

Calvert Cites Tesla for Diversity Shortfalls

By: John Streur | & Kimberly Stokes | October 11, 2021

Washington - Calvert applauds Tesla's contributions toward creating a net-zero carbon economy through electric vehicles (EVs). At the same time, however, we recognize the critical importance of fostering a diverse and inclusive workforce in an increasingly competitive, global market. Here, we have urged Tesla to improve. Several of the Calvert funds have filed a shareholder resolution asking the company to provide more quantitative data about its diversity, equity and inclusion (DEI) efforts.

In our view, the company's DEI disclosures and transparency have lagged its peers. According to preliminary reports, the resolution appears to have passed, with shareholder support overriding management's objections.

For the moment, we are accepting Tesla's claim that they want to have a more diverse and inclusive workplace. The question is, are they capable of achieving this? Right now, in our view, they are not and other companies are outperforming them; therefore, we are taking action to get them moving — and we want the data needed to measure their progress regularly.

New market entrants pose challenges

A number of the Calvert funds have held positions in Tesla at various times, and Calvert is keenly aware that the competitive environment for electric vehicles is changing rapidly. Tesla faces a multitude of new threats to its market position as the world's largest auto companies attempt to retake market share. New market entrants from the tech sector, venture capital-backed startups and state-backed companies from China are entering the EV space.

The typical potential buyers of a Tesla are brand-sensitive and expect — everdemand — highspeed innovation as well as leadership in technical specs. After years of largely having the market to themselves, Tesla now has to compete with many strong players. In other words, the race is on for talent. Importantly, research shows that diverse and inclusive teams drive more innovation. That is why Calvert filed a shareholder resolution asking the company for greater focus, transparency and performance metrics in this area. We are taking action that we believe will be the catalyst for the change needed at Tesla and to give us (and all stakeholders) the transparency needed to analyze its ability to improve and maintain its competitive edge.

Driving Tesla toward greater inclusion

At Tesla's Annual General Meeting October 7, Kimberly Stokes of Calvert made a statement in support of the shareholder resolution filed by the Calvert funds:

"Tesla states in its 2020 Diversity Equity and Inclusion (DEI) Report that it is 'on a mission to accelerate the world's transition to sustainable energy.' We at Calvert Research and Management heartily support this effort and believe it is important to invest in companies that are leading the charge to a net-zero carbon economy. However, we also know that it takes human resources to achieve these goals and ask Tesla to demonstrate how the company's human capital management strategy — and specifically its diversity, equity and inclusion strategy — supports the level of innovation and collaboration necessary to achieve this goal."

The business case for diversity is clear. Numerous studies demonstrate the potential benefits of a diverse corporate workforce on improving financial returns and stock performance.

Understanding Calvert's specific DEI reporting requests

Tesla's 2020 DEI Report lacks sufficient quantitative and qualitative information for investors to adequately compare the company's performance over time and relative to peers. *What the report does reveal is that Tesla's leadership is 83% male and 59% white, despite having what the company describes as a "majority minority workforce" — and all at a time when Tesla's customer base is evolving and growing more diverse.*

Calvert asks that Tesla's reporting include the process the Board follows to assess the effectiveness of the company's DEI programs and the results of that assessment. We also ask that Tesla disclose its full EEO-1 report — a comprehensive breakdown of Tesla's workforce by race and gender according to 10 employment categories, which is already collected and provided to the United States Equal Employment Opportunity Commission every year.

In its DEI Report, Tesla states, "We do the work required to ensure that our culture is as diverse and inclusive as it is collaborative and driven." Nonetheless, in order to fully understand whether Tesla is executing well on its stated strategy, the company must be more transparent about its DEI policies and practices and "do the work" to provide investors with the reliable, consistent and comparable data we need to make informed investment decisions.

We acknowledge that Tesla is committed to integrating DEI reporting into the company's annual Impact Report but want the Board to understand that Tesla's disclosure lags far behind peers.

Calvert's engagement moves the DEI needle

In 2020, Calvert analyzed the top companies held in its core portfolio, represented by Calvert US Large Cap Core Responsible Index Fund. At that time, less than 20% were disclosing EEO-1 data. Following our engagement, more than 70% of these companies have committed to disclosing their full EEO-1 report on an annual basis.

We are concerned that Tesla's lack of focus on DEI could hinder the company's ability to innovate in the future. We urge the Board to commit to full disclosure rather than incremental, ineffective action.

To underscore how important this issue is for Tesla to get right, Tesla was ordered by a San Francisco jury to pay \$137 million to a Black former contractor who sued for racial discrimination at work.¹ Additionally, in May 2021, an arbitrator ruled that Tesla had to pay \$1 million to a different former employee as a result of arbitration over similar allegations. Calvert urges Tesla to increase transparency in a way we believe will benefit Tesla employees and may help protect shareowner value. Change is needed here; Calvert is taking action to help propel that change.

Bottom line: Calvert views human capital management, and specifically DEI, as a key area where corporate transparency and metrics are needed today — and vital to market competitiveness and innovation. A groundswell of support for our funds' shareholder resolution at Tesla underscores that investors share these views, recognizing DEI as material to corporate success.

1. NPR, Updated October 5, 2021, "Tesla must pay \$137 million to a Black employee who sued for racial discrimination," by Joe Hernandez.

As of September 30, 2021, Calvert portfolios held the following companies within its Automotive Centers subindustry:

- Bayerische Motoren Werke AC
- Daimler AG
- Geely Automobile Holdings Limited
- Ford Motor Company
- Great Wall Motor Co., Ltd. Class H
- Guangzhou Automobile Group Co., Ltd.
- Isuzu Motors Limited
- Kia Corporation
- Mahindra & Mahindra Ltd.
- Maruti Suzuki India Limited
- NIO Inc. Sponsored ADR Class A
- Renault SA
- SUBARU Corp
- Tata Motors Limited
- Telsa Inc.
- Thor Industries, Inc.
- Toyota Motor Corp.
- Volkswagen AG

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["Tesla must be more transparent about its DEI policies and practices and 'do the work' to provide investors with the reliable, consistent and comparable data we need to make informed investment decisions."](#)

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