TCI Fund Management Limited

Mr Jean-Jacques Ruest
Chief Executive Officer
Canadian National Railway
935 de La Gauchetiere Street West
Montreal, Quebec
H3B 2M9, Canada

30 November 2019

Dear Jean-Jacques,

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 National owning around 3% 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 National disclosure to CDP

We are pleased to see that Canadian National has provided disclosure to CDP for 2018 and 2019 and we have carefully analysed these submissions. **For 2018, CDP awarded Canadian National an overall A grade.**

Congratulations, this is the highest overall score achievable that demonstrates Canadian National's strong industry leadership on environmental actions and stewardship, thorough understanding of the risks and opportunities related to climate change and alignment with TCFD disclosure recommendations.

Our recent discussion with Chantelle Despres and Paul Butcher was very insightful. We are particularly impressed with your numerous de-carbonisation initiatives:

- A low-carbon transition plan that is designed to reduce GHG emissions intensity by 29% from 2015 levels, by 2030. Your collaboration with the Science-Based Targets Initiative (SBTI) to assess rail freight sector reductions required to meet the Paris Agreement adds credibility and rigour to your target;
- The innovative EcoConnexions Program which engages employees, communities and customers in environmental initiatives, including emissions reduction;
- The internal "EcoFund" which reinvests savings into capital projects to increase energy efficiency throughout the organisation;
- Use of an internal carbon price to drive, inter alia, energy efficiency, low-carbon investment and to change behaviour (internal, supplier);
- Online carbon emissions calculator, which helps customers calculate emissions savings moving goods by rail rather than truck;
- Publication of the full annual submissions to CDP in a user-friendly format.

<u>The need to de-carbonise freight transportation</u>

Our discussion also highlighted the important role Canadian National has in the fight to de-carbonise freight transportation.

You have highlighted that 90% 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.

<u>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).</u> 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 National 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, <u>locomotives powered by lithium ion batteries and hydrogen fuel cells may offer an alternative to diesel blending</u>:

- 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 National 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 National 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 very much appreciate the time and effort Canadian National is making on de-carbonising its business and the positive example this sets for other companies. We found our discussion with your team very helpful and look forward to continuing the dialogue.

Yours sincerely,

C. Hohn

Chris Hohn | Philip Green | Ben Walker

Ben Walker

Chris Hohn

Philip Green

Ben Walker