

Canadian National Railway (CNI) ESG Report

Profile:

Canadian National is one of North America's largest railroads, with 19,500 miles of rail across North America. Canadian National is also Canada's second-largest trucking company.

Our firm believes emissions and worker safety are the most material issues associated with Canadian National's business.

What Canadian National Does Well:

Canadian National Rail has long held the position as the most innovative company in an industry that has often struggled with employee and community relations. Some notable recognition the company has received includes:

- Included in the *Dow Jones World Sustainability Index* for the 11th consecutive year and 14 consecutive years in the North American version of the index.
- Placed on the *Carbon Disclosure Project's Climate Change "A" List* in 2022 for the seventh consecutive year.
- The company was the first railroad company to issue a Task Force on Climate-Related Financial Disclosure (TCFD) Report in 2020.
- First North American railroad company and one of the first 100 global companies to adopt Science-Base Targets (SBTs).

Canadian National has prioritized fuel and energy efficient operations. Since 1993, the company has reduced railroad-related emissions by 43%; the company uses 15% less fuel per gross ton mile compared to the industry average. Since 2011, the company has reduced energy consumption by 30% while diverting 200,000 tonnes of operational waste from landfills too.

While Canadian National has a good track record, management continues to push for new targets. In 2021, the company revised scope 1 & 2 emissions targets to a 43% reduction from the prior 29% reduction by 2030. The company has committed to a 40% reduction in scope 3 emissions by 2030. Scope 1 & 2 track the company's emissions from operations while scope 3 refers to all other emissions with supply chain footprints being the main factor.

Worker safety is another important issue for the railroad. As of the fourth quarter of 2022, the company had gone over two years without a fatality and 600 days without a serious injury. In 2022, the company's injury rate decreased 20% to 1.10 injuries per 200,000 hours of work; since 2020, this rate has fallen 33%. 10% of management's annual bonus is linked to injury and accident metrics too.

Another unique part of Canadian National is a proactive approach to climate initiatives. As noted above, the company led the industry in aligning with both TCFD and SBTs. The company has also proposed and encouraged shareholders to approve the company's

Climate Action Plan the last three year; our firm typically sees shareholders proposing these plans, not the company itself.

Concerns:

One concern with Canadian National is the facilitation of fossil fuels. The company transports coal, petroleum, and other chemicals, which accounted for nearly 25% of revenues in 2022, up from 24% in 2021 but down from 27% in 2020.

Another concern is the company’s definition of scope 3 emissions used for targets. The company’s goal only covers 69% of total scope 3 emissions, excluding waste from operations and purchased goods and services among others.

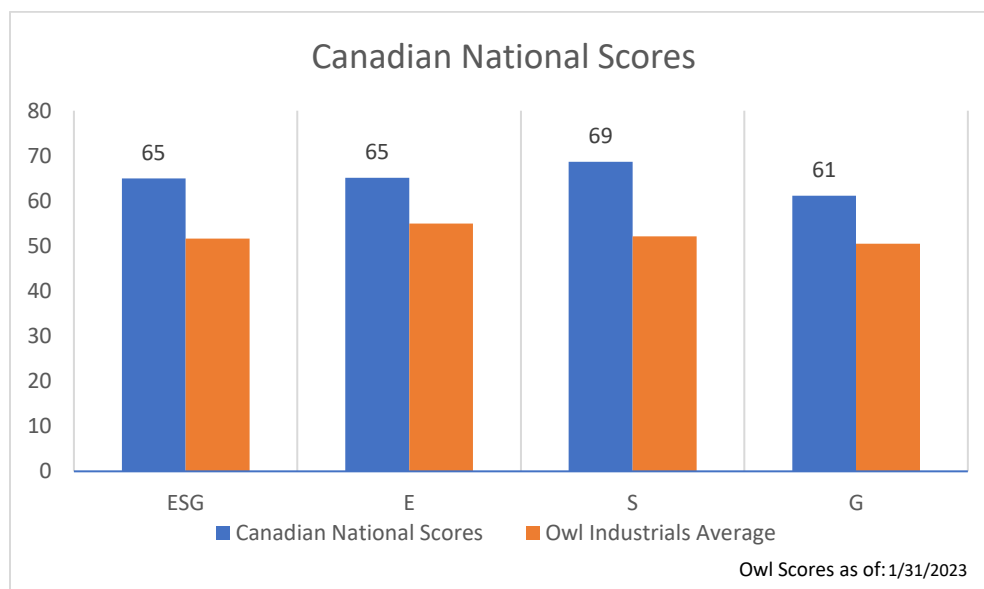
Worker treatment is another pressing topic. The company has not been proactive in offering paid sick leave but forced to in the US and Canada after workers threatened strikes in 2022. Canadian National has also been engaged with unions in the US and Canada regarding workers compensation, which will lead to consistent compensation increases for workers.

Railroad impacts on indigenous lands is another pertinent issue. The company operates on or in proximity to 200 different reserve lands of indigenous people. While this presence is unlikely to change, our firm is encouraged that the company has proactively worked on relations with these communities since 2013.

Shareholder Engagement:

None.

ESG Scores:



Conclusion:

Overall, our firm believes Canadian National is ESG-conscious with management prioritizing initiatives not only because it benefits the cost structure of the business but benefits the environment and all stakeholders. Therefore, we believe Canadian National

is a good ESG investment in the transportation industry for clients wanting exposure to broad economic growth.

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