

November 1, 2018

Ms. Robyn M. Denholm
Ms. Linda Johnson Rice
Mr. James Murdoch
Tesla, Inc.
3500 Deer Creek Road
Palo Alto, CA 94304
Attention: Corporate Secretary

Dear Mss. Denholm and Johnson Rice and Mr. Murdoch,

We are writing to you as investors with a combined \$773.8 billion in total assets under management, and as substantial investors in Tesla, Inc. (“Tesla”). We are calling on you—as the independent members of the board—to commence a renewal of the board of directors of Tesla in light of the recent settlement between Tesla, Elon Musk, and the Securities and Exchange Commission (“SEC”).

Over the last two years, investors have sought to engage with the board on the issues that have led to the current crisis magnified by the SEC settlement. While we appreciate that some investors had the opportunity to voice concerns during a call with Antonio Gracias in the spring of 2017, we have heard very little, if anything, from the board since then. Given the lack of responsiveness to fundamental governance concerns, we believe that shareholders need new stewards on the board. Now is the time for the board to finally take decisive action on the following best practice corporate governance reforms:

- Create and disclose a robust refreshment plan, including a timeline for director departures;
- Improve director independence by engaging with shareholders to create a suitable pool of director candidates;
- Enhance the board’s skill sets by developing a diverse candidate pool with industry-specific, human capital management, regulatory, and corporate governance expertise;
- Permanently separate the positions of CEO and Chair;
- Adopt proxy access and annual director elections; and
- Strengthen clawback provisions.

Create and Disclose a Robust Refreshment Plan for the Board

We note that adding two independent directors as mandated by the SEC settlement, while an improvement, does not by itself amount to a robust and credible commitment to change the board’s composition, particularly when it is not clear which, if any, directors will be rotated off the board in the future. Given that shareholders have been calling for improvements to the board’s structure with little effect, more concrete steps are needed to demonstrate to shareholders that the company is taking these concerns seriously. The Nominating and

Corporate Governance Committee should articulate a clear refreshment plan with firm timelines, including expected off-rotation of the non-independent directors, such as Antonio Gracias and Kimball Musk. The board should immediately remove Steve Jurvetson given the unexplained length of his absence from the board.

Add Truly Independent Board Members

Pursuant to the SEC settlement, Tesla must appoint two new independent directors to its board.¹ While meeting the technical definition of independence, five of eight current non-executive directors have professional or personal ties to Mr. Musk that, in light of recent events, appear to have put at risk their ability to exercise independent judgment. Tesla's insulated board has allowed directors such as Mr. Gracias and Kimbal Musk, both of whom have personal and financial ties to Elon Musk outside of Tesla, to remain on the board for years. Mr. Jurvetson, another early investor in Tesla whose venture capital firm dismissed him in October 2017 following allegations of inappropriate behavior, has been on leave from Tesla's board for nearly eleven months with no indication as to whether he will return or be replaced.

As the SEC has recognized, Tesla's board needs directors who go beyond the technical definition of "independence," and fulfill the spirit of the term — directors who can actively meet their fiduciary obligations to all shareholders. We urge the board to engage in dialogue with institutional investors to develop a pool of independent director candidates who can provide objective oversight of management's strategies going forward.

Add Candidates with Manufacturing, Human Capital Management, Regulatory, and Corporate Governance Experience

It is equally important for Tesla to recruit directors with professional experience related to the company's current and near-term challenges. While Tesla added media executives James Murdoch and Linda Johnson Rice last year, we believe that the board would benefit from nominees whose skill sets match the company's strategy and current challenges. Specifically, Tesla's board still lacks directors with manufacturing experience, which would be deeply beneficial because of the company's dependence on the Model 3's aggressive production schedule in order to achieve profitability.

Tesla also faces multiple significant regulatory challenges, such as concerns about the future of autonomous driving and issues of workplace safety at its Fremont assembly plant. Moreover, while we were pleased to see that the company reached its most recent Q3 production goals for the Model 3,² the company's call for volunteers to help with delivery of its new cars demonstrates a failed understanding of its operational, employment, and administrative needs. As Tesla moves into its next phases of growth, directors with human capital management and regulatory experience would provide insight into critical elements to the company's long-term growth.

¹ <https://www.sec.gov/news/press-release/2018-226>

² https://www.wsj.com/articles/tesla-produced-80-142-vehicles-in-third-quarter-1538484764?mod=hp_lead_pos6

Lastly, given our prior concerns with the company's governance and shareholder rights structures, one or more board candidates should know how to navigate corporate governance challenges.

Improve Board Diversity

California recently passed a law that would require California-based, publicly traded companies with boards of six or more directors to have at least three women directors by 2021, a requirement that Tesla currently does not meet.³ We hope the timing of this new law coupled with the terms of the SEC settlement will embolden the board to adopt a policy requiring that when seeking new directors, the pool of candidates should include qualified women and minorities. As discussed on our call, we ask you to consider including a directors' matrix in your future proxy statements (as many large companies have done) that includes qualifications, as well as gender and racial/ethnic diversity, so that your investors can see how these attributes align with Tesla's ever-evolving growth and strategy—and where there may be gaps. The positive impact of a diverse board on a company's financial performance is well documented and may also prevent "groupthink".⁴ We urge Tesla to recruit qualified female and minority directors by next year.

Permanently Separate CEO and Chair Positions

The SEC settlement also requires Elon Musk to step down as Chairman for three years, although he may remain on the board as a director. We recognize that Mr. Musk, as CEO and largest shareholder, plays an integral role in the company's vision and success, but believe that in light of recent events, it becomes even more important for the board to provide independent oversight and to ensure accountability for his actions. The reputational damage and harm to shareholder value over the last year demonstrates the need for autonomous board leadership, distinct from the CEO's role. A permanent separation of the Chairman and CEO positions would not only ensure that the board is providing independent oversight over management, but show a proactive commitment to restoring the company's corporate integrity and reputation over the long term.

Adopt Proxy Access and Annual Election of Directors

Tesla should adopt proxy access to allow shareholders to propose candidates alongside incumbent board nominees. By adopting this mechanism the board would demonstrate its interest in engaging shareholders on accountable board composition. We also view annual election of all directors as a critical prerequisite of a robust proxy access policy.

Strengthen the Company's Clawback Provisions

Given the SEC settlement, Tesla's current clawback policy should be expanded to include conduct that violates the law, Tesla's ethics policies and codes of conduct, or results in

³ <https://www.bloomberg.com/news/articles/2018-09-29/california-s-165-all-male-boards-to-face-deadline-under-new-bill>

⁴ "Corporate Governance, Board Diversity and Firm Value," David A. Carter, Betty Simkins, and W. Gary Simpson., *Corporate Governance*, 38 FIN. REV. 33, 51 (2003); "Women on Boards: Global Trends on Gender Diversity on Corporate Boards," MSCI. November 2015.

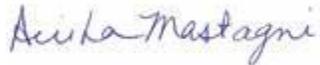
significant reputational or financial harm to the company, irrespective of whether it rises to the level of a financial restatement. Clawbacks should also apply to those who supervise employees engaging in such conduct.

The need for modernization of Tesla's board composition is long overdue. We ask that you seriously consider the changes we suggest here and we invite the board to discuss our requests. We would appreciate a response by November 19, 2018. To coordinate a discussion, please contact Dieter Waizenegger at dieter.waizenegger@ctwinvestmentgroup.com.

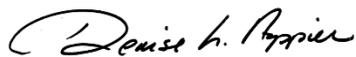
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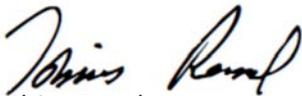
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New York State Comptroller



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