Investment Stewardship

Vote Bulletin: Canadian Pacific Railway Limited and Canadian National Railway Company

Company	**Canadian Pacific Railway Limited (TSE: CP)** **Canadian National Railway Company (TSE: CNR)**
Market and Sector	Canada/Industrials
Meeting Date	Canadian Pacific Railway Limited: 21 April 2021 Canadian National Railway Company: 27 April 2021
Key Resolutions[1]	Canadian Pacific Railway Limited **Item 5**: Shareholder Proposal to Hold an Annual Non-Binding Advisory Vote on Climate Change Canadian National Railway Company **Item 4**: Management Advisory Vote on Climate Change
Key Topics	Climate risk
Board Recommendation	The board of each company recommended voting FOR these proposals
BlackRock Vote	BlackRock voted FOR these proposals

Overview

Climate risk presents significant investment risk. As discussed in our commentary "Climate Risk and the Transition to a Low-Carbon Economy", climate risk carries financial impacts that will reverberate across all industries and global markets, affecting long-term shareholder returns, as well as economic stability. The freight rail industry is facing intensifying scrutiny over its greenhouse gas (GHG) emissions footprint. The transportation industry accounts for approximately 30% of GHG emissions, as 90% of the fuel used has traditionally been petroleum-based.[2]

In his 2021 letter to CEOs, BlackRock's Chairman and CEO, Larry Fink, wrote that "there is no company whose business model won't be profoundly affected by the transition to a net zero economy…" and we have already "begun to see the direct financial impact [of climate change] as energy companies take billions in climate-related write-downs on stranded assets and regulators focus on climate risk in the global financial system." BlackRock Investment Stewardship (BIS) engages with companies to assess how they are aligned to a scenario in which global warming is limited to well below 2° C and is consistent with a global aspiration to reach net zero

[1] Canadian Pacific Railway Company, "2021 Annual General Meeting", and Canadian National Railway Company, "Annual General Meeting of Shareholders".

[2] US Environmental Protection Agency (EPA), "Green House Gas Emissions".

GHG emissions by 2050.[3] Climate change presents risk and opportunity. BIS believes that those companies that proactively consider their operational footprint and energy demands in the context of a low-carbon transition are best positioned to avoid major disruptions and deliver long term value to their shareholders.

BIS has for several years engaged with two Canadian rail companies, Canadian Pacific Railway Limited (CP) and Canadian National Railway Company (CN), to discuss corporate governance issues that we believe drive long-term shareholder value. This includes management and board oversight of climate-related risks as well as sustainability disclosures. We also made clear our expectation that companies align reporting with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the sector-specific standards of the Sustainability Accounting Standards Board (SASB).

Both CP and CN's 2021 annual general meetings (AGMs) had on the ballot a non-binding advisory vote on their climate action plans, i.e., a "say on climate," with one major difference; at CP, the advisory vote was a shareholder proposal, while at CN, management proposed the vote to shareholders. Both companies recommended that shareholders support the proposals.

Rationale for BlackRock's Vote

CP Item 5: Shareholder Proposal to Hold an Annual Non-Binding Advisory Vote on Climate Change (FOR)

CN Item 4: Management Advisory Vote on Climate Change (FOR)

BIS voted FOR these proposals at each company because they meet our expectations that companies have clear policies and action plans to manage climate risk and provide roadmaps towards their stated climate ambitions and targets

Canadian Pacific

The proposal at CP requested that the company present to shareholders before the end of 2021 "a climate action plan disclosing GHG emissions levels consistent with the TCFD recommendations and the strategy that the corporation has adopted or will adopt to reduce emissions in the future, including reduction efforts over the last year."[4] The proposal also requested that the board report annual emissions reductions to shareholders beginning at the 2022 AGM, where shareholders will have a non-binding advisory vote to approve the emissions reduction plan. CP recommended that shareholders vote for this proposal.[5]

CP's existing disclosures, climate action plan, and climate risk oversight are rigorous and robust. The company's disclosures include stringent commitments that are aligned with the recommendations of both SASB and the TCFD. For example, the company has committed to align its emissions reduction efforts with the Paris Agreement and its GHG emissions reduction targets are currently being verified by the Science Based Targets Initiative (SBTi). Furthermore, in 2020, the company completed a climate scenario analysis to understand the full range of possible climate change impacts to its business and reported, for the first time, the company's full scope 3 GHG emissions. CP has also invested in and installed solar panels for its own energy use and is piloting the conversion of an existing locomotive into a zero-emission hydrogen fuel cell engine to explore scalable application.[6]

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[3] The global aspiration is reflective of aggregated efforts; companies in developed and emerging markets are not equally equipped to transition their business and reduce emissions at the same rate—those in developed markets with the largest market capitalization are better positioned to adapt their business models at an accelerated pace. Government policy and regional targets may be reflective of these realities.

[4] Canadian Pacific Railway Company, "Notice of Annual and Special Meeting and Management Proxy Circular 2021".

[5] See previous footnote.

[6] Canadian Pacific Railway Company, "Notice of Annual and Special Meeting and Management Proxy Circular 2021" and "2020 Climate Statement".

Notably, the company has proposed that even if the shareholder proposal does not receive at least majority support, it will continue to proactively manage the climate plan and report on progress to shareholders, although shareholders would not have an annual advisory vote on the topic.

In addition to supporting management's recommendation and direction of travel, BIS voted for this proposal because we believe that it would reinforce the company's considerations of climate risk and opportunity within its strategy, alongside existing disclosures that demonstrate these actions.

Canadian National

At CN, management proposed a similar advisory vote regarding its Climate Action Plan, "disclosing the Company's greenhouse gas emissions and the strategy the Company has adopted or will adopt…to reduce the Company's greenhouse gas emission levels in the future, the whole in a manner consistent with the TCFD recommendations.[7]" Also included in the proposal was the company's commitment to report annually on progress towards achieving the targets set out in its Climate Action Plan at each AGM. CN would ask shareholders to vote on the plan "on a non-binding advisory basis."[8]

BIS also considers CN an industry-leader on climate disclosure. CN's current disclosures meet BIS' expectations that companies have clear policies and action plans to manage climate risks and to realize opportunities presented by the global energy transition. The company has TCFD and SASB-aligned reporting, including emissions targets aligned with goals of the Paris Agreement using guidance from the SBTi.

Importantly, CN has been explicit that this vote is advisory and that oversight and management of the company's decarbonization strategy remains with the board and executive management, not shareholders.[9] BIS agrees with and supports this clear delineation in the roles and responsibilities of shareholders and the board/executive management on this issue.

While BIS is supportive of these proposals for the reasons stated above, we will continue to take a case-by-case approach to "Say on Climate" proposals more broadly.

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[7] Canadian National Railway Company, "Management Information Circular 2021".

[8] See previous footnote.

[9] Canadian National Railway Company, "Management Information Circular 2021".

About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) plays a key role in our fiduciary approach. As an essential component of our responsibility to our clients, we engage with companies to advocate for the sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

Our approach is from the perspective of long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

As stewards of our clients' assets we have a responsibility to make sure companies are adequately managing and disclosing environmental, social and governance (ESG) risks and opportunities that can impact their ability to generate long-term financial performance — and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company's approach to governance and sustainable business practices, how we communicate our views, and how we ensure companies understand our expectations. If a company falls short of our expectations and we have been given the authority to vote the company's shares, we would hold them accountable by voting in the best long-term economic interests of those clients that have given us proxy voting authority. As detailed in our Global Principles, proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

We are committed to transparency in our stewardship practices. Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our Global Principles, market-level voting guidelines, and engagement priorities, material to a company's sustainable long-term financial performance. We publish select vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders into our approach to the votes that we believe require more detailed explanation.