

December 5, 2017

Antonio J. Gracias
Lead Independent Director
Tesla, Inc.
3500 Deer Creek Road
Palo Alto, CA 94304
Attention: Corporate Secretary

Dear Mr. Gracias:

We are writing to you as investors with a combined \$744 billion in total assets under management, and as substantial investors in Tesla, Inc. We believe that sustainable business practices that combine the effective management of financial, environmental, and human capital are important for any company's success.

The value of Tesla's brand is closely associated with its long-term sustainability and mission to be a clean energy and transportation company. Recent news of significant production delays have given investors pause, and there are mounting concerns with worker-related issues, labor rights, and occupational safety that could be damaging to the brand and long-term performance if left unaddressed. For these reasons, we would like to discuss with the board how to:

- Increase board accountability by adopting proxy access;
- Make oversight of human capital a remit of the board of directors; and
- Develop and ensure the implementation and monitoring of a meaningful company-wide workplace human rights policy.

Adopting Proxy Access

Companies are increasingly adopting this mechanism to allow shareholders to propose their own candidates alongside incumbent board nominees. The measure is also further indication of boards' interest in engaging shareowners on accountable board composition. Such an increase in board accountability is particularly important in light of our concerns with Tesla's human capital management, as outlined below.

Making Human Capital a Remit of the Board of Directors

As the company moves into the next stages of its growth and expansion, Tesla will require greater oversight from its board members to address certain critical areas of its operations, in particular its oversight of human capital. The board should assign human capital management as the remit of an appropriate key board committee.

In addition, the board should enhance its expertise over critical areas that present possible reputational and financial risk to the company, such as human capital. Based on current disclosures, it does not appear that any of the current board members have particular expertise in this critical area. Should a board vacancy occur as a result of director Steve Jurvetson being placed on leave, we ask that the board prioritize recruiting a director with proven experience dealing with a broad range of human capital related issues.

Increasing board oversight of human capital management is particularly important in light of the recent large number of layoffs that observers deem unusual for a growth company, particularly one in the throes of ramping up the production of a key product line. We hope you will be able to shed more light on the reasons behind the layoffs soon.

Mounting Workplace Issues Put Current Human Capital Strategy in Doubt

A report by Worksafe¹ revealed a trend of underperformance by Tesla on several key workplace health and safety metrics, including injury rates, relative to other auto manufacturing facilities for both 2014 and 2015 (industry-wide data for 2016 are not currently available). For instance, Tesla's total recordable incidence rate for 2015 was 8.8 injuries per 100 workers, 31% higher than the mean injury rate for the industry of 6.7. In addition, Tesla's DART rate (Days Away, Restrictions, and Transfers), which is a better indicator of injury severity, of 7.9 was more than twice the industry average of 3.9.

A recent complaint issued against Tesla by a Regional Director of the National Labor Relations Board (NLRB) lends credibility to workers' claims that the company violated their rights when requiring employees to sign an overly-restrictive confidentiality agreement prohibiting them from talking about working conditions or safety issues at the Fremont plant. This is troubling as it seems to imply a corporate culture that seeks to conceal safety concerns as opposed to encouraging workers to speak up. In our view, a safe workplace is an important proxy for operational excellence.

Moreover, Tesla is one of several Silicon Valley companies that has been in the spotlight due to accusations of sexism and discrimination. There have been several recent lawsuits alleging discrimination based on gender, race and sexual orientation, which we hope that the board will address immediately, if it has not already done so. As we have seen recently at other prominent Silicon Valley companies, boards' failure to proactively address discrimination and harassment can have long-term consequences to the company's goodwill and financial stability.

Not only can workplace problems such as these impact productivity, morale, operational costs, risk management and result in fines and legal liabilities, but they can also be costly to the company's reputation – particularly for a mission driven company. The perception of an unequitable and hostile work environment, we believe, will hinder Tesla's ability to attract and retain valuable talent. We are concerned that worker safety issues may be further aggravated as Tesla is trying to catch up to meet its Model 3 production guidance, an important benchmark for Tesla's ability to transform itself into a mass-market producer. The company missed guidance by delivering only 260 instead of the promised 1,500 cars for the most recent quarter. Unfortunately, it is precisely under this type of pressurized environment that health and safety standards often slip.

Developing a Meaningful Workplace Human Rights Policy

The board should adopt and ensure the implementation and monitoring of a meaningful company-wide workplace human rights policy based on the International Labour Organization's Declaration on Fundamental Principles and Rights at Work (ILO Declaration), which are widely supported and incorporated in important human rights frameworks, such as the United Nations' Guiding Principles on Business and Human Rights that seek to provide an authoritative global standard for preventing and

¹ Worksafe. *Analysis of Tesla Injury Rates: 2014-2017*, May 24, 2017, http://worksafe.typepad.com/files/worksafe_tesla5_24.pdf.

addressing the risk of adverse human rights impacts linked to business activity. The ILO Declaration encompasses the following categories to ensure productive labor practices: freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory labor, the abolition of child labor, and the elimination of discrimination in respect of employment and occupation.

Developing and implementing a comprehensive policy based on this global standard will allow Tesla to reduce its human rights risk exposure, mitigate reputational risks for its brand, and protect its long-term value. We believe such a policy would help develop a neutral setting that would encourage the collaborative resolution and prevention of labor problems that could be disruptive to meeting production and financial performance goals.

Several of us have been engaging with you on the importance of a good human capital management strategy for Tesla's long-term success. This request gains greater urgency as further indications of serious workplace issues come to light. Therefore, we look forward to your thoughts on these issues and would appreciate a response by December 19, 2017. Please contact Etelvina Martinez at 202-721-6077 or etelvina.martinez@ctwinvestmentgroup.com if you have any questions.

Thank you again for your time and consideration.

Sincerely,



Thomas P. DiNapoli
New York State Comptroller



Michael Frerichs
Illinois State Treasurer
Office of the State Treasurer of Illinois



Tim Goodman
Director
Hermes Equity Ownership Services



Maureen O'Brien
Vice President and Corporate Governance Director
Segal Marco Advisors



Tobias Read
Oregon State Treasurer



Christine Shaw
Chief Compliance Officer, Assistant Treasurer for Policy
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