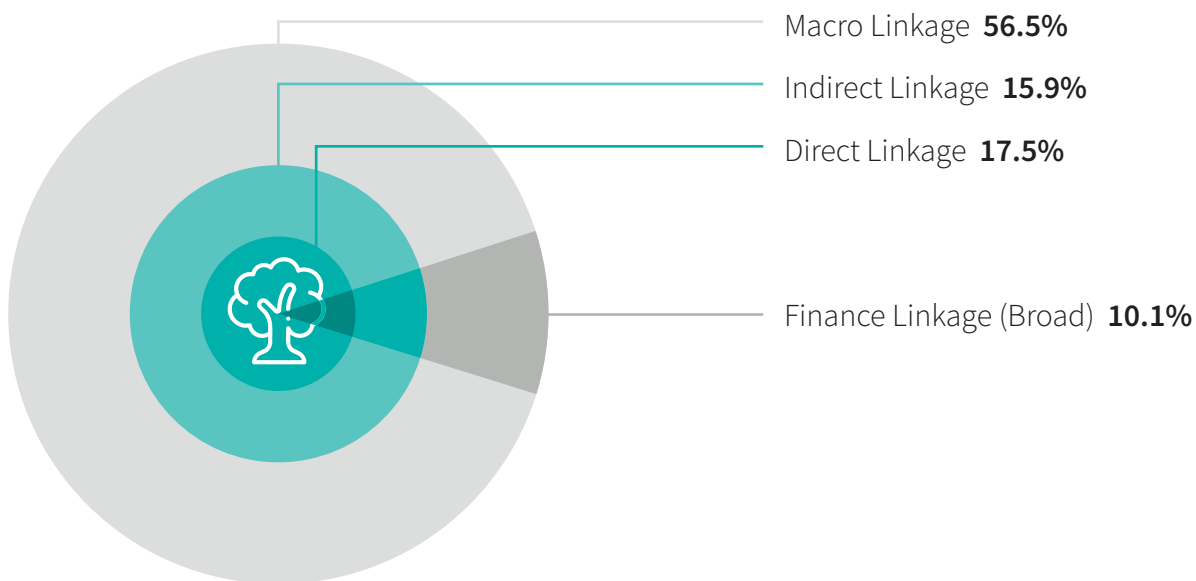
Effectiveness

Domini has identified global commodity sourcing as the primary driver of deforestation. It asserts that investors have an outsized influence on commodity sourcing practices, making it an effective lever in the push to end deforestation. Domini has also observed a lack of attention being given to forests by investors, encouraging the firm to focus on the need for investor action.

Uncertainty

Although there is consensus regarding deforestation's negative impact on the planet, the exact scope and scale of this impact vis-à-vis differing levels of deforestation is unclear. With the potential to be extremely dire, pushing the Earth past its planetary boundaries, the lack of certainty in deforestation's consequences provides Domini with another justification for narrowing its focus.

Figure 1. Domini Holdings Linked to Forest Health *Source: Domini Impact Investments (2020). Domini Forest Project – Justification for our Forest Work.*



Extending Conventional Tools

a. Statement of Investment Beliefs

In 2017, Domini formalized its Statement of Investment Beliefs (SIB). Different from an investment policy statement or a mission statement, the SIB communicates a firm's views on financial markets and the principles it applies to security and manager selection. Domini's original SIB consisted of three beliefs:^{vi}

1. Investments have system-level impact on finance, society and the environment. Investors have an ethical obligation to acknowledge these consequences.
2. Investors that strengthen the resilience and integrity of these critical systems create lasting value. Investors that fail to do so cause harm.
3. Long-term investment performance depends upon the above principles.

Between 2018 and 2022, after it chose to focus on forests, Domini developed a forest-specific SIB and a corresponding set of Forest-related Effectiveness Principles. Over time, the principles evolved to focus on regenerative agriculture, biodiversity, and indigenous peoples. The combination of its beliefs and principles sets the tone for why Domini is taking its unique approach and how Domini plans to execute its strategy.

Domini Forest-related Investment Beliefs

- Societies and economies, and therefore businesses and investments, are built on stable and healthy environmental systems with respect to climate and biodiversity.
- Forests and related lands provide substantial value to investors and corporations with regard to stable and healthy environmental systems.
- Investors' policies and practices can impact forests and related lands either positively or negatively.
- Corporations and investors can act effectively to preserve, measure, and enhance the value they derive from these lands.

Domini Forest-related Effectiveness Principles

- Base our investments, engagements, and other investment-related decisions on a holistic understanding of corporations' and investors' dependence and impact on the long-term value and services of forests and related lands.
- Work to create a positive systems dynamic that enhances the value of forests and related lands.
- Identify, monitor, and report on our direct and indirect impacts on forests and related lands, with an emphasis on climate, biodiversity, and Indigenous peoples.
- Share our principles and processes with investors, investees, and the financial community to promote holistic, long-term policies and practices regarding forests and related lands.

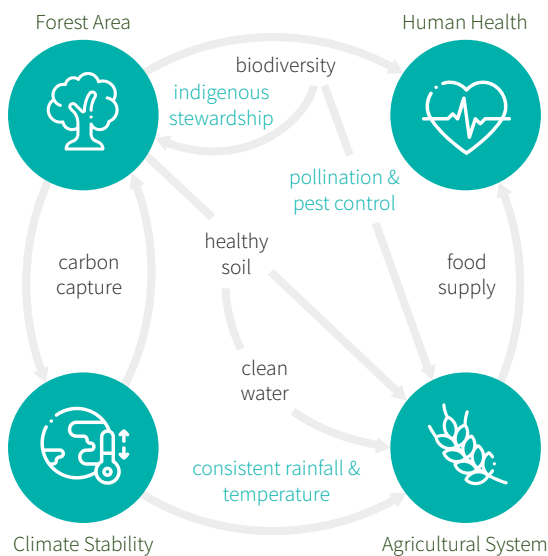
By stating its belief that a healthy financial system is dependent on healthy environmental and social systems, Domini's SIB demonstrates a system-level focus. Contrary to the SIB of a more conventional investor, which may state a belief that financial markets are naturally efficient, or that it seeks added value through ESG considerations, Domini's SIB commits the firm's investment process to system-level considerations. Domini's investment principles and beliefs put guardrails on the firm's investment practices, nudging it to strengthen value creating systems rather than investing in value destroying systems.

The system dynamics maps below, developed by Domini, demonstrate how systems are interrelated and can be value creating or value destroying. Domini seeks to add value to the forest system, with the benefit that by doing so, value will be added to the systems of human health, agriculture, and climate stability.

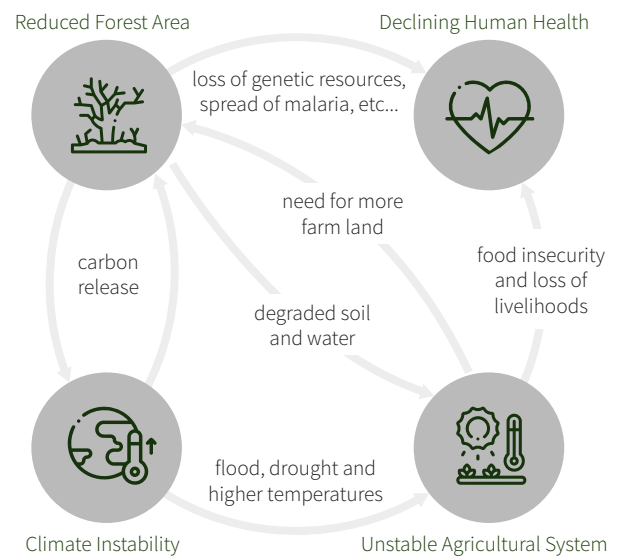


Figure 2. Domini System Dynamics Maps - Forest connection to three foundational social and environmental systems that investors rely on **Source:** Domini Impact Investments (2023). *Systems Dynamics Maps, 2022. Domini Forest Project.*

Value Creating System



Value Destroying System



b. Engagement

An objective of Domini's focus on forests is to promote forest-positive business model transitions. The firm works to achieve this by engaging with companies, issuers, civil society organizations, and policymakers.

Examples of Topics Pursued	Examples of Methods Used
<ul style="list-style-type: none">■ Improved use and development of voluntary standards■ Sustainable palm oil sourcing■ Action on human rights abuses■ Action against deforestation■ Adoption of regenerative agriculture	<ul style="list-style-type: none">■ Direct dialogue with companies■ Filing of shareholder proposals■ Proxy voting■ Participation and leadership in collaborative initiatives (UN PRI, Interfaith Center on Corporate Responsibility, Finance for Biodiversity, Nature Action 100)■ Public statements on policy issues (advocating for the passage of the national FOREST ACT, the New York Tropical-Deforestation Free Procurement Act, the California Deforestation Free Procurement Act)

Domini has taken a particular engagement interest in Indonesia, where its investment principles and beliefs regarding the protection of forests, Indigenous communities, and biodiversity are coexisting. Indonesia is home to some of the world's largest intact forests, which provide shelter for endangered species and are home to many Indigenous and local communities.

For more than a decade, Domini has engaged with Indonesian companies at the intersection of palm oil production and deforestation. Its engagement with one major food company in the region has been over ten years in the making, resulting in the company's first ever sustainability report, responsible palm oil sourcing commitment, and climate transition plan. Recently, as a result of government intervention, activism, and better corporate behavior, deforestation rates in Indonesia have gone down substantially.

However, because deforestation risk still exists in many of Indonesia's rich biodiverse ecosystems, Domini has committed to further engagement work, pushing companies to consider action in order to prevent land grabs, end deforestation, and ensure respect for Indigenous and local communities.^{vii}

c. Security selection & portfolio construction

Between 2019 and 2021, Domini developed and incorporated forest and biodiversity-related key performance indicators (KPIs) to use in company evaluations. Domini's KPIs are aligned with its Impact Investment Standards, which is a 70-page document developed to put the firm's principles into action. In its Impact Investment Standards report, Domini lays out its process for determining which stocks and bonds are eligible for investment by Domini Funds.^{viii}

- **Stocks and corporate bonds:** First, Domini asks “Is the company’s business model aligned with Domini’s firm-level commitments to universal human dignity and ecological sustainability?” If not, the company is excluded from Domini’s investment portfolios. Next, Domini considers how the company interacts with its stakeholders, including customers, employees, suppliers, investors, communities, and the natural environment. Companies can generate financial, social, and/or environmental risk by mismanaging these relationships.
- **Stocks and corporate bonds:** Domini focuses on three outcomes when assessing non-corporate bond opportunities, each of which stems from Domini’s Statement of Investment Beliefs. The first is, will the issued bond increase access for populations underserved by the conventional financial community? The second is, will the issued bond create public goods for vulnerable populations? The third outcome Domini looks for is, will the issued bond fill capital gaps that have been created by current financial practice?

Domini Exclusion Categories



Weapons and Firearms



Nuclear Power



Fossil Fuels



For-profit Prisons and
Immigration Detention Centers



Alcohol, Tobacco
and Gambling

Adopting Advanced Techniques

a. Self-organization

Alongside its internal operations and efforts to educate its own staff on systems and system-level investing, Domini has made it a point to collaborate with like-minded investors to push systems-level thinking and responsible investing forward. After spending much of 2018 and 2019 learning from stakeholders about obstacles to changing the forest system, Domini quickly became a leader in the area, co-creating and joining industry-led organizations to address these obstacles.^{ix}

In 2020, Domini joined 25 global financial institutions in signing the Finance for Biodiversity Pledge. By signing the pledge, Domini has committed itself to: collaborate and share its knowledge; engage with companies; assess impact; set targets; and report publicly on its commitments by 2025.^x Since they joined, the pledge has grown to include 153 signatories that represent \$22.7 trillion in AUM across 23 countries. In addition, Domini is a member of the Finance for Biodiversity Foundation's Advisory Board, where 11 representatives advise on how to best achieve the foundation's goal of reversing nature loss by 2030.^{xi}

In 2022, Domini and ten other investment firms announced the launching of Nature Action 100. Domini and its partners joined forces with the Institutional Investors Group on Climate Change, the Finance for Biodiversity Foundation, Planet Tracker, and Ceres to help organize Nature Action

100's operations. The initiative aims to drive corporate action on tackling nature and biodiversity loss through means of corporate engagement.^{xii}

Through the Finance for Biodiversity Foundation and Nature Action 100, Domini has helped create a clear, consistent, and actionable set of recommendations for how companies can prevent biodiversity loss. Additionally, it has provided investors with an opportunity to organize themselves and build leverage, in order to more effectively promote corporate behavior that prevents biodiversity loss. In June of 2023, Nature Action 100 published the Investor Expectations for Companies, outlining six key focus areas and eight key industries. In October 2024, it published a set of 100 company benchmark assessments to help Nature Action 100 members to begin engaging with via its published expectations.^{xiii}



Asset Class	Decarbonisation / Climate Solutions Benefit
Ambition	Publicly commit to minimize contributions to key drivers of nature loss and to conserve and restore ecosystems at the operational level and throughout value chains by 2030.
Assessment	Assess and publicly disclose nature-related dependencies, impacts, risks, and opportunities at the operational level and throughout value chains.
Targets	Set time-bound, context-specific, science-based targets informed by risk assessments on nature-related dependencies, impacts, risks and opportunities. Disclose annual progress against targets.
Implementation	Develop a company-wide plan on how to achieve targets. The design and implementation of the plan should prioritize rights-based approaches and be developed in collaboration with Indigenous Peoples and local communities when they are affected. Disclose annual progress against the plan.
Governance	Establish Board oversight and disclose management’s role in assessing and managing nature-related dependencies, impacts, risks, and opportunities.
Engagement	Engage with external parties including actors throughout value chains, trade associations, policy makers, and other stakeholders to create an enabling environment for implementing the plan and achieving targets.

Table 1. Nature Action 100 Focus Area **Source:** Nature Action 100 (2023). Nature Action 100 releases investor expectations to support urgent corporate action on nature loss. June 26, 2023.

b. Polity

As mentioned above, Domini seeks to influence public policy in line with its goals of universal human dignity and ecological sustainability. It does so by identifying like-minded associations to engage with, supporting legislation at the federal and state level, and submitting comments to relevant government agencies. Below are two examples demonstrating Domini’s efforts:

- Domini is an active member of the Investors Policy Dialogue on Deforestation (IPDD), where investors around the world convene to engage governments on stopping deforestation. Through the IPDD, Domini is engaging the government of Brazil, calling for public policy that leads to a long-term halt of deforestation.^{xiv}
- In 2023, Domini led a group of investors representing \$2.5 trillion in AUM in dialogue

with New York State legislators. On behalf of the investor group, Domini submitted a letter outlining the value of a well-designed forest policy that prohibits deforestation in state purchases. If passed, the bill would require companies doing business with the state of New York to have a transparent supply chain that does not contribute to tropical deforestation. As a result of its lobbying efforts in Albany, New York’s Tropical Deforestation-Free Procurement Act was passed by the State Assembly but vetoed by the Governor. The bill was resubmitted in 2024 with Domini again testifying in support of it. In its second go-around, the bill passed both houses of the legislature but was ultimately vetoed again by the Governor. This example demonstrates the potential momentum that Domini can help generate by supporting such bills, which involve a wider scope than conventional corporate engagement methods, a key feature of system-level investing.^{xv}

e. Standards setting

Domini has set its own exclusionary standards, outlining five categories of business that are fundamentally misaligned with its goals of universal human dignity and ecological sustainability: weapons and firearms; nuclear power; fossil fuels; for-profit prisons and immigration detention centers; and alcohol, tobacco, and gambling.^{xvi} Domini evaluates companies on a case-by-case basis but typically looks at its percentage of revenues, market influence (leadership), and environmental and social track record in order to make a decision.

In addition to developing its own exclusionary standards, Domini has incorporated credible external standards into its investment process. Standards developed by the Forest Stewardship Council (FSC) are a prime example. The FSC standards have an ability to identify companies in forest-product-intensive industries that are making changes to source more responsibly. Its credibility among nonprofit organizations and other firms in the space as the most effective forestry certification makes FSC methods an integral part of Domini's research process.

At the same time, Domini has voiced critical feedback to strengthen FSC's certification in areas of observed weakness.^{xv} Domini has been asked to contribute to a number of studies conducted by NGOs as well as to provide comments and working group participation for reports developed by organizations such as PRI. It notes that a multitude of voices must be brought to the table, especially those of investors, as the area of forests gains attention in the financial sector.^{xviii}



Evaluate results

Domini has been reporting on and evaluating its results internally and externally since 2016. In addition to Quarterly and Annual Impact Reports that communicate the impacts of its forest and land use focus, Domini has conducted an internal self-assessment on the effectiveness of its investment approach and its influence on the forest system. Its intention is to conduct self-assessments on

an annual basis to systematically track its use of system-level investing tools and demonstrate to others what system-level investing looks like in practice and over time.^{xix} Domini's goal for evaluating its results has been to map the relative impacts of its initiatives, determining which can be attributed to progress towards the forest project's goals and to what extent.

Challenges and Looking Ahead

Domini invested significant time and resources to develop the intellectual and practical groundwork for its forest strategy. Core to its effectiveness has been the firm's intentional engagement with stakeholders and its ever-expanding understanding of forests as a system. With this methodical approach, leveraging system-level investing best practices, Domini has been able to clearly identify the systemic obstacles related to forests, thus contributing

to broader industry attention on forests. Throughout the development of its forest strategy, Domini confirmed the importance of having at least one, but ideally more than one, internal advocate fully focused on implementing the system-level strategy. One of its most significant near-term priorities is systematically tracking its use of system-level investing tools in order to demonstrate their effectiveness and influence over time.

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About the Authors

High Meadows Institute is focused on the role of business leadership in society. Our mission is to contribute to sustainable economic and social progress in a global economy and society. High Meadows Institute was founded in 2013 by a small group of senior business and finance leaders with deep experience in the private and non-profit sectors. The Institute works in close partnership with other leading think tanks and academic and business organizations to advance its mission.

The Investment Integration Project (TIIP)'s mission is to help investors understand how healthy social, environmental, and financial systems can benefit their portfolios. TIIP provides consulting services, applied research, and a turnkey solution (SAIL) that supports investors' pursuit of system-level investing, an advanced approach to sustainable and impact investing that focuses on managing systemic risks and investing in solutions to systemic problems.



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Developed in partnership with:

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