Update as of: 9/18/2023

Tesla (TSLA) Sustainability Report

Profile:

Tesla is the second leading manufacturer of electric vehicles (EV), according to Counterpoint Research, controlling roughly 16% of the global share; Tesla reportedly has over 50% share within the U.S. EV market. Tesla also sells solar panels and solar storage systems.

What Tesla Does Well:

Telsa has long been at the forefront of EVs in the U.S. and globally. The company has made massive strides in improving the technology, adoption, and global importance of EVs. This has and continues to have an unparalleled impact on the world. On top of this, Tesla has been willing to democratize access to their technology. Most recently, Tesla has partnered with countless EV manufacturers like Volvo, Ford, and GM, to open its charging network, the North American Charging Standard (NACS), to the masses. Our firm believes this is a critical step to improve adoption in the U.S.

Tesla is heavily involved in solar panels, solar roofing, and solar energy storage. Our firm believes that solar adoption and utilization is another vital piece of the energy transition, and Tesla has long been involved in the industry. With a focus on the residential market, we believe the Tesla brand is increasingly driving adoption for homes. Tesla is reportedly exploring becoming an electricity provider in the U.K. too, which would continue to help accelerate the transition to renewable energy in the country.

Overall, Tesla ranks highly as an employer. Tesla offers employees 16 weeks of paid family leave, generous time off, continuing education and other benefits. 67% of Tesla employees identify as minorities, demonstrating admirable diversity. Tesla has high employee retention with the average senior manager working over nine years at the company. All medical, dental, and vision healthcare plans are covered by Tesla too.

Concerns:

Our firm's largest concerns with Tesla are related to corporate governance. Elon Musk has significant influence on the business, not only being the CEO and on the board of directors, but owning 20% of the company. This has led to decisions like Musk's brother being appointed to the board of directors without experience or background in the EV or solar industries.

On top of this, Musk is an outspoken voice. In 2018, Musk tweeted material, non-public information that Tesla had a deal in place to be taken private. This led to a flurry of distractions and investigations that were avoidable.

In 2022, Musk began buying Twitter, now X, stock to become an active owner in the company. Shortly thereafter, Musk agreed to buy the company for $44 billion. This purchase was largely financed by selling Tesla stock. Musk has since closed the acquisition. His management approach, candor on the platform, and vision for the company have been highly scrutinized. Our firm largely dislikes the distraction from Musk's involvement in Twitter. Additionally, Musk is the CEO of SpaceX, Neuralink, and The Boring Company. Our firm would prefer if Musk prioritized his involvement with Tesla instead of diluting his time across all these companies.

Excessive director compensation has been an issue too. A few weeks ago, Tesla directors agreed to pay $725 million to settle lawsuits over excess compensation. The lawsuit began in 2020 and claimed that directors awarded themselves excessive compensation of 11 million stock options from 2017-2020. Musk's $56 billion compensation plan, however, is reportedly not part of this settlement and is largely stock based with little to no salary paid.

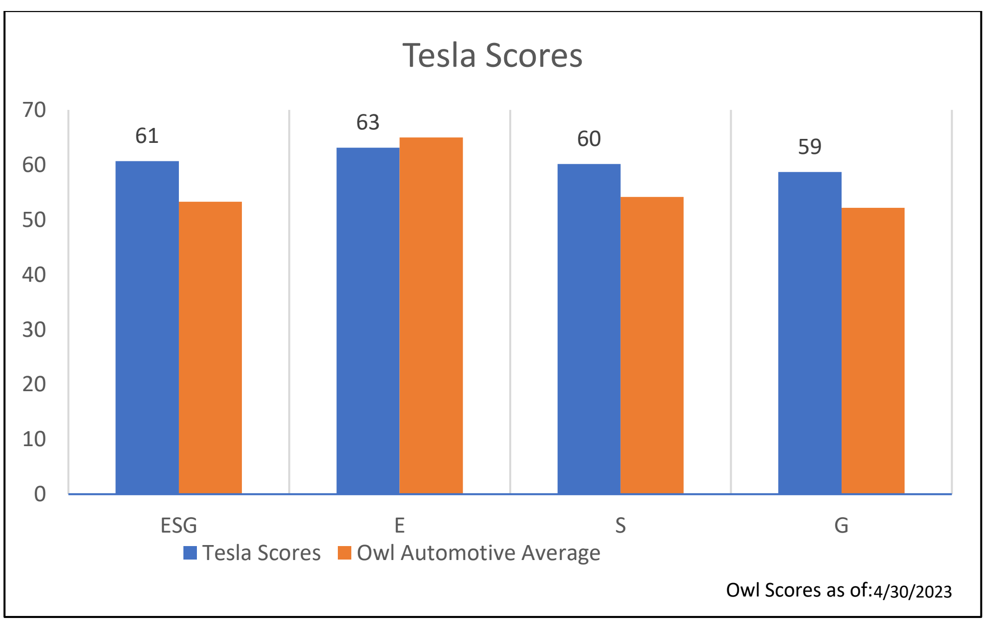
Telsa also faced a racial discrimination lawsuit in 2017 filed by a former contractor. The damages were originally set to be paid at $137 million but were later reduced to $15 million.

<u>Shareholder Engagement</u>:

Our firm has been heavily involved with shareholder proposals at Tesla in recent years. Our firm works with partners like As You Sow and the Interfaith Center on Corporate Responsibility on many matters. We are participants in a working group on governance with members from these organizations and others.

Tesla has been subject to various ESG related shareholder proposals. Most notably in recent engagements, we have voted to remove Elon Musk from having CEO and board of director duality; we also voted against his brother's reelection. We also participated in shareholder campaign requesting transparency into use of forced arbitration clauses in consumer and employee contracts that deny people the right to bring cases to public courts. This was then later filed a shareholder resolution on their proxy ballot two years in a row. In 2022, The Ending Forced Arbitration Act of Sexual Assault and Sexual Harassment was signed into law which prohibits employers from enforcing pre-dispute mandatory arbitration agreements and allows employees to pursue them in court. This was passed bi-partisan, and we are supporting extending this to racial discrimination and harassment, as well.

<u>ESG Scores:</u>



Conclusion:

For better and for worse, Tesla is Elon Musk's company. With that comes the positives of his vision and technological breakthroughs in the EV and solar industries. His tight control of the company has led to statements and decisions that might not always have been in the best interest of shareholders. While our firm has many concerns with the governance and structure of the management team, Tesla is undeniably at the forefront of EVs and hence the progression to a lower emission world.
