



TCI Fund
Management
Limited

Presentation to the Board of Canadian National Railway

31 August 2021

Canadian National

TCI Fund Management Limited

- Founded by Sir Chris Hohn in 2003
- Investment management company based in London with over \$40bn in assets under management
- Strong track record of performance; 18 years of compounding at 18% per annum
- Long history of investing in the North American railroads; deep knowledge of the industry and key players
- Beneficial owner of more than 5% of Canadian National's outstanding shares, valued at \$4bn
- Other railroad investments: Canadian Pacific (\$4bn) and Union Pacific (\$1.3bn)
- TCI also owns other high-quality companies such as Alphabet, Charter, Microsoft, Visa & Moody's
- Endowed a \$6bn foundation, www.ciff.org

CN has the best network in North America and should be the most efficient and fastest growing railroad

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Canadian National has been failing to meet its objectives under current leadership

"We're not running the company for the OR, we're running the company for EPS growth, operating income, free cash flow"

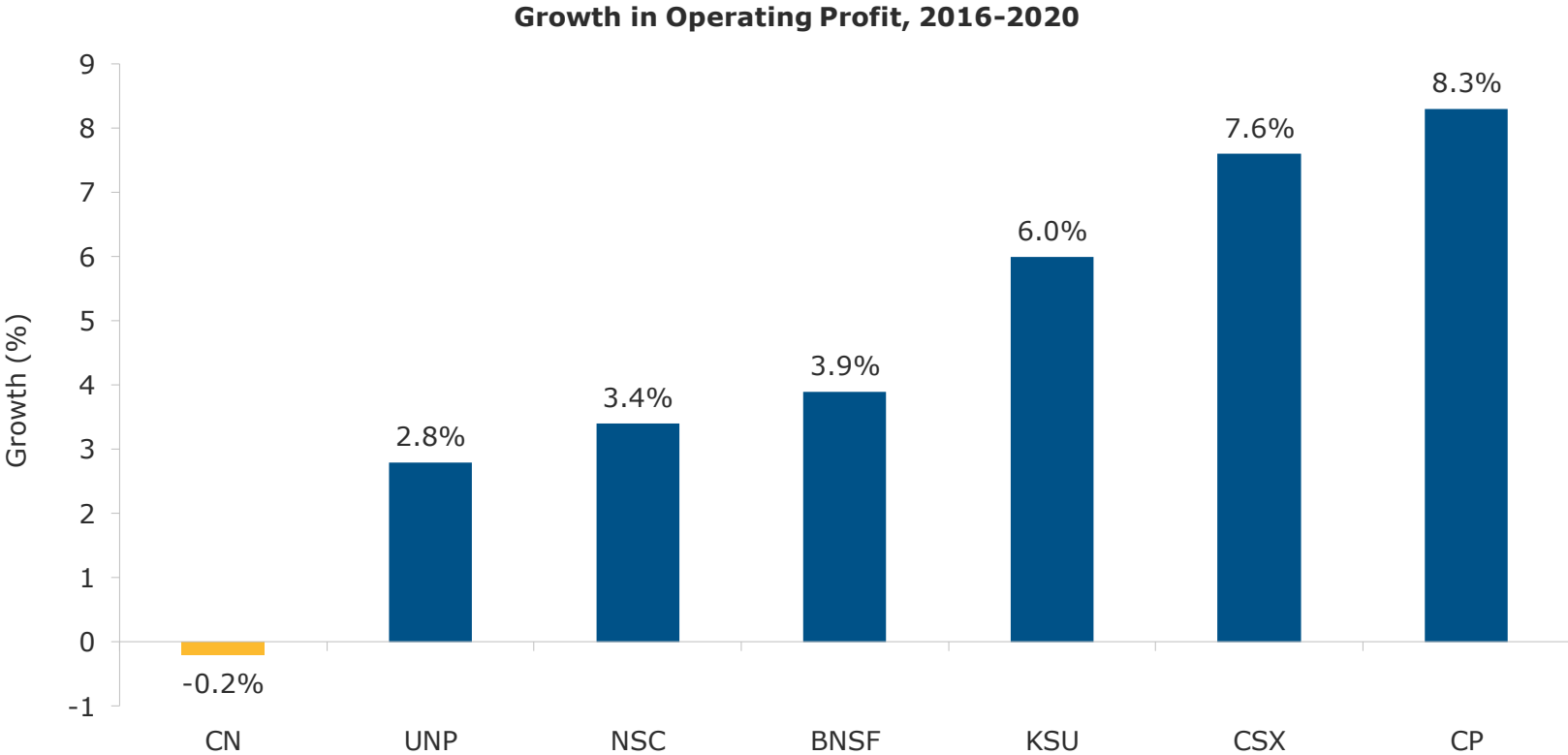
Jean-Jacques Ruest, CEO, Q2 2021 earnings conference call

C\$	Q2 2018	Q2 2021	Change
Operating income	1,519m	1,382m	-9%
EPS	1.51	1.49	-1%
Free cash flow	820m	741m	-11%
<i>Operating ratio</i>	58.2	61.6	340bps

Mr. Ruest was appointed CEO in July 2018, after having served as Interim CEO since March 2018

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CN is the only railroad that has not grown its operating profit since 2016



Source: TCI analysis of publicly traded companies

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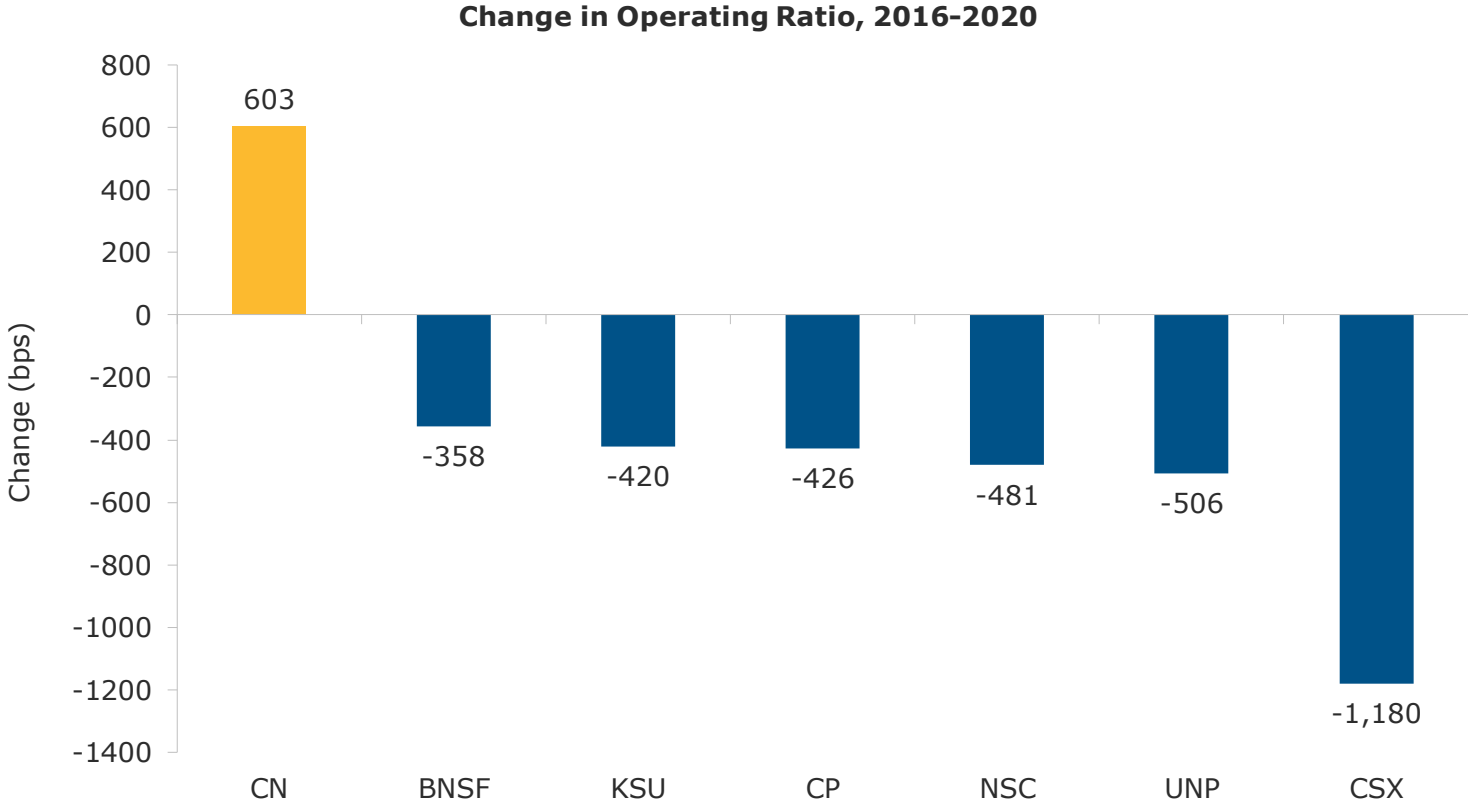
CN has gone from having the best operating ratio in the industry to the worst

	2017	Rank
CN	59.8%	Best
CP	62.3%	2nd
UNP	62.8%	3rd
KSU	64.3%	4th
CSX	67.2%	5th
NSC	68.6%	Worst

	2Q 2021	Rank
UNP	55.1%	Best
CP	55.3%	2nd
CSX	65.7%	3rd
NSC	60.3%	4th
KSU	61.4%	5th
CN	61.6%	Worst

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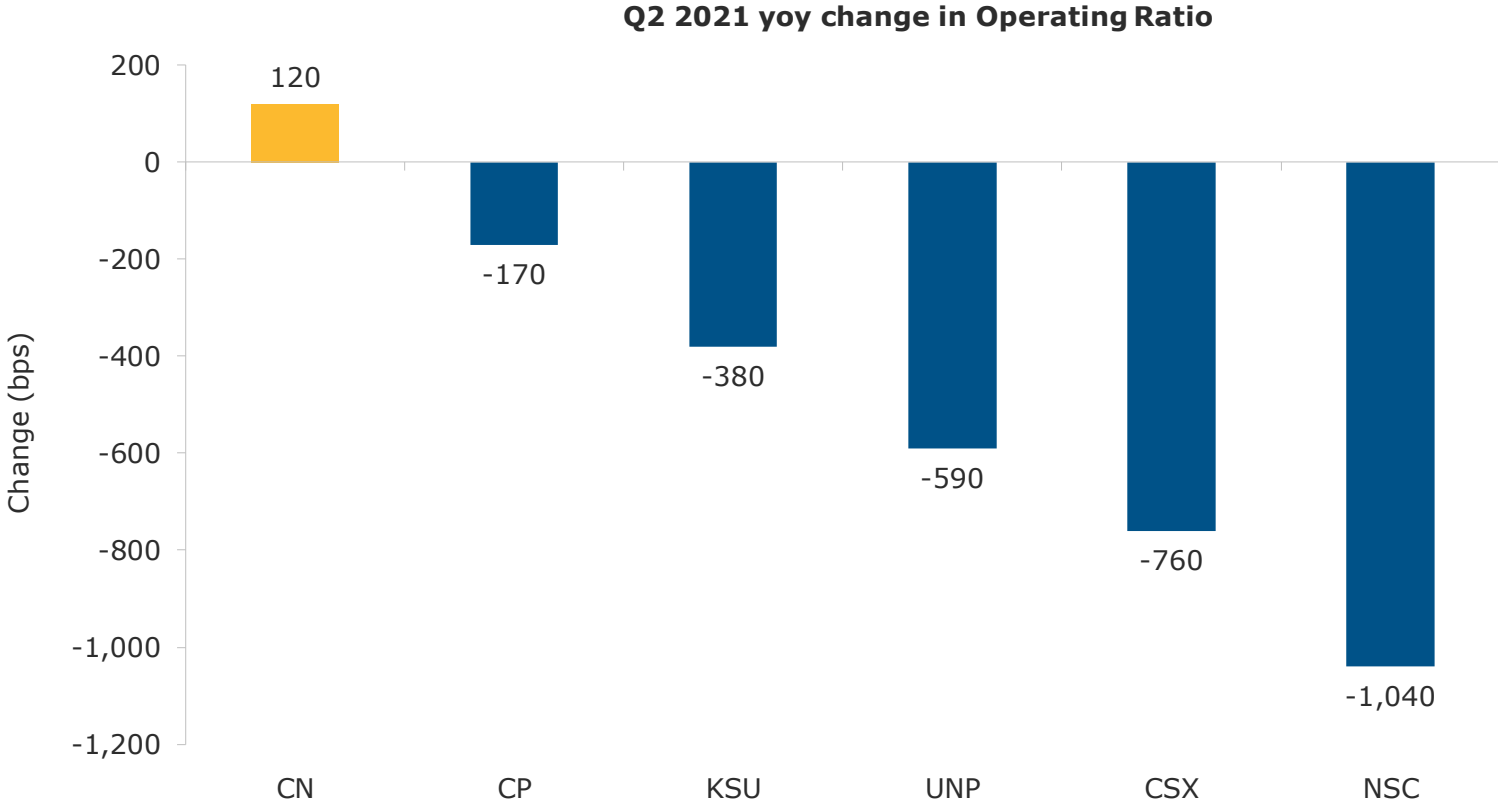
Change in Operating Ratio, 2016-2020



Source: TCI analysis

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Recent results have been significantly worse than peer railroads



Source: TCI analysis

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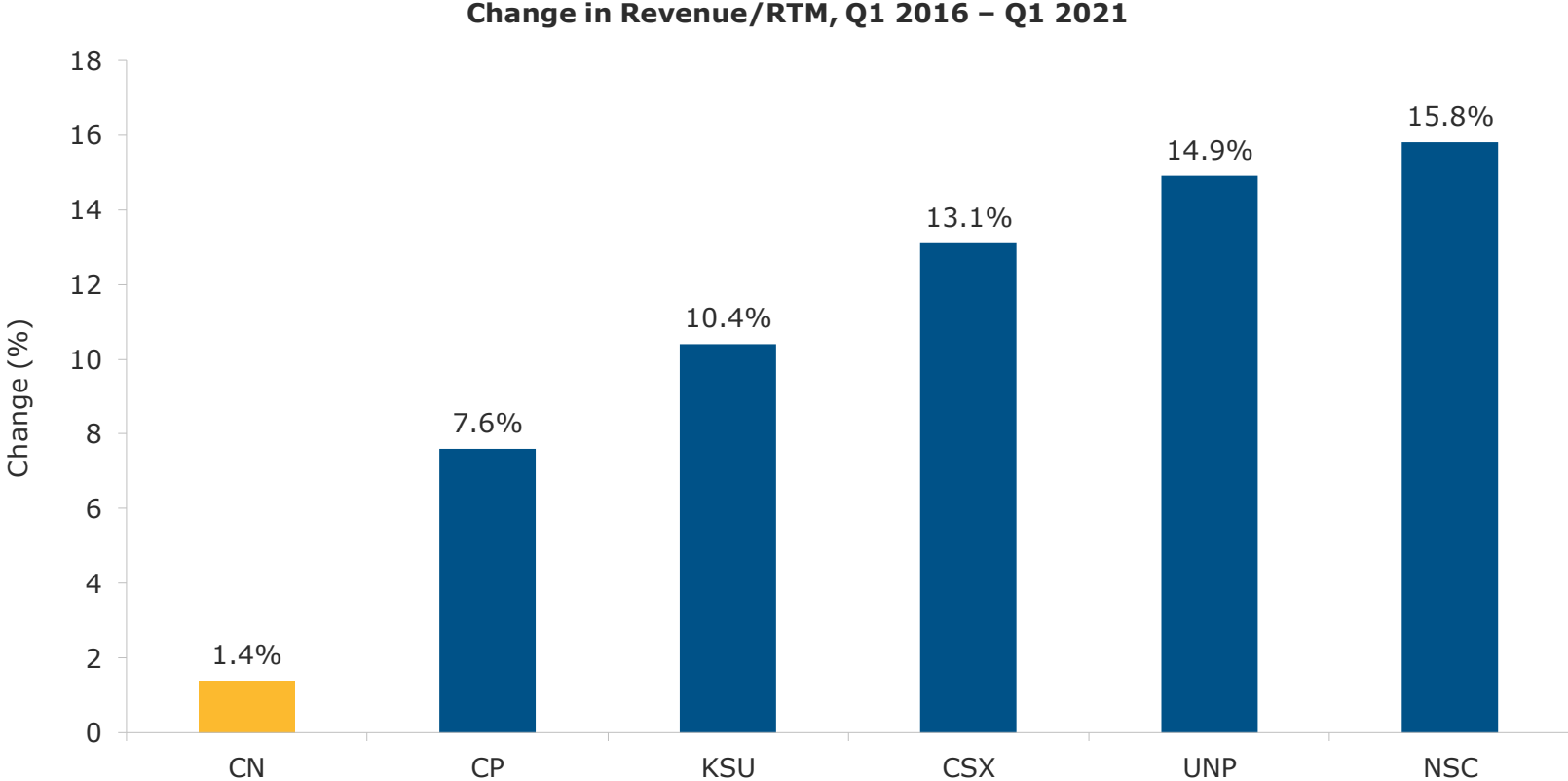
CN is the only railroad that remains below pre-pandemic levels on all key metrics

Q2 2021 vs Q2 2019	Revenue	EBIT	OR	RTMs	Cents per RTM
CN	-9.1%	-17.8%	408bps	-7.9%	-1.3%
CP	3.9%	14.2%	-402bps	-1.9%	5.9%
CSX	-2.3%	4.4%	-286bps	-2.6%	0.3%
KSU	5.0%	11.6%	-230bps	4.6%	0.3%
NSC	-4.3%	3.3%	-289bps	-10.7%	7.2%
UNP	-1.6%	11.0%	-512bps	-3.8%	2.2%

RTM: revenue ton miles
Source: BMO Capital Markets

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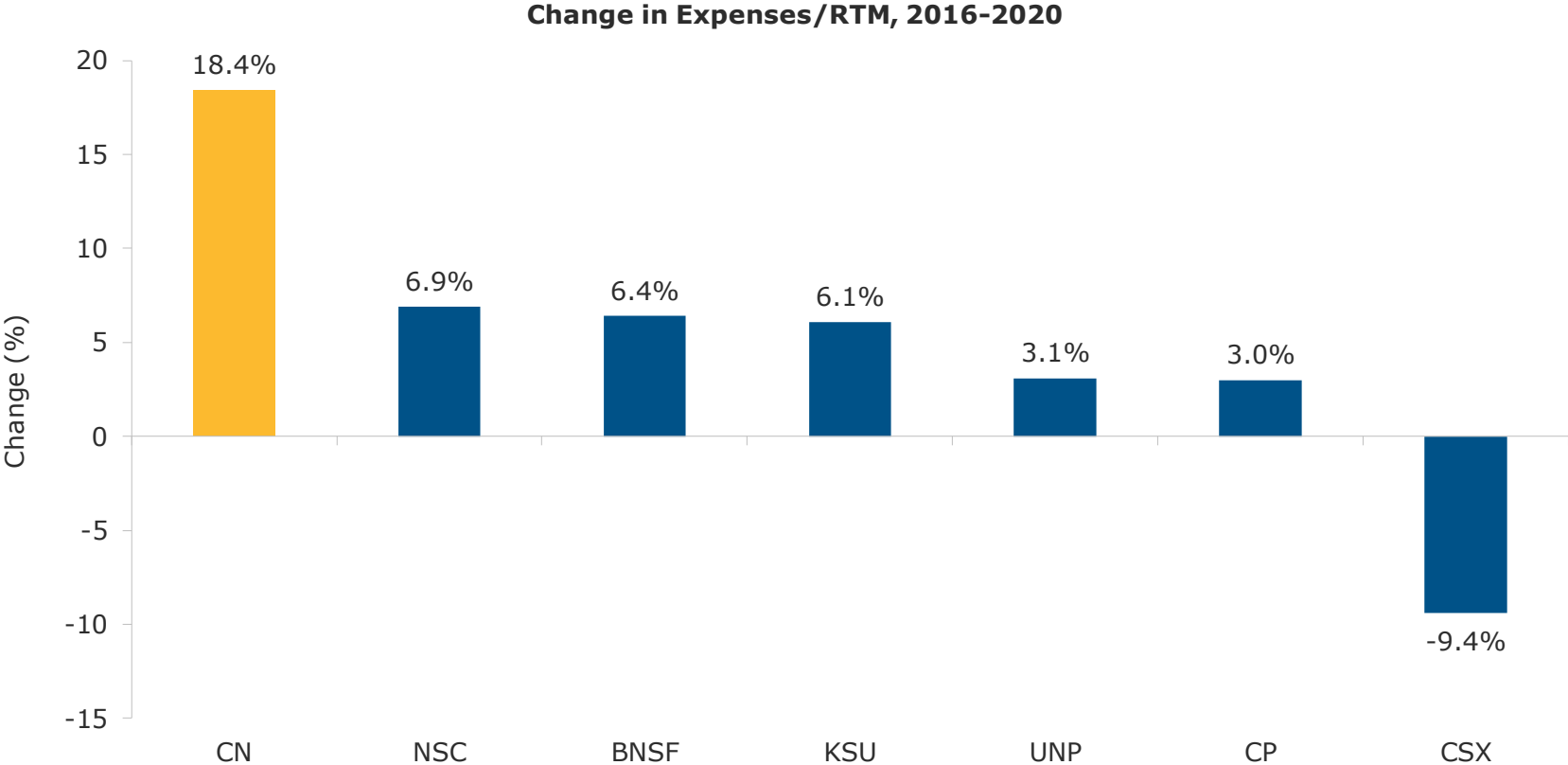
CN has a pricing problem



RTM: revenue ton miles
Source: TCI analysis

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... and an expense problem

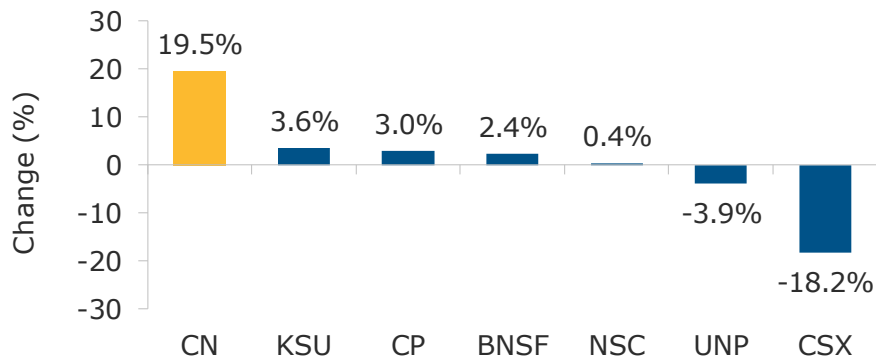


RTM: revenue ton miles
Source: TCI analysis

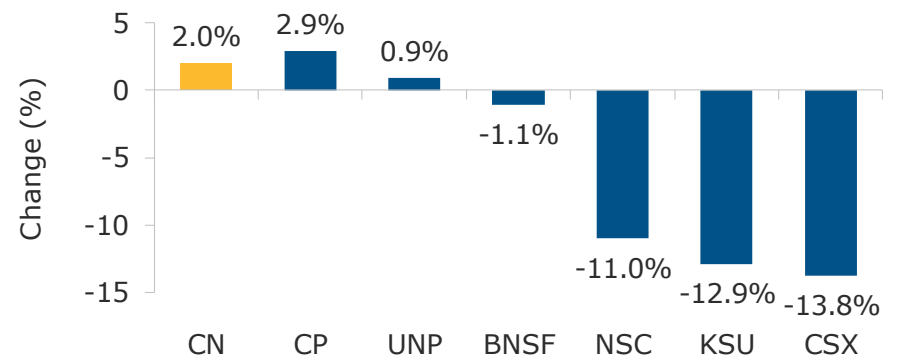
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CN has underperformed on every expense metric

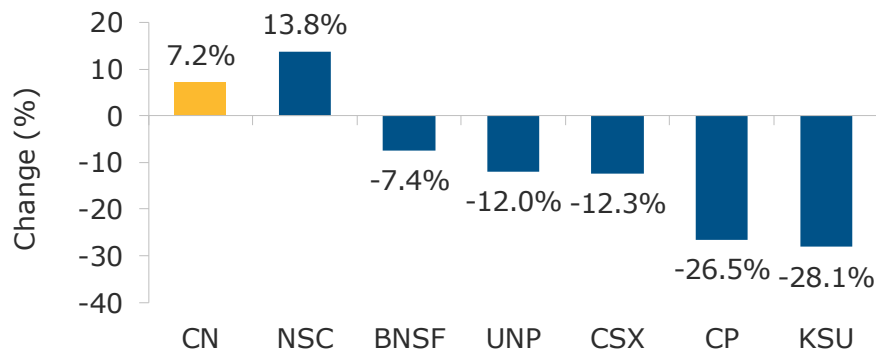
Labour/RTM, 2016-2020



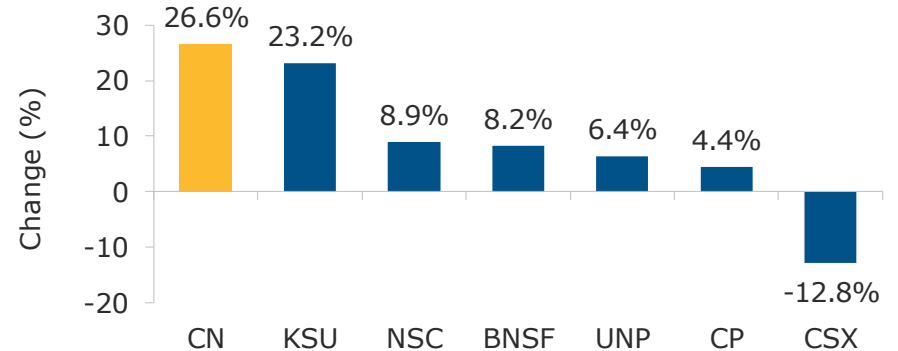
Fuel/RTM, 2016-2020



Equipment Rents/RTM, 2016-2020

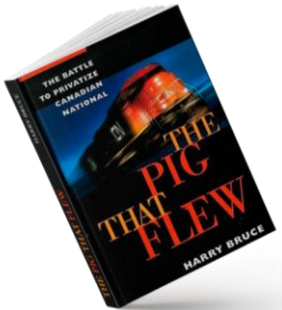


Purchased Services/RTM, 2016-2020



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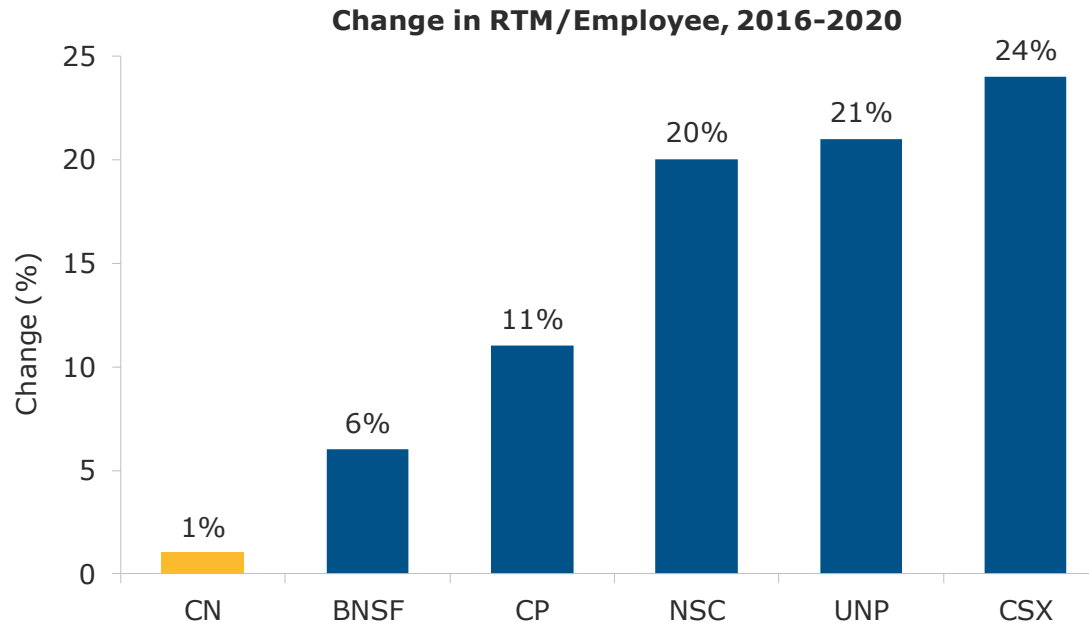
CN last again....25 years later



In the book *The Pig That Flew*, the story of the IPO of Canadian National in 1995, there is a section that states:

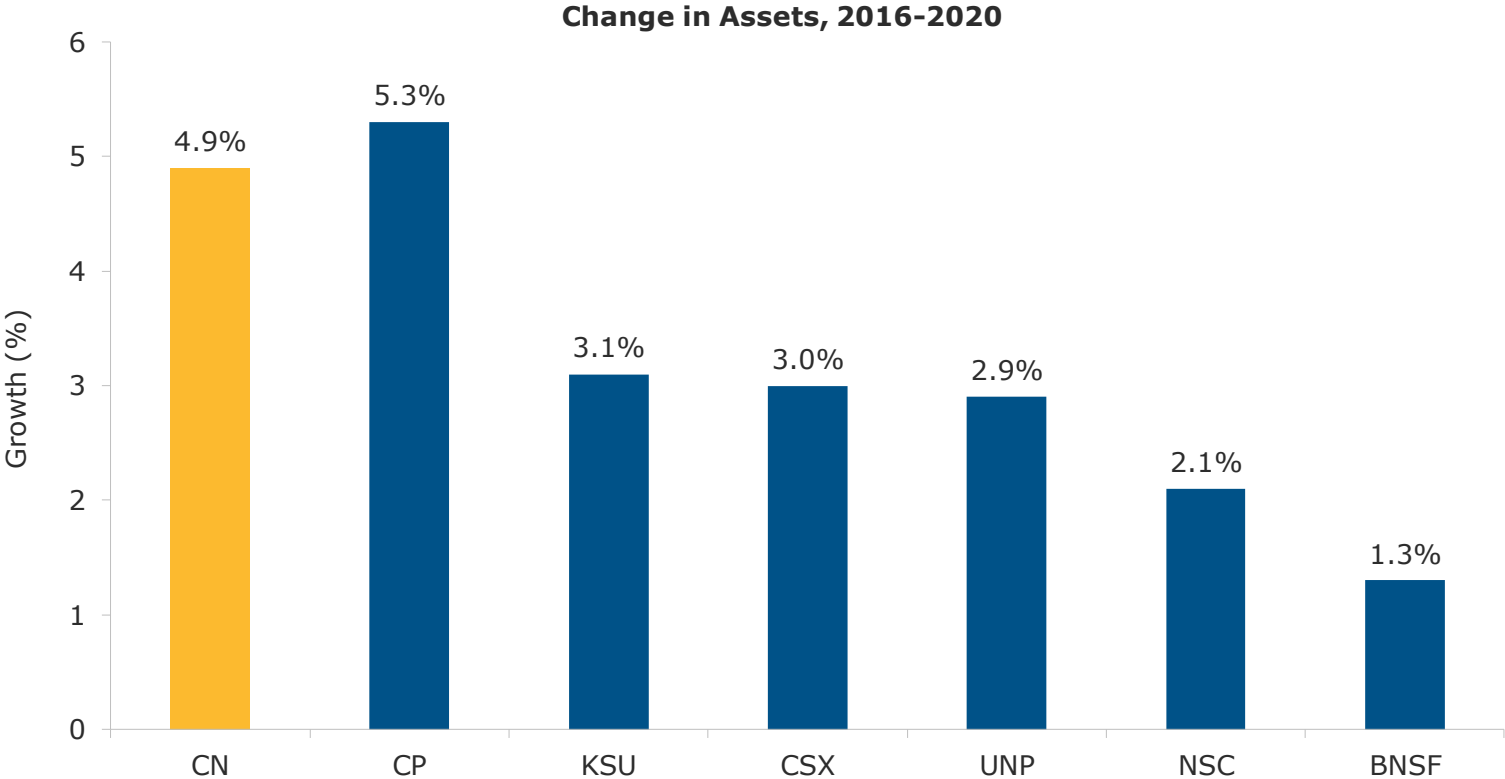
"A barrage of embarrassing revelations followed....with respect to Revenue Ton Miles per employee, 'a telling snapshot of labour productivity', CN finished 'dead last'".

Once again, 25 years later, CN has performed worst on this metric:



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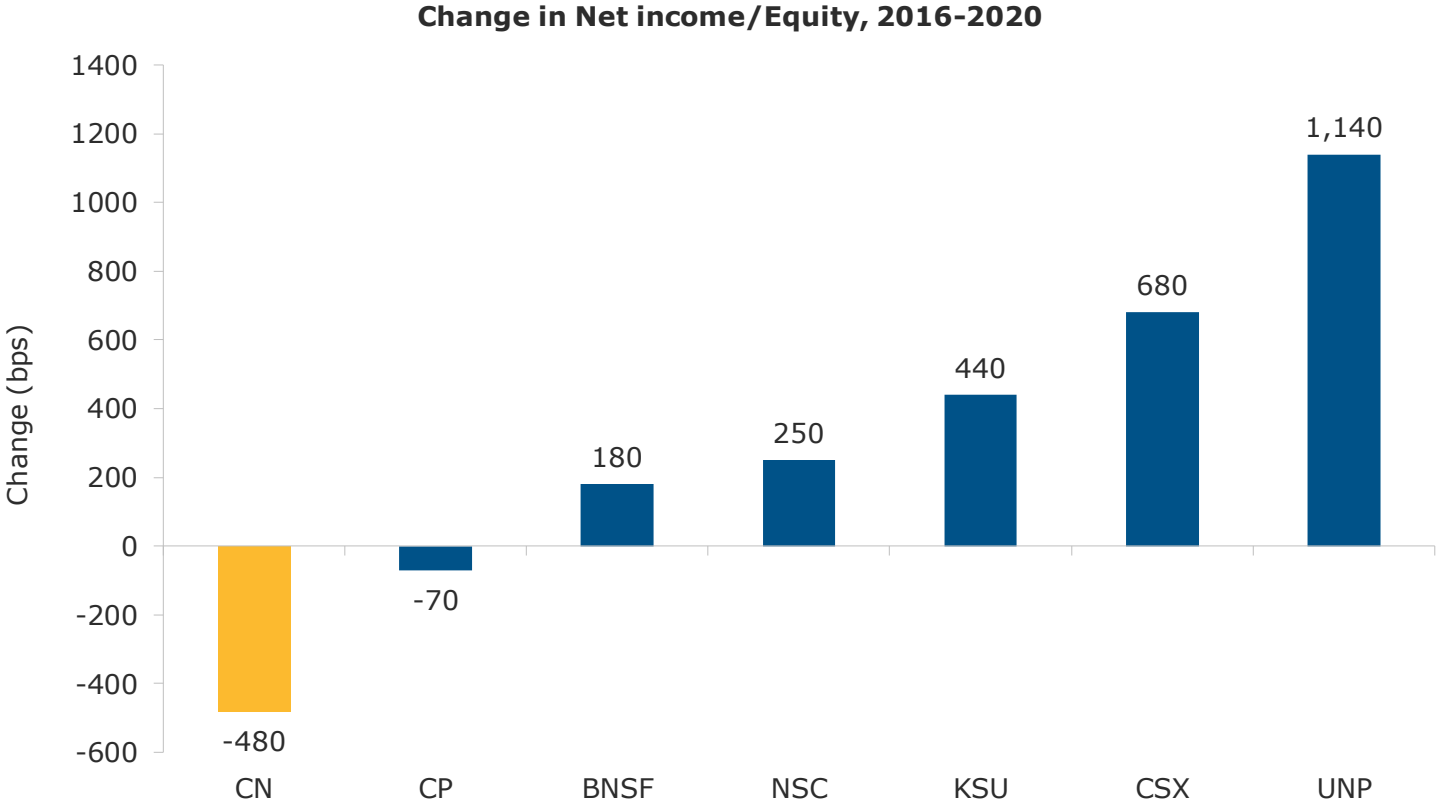
CN's asset base has grown



Source: TCI analysis

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CN's return on equity has fallen significantly



Source: TCI analysis

Brain drain leaves CN light on operational management

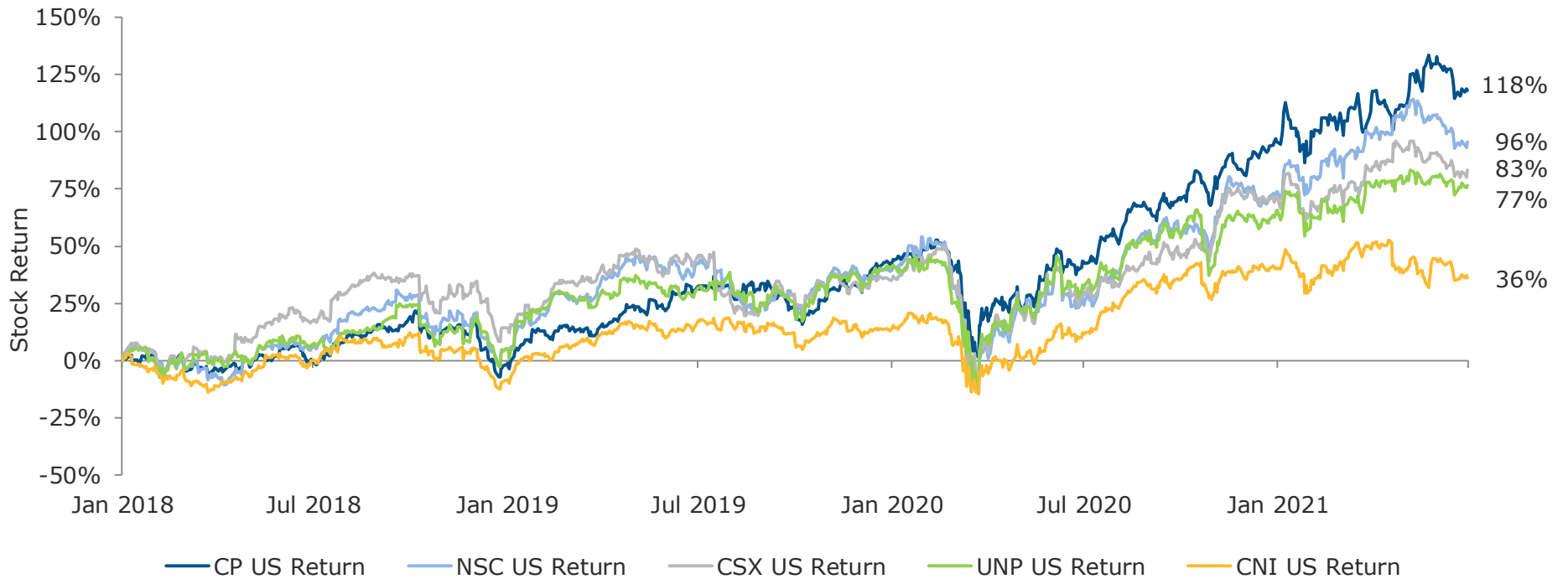
CN has seen a large number of high-quality operators and leaders leave the company:

- Keith Creel
- Jim Vena
- Jim Foote
- Ed Harris
- Jamie Boychuck
- Mike Corey

An inability to retain talent is a key sign of weak management and culture

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Railroad stock performance



Canadian National has massively underperformed the railroad sector

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Strong operational management can quickly make a difference to performance

Hunter Harrison and Keith Creel quickly turned around Canadian Pacific

CP	2011	2014	Change
EBIT	967	2,339	142%
OR	81.3%	64.7%	-1,660bps
EPS	3.34	8.50	154%

Hunter Harrison and Jim Foote quickly turned around CSX

CSX	2016	2019	Change
EBIT	3,389	4,972	47%
OR	69.4%	58.4%	-1,100bps
EPS	1.81	4.17	130%

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Jim Vena quickly turned around Union Pacific

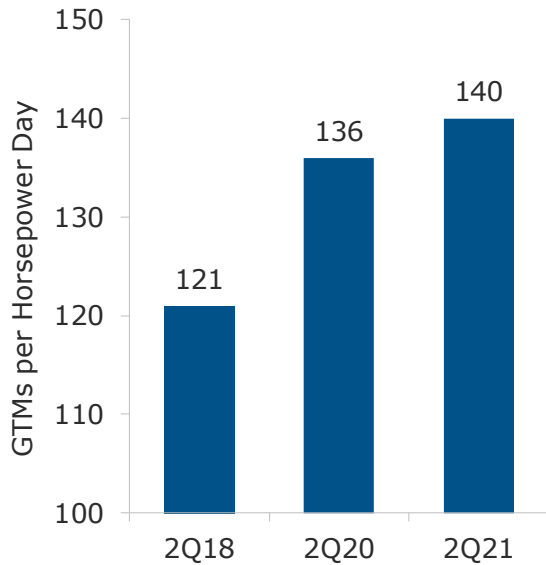
These results at Union Pacific were achieved in the face of a significant industrial recession and a 7% cumulative decline in volumes:

UNP	2018	2021e	Change
EBIT	8,517	9,500	12%
OR	62.7%	56.0%	-670bps
EPS	7.91	10.00	26%

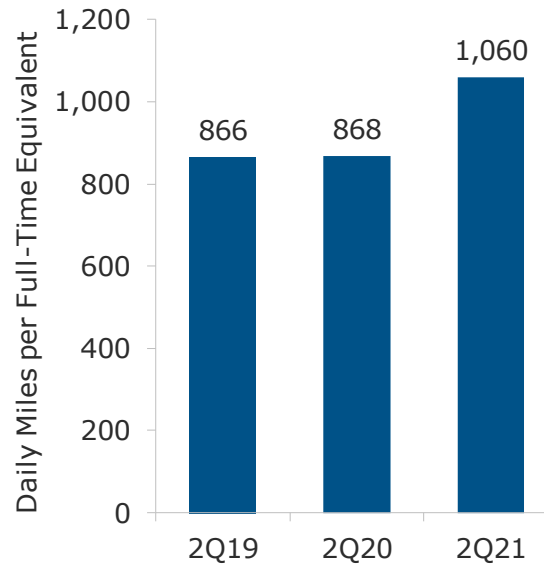
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Since Jim Vena joined Union Pacific, its operations have improved significantly

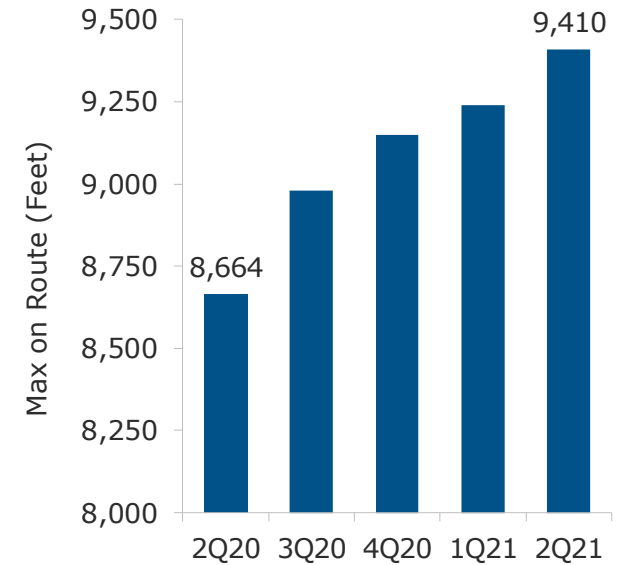
Locomotive Productivity



Workforce Productivity



Train Length



Quarterly Drivers

Efficient locomotive fleet

Leveraged workforce with volume

Optimising transportation plans

Source: TCI analysis, Union Pacific Q2 2021 results presentation

The failed bid for Kansas City reflects poorly on the CN management and board

- A 'copy-cat' bid, essentially following CP, reflected a defensive motivation and lack of strategic thinking
- It was clear from the beginning that the bid for KCS was a huge risk with a highly uncertain outcome:
 - The STB's 'new rules' had never been tested
 - Committing C\$2bn without clarity on the rules was irresponsible
 - Parallel tracks clearly compete with each other and trying to argue otherwise was disingenuous
- It was also an error to continue in the face of clear and visible opposition from the STB
- Appealing the STB ruling would expose the company to the risk of forced divestment and damaging remedies. It is not an appeal you want to win.
- Continuing with the bid would be a huge distraction for management who should focus instead on fixing the network.

The board must take responsibility for supporting this ill-advised misadventure

Conclusion

- CN should immediately withdraw from its agreement to buy Kansas City Southern
- CN needs a management team with more operational experience
- A railroader with a proven track record should be appointed as CEO to create a culture of operational excellence
- Jim Vena is the outstanding candidate for the job as CEO and has TCI's full support
- The board must take responsibility for the company's recent underperformance and failure
- The board needs more railroad experience and expertise and should therefore appoint Gil Lamphere as a director

CN has the best network in North America and should be the most efficient and fastest growing railroad

Appendix

The TCI Team

Sir Chris Hohn

- Founder and Managing Director of TCI
- Over 25 years of investment experience
- Extensive experience with corporate change and governance
- Board member of CSX 2008-2009

Ben Walker

- 24 years of investment experience
- 11 years with TCI
- Long history of investing and involvement in the North American railroad industry

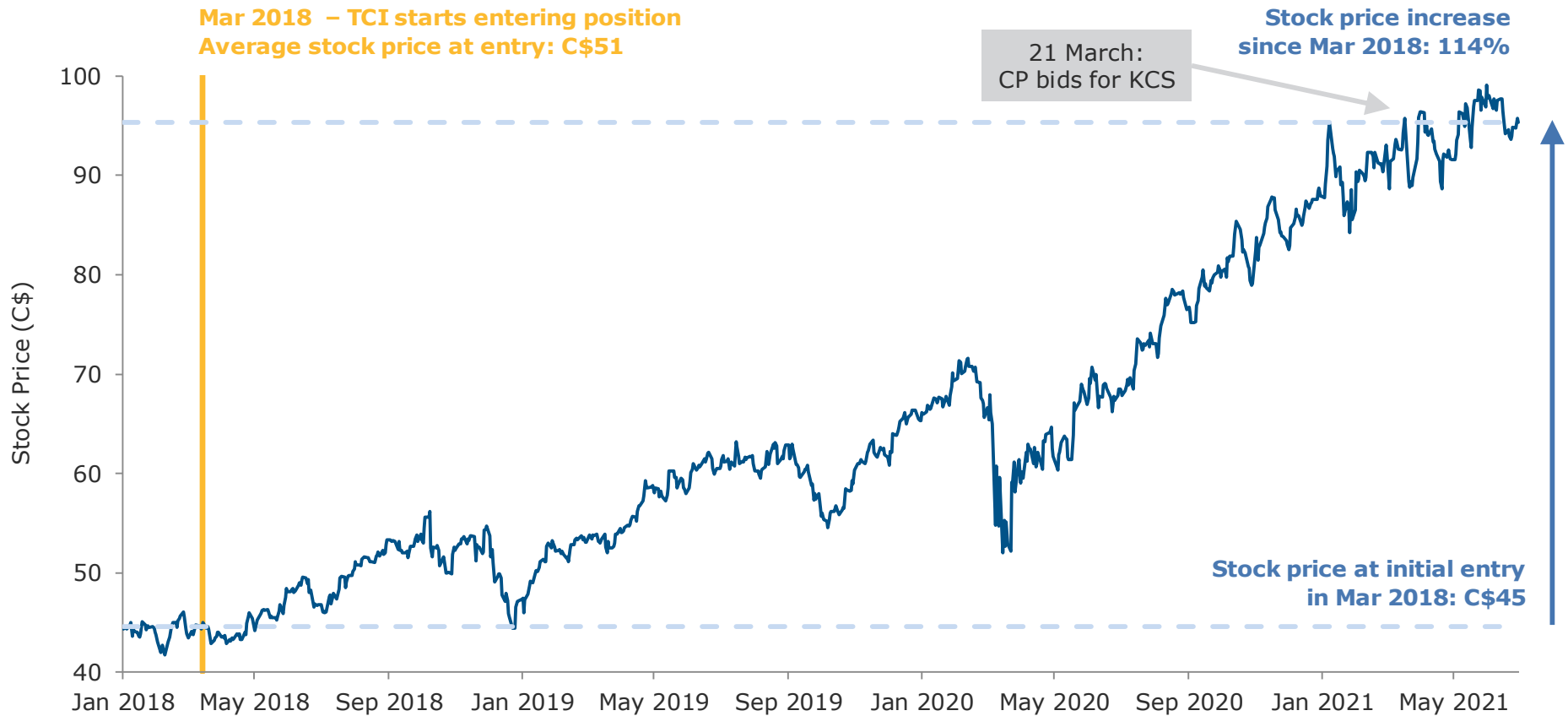
Gilbert H. Lamphere Bio

- Currently chairman of MidRail Corporation, a freight rail company formed to develop and operate overlooked rail infrastructure in North America
- Chairman of Illinois Central Railroad (1990-1998)
- Canadian National board member (1998-2005). Chairman-elect of the Finance Committee and a member of the Compensation, Investment and Audit Committees
- CSX board member (2008-2015). Member of the Operations, Finance, Compensation and Public Affairs committees
- Florida East Coast Railway board member (2000-2007)
- Chairman of Patriot Rail (2019-2021)

Gil Lamphere is one of the most experienced railroad executives in North America

Canadian National

TCI has been a strong supporter of CP and its management team



Average entry prices and initial entry prices are adjusted for dividends. Average stock price at entry calculated on purchases over the period Mar 2018–Oct 2019 (represents 97% of maximum holding). Source: Bloomberg LP

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