TCI Fund Management Limited

Mr Keith Creel
Chief Executive Officer
Canadian Pacific Railway
7550 Ogden Dale Road S.E.
Calgary, AB
T2C 4X9, Canada

30 November 2019

Dear Keith,

Carbon Emissions Disclosure

TCI Fund Management Limited manages over $30 billion across a range of asset classes. Since inception of the business over 15 years ago, cumulative investment returns have substantially outperformed equity index benchmarks.

TCI is a major shareholder in Canadian Pacific owning around 8% of the company.

Investment approach and engagement

As part of our investment process we assess a range of ESG factors, particularly climate change risk.

TCI believes that climate change-related risks, in particular a company's greenhouse gas (GHG) emissions, will have a material effect on a company's long-term profitability, sustainability and investor returns. These risks include regulation, taxation, competitive disadvantage, brand impairment, financing, physical asset impairment and litigation.

We actively engage on ESG to help us understand, quantify and influence a company's exposure to climate change-related risks and the way it is managing those risks.

Emissions disclosure

We require companies in which we invest to make appropriate and timely public disclosure of carbon and other GHG emissions. Such disclosure should include targets for emissions intensity reduction and absolute level reduction.

TCI fully supports compulsory disclosure on a standardised basis and the use of the Task Force on Climate–related Financial Disclosure (TCFD) reporting framework (www.tcfdhub.org).

In our view, reporting to CDP (www.CDP.net) is the best way to implement TCFD. **We expect all our portfolio companies to make full annual public disclosure to CDP.**

Low-Carbon Transition Plans

We expect companies in which we invest to have a credible, publicly-disclosed plan to reduce GHG emissions. This plan should include measurable science-based targets that align with the Paris Agreement, which requires full de-carbonisation of economies (net zero emissions) by 2050.

Actions that should be included in a low-carbon transition plan are to:

1. Change business processes to reduce the company's carbon footprint;
2. Introduce efficient energy management into buildings and factories;
3. Source low carbon energy through direct generation or power purchase agreements;
4. De-carbonise transport fleets, e.g. through electric vehicles;
5. Offset emissions from corporate travel, e.g. through afforestation;
6. De-carbonise supply chains and helping customers lower their carbon intensity;
7. Advocate for regulations which drive the de-carbonisation of their industry to ensure its sustainability.

Voting

1. **We will typically vote against all directors of companies which do not publicly disclose their emissions and do not have a credible plan for their reduction.**
2. **We will also vote against auditors where the Annual Report and Accounts fail to report material climate risks.**

Divestment

We will also evaluate divestment where a portfolio company refuses to disclose its emissions and does not have a credible plan for their reduction.

Canadian Pacific disclosure to CDP

We are pleased to see that Canadian Pacific has provided disclosure to CDP for 2018 and 2019 and we have carefully analysed these submissions.

However, for 2018, CDP awarded Canadian Pacific only an overall C grade. We note that you expect this to improve to a B grade in 2019, but this would still be an unsatisfactory score. Canadian Pacific is a world class company and should be achieving an A grade rating, which represents best practice environmental stewardship and disclosure. (Please see the Appendix for CDP's guidance on how to achieve an A grade). By comparison, in 2018, peer companies Canadian National was rated A and Union Pacific rated A-.

In addition, strong leadership in environmental stewardship and disclosure would reinforce your competitive advantage in freight transportation when compared to trucking.

Canadian Pacific shortcomings and TCI requirements

There are several significant shortcomings in Canadian Pacific's climate-related disclosure and initiatives:

1. You should use qualitative or quantitative climate-related scenario analysis to inform your business strategy, although we note that you anticipate doing so in the next two years with oversight from the recently formed Sustainability and Risk Committee;

2. Climate scenario analysis should be based on the approach advocated by CDP and the Science-based target Initiative (SBTI). For example, Canadian National has adopted this approach and set a low-carbon transition target to reduce GHG emissions intensity by 29% by 2030;

3. Senior management should be incentivised to deliver such emissions targets on a timely basis and all staff should be incentivised to play their part (for example in helping to deliver the efficiency and energy reduction targets). A meaningful percentage of incentive compensation should be tied to these targets;

4. There is only limited analysis and disclosure of Scope 3 emissions. Scope 3 emissions should include purchased and capital goods, fuel and energy and use of products sold;

5. The 2019 submission suggests there is limited engagement with your value chain (customers only) on climate-related issues. Proper engagement with your supply chain via CDP's Supply Chain Initiative is necessary for Scope 3 emissions disclosure and for managing the emissions of your full supply chain.

Our recent discussion with Laird Pitz, Glen Wilson, Scott MacDonald and team was very insightful, demonstrating some of Canadian Pacific's efforts to de-carbonise your business and value chain:

- Use of the GE trip optimiser has yielded a 6-9% fuel efficiency improvement to date, with new technology expected to deliver further savings;
- Progressive locomotive modernisation programme;
- Introduction of an online carbon emissions calculator which helps customers calculate emissions savings moving goods by rail rather than truck;
- Scrap rail ties are sent to electricity co-generation facilities rather than to landfill.

The need to de-carbonise freight transportation

Our discussion also highlighted the important role Canadian Pacific has in the fight to de-carbonise freight transportation. You have highlighted that 94% of your direct emissions originate from rail operations. Hence, the main focus of your low-carbon transition plan is on:

- Improving rail locomotive fuel efficiency (e.g. fleet renewal, technology and network fluidity);
- Increasing use of low-carbon fuel blends.

Current regulations require fuel producers to blend an average of 2% biofuel with diesel. Over time, this has the potential to be 10-15% under the proposed Clean Fuel Standard (CFS). The CFS is due to come into force in 2022 and is a key part of Canada's climate plan to reduce national GHG emissions by 30% below 2005 levels by 2030, in line with Paris Agreement goals.

We recommend that Canadian Pacific continues to explore greater use of advanced biofuels to decrease the amount of diesel required in fuel blends.

Given the climatic challenges of "gantry" electrification of the network, locomotives powered by lithium ion batteries and hydrogen fuel cells may offer an alternative to diesel blending:

- The Wabtec-GE lithium-ion battery-powered locomotive paired with diesel locomotives in a "consist" offers an interesting opportunity to improve fuel efficiency by around 15%;
- In Germany, the Alstom Coradia iLint hydrogen fuel cell passenger train is already in service;
- In the UK, the HydroFLEX passenger rail system is being pilot tested.

We encourage Canadian Pacific to continue to test these new technologies with other Class 1's and manufacturing partners, and to increase your R&D and collaboration efforts to accelerate all viable biofuel, electrification, hydrogen fuel cell technologies and other de-carbonisation opportunities.

On advocacy, we are pleased to see that you engage directly with trade associations and policy makers of federal and provincial governments on efficiency standards, carbon markets, clean fuel regulations and carbon finance.

Canadian Pacific has an important role to play in increasing the modal shift from truck to rail freight, given the massive fuel efficiency advantage (4x) and 75% lower GHG emissions for an equivalent volume of freight. In particular, lobbying for tighter environmental regulations on trucks (including a carbon tax on diesel) would increase market share for rail. The company should actively market to customers the cost and environmental benefits of using rail transport over truck.

We appreciate the time and effort Canadian Pacific is making to de-carbonise its business, although there is much more work to be done. We found the discussion with your team very helpful and we look forward to continuing the dialogue.

Yours sincerely,

C. Hohn

Chris Hohn

Philip Green

Ben Walker

Ben Walker

Appendix - How to become an A grade company in the CDP Climate Change Program

An "A grade" is the highest overall CDP score achievable and demonstrates a company's:

- Strong industry leadership on environmental actions and stewardship;
- Thorough understanding of the risks and opportunities related to climate change;
- Alignment with TCFD disclosure recommendations.

CDP uses its scoring methodologies to incentivise companies to measure and manage environmental impacts through participation in CDP's climate change, water, forests and supply chain programs. Scoring provides a roadmap for companies to achieve best practice.

Companies are assessed and scored across four consecutive levels, as the company moves towards strong environmental stewardship. Minimum scores must be achieved in order to move to the next level. Inclusion on CDP's A grade list requires a high leadership score.

The levels are:

1. Disclosure – every question is scored for quality and depth of disclosure, e.g. emissions, targets, environmental impact, strategy, governance, engagement;
2. Awareness – depth of analysis and understanding on how environmental issues affect the business;
3. Management – Evidence of actions taken to address environmental issues;
4. Leadership – Actions represent best practice as formulated by organizations working with CDP to advance environmental stewardship (e.g. Science Based Target initiative, CEO water mandate, CERES, WWF).

Help and guidance

CDP documents available to companies on the CDP website:

1. Scoring Introduction 2019
2. Climate Change 2019: General Scoring methodology Category Weightings

Specific guidance can be obtained from the **CDP Reporter Services Group**, for example, on how to improve the quality of disclosure and the actions required to demonstrate improvement.